THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any of the contents of this circular or as to what action to take in relation to this circular, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Yanzhou Coal Mining Company Limited**, you should at once hand this circular to the purchaser(s) or transferee(s) or to the bank, or a licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

兗州煤業股份有限公司

YANZHOU COAL MINING COMPANY LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1171)

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE TARGET EQUITY INTERESTS AND TARGET ASSETS

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

Donvex 富域資本

Donvex Capital Limited
富域資本有限公司

The notice convening the EGM to be held at the headquarters of the Company at 298 South Fushan Road, Zoucheng, Shandong Province 273500, the PRC at 8:30 a.m. on Wednesday, 9 December 2020 was published on 16 November 2020. Whether or not you are able to attend the meeting in person, you are strongly advised to complete and sign the form of proxy in accordance with the instructions printed thereon. The form of proxy shall be lodged with the Company's H Share Registrar, Hong Kong Registrars Limited at 17M/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares) or the Office of the Secretary to the Board at 298 South Fushan Road, Zoucheng, Shandong Province 273500, the PRC (for holders of A Shares) as soon as possible but in any event not later than 24 hours before the time appointed for the holding of the meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish.

16 November 2020

CONTENTS

CONTENTS

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

"A Share(s)"	domestic shares in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange
"Asset Valuation Report(s)"	the asset valuation report on each of the Target Companies and Target Assets prepared by Pan-China Assets Appraisal Co., Ltd., individually or collectively (as the case may be), a summary of the Asset Valuation Report of each of the Target Companies and the Target Assets is set out in Appendix V to this circular
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors of the Company
"BOYD"	John T. Boyd Company, the Competent Person appointed by the Company for the preparation of the Competent Person's Report and the Competent Person's Valuation Report
"Chemical Equipment"	Yankuang Jining Chemical Equipment Co., Ltd. (兗礦濟寧化工裝備有限公司)
"Closing"	closing of the Transaction
"Closing Date"	date of Closing
"Company"	Yanzhou Coal Mining Company Limited (兗州煤業股份有限公司), a joint stock limited company established under the laws of PRC in 1997, and the H Shares and A Shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, respectively
"Competent Person"	a person satisfying the requirements of Rules 18.21 to 18.23 of the Listing Rules
"Competent Person's Report"	the Competent Person's report on Jinjitan Coal Mine set out in Part A of Appendix IV to this circular, issued by BOYD in accordance with the requirements under Chapter 18 of the Listing Rules

"Competent Person's Valuation Report"	the valuation report on Jinjitan Coal Mine set out in Part B of Appendix IV to this circular, issued by BOYD in accordance with the requirements under Chapter 18 of the Listing Rules
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Crowe"	Crowe (HK) CPA Limited
"Director(s)"	the director(s) of the Company
"EGM"	the 2020 second extraordinary general meeting of the Company to be held at the headquarters of the Company at 298 South Fushan Road, Zoucheng, Shandong Province 273500, the PRC on Wednesday, 9 December 2020 at 8:30 a.m. to consider and approve, among other things, the Transaction Agreement and the transaction contemplated thereunder
"Enlarged Group"	the Group as enlarged through completion of the Transaction
"Fine Chemical"	Yankuang Yuling Fine Chemical Co., Ltd.（兗礦榆林精細化工有限公司）
"Group"	the Company and its subsidiaries
"H Shares"	the overseas listed foreign invested shares in the ordinary share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Stock Exchange
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"IFRS"	International Financial Reporting Standards issued by the International Accounting Standards Board
"Independent Board Committee"	the board committee, comprising all the independent non-executive Directors who are independent in relation to the Transaction Agreement and the transactions contemplated thereunder, which is set up to consider the Transaction Agreement and the transaction contemplated thereunder

"Independent Financial Adviser" or "Donvex Capital"	Donvex Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance, which is appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Transaction Agreement and the transactions contemplated thereunder
"Independent Shareholder(s)"	shareholder(s) other than Yankuang Group (including the 391,507,272 A Shares held by the guarantees and trust account opened by Yankuang Group and CITIC Securities Co., Ltd., the voting rights in respect of which are exercisable by CITIC Securities Co., Ltd.) and its associates, who are neither involved nor interested in the Transaction Agreement and the transactions contemplated thereunder
"Information Center"	Yankuang Group Information Center
"Jinjitan Coal Mine" or "Jinjitan Mine"	Jinjitan Mine, which is wholly-owned by Shaanxi Future Energy
"Jisan Electricity"	Shandong Yankuang Jisan Electricity Co., Ltd.（山東兗礦濟三電力有限公司）
"JORC Code 2012"	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, 2012 Edition
"Latest Practicable Date"	10 November 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Letter of Performance Commitment"	the "Letter of Performance Commitment Regarding the Acquisition of Related Assets of Yankuang Group Company Limited by Yanzhou Coal Mining Company Limited" issued by Yankuang Group in favour of the Company
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
"Lunan Chemical"	Yankuang Lunan Chemical Co., Ltd（兗礦魯南化工有限公司）
"m"	meter(s)

"Mtpa"	million tonnes per annum
"Notice of EGM"	the notice for convening the EGM dated 16 November 2020, which has been issued to the Shareholders separately and a copy of which can be downloaded from the Company's website (www.yanzhoucoal.com.cn) and the website of the Stock Exchange (www.hkex.com.hk)
"Pan-China"	Beijing Pan-China Assets Appraisal Co., Ltd.（北京天健興業資產評估有限公司）
"percentage ratio(s)"	has the meaning ascribed to it under the Listing Rules
"PRC"	the People's Republic of China
"RMB"	Renminbi, the lawful currency of the PRC
"Shaanxi Future Energy"	Shaanxi Future Energy & Chemicals Co., Ltd.（陝西未來能源化工有限公司）
"Shaanxi Future Energy Group"	Shaanxi Future Energy and its subsidiaries
"Shareholder(s)"	the shareholder(s) of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"Target Assets"	relevant assets of Yankuang Group Information Center（兗礦集團信息化中心）
"Target Company(ies)"	Shaanxi Future Energy, Fine Chemical, Lunan Chemical, Chemical Equipment, Trading Company and Jisan Electricity, individually or collectively (as the case may be)
"Target Equity Interests"	the 49.315%, 100%, 100%, 100%, 100% and 99% equity interests in Shaanxi Future Energy, Fine Chemical, Lunan Chemical, Chemical Equipment, Trading Company and Jisan Electricity, respectively, held by Yankuang Group
"Target Group"	Shaanxi Future Energy, Fine Chemical Equipment, Lunan Chemical, Chemical Equipment, Trading Company, Jisan Electricity and their respective subsidiaries (if applicable)

"Trading Company"	Yankuang Coal Chemicals International Trading Co., Ltd.（兗礦煤化供銷有限公司）
"Transaction"	transaction in the acquisition of the Target Equity Interests and the Target Assets contemplated under the Transaction Agreement
"Transaction Agreement"	the equity interests and assets transfer agreement dated 30 September 2020 entered into between Yankuang Group and the Company in relation to the acquisition of the entire interest in the Target Equity Interests and the Target Assets by the Company from Yankuang Group
"Working Day(s)"	any day except Saturday, Sunday and statutory holiday(s) in the PRC
"Yankuang Group"	Yankuang Group Company Limited（兗礦集團有限公司）, a state-controlled limited liability company and the controlling shareholder of the Company, holding directly or indirectly approximately 56.01% of the total issued share capital of the Company as at the Latest Practicable Date
"%"	per cent

The figures set out in this circular may be slightly different from the result calculated based on the relevant individual data presented in this circular due to rounding.

兗州煤業股份有限公司

YANZHOU COAL MINING COMPANY LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1171)

Directors:
Li Xiyong
Wu Xiangqian
Liu Jian
Zhao Qingchun
He Jing
Wang Ruolin

Independent non-executive Directors:
Tian Hui
Zhu Limin
Cai Chang
Poon Chiu Kwok

Registered office:
298 South Fushan Road
Zoucheng
Shandong Province
PRC
Postal Code: 273500

Principal place of business in Hong Kong:
40th Floor, Sunlight Tower
248 Queen's Road East
Wanchai
Hong Kong

16 November 2020

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE TARGET EQUITY INTERESTS AND TARGET ASSETS

I. INTRODUCTION

The purpose of this circular is to provide you with information relating to the major and connected transaction in relation to the acquisition of the Target Equity Interests and Target Assets.

II. INFORMATION RELATING TO THE PARTIES OF THE TRANSACTION

The Company

The Company is principally engaged in the business of mining, preparation, processing and sales of coal and coal chemicals. The Company's main products are steam coal for the use in large-scale power plants, coking coal for metallurgical production and prime quality low sulphur coal for use in pulverized coal injection.

Yankuang Group

Yankuang Group is a large-scale state-owned enterprise mainly engaged in the mining and trading of coal, supplemented by coal chemical industry, electromechanical equipment manufacturing, electrolytic aluminum (which is gradually transitioning to deep processing of aluminum profiles), material sales, engineering construction and other industries, of which coal business is its core business. As one of the leading enterprises in the coal industry of the PRC, Yankuang Group is a leading enterprise in the energy industry in Shandong Province.

Date of establishment:	12 March 1996
Registered capital:	RMB7,769,200,000
Type:	Limited liability company (state-controlled)

Scope of business:	Foreign investment, management and operation with own funds; investment advisory; periodical publication; installation, commisson and maintenance of cable radio and television, as well as sales of equipment; value-added telecommunication services within the approved scope of license; contracting foreign construction projects compatible with strength, scale and performance within the approved scope of the external contracting projects qualification certificate, and the provision of labor required to implement the aforementioned foreign projects; (the following operations are limited to branches only): coal mining, washing and sales; comprehensive utilization of thermal power, heating and power generation with waste heat; road transportation; timber processing; installation and maintenance of water and heating pipes; restaurants and hotels; extraction and sales of water; geological prospecting, mining, smelting, processing, sales and technical services of gold, precious metal and non-ferrous metal. Advertising business; sales of mechanical and electrical products, clothing, textiles and rubber products; import and export business within the scope of filing; landscaping; lease of houses, land and equipment; coal, coal chemical and coal-fire aluminum technology development services; production and sales of construction materials and ammonium sulfate (white crystalline powder); manufacturing, installation, maintenance and sales of mining equipment, electromechanical equipment, complete sets of equipment and spare parts; decoration; installing, maintenance and sales of electrical equipment, processing and sales of general parts and mechanical parts; sewage treatment and sales of reclaimed water; real estate development and property management; sales of daily necessities, handicrafts, metal materials and gas equipment; railway cargo (provided in the area) transportation.

As of the Latest Practicable Date, Yankuang Group directly and indirectly holds approximately 56.01% of the Shares of the Company and is the controlling shareholder of the Company. In accordance with the Listing Rules, Yankuang Group is a connected person of the Company and the Transaction constitutes a connected transaction of the Company.

III. THE TRANSACTION

Transaction Agreement

On 30 September 2020, the Company entered into the Transaction Agreement with Yankuang Group. The principal terms of the Transaction Agreement are summarized as follows:

Date:	30 September 2020
Parties:	Yankuang Group (Vendor); and the Company (Purchaser) (collectively referred to as "**Both Parties**")
Transaction:	According to the terms and conditions of the Transaction Agreement, the Company conditionally agreed to acquire from Yankuang Group and Yankuang Group conditionally agreed to transfer its 49.315%, 100%, 100%, 100%, 100% and 99% equity interests in Shaanxi Future Energy, Fine Chemical, Lunan Chemical, Chemical Equipment, Trading Company and Jisan Electricity, respectively, as well as relevant assets of the Information Center.
Consideration and payment method:	The total consideration amounted to approximately RMB18.355 billion, and shall be paid in cash in the following manner: 1. The Company shall pay 40% of the transaction price (interest-free) to Yankuang Group in one lump sum within five Working Days after the Transaction Agreement becomes effective; 2. The Company shall pay 30% of the transaction price and the corresponding interest (the "**Corresponding Interest**") to Yankuang Group before 30 June 2021; 3. The Company shall pay 30% of the transaction price and the Corresponding Interest to Yankuang Group within twelve months after the Transaction Agreement becomes effective. The Corresponding Interest is calculated based on the one-year benchmark interest rate of Loan Prime Rate ("**LPR**") (the "**LPR One-year Interest Rate**") announced by the National Interbank Funding Center on the actual payment date of each subsequent transfer price. The calculation is from the payment date of the first tranche of transaction price to the subsequent payment date of each transaction price. The calculation period is calculated as 365 days a year.

Conditions precedent: The Transaction Agreement will take effect on the day when all the following conditions are fulfilled, and the day when the last consent or approval set out in this provision is obtained shall be the effective date:

1. The Transaction Agreement is signed by the legal representatives of Both Parties or their authorized representatives and stamped with their respective company seals;

2. All necessary consents or approvals have been obtained for the transfer of the Target Equity Interests and Target Assets, including but not limited to:

   (1) The filing of the valuation results of the Target Companies and Target Assets with the authorized state-owned assets regulatory agencies or its authorized units;

   (2) The authorized state-owned assets regulatory agencies or its authorized units approve the agreement relating to the transfer of the Target Equity Interests and Target Assets;

   (3) The approval of competent internal authority(ies) of Yankuang Group;

   (4) The approval of competent internal authority(ies) of the Company.

Closing: The Closing Date of the Target Equity Interests is the day on which each Target Company completes the registration of industrial and commercial change for its equity interests, and the Closing Date of the Target Assets is the day on which the last Target Equity Interests completes the registration of industrial and commercial change. The Closing Date of the Target Equity Interests and Target Assets shall not be later than 15 Working Days after the payment date of the first tranche of transaction price.

Both Parties shall begin the relevant procedures below for the Closing of the Target Equity Interests and Target Assets from the effective date of the Transaction Agreement, including but not limited to:

1. Yankuang Group shall transfer the relevant documents, materials and seals relating to the Target Companies and Target Assets which it holds and controls to the Company;

2. Yankuang Group procures the Target Companies to hold relevant meeting(s) in accordance with the Transaction Agreement to revise the register of members and articles of association of the Target Companies;

3. Yankuang Group procures its appointed board of directors and management of the Target Companies to transfer duties and related documents, materials and seals to the board of directors and management of the Target Companies designated by the Company;

4. Handling the registration (filing) procedures of the market supervision and management department involved in the transfer of the Target Equity Interests;

5. Handling the relevant procedures of real estate registration and transfer, intangible asset registration and transfer, fixed asset transfer, creditor's rights and debt transfer, and employee resettlement involved in the transfer of the Target Assets.

The rights and obligations corresponding to the Target Equity Interests and Target Assets will be transferred to/assumed by the Company from the Closing Date.

Profit and loss during the transition period:	1. Yankuang Group shall be entitled to the profit and loss attributable to the Target Equity Interests and Target Assets during the transitional period; and 2. the profit and loss of Target Equity Interests and Target Assets during the transition period shall be audited by an auditing institution recognized by Both Parties, and the audit report(s) for the profit and loss during the transition period shall be issued within 30 Working Days after the end of the transition period. Among which, the determination of the closing audit benchmark date: (1) If the Closing Date is before the 15th (15th inclusive) of the current month, the last day of the previous month will be the closing audit benchmark date; (2) If the Closing Date is after the 15th of the current month, the last day of the current month will be the closing audit benchmark date. Both Parties shall conduct a one-off settlement in cash within 20 Working Days after the audit institution issues the audit report for the profit and loss during the transition period of all Target Equity Interests and Target Assets.
Responsibility on default:	When the Transaction Agreement becomes effective, the failure of either party to fulfil its obligations under the agreement, or any declaration, warranty or undertaking made by either party being false, is considered a breach of contract. The party in default shall compensate the non-defaulting party for all losses incurred by its breach of contract. Without precluding the termination of the agreement by the relevant parties according to the Transaction Agreement, unless the agreement expressly stipulates, if one party suffers any reasonable costs, expenses, liabilities or losses due to the other party's breach of contract, the defaulting party shall compensate any such costs, expenses, liabilities or losses and shall indemnify the non-defaulting party from such claims. For losses caused by the non-defaulting party's own fault, negligence or omission, as well as losses or any extended losses arising due to its failure to take measures, the defaulting party shall not be liable for such losses.

Basis of determination of the Consideration

The total consideration payable by the Company to Yankuang Group under the Transaction Agreement amounted to approximately RMB18.355 billion. The consideration under the Transaction Agreement was determined after arm's length negotiations between Both Parties based on the principle of fairness and with reference to various factors including the production and operation, financial condition and future development plan of the Target Companies and Target Assets, and the result of asset valuation of the Target Companies and Target Assets.

The Company has engaged Pan-China to prepare the Asset Valuation Reports of the Target Companies and Target Assets. Summary of the Asset Valuation Report on each of the Target Companies and Target Assets is set out in Appendix V to this circular. Pursuant to the Asset Valuation Reports, the appraised value of each of the Target Companies and Target Assets as at 30 June 2020 is as follows:

		RMB
	Target Company/Target Assets	**Appraised Value of Target Company/ Target Assets**
1	Shaanxi Future Energy	23,937,033,251.40
2	Fine Chemical	223,624,156.19
3	Lunan Chemical	6,187,484,899.77
4	Chemical Equipment	69,641,286.66
5	Trading Company	229,903,330.02
6	Jisan Electricity	713,870,678.78
7	Information Center	119,796,238.31

The Company also engaged BOYD to prepare the Competent Person's Report and Competent Person's Valuation Report on the valuation under the Listing Rules in respect of Jinjitan Coal Mine under Shaanxi Future Energy. Full text of each of the Competent Person's Report and the Competent Person's Valuation Report is set out in Appendix IV to this circular. BOYD is a private consulting company headquartered in the United States. Based on its internationally recognised expertise in exploration, resource/reserve research, mine development and valuation, BOYD has been selected to carry out the Competent Person's Report and the Competent Person's Valuation Report.

Pursuant to the Competent Person's Valuation Report, the valuation on Jinjitan Coal Mine as at 30 June 2020 amounted to approximately RMB22,072 million (with a base market value of existing operations at RMB19,719 million).

Pursuant to the Asset Valuation Report of Shaanxi Future Energy and using 30 June 2020 as the benchmark date, the valuation of the entire equity interest of Shaanxi Future Energy amounted to approximately RMB23,937 million and the appraised value of Jinjintan Coal Mine and other intangible assets amounted to RMB14,716 million. According to Pan-China, the appraised value allocated to Jinjintan Coal Mine was approximately RMB13,239 million.

The valuation on Jinjitan Coal Mine under the Competent Person's Valuation Report exceeds the appraised value of Jinjitan Coal Mine under the Asset Valuation Report of Shaanxi Future Energy by approximately RMB8,833 million. However, given that Jinjitan Coal Mine is a supporting mine for the indirect coal liquefaction project of Shaanxi Future Energy, it is not feasible to acquire only the Jinjitan Coal Mine. Accordingly, the Directors are of the view that the acquisition should be conducted by way of transfer of the equity interest of Shaanxi Future Energy.

Based on the above and having taking into account the Competent Person's Valuation Report, the Directors are of the view that the valuation of Shaanxi Future Energy under the relevant Asset Valuation Report is fair and reasonable.

In addition, at the general meeting of Shaanxi Future Energy held on 6 August 2020, it was agreed that the profit in a total of RMB2 billion would be distributed to all shareholders from the distributable profit as of 31 December 2019 based on the registered capital of Shaanxi Future Energy. Based on the aforementioned profit distribution and the appraised value of the Target Equity Interests and Target Assets, Both Parties confirmed that the consideration of the Transaction is as follows:

	Target Equity Interests/ Target Assets	**Consideration of Target Equity Interests/ Target Assets**
		RMB
1	49.315% equity interests in Shaanxi Future Energy	10,818,247,947.93
2	100% equity interests in Fine Chemical	223,624,156.19
3	100% equity interests in Lunan Chemical	6,187,484,899.77
4	100% equity interests in Chemical Equipment	69,641,286.66
5	100% equity interests in Trading Company	229,903,330.02
6	99% equity interests in Jisan Electricity	706,731,971.99
7	Relevant assets of the Information Center	119,796,238.31
	Total	**18,355,429,830.87**

The consideration for acquiring 49.315% equity interests in Shaanix Future Energy is based on the valuation as per the "Asset Valuation Report on the Value of the Total Shareholders' Equity of Shaanxi Future Energy & Chemicals Co., Ltd. involved in the Proposed Acquisition of the Equity Interests in Shaanxi Future Energy & Chemicals Co., Ltd. by Yanzhou Coal Mining Company Limited" (Tian Xing Ping Bao Zi (2020) No. 1242) issued by Pan-China, which has securities and futures related business qualifications in China. As at 30 June 2020, being the valuation benchmark date, the value of all shareholders' equity after appraisal of Shaanxi Future Energy is RMB23,937.0333 million, with an appreciation rate of 97.84%. Taking into consideration of the distributable profit of Shaanix Future Energy and after negotiation with Yankuang Group, the final consideration for acquiring 49.315% equity interests in Shaanix Future Energy is agreed at RMB10,818,247,947.93.

The above-mentioned consideration represented a P/E ratio of 9.19x (based on 49.315% of Shaanix Future Energy's 2019 net profit of RMB2.386 billion). The Directors believe that it is reasonable to have a relatively high level of P/E ratio on the following grounds:

1. The coal chemical industry has relatively high barriers in technology, capital and resources, and industry standards are scarce. Shaanix Future Energy has a certain scale of production and relatively advanced production technology, and has a strong competitive advantage in indirect coal liquefaction technology.

2. The Yankuang Yulin project, which is being promoted by Shaanix Future Energy, has adopted the low-temperature Fischer-Tropsch synthesis technology independently developed by Yankuang, and is a representative coal indirect liquefaction project in the coal chemical market.

3. The "Thirteenth Five-Year Plan for the Demonstration of Coal Deep Processing Industry" positions the function of coal liquefaction as "improving the self-sufficiency of petroleum, producing low-sulfur, low-olefin, and low-aromatic ultra-clean oil products, and providing oil products of national standard; producing military, aerospace and other special oil products with high-density, high-calorific value, and ultra-low freezing point to meet the needs of national defense construction." In the future, with the strong support of national policies and the continuous increase of related investment, it is expected that Shaanix Futures Energy will have a broader space for development.

4. Together with the equity interest currently held by the Company, the acquisition of 49.315% equity interest in Shaanxi Future Energy will enable the Company to obtain a controlling stake in Shaanxi Future Energy and the Company. The Directors considered that it is fair and appropriate for the control premium since not only the financial data of Shaanix Future Energy Groupwill be consolidated in the Company's financial statements following Closing, the Company will also become the single largest shareholder and be able to make decision relating to the management and operation of Shaanxi Future Energy.

With respect to Lunan Chemical, the consideration for acquiring Lunan Chemical represented a 11.65% premium to its net asset value of RMB5.542 billion as at 30 June 2020. Although Lunan Chemical turned from profit in the financial year ended 31 December 2019 to loss in the first half of 2020, with revenue decreased from RMB6.30 billion as at 31 December 2019 to RMB2.6 billion as at 30 June 2020, the Directors are of the view that the financial performance of Lunan Chemical for the first half of 2020 was phenomenal. The outbreak of pandemic and the abnormal fluctuations in the international crude oil market in the first half of 2020 had a negative impact on Lunan Chemical's production and operation, procurement of raw and auxiliary materials, and product sales, resulting in a decline in its revenue and loss. At present, the relevant situation in China has stabilized, the prices of main products produced by Lunan Chemical have gradually recovered, which helped stabilise and improve the profitability of Lunan Chemical.

To appraise the value of the equity interest of Lunan Chemical, Pan-China used both the asset-based approach and the income approach. Due to the impact of price fluctuations in the international and domestic coal and oil markets, the future profitability of Lunan Chemical will to a certain extent be uncertain. Pan-China considered that the appraisal conclusion using the asset-based approach is comparatively more reliable that can reflect the fair market value of Lunan Chemical from perspective of asset replacement. Accordingly, Pan-China finally adopted asset-based approach for its valuation of Lunan Chemical. The Directors are of the view that the consideration for acquiring 100% equity interest in Lunan Chmical , which is determined with reference to the results of the asset valuation as per the Asset Valuation report of Lunan Chemical, is fair and reasonable.

Based on the above, the Directors are of the view that the consideration under the Transaction Agreement is fair and reasonable.

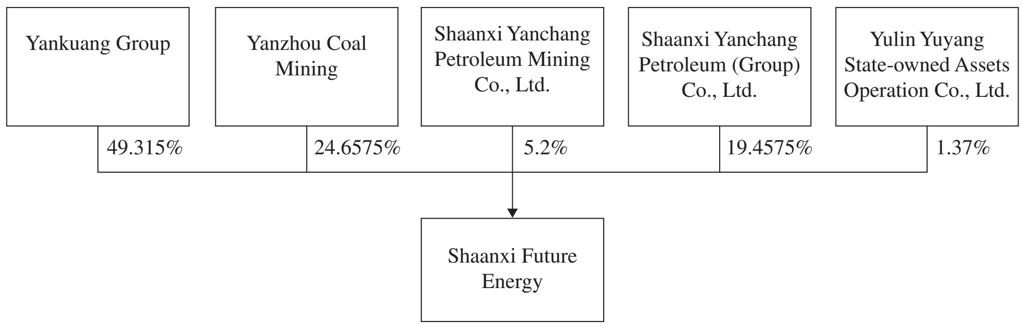
IV. BASIC INFORMATION RELATING TO TARGET COMPANIES AND TARGET ASSETS

1. Shaanxi Future Energy

Date of establishment	25 February 2011
Registered capital	RMB5.4 billion
Type	Other limited liability company
Scope of business	Research and development of chemical products and oil products; production and sales of medium paraffin, light paraffin, stable light hydrocarbons, diesel, naphtha, liquefied petroleum gas and sulfur; production and sales of electricity; mining of coal; and sales of coal, paraffin, ammonium sulfate and chemical products (except for precursors, surveillance, and hazardous chemicals).

Shaanxi Future Energy was established initially by Yankuang Group, the Company and Shaanxi Yanchang Petroleum (Group) Co. Ltd. ("**Yangchang Petroleum**") at an equity interest ratio of 50%: 25%: 25%, respectively, at a registered capital of RMB5.4 billion.

As of the Latest Practicable Date, the shareholding structure of Shaanxi Future Energy is as follows:



As per the Transaction, the Company will acquire 49.315% equity interests in Shaanxi Future Energy held by Yankuang Group. As at the Latest Practicable Date, the equity interests of Shaanxi Future Energy have clearly-established ownership without mortgage, pledge and any other restrictions on transfer. It was not involved in judicial proceedings such as litigation, arbitration, being sealed up or frozen, or any other circumstances that would prevent the transfer of the ownership thereof.

The other shareholders of Shaanxi Future Energy, i.e. Yanchang Petroleum is a limited liability company (state-controlled) established in the PRC on 2 August 1996. Yanchang Petroleum is ultimately beneficially owned by the State-owned Assets Supervision and Administration Commission of Shaanxi Provincial People's Government. Shaanxi Yanchang Petroleum Mining Co., Ltd. ("**Yanchang Mining**") is a limited liability company (solely owned legal person invested in or controlled by a non-natural person) established in the PRC on 23 November 2009, while Yulin Yuyang State-owned Assets Operation Co., Ltd. ("**Yuyang State-owned Assets Operation Company**") is a limited liability company established in the PRC on 12 January 2004. Yanchang Mining is ultimately beneficially owned by the State-owned Assets Supervisor and Administration Commission of Shaanxi Provincial People's Government, while Yuyang State-owned Assets Operation Company is ultimately beneficially owned by the People's Government of Yuyang District, Yulin City, Shaanxi Province. To the Directors' knowledge, information and belief, and having made all reasonable enquiries, Yanchang Petroleum, Yanchang Mining, Yuyang State-owned Assets Operation Company and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Upon the completion of the Transaction, the Company shall hold 73.9725% equity interests in Shaanxi Future Energy and Shaanxi Future Energy will become a subsidiary of the Company, and its financial data will be consolidated into the financial statements of the Company.

Jinjitan Coal Mine

Jinjitan Mine is wholly-owned by Shaanxi Future Energy. The mine and an associated mine site coal preparation plant are located approximately 30 km northeast of Yulin City, in Shaanxi Province. This area is one of the largest coalfields in the world.

Overall, the geologic setting of the coal bearing strata underlying the Jinjitan mining rights area is judged to be simple. BOYD's independent review of the mine operation according to JORC Code 2012 indicates that the Marketable Reserves total 309.7 Mt while In-place Resources total 982.3 Mt as at 30 June 2020, as shown in the following table:

	In-Place Resources (Mt)				Recoverable Reserves (Mt)			Processing Yield	Marketable Reserves (Mt)		
Seam	Measured	Indicated	Inferred	Total	Proved	Probable	Total	%	Proved	Probable	Total
2-2U	271.34	126.82	211.89	610.05	243.62	89.76	333.37	92.9	226.32	83.38	309.71
3-1	61.64	54.57	66.77	182.98	–	–	–		–	–	–
4-3	11.51	8.01	12.10	31.61	–	–	–		–	–	–
5-2	51.53	15.36	65.53	132.41	–	–	–		–	–	–
5-3U	–	7.93	17.35	25.28	–	–	–		–	–	–
Total	396.02	212.68	373.63	982.33	243.62	89.76	333.37	92.9	226.32	83.38	309.71

Typical coal quality features low sulfur content and high calorific value which can be used as fuel for thermal power generation and feedstock material for the coal chemical industry.

The mine is an underground fully mechanized longwall operation with an authorized output level of 15 Mtpa. Mining methods employed at Jinjitan Coal Mine are among the most advanced underground coal mining technologies in the world, and proved to be efficient and appropriate given the favorable geological and technical conditions at Jinjitan. In terms of output level in 2019, Jinjitan ranks No. 1 among Yankuang Group's domestic coal mines and No. 12 among China's underground coal mines.

Please refer to "Further Information in relation to Jinjitan Coal Mine" for details.

2. Fine Chemical

Date of establishment	25 May 2012
Registered capital	RMB46.2 million
Type	Limited liability company (solely owned legal person invested in or controlled by a non-natural person)
Scope of business	Production and sales of fische-Tropsch synthesis catalyst, wax, sodium nitrate and potassium silicate.

Fine Chemical was established by Yankuang Group in 2012 with a registered capital of RMB46.2 million. Pursuant to the Transaction, the Company will acquire 100% equity interests in Fine Chemical held by Yankuang Group. As at the Latest Practicable Date, the equity interests in Fine Chemical have clearly-established ownership without mortgage, pledge and any other restrictions on transfer. It was not involved in judicial proceedings such as litigation, arbitration, being sealed up or frozen, or any other circumstances that would prevent the transfer of the ownership thereof.

Upon the completion of the Transaction, Fine Chemical will become a wholly-owned subsidiary of the Company, and its financial data will be consolidated into the financial statements of the Company.

3. Lunan Chemical

Date of establishment	11 July 2007
Registered capital	RMB5,040,690,900
Type	Limited liability company (solely owned legal person invested in or controlled by a non-natural person)

Scope of business	Development, production and sales of: acetic acid, ethyl acetate, methyl acetate, n-butanol, isobutanol, n-butyraldehyde, isobutyraldehyde, propane, methanol, n-butyl acetate, sulfur, formaldehyde solution, liquid ammonia, ammonia solution, paraformaldehyde, acetic anhydride; urea and acetyl chemical products (validity period is subject to license); power generation; engagement in the operation of self-use equipment, raw materials, materials and packaging; production and sales of steam, polyformaldehyde, urea aqueous solution, 84 disinfectant (excluding any dangerous chemical products); catering services; accommodation services; conference and exhibition services; import and export business (excluding publications).

The predecessor of Lunan Chemical was established by Yankuang Group in 2007 with an initial registered capital of RMB60 million. After successive capital increases, restructuring by way of merger and equity transfer, the registered capital of Lunan Chemical was increased to RMB5,040,690,900. Yankuang Group is the sole shareholder of Lunan Chemical. Pursuant to the Transaction, the Company will acquire 100% equity interests in Lunan Chemical held by Yankuang Group. As at the Latest Practicable Date, the equity interests in Lunan Chemical have clearly-established ownership without mortgage, pledge and any other restrictions on transfer. It was not involved in judicial proceedings such as litigation, arbitration, being sealed up or frozen, or any other circumstances that would prevent the transfer of the ownership thereof.

Upon the completion of the Transaction, Lunan Chemical will become a wholly-owned subsidiary of the Company, and its financial data will be consolidated into the financial statements of the Company.

4. Chemical Equipment

Date of establishment	2 September 1989
Registered capital	RMB111,899,207
Type	Limited liability company (solely owned legal person invested in or controlled by a non-natural person)

Scope of business	Design of high-pressure vessel (single layer only), type III low– and medium-pressure vessels; manufacturing of high-pressure vessel (single layer only), type III low– and medium-pressure vessels; manufacturing and maintenance of chemical equipment and parts such as fans, tower internals and filler; manufacturing and maintenance of mine mechanical and electrical equipment and parts; and technical services.

Chemical Equipment was allocated to Yankuang Group in 1999 at nil consideration. Through conversion of debt to equity and capital increases, the registered capital of Chemical Equipment was increased to RMB111,899,207. Pursuant to the Transaction, the Company will acquire 100% equity interests in Chemical Equipment held by Yankuang Group. As at the Latest Practicable Date, the equity interests in Chemical Equipment have clearly-established ownership without mortgage, pledge and any other restrictions on transfer. It was not involved in judicial proceedings such as litigation, arbitration, being sealed up or frozen, or any other circumstances that would prevent the transfer of the ownership thereof.

Upon the completion of the Transaction, Chemical Equipment will become a wholly-owned subsidiary of the Company, and its financial data will be consolidated into the financial statements of the Company.

5. Trading Company

Date of establishment	25 March 2008
Registered capital	RMB260,000,000
Type	Limited liability company (solely owned legal person invested in or controlled by a non-natural person)

Scope of business	Wholesale of crude benzene, methanol, ethanol, coal tar, ethyl acetate, butyl acetate, vinyl acetate, dimethyl formamide, liquid oxygen, liquid argon, liquid nitrogen, methyl ether, ethylene, formaldehyde, acetic acid, acetic anhydride, sulfur, n-butanol, benzene, aniline, calcium carbide, caustic soda, pitch, anthracene oil, naphthalene, oxazole, refined anthracene, toluene, xylene, styrene, naphtha, methyl tert-butyl ether, propylene oxide, dimethyl sulfide, ammonia water, ammonia, methyl formate, methyl acetate, propylene, acetonitrile, methylal, paraformaldehyde, methyl Amine, trimethylamine, isobutanol, ethylene oxide, acetone, washing oil, crude phenol, carbon dioxide, (di)methyl carbonate, methyl acrylate, acrylic acid, formic acid, methane, metaformaldehyde, hydroiodic acid, methyl iodide, boron trifluoride ether complex, methyl sulfonic acid, propane, isopropanol, mercury sulfate, potassium hydroxide, acetylacetone, barium chloride, cobalt chloride, sodium bisulfite, dioxolane, potassium dichromate and sodium hypochlorite solution (containing available chlorine>5%) (no storage) (operates with hazardous chemicals operating license, validity period is subject to the license); retail of fertilizer; wholesale of coal; sales of heavy oil, fuel oil, coke, lubricating ore, chemical equipment, textile raw materials, chemical raw materials and products (excluding dangerous chemical products), iron ore, nickel ore, instrumentation, cables, hardware tools, bearings, valve fittings, building materials, labor protection supplies, metals, rubber products, and copper ore; import and export of goods and technology (except for goods or technology that the state restricts or prohibits companies from operating); and warehousing services.

Trading Company was established by Yankuang Group in 2008 with a registered capital of RMB260,000,000. Pursuant to the Transaction, the Company will acquire 100% equity interests in Trading Company held by Yankuang Group. As at the Latest Practicable Date, the equity interests in Trading Company have clearly-established ownership without mortgage, pledge and any other restrictions on transfer. It was not involved in judicial proceedings such as litigation, arbitration, being sealed up or frozen, or any other circumstances that would prevent the transfer of the ownership thereof.

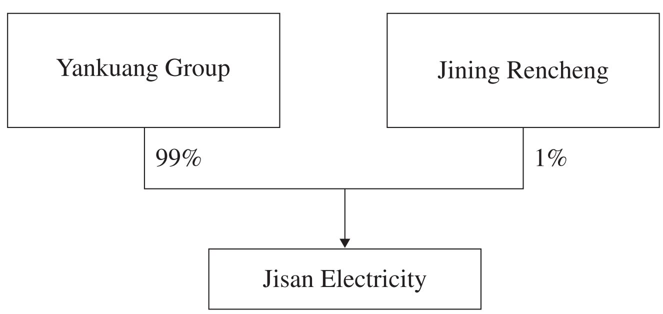
Upon the completion of the Transaction, Trading Company will become a wholly-owned subsidiary of the Company, and its financial data will be consolidated into the financial statements of the Company.

6. Jisan Electricity

Date of establishment	31 January 2005
Registered capital	RMB430,000,000
Type	Other limited liability company
Scope of business	Heat supply operation (validity period is subject to the license); and thermal power generation (those subject to permission are operated with licenses or approval documents).

Jisan Electricity was established initially by Yankuang Group and Jining Rencheng District Public Assets Management Company ("Jining Rencheng") at an equity interest ratio of 92% and 8%, respectively, at a registered capital of RMB430 million. Yankuang Group subsequently acquired 7% equity interests in Jisan Electricity from Jining Rencheng in 2015 at a consideration of RMB30.10 million.

As at the Latest Practicable Date, the shareholding structure of Jisan Electricity is as follows:



Pursuant to the Transaction, the Company will acquire 99% equity interests in Jisan Electricity held by Yankuang Group. As at the Latest Practicable Date, the equity interests in Jisan Electricity have clearly-established ownership without mortgage, pledge and any other restrictions on transfer. It was not involved in judicial proceedings such as litigation, arbitration, being sealed up or frozen, or any other circumstances that would prevent the transfer of the ownership thereof.

Jining Rencheng is an institution established in the PRC on 14 March 2013. To the Directors' knowledge, information and belief, and having made all reasonable enquiries, Jining Rencheng District Public Assets Management Company and its respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Upon the completion of the Transaction, Jisan Electricity will become a subsidiary of the Company, and its financial data will be consolidated into the financial statements of the Company.

7. Information Center

The Information Center was formerly the communication and computing center of Yankuang Group established in October 1994. It has been independently accounted for since January 1995. The Information Center is currently the functional department of Yankuang Group's informatization business, capable of providing mine informatization system development and construction and maintenance services, as well as communications, network and digital TV services.

Pursuant to the Transaction, the Company will acquire the relevant assets of the Information Center, a subordinate of Yankuang Group. As at the Latest Practicable Date, the relevant assets of the Information Center involved in the Transaction have clearly-established ownership without mortgage, pledge and any other restrictions on transfer. They were not involved in judicial proceedings such as litigation, arbitration, being sealed up or frozen, or any other circumstances that would prevent the transfer of the ownership thereof.

Upon the completion of the Transaction, the Information Center will become a subordinate department of the Company, and its financial data will be consolidated into the financial statements of the Company.

V. FINANCIAL DATA OF TARGET COMPANIES AND TARGET ASSETS

1. Shaanxi Future Energy

The audited major financial figures of Shaanxi Future Energy for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, prepared by Crowe in accordance with the IFRS, are summarized as follows (combined data):

RMB'000

	Year ended 31 December			Six months ended 30 June
	2017	**2018**	**2019**	**2020**
Revenue	6,519,141	6,564,897	8,751,970	**4,156,146**
Profit before tax	1,980,894	1,612,119	2,821,471	**1,227,871**
Profit after tax	1,680,915	1,370,955	2,386,234	**1,059,581**

	As of 31 December			As of 30 June
	2017	**2018**	**2019**	**2020**
Total assets	22,014,387	20,510,499	20,006,701	**20,867,324**
Total liabilities	12,895,930	10,021,087	8,812,355	**8,613,397**
Net assets	9,118,457	10,489,412	11,194,346	**12,253,927**

2. Fine Chemical

The audited major financial figures of Fine Chemical for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, prepared by Crowe in accordance with the IFRS, are summarized as follows:

RMB'000

	Year ended 31 December			Six months ended 30 June
	2017	**2018**	**2019**	**2020**
Revenue	184,461	189,098	219,128	**83,552**
Profit before tax	20,985	9,913	34,355	**11,755**
Profit after tax	18,288	8,297	29,042	**9,982**

	As of 31 December			As of 30 June
	2017	**2018**	**2019**	**2020**
Total assets	263,390	230,160	237,596	**242,059**
Total liabilities	147,700	110,617	89,011	**83,492**
Net assets	115,690	119,543	148,585	**158,567**

3. Lunan Chemical

The audited major financial figures of Lunan Chemical for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, prepared by Crowe in accordance with the IFRS, are summarized as follows:

RMB'000

	Year ended 31 December			Six months ended 30 June
	2017	**2018**	**2019**	**2020**
Revenue	4,079,409	6,356,124	6,310,350	**2,603,067**
Profit before tax	198,107	430,114	453,733	**(38,939)**
Profit after tax	139,049	386,156	393,929	**(28,045)**

	As of 31 December			As of 30 June
	2017	**2018**	**2019**	**2020**
Total assets	8,542,938	8,799,130	9,359,892	**9,811,094**
Total liabilities	7,725,728	4,026,717	3,907,998	**4,249,404**
Net assets	817,210	4,772,413	5,451,894	**5,561,690**

4. Chemical Equipment

The audited major financial figures of Chemical Equipment for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, prepared by Crowe in accordance with the IFRS, are summarized as follows:

RMB'000

	Year ended 31 December			Six months ended 30 June
	2017	**2018**	**2019**	**2020**
Revenue	27,539	39,189	52,907	**33,555**
(Loss)/profit before tax	(354)	247	5,319	**1,455**
(Loss)/profit after tax	(137)	312	5,339	**1,605**

	As of 31 December			As of 30 June
	2017	**2018**	**2019**	**2020**
Total assets	49,152	53,999	85,907	**86,689**
Total liabilities	121,528	126,063	30,322	**29,340**
Net (liabilities)/assets	(72,376)	(72,064)	55,585	**57,349**

5. Trading Company

The audited major financial figures of Trading Company for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, prepared by Crowe in accordance with the IFRS, are summarized as follows:

RMB'000

	Year ended 31 December			Six months ended 30 June
	2017	**2018**	**2019**	**2020**
Revenue	11,127,075	10,217,082	7,170,375	**3,388,079**
Profit before tax	32,803	23,235	21,584	**13,510**
Profit after tax	24,663	20,422	17,723	**9,012**

	As of 31 December			As of 30 June
	2017	**2018**	**2019**	**2020**
Total assets	1,393,089	579,427	547,396	**704,417**
Total liabilities	1,205,968	377,460	327,706	**474,833**
Net assets	187,121	201,967	219,690	**229,584**

6. Jisan Electricity

The audited major financial figures of Jisan Electricity for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, prepared by Crowe in accordance with the IFRS, are summarized as follows:

RMB'000

	Year ended 31 December			Six months ended 30 June
	2017	**2018**	**2019**	**2020**
Revenue	428,870	455,016	429,724	**171,248**
Profit before tax	23,430	14,139	51,505	**50,103**
Profit after tax	22,651	8,754	37,812	**37,306**

	As of 31 December			As of 30 June
	2017	**2018**	**2019**	**2020**
Total assets	2,119,906	2,041,426	2,149,303	**2,080,364**
Total liabilities	1,618,426	1,535,877	1,605,942	**1,499,589**
Net assets	501,480	505,549	543,361	**580,775**

7. Information Center

The audited major financial figures of Information Center for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, prepared by Crowe in accordance with the IFRS, are summarized as follows:

RMB'000

	Year ended 31 December			Six months ended 30 June
	2017	**2018**	**2019**	**2020**
Revenue	118,338	140,851	143,302	**64,392**
Profit before tax	37,270	36,798	19,901	**15,698**
Profit after tax	37,270	36,798	19,901	**15,698**

	As of 31 December			As of 30 June
	2017	**2018**	**2019**	**2020**
Total assets	262,466	265,126	262,549	**259,851**
Total liabilities	183,804	171,666	166,568	**150,028**
Net assets	78,662	93,460	95,981	**109,823**

VI. VALUATION OF TARGET COMPANIES AND TARGET ASSETS

1. Shaanxi Future Energy

The valuation of Shaanxi Future Energy as per the "Asset Valuation Report on the Value of the Total Shareholders' Equity of Shaanxi Future Energy & Chemicals Co., Ltd. Involved in the Proposed Acquisition of the Equity Interests in Shaanxi Future Energy & Chemicals Co., Ltd. by Yanzhou Coal Mining Company Limited" (Tian Xing Ping Bao Zi (2020) No. 1242) issued by Pan-China, which has securities and futures related business qualifications in China, is as follows:

Valuation approaches and appraisal results

Based on the benchmark date of 30 June 2020, Pan-China ultimately adopted the asset-based approach for the valuation on the total shareholders' equity of Shaanxi Future Energy. However, due to the unique nature of the proprietary technologies (i.e. technologies to which patents have not been applied for by the relevant company), patents and rights to use proprietary technology, and given that if the market approach and the cost approach were adopted, it would be in contravention of the relevant valuation requirements in the PRC, the valuation of such proprietary technologies, patents and rights to use proprietary technology was based on income approach. According to Pan-China, the technical idea of the income method is primarily based on the reasonable forecast on the economic life span and the expected level of income to be generated from the use of such technologies, patents and rights to use proprietary technology to the enterprise in the future. Such proprietary technologies, patents and rights to use proprietary technology accounted for an insignificant portion of the "other intangible assets" within the category of "Intangible Assets" of the Valuation Report on Shaanxi Future Energy.

Based on the benchmark date of 30 June 2020 as the benchmark date, Pan-China ultimately adopted the asset-based approach for the valuation on the total shareholders' equity of Shaanxi Future Energy. Under the ongoing concern on 30 June 2020, being the valuation benchmark date, the value of total shareholders' equity after appraisal of Shaanxi Future Energy amounted to RMB23,937.0333 million, with an estimated appreciation of RMB11,837.9846 million and an appreciation rate of 97.84%, and the appraisal results are as follows:

RMB0'000

Item	**Book value** *(Note)*	**Appraised value**	**Changes**	**Appreciation rate** *(%)*
Current assets	303,135.20	306,384.89	3,249.69	1.07
Non-current assets	1,765,001.35	2,945,550.11	1,180,548.76	66.89
Including: Long-term equity investment	6,530.00	8,361.34	1,831.34	28.05
Investment properties	2,253.02	2,658.39	405.37	17.99
Fixed assets	1,299,004.14	1,282,461.29	–16,542.85	–1.27
Construction in progress	104,857.87	93,825.64	–11,032.23	–10.52
Intangible assets	265,805.74	1,471,658.46	1,205,852.72	453.66
Others	86,550.58	86,584.99	34.41	0.04
Total assets	**2,068,136.55**	**3,251,935.01**	**1,183,798.46**	**57.24**
Current liabilities	342,774.99	342,774.99	–	–
Non-current liabilities	515,456.69	515,456.69	–	–
Total liabilities	**858,231.68**	**858,231.68**	**–**	**–**
Net assets	**1,209,904.87**	**2,393,703.33**	**1,183,798.46**	**97.84**

Note: Such book value is prepared in accordance with Chinese Accounting Standards.

Under the going concern assumption as at the valuation benchmark date, the book value of total assets, the book value of liabilities and the book value of net assets of Shaanxi Future Energy were RMB20,681.3655 million, RMB8,582.3168 million and RMB12,099.0487 million, respectively. Shaanxi Future Energy's total assets after appraisal by the asset-based approach were RMB32,519.3501 million, liabilities were RMB8,582.3168 million, net assets were RMB23,937.0333 million, and the appraised appreciation was RMB11,837.9846 million, representing an appreciation rate of 97.84%.

Explanatory notes on appreciation of valuation

The main reason for the appreciation of Shaanxi Future Energy valuation is the appreciation of mining rights in intangible assets, while the main reason for the appreciation of mining rights is a lower cost of obtaining the original value of mining rights. In the valuation of Shaanxi Future Energy, the mining rights of Jinjitan Coal Mine are evaluated using the discounted cash flow method. The evaluated value included the economic benefits brought by the exploration and development of the mining rights, reflecting the income status of the future years.

According to Pan-China, the main indicators and parameter selection methods for the evaluation of mining rights of Jinjitan Coal Mine using the discounted cash flow method are as follows:

(1) Product plan

According to the actual situation of the enterprise, the product plan is mixed coal, washed lump coal, washed clean coal, and washed gangue. The product options adopted in their assessment are blended coal, washed lump coal, washed clean coal, and washed gangue.

(2) Mining service life

It is determined based on the remaining recoverable reserves and mine production scale of the paid price on the assessment base date.

(3) Product price and sales revenue

Product output: The mineral products used in the assessment are blended coal, washed lump coal, washed clean coal, and washed gangue. Forecast is made according to the product yield table provided by the enterprise.

Product price: Forecast is made with reference to the historical sales price of the enterprise.

(4) Total cost

For material costs, power costs, repair costs, employee compensation, subsidence compensation, sales costs, management costs and other expenditures, forecasts are made with reference to the 2019 data of the enterprise.

For depreciation and amortization of intangible assets, the average life method is adopted, and forecasts are made with reference to the life of various assets.

For maintenance fees, safety fees and environmental governance and restoration funds, forecasts are made according to the regulations of the relevant documents.

For finance expenses, forecasts are made in accordance with the relevant provisions of the "Guiding Opinions on the Determination of Mining Rights Evaluation Parameters" and LPR.

(5) Taxes, surcharges and income tax: predictions are made with reference to the relevant national taxation policies.

(6) Investment

The project has been constructed and put into production, and the follow-up investment in geological exploration is zero.

Fixed asset investment, subsequent investment in construction in progress, and intangible asset investment are predicted with reference to asset appraisal values.

The production capacity index payment is invested at the time of the base date and recovered at the end of the production period.

(7) Renewal and reconstruction funds, recovery of residual (residual) value of fixed assets

According to the "China Mining Rights Evaluation Standards", the net value of fixed assets at the end of the evaluation period is used as the residual value of the recovered fixed assets.

(8) Liquidity: Refer to the "China Mining Rights Evaluation Standards" to determine the sales revenue funding rate, one-time investment in the first year of the production period, and one-time recovery at the end of the production period.

(9) Discount rate

The discount rate is generally selected based on the risk-free rate of return and the risk-free rate of return. The 10-year treasury bond's annual yield to maturity on the evaluation base date is selected as the risk-free rate of return for this project evaluation. The method for determining the risk return rate is the "risk accumulation method". The production stage risk return, industry risk return rate, financial operation risk return rate and other risk return rates are considered.

Since Pan-China has, in the valuation of Shaanxi Future Energy, assessed the mining right of the Jinjitan Coal Mine based on income approach (the "**Jinjitan Coal Mine Profit Forecast**"), such valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules. As such, the requirements under Rules 14.60A and 14.62 of the Listing Rules are applicable.

In accordance with Rule 14.62(2) of the Listing Rules, the Company has engaged Crowe to report on the calculations of the discounted future cash flow under the Jinjitan Coal Mine Profit Forecast. Crowe has reviewed the calculation of discounted future cash flows used in the valuation (not involving the adoption of accounting policies).

Crowe has reported to the Directors that, so far as the calculations of the discounted future estimated cash flows on which the valuation of the mining rights of Jinjitan Coal Mine was based as concerned, the discounted future estimated cash flow has been properly compiled in all material aspects in accordance with the assumptions made. The work performed by Crowe has not reviewed, considered or conducted any work on the appropriateness and validity of the basis and assumptions and Crowe has not given any opinion on the appropriateness and validity of the basis and assumptions on which the discounted future estimated cash flows, and thus the Jinjitan Coal Mine Profit Forecast, are based.

The Directors have reviewed the basis and assumptions, on which the Jinjitan Coal Mine Profit Forecast of the asset valuation report of Shaanxi Future Energy was based and prepared by Pan-China. The Directors have also considered the report by Crowe. Based on the foregoing, the Directors have confirmed that they are satisfied that the valuation of the mining rights of Jinjitan Coal Mine has been made after due and careful enquiry.

The letter dated 30 September 2020 from Crowe for the purpose of Rule 14.62(2) of the Listing Rules on the Jinjitan Coal Mine Profit and the letter dated 30 September 2020 from the Board of the Company for the purpose of Rule 14.62(3) of the Listing Rules on the Jinjitan Coal Mine Profit Forecast have already been included in the announcement published by the Company on 30 September 2020. Full text of the said letters from Crowe and the Board including the basis and assumption relevant to the Jinjitan Coal Mine Profit Forecast are reproduced and set out in "Further Information in relation to Jinjitan Coal Mine" of this circular.

2. Fine Chemical

The valuation of Fine Chemical as per the "Asset Valuation Report on the Value of the Total Shareholders' Equity of Yankuang Yuling Fine Chemical Co., Ltd. Involved in the Proposed Acquisition of the Equity Interests in Yankuang Yuling Fine Chemical Co., Ltd. by Yanzhou Coal Mining Company Limited" (Tian Xing Ping Bao Zi (2020) No. 1262) issued by Pan-China, which has securities and futures related business qualifications in China, is as follows:

Valuation approaches and appraisal results

Based on the benchmark date of 30 June 2020, Pan-China ultimately adopted the asset-based approach for the valuation on the total shareholders' equity of Fine Chemical. However, due to the unique nature of the proprietary technologies (i.e. technologies to which patents have not been applied for by the relevant company), patents and rights to use proprietary technology, and given that if the market approach and the cost approach were adopted, it would be in contravention of the relevant valuation requirements in the PRC, the valuation of such proprietary technologies, patents and rights to use proprietary technology was based on income approach. According to Pan-China, the technical idea of the income method is primarily based on the reasonable forecast on the economic life span and the expected level of income to be generated from the use of such technologies, patents and rights to use proprietary technology to the enterprise in the future. Such proprietary technologies, patents and rights to use proprietary technology accounted for an insignificant portion of the "other intangible assets" within the category of "Intangible Assets" of the Valuation Report on Fine Chemical.

Based on the benchmark date of 30 June 2020 as the benchmark date, Pan-China ultimately adopted the asset-based approach for the valuation on the total shareholders' equity of Fine Chemical. Under the ongoing concern on 30 June 2020, being the valuation benchmark date, the value of total shareholders' equity after appraisal of Fine Chemical amounted to RMB223.6242 million with an estimated appreciation of RMB65.0573 million and an appreciation rate of 41.03%, and the appraisal results are as follows:

RMB0'000

Item	**Book value** *(Note)*	**Appraised value**	**Changes**	**Appreciation rate** *(%)*
Current assets	7,765.22	8,045.19	279.97	3.61
Non-current assets	16,440.62	22,666.38	6,225.76	37.87
Including: Long-term equity investment	–	–	–	
Investment properties	–	–	–	
Fixed assets	15,127.65	21,072.16	5,944.51	39.30
Construction in progress	–	–	–	
Intangible assets	1,291.90	1,573.15	281.25	21.77
Others	21.07	21.07	–	–
Total assets	**24,205.84**	**30,711.57**	**6,505.73**	**26.88**
Current liabilities	8,331.64	8,331.64	–	–
Non-current liabilities	17.51	17.51	–	–
Total liabilities	**8,349.15**	**8,349.15**	**–**	**–**
Net assets	**15,856.69**	**22,362.42**	**6,505.73**	**41.03**

Note: Such book value is prepared in accordance with Chinese Accounting Standards.

Under the going concern assumption as at the valuation benchmark date, the book value of total assets, the book value of liabilities and the book value of net assets of Fine Chemical were RMB242.0584 million, RMB83.4915 million and RMB158.5669 million, respectively. Fine Chemical's total assets after appraisal by the asset-based approach were RMB307.1157 million, liabilities were RMB83.4915 million, net assets were RMB223.6242 million, and the appraised appreciation was RMB65.0573 million, representing an appreciation rate of 41.03%.

3. Lunan Chemical

The valuation of Lunan Chemical as per the "Asset Valuation Report on the Value of the Total Shareholders' Equity of Yankuang Lunan Chemical Co., Ltd. Involved in the Proposed Acquisition of the Equity Interests in Yankuang Lunan Chemical Co., Ltd by Yanzhou Coal Mining Company Limited" (Tian Xing Ping Bao Zi (2020) No. 1255) issued by Pan-China, which has securities and futures related business qualifications in China, is as follows:

Valuation approaches and appraisal results

Based on the benchmark date of 30 June 2020, Pan-China ultimately adopted the asset-based approach for the valuation on the total shareholders' equity of Lunan Chemical. However, due to the unique nature of the proprietary technologies (i.e. technologies to which patents have not been applied for by the relevant company), patents and rights to use proprietary technology, and given that if the market approach and the cost approach were adopted, it would be in contravention of the relevant valuation requirements in the PRC, the valuation of such proprietary technologies, patents and rights to use proprietary technology was based on income approach. According to Pan-China, the technical idea of the income method is primarily based on the reasonable forecast on the economic life span and the expected level of income to be generated from the use of such technologies, patents and rights to use proprietary technology to the enterprise in the future. Such proprietary technologies, patents and rights to use proprietary technology accounted for an insignificant portion of the "other intangible assets" within the category of "Intangible Assets" of the Valuation Report of Lunan Chemical.

Based on the benchmark date of 30 June 2020 as the benchmark date, Pan-China ultimately adopted the asset-based approach for the valuation on the total shareholders' equity of Lunan Chemical. Under the ongoing concern on 30 June 2020, being the valuation benchmark date, the value of total shareholders' equity after appraisal of Lunan Chemical is RMB6,187.4849 million, with an estimated appreciation of RMB645.4981 million and an appreciation rate of 11.65%, and the appraisal results are as follows:

RMB0'000

Item	**Book value** *(Note)*	**Appraised value**	**Changes**	**Appreciation rate** *(%)*
Current assets	255,241.72	255,665.54	423.82	0.17
Non-current assets	731,024.02	794,012.87	62,988.85	8.62
Including: Long-term equity investment	–	–	–	
Investment properties	–	–	–	
Fixed assets	438,685.65	465,954.04	27,268.39	6.22
Construction in progress	78,659.71	79,799.22	1,139.51	1.45
Intangible assets	52,073.40	86,254.68	34,181.28	65.64
Others	161,605.26	162,004.93	399.67	0.25
Total assets	**986,265.74**	**1,049,678.41**	**63,412.67**	**6.43**
Current liabilities	369,334.04	369,334.04	–	–
Non-current liabilities	62,733.02	61,595.88	-1,137.14	-1.81
Total liabilities	**432,067.06**	**430,929.92**	**-1,137.14**	**-0.26**
Net assets	**554,198.68**	**618,748.49**	**64,549.81**	**11.65**

Note: Such book value is prepared in accordance with Chinese Accounting Standards.

Under the going concern assumption as at the valuation benchmark date, the book value of total assets, the book value of liabilities and the book value of net assets of Lunan Chemical were RMB9,862.6574 million RMB4,320.6706 million and RMB5,541.9868 million, respectively. Lunan Chemical's total assets after appraisal by the asset-based approach were RMB10,496.7841 million, liabilities were RMB4,309.2992 million, net assets were RMB6,187.4849 million, and the appraised appreciation was RMB645.4981 million, representing an appreciation rate of 11.65%.

4. Chemical Equipment

The valuation of Chemical Equipment as per the "Asset Valuation Report on the Value of the Total Shareholders' Equity of Shareholders of Yankuang Jining Chemical Equipment Co., Ltd. Involved in the Proposed Acquisition of the Equity Interests in Yankuang Jining Chemical Equipment Co., Ltd. by Yanzhou Coal Mining Company Limited" (Tian Xing Ping Bao Zi (2020) No. 1252) issued by Pan-China, which has securities and futures related business qualifications in China, is as follows:

Valuation approaches and appraisal results

Based on the benchmark date of 30 June 2020, Pan-China ultimately adopted the asset-based approach for the valuation on the total shareholder' equity of Chemical Equipment. Under the ongoing concern on 30 June 2020, being the valuation benchmark date, the value of total shareholders' equity after appraisal of Chemical Equipment is RMB69.6413 million, with an estimated appreciation of RMB16.265 million and an appreciation rate of 30.47%, and the appraisal results are as follows:

RMB0'000

Item	Book value *(Note)*	Appraised value	Changes	Appreciation rate *(%)*
Current assets	4,998.88	5,063.47	64.59	1.29
Non-current assets	3,670.11	5,232.02	1,561.91	42.56
Including: Long-term equity investment	–	–	–	
Investment properties	–	–	–	
Fixed assets	2,548.29	3,664.32	1,116.03	43.80
Construction in progress	–	–	–	
Intangible assets	314.13	1,153.86	839.73	267.32
Others	807.69	413.84	–393.85	–48.76
Total assets	**8,668.99**	**10,295.49**	**1,626.50**	**18.76**
Current liabilities	2,871.66	2,871.66	–	–
Non-current liabilities	459.70	459.70	–	–
Total liabilities	**3,331.36**	**3,331.36**	**–**	**–**
Net assets	**5,337.63**	**6,964.13**	**1,626.50**	**30.47**

Note: Such book value is prepared in accordance with Chinese Accounting Standards.

Under the going concern assumption as at the valuation benchmark date, the book value of total assets, the book value of liabilities and the book value of net assets of Chemical Equipment were RMB86.6899 million, RMB33.3136 million and RMB53.3763 million, respectively. Chemical Equipment's total assets after appraisal by the asset-based approach were RMB102.9549 million; liabilities were RMB33.3136 million; net assets were RMB69.6413 million, and the appraised appreciation was RMB16.265 million, representing an appreciation rate of 30.47%.

5. Trading Company

The valuation of Trading Company as per the "Asset Valuation Report on the Value of the Total Shareholders' Equity of Shareholders of Yankuang Coal Chemicals International Trading Co., Ltd. Involved in the Proposed Acquisition of the Equity Interests in Yankuang Coal Chemicals International Trading Co., Ltd. by Yanzhou Coal Mining Company Limited" (Tian Xing Ping Bao Zi (2020) No. 1254) issued by

Pan-China, which has securities and futures related business qualifications in China, is as follows:

Valuation approaches and appraisal results

Based on the benchmark date of 30 June 2020, Pan-China ultimately adopted the asset-based approach for the valuation on the total shareholders' equity of Trading Company. Under the ongoing concern on 30 June 2020, being the valuation benchmark date, the value of total shareholders' equity after appraisal of Trading Company is RMB229.9034 million, with an estimated appreciation of RMB0.3193 million and an appreciation rate of 0.14%, and the appraisal results are as follows:

RMB0'000

Item	Book value *(Note)*	Appraised value	Changes	Appreciation rate *(%)*
Current assets	69,932.00	69,932.00	–	–
Non-current assets	509.63	541.56	31.93	6.27
Including: Long-term equity investment	–	–	–	
Investment properties	–	–	–	
Fixed assets	27.38	59.31	31.93	116.62
Construction in progress	–	–	–	
Intangible assets	–	–	–	
Others	482.25	482.25	–	–
Total assets	**70,441.63**	**70,473.56**	**31.93**	**0.05**
Current liabilities	46,826.25	46,826.25	–	–
Non-current liabilities	656.97	656.97	–	–
Total liabilities	**47,483.22**	**47,483.22**	**–**	**–**
Net assets	**22,958.41**	**22,990.34**	**31.93**	**0.14**

Note: Such book value is prepared in accordance with Chinese Accounting Standards.

Under the going concern assumption as at the valuation benchmark date, the book value of total assets, the book value of liabilities and the book value of net assets of Trading Company were RMB704.4163 million, RMB474.8322 million and RMB229.5841 million, respectively. Trading Company's total assets after appraisal by the asset-based approach were RMB704.7356 million; liabilities were RMB474.8322 million; net assets were RMB229.9034 million, and the appraised appreciation was RMB0.3193 million, representing an appreciation rate of 0.14%.

6. Jisan Electricity

The valuation of Jisan Electricity as per the "Asset Valuation Report on the Value of the Total Shareholders' Equity of Shareholders of Shandong Yankuang Jisan Electricity Co., Ltd. Involved in the Proposed Acquisition of the Equity Interests in

Shandong Yankuang Jisan Electricity Co., Ltd. by Yanzhou Coal Mining Company Limited" (Tian Xing Ping Bao Zi (2020) No. 1247) issued by Pan-China, which has securities and futures related business qualifications in China, is as follows:

Valuation approaches and appraisal results

Based on the benchmark date of 30 June 2020, Pan-China ultimately adopted the asset-based approach for the valuation on the total shareholders' equity of Jisan Electricity. Under the ongoing concern on 30 June 2020, being the valuation benchmark date, the value of total shareholders' equity after appraisal of Jisan Electricity is RMB713.8707 million, with an estimated appreciation of RMB133.0956 million and an appreciation rate of 22.92%, and the appraisal results are as follows:

RMB0'000

Item	**Book value** *(Note)*	**Appraised value**	**Changes**	**Appreciation rate** *(%)*
Current assets	159,410.98	159,410.98	–	–
Non-current assets	48,625.54	61,935.10	13,309.56	27.37
Including: Long-term equity investment	–	–	–	–
Fixed assets	46,903.43	57,928.93	11,025.50	23.51
Intangible assets	1,722.11	4,006.17	2,284.06	132.63
Total assets	**208,036.52**	**221,346.08**	**13,309.56**	**6.40**
Current liabilities	81,020.53	81,020.53	–	–
Non-current liabilities	68,938.48	68,938.48	–	–
Total liabilities	**149,959.01**	**149,959.01**	**–**	**–**
Net assets	**58,077.51**	**71,387.07**	**13,309.56**	**22.92**

Note: Such book value is prepared in accordance with Chinese Accounting Standards.

Under the going concern assumption as at the valuation benchmark date, the book value of total assets, the book value of liabilities and the book value of net assets of Jisan Electricity were RMB2,080.3652 million, RMB1,499.5901 million and RMB580.7751 million, respectively. Jisan Electricity's total assets after appraisal by the asset-based approach were RMB2,213.4608 million, liabilities were RMB1,499.5901 million, net assets were RMB713.8707 million, and the appraised appreciation was RMB133.0956 million, representing an appreciation rate of 22.92%.

7. Information Center

The valuation of Information Center as per the "Market Value of the Relevant Assets and Liabilities of the Information Center of Yankuang Group Company Limited Involved in the Proposed Acquisition of the Assets Group of the Information Center of

Yankuang Group Company Limited by Yanzhou Coal Mining Company Limited" (Tian Xing Ping Bao Zi (2020) No. 1258) issued by Pan-China, which has securities and futures related business qualifications in China, is as follows:

Valuation approaches and appraisal results

Based on the benchmark date of 30 June 2020, Pan-China ultimately adopted the asset-based approach for the valuation on the total shareholders' equity of Information Center. Under the ongoing concern on 30 June 2020, being the valuation benchmark date, the value of relevant assets and liabilities after appraisal of Jisan Electricity is RMB119.7962 million, with an estimated appreciation of RMB9.9739 million and an appreciation rate of 9.08%, and the appraisal results are as follows:

RMB0'000

Item	**Book value** *(Note)*	**Appraised value**	**Changes**	**Appreciation rate** *(%)*
Current assets	18,986.13	18,982.38	–3.75	–0.02
Non-current assets	6,998.93	7,897.24	898.31	12.83
Including: Long-term equity investment	–	–	–	
Investment properties	–	–	–	
Fixed assets	6,759.83	7,389.35	629.52	9.31
Construction in progress	–	–	–	
Intangible assets	239.10	507.89	268.79	112.42
Others	–	–	–	
Total assets	**25,985.06**	**26,879.62**	**894.56**	**3.44**
Current liabilities	14,151.78	14,151.78	–	–
Non-current liabilities	851.05	748.22	–102.83	–12.08
Total liabilities	**15,002.83**	**14,900.00**	**–102.83**	**–0.69**
Net assets	**10,982.23**	**11,979.62**	**997.39**	**9.08**

Note: Such book value is prepared in accordance with Chinese Accounting Standards.

Under the going concern assumption as at the valuation benchmark date, the book value of total assets, the book value of liabilities and the book value of net assets of Information Center were RMB259.8506 million, RMB150.0283 million and RMB109.8223 million, respectively. Information Center's total assets after appraisal by the cost approach were RMB268.7962 million; liabilities were RMB149.0 million; net assets were RMB119.7962 million, and the appraised appreciation was RMB9.9739 million, representing an appreciation rate of 9.08%.

VII. LETTER OF PERFORMANCE COMMITMENT

Reference is made by the announcement published by the Company on 23 October 2020.

In view of the Transaction Agreement entered into between Yankuang Group and the Company on 30 September 2020 and based on confidence in the future development prospect of the Target Companies, and with reference to the Asset Valuation Reports filed with the competent state-owned regulatory authorities, Yankuang Group made the following commitments regarding the performance of the Target Equity Interests in the next three years:

(I) Commitment to the audited aggregate net profit attributable to shareholders of the parent company after deducting non-recurring profit and loss corresponding to the Target Equity Interests (the "**Net Profit**"), calculated in accordance with the China Accounting Standards for Business Enterprises, shall not be less than RMB4.314 billion (the "**Committed Net Profit**") during the years 2020 to 2022 (the "**Commitment Period**"). The commitment to the Committed Net Profit is determined with reference to the Asset Valuation Reports filed with the competent state-owned regulatory authorities. The Committed Net Profit of Shaanxi Future Energy and Jisan Electricity shall be determined according to the proportion of equity interests participating in the Transaction, being 49.315% and 99%.

(II) In the case which after the end of the Commitment Period, the aggregate amount of actual Net Profit corresponding to the Target Equity Interests does not reach the Committed Net Profit, Yankuang Group shall compensate the Company in cash, and the specific compensation amount shall be calculated based on the difference between the Committed Net Profit and the actual Net Profit corresponding to the Target Equity Interests. Among which, the actual Net Profit corresponding to 49.315% equity interests in Shaanxi Future Energy or 99% equity interests of Jisan Electricity = (Net Profit of Shaanxi Future Energy or Jisan Electricity attributable to shareholders of the parent company after deducting non-recurring profit and loss each year) × the equity interest ratios of Shaanxi Future Energy or Jisan Electricity in the Transaction.

The actual Net Profit realized in each year shall be determined on the basis of the net profit attributable to shareholders of the parent company after deducting non-recurring profit and loss recognized in the special audit report issued by the accounting firm appointed by the Company, and approved by both the Company and Yankuang Group.

(III) Commitment to perform all the compensation obligations within 30 days after the issuance of the special audit report on the Target Companies the receipt of the notice from the Company specifying the specific amount of compensation during the Commitment Period.

(IV) In the case which during the Commitment Period, due to force majeure ("force majeure" refers to the objective circumstances that cannot be foreseen, unavoidable and unsurmountable at the time when the Transaction Agreement was entered into between Yankuang Group and the Company, including but not limited to: 1. natural disasters such as earthquakes, tsunamis, typhoons, volcanic eruptions, landslides, avalanches, mudslides, epidemics, etc.; 2. social abnormal events such as wars, armed conflicts, strikes, disturbances, riots, etc.; 3. changes in laws, regulations or policies, government control orders or decisions), the normal production and operation of Target Companies is materially and adversely affected or the Target Companies are no longer controlled or actually controlled by the Company, Yankuang Group may adjust the amount of the Committed Net Profit under the Letter of Performance Commitment and other content according to the degree of impact of the foregoing circumstances starting from the year (such year inclusive) in which the above-mentioned circumstances occurred.

(V) The Letter of Performance Commitment shall take effect from the date when the Transaction Agreement becomes effective.

Based on the above, pursuant to the Letter of Performance Commitment,

1. for each Target Company, any of the Target Company(ies) which did not realise Net Profit will offset the Net Profit realised by the other Target Company(ies) during the Commitment Period, and the total amount for those three years will be aggregated.

2. with respect to the maximum compensation amount and in accordance with the calculation method set out in the Letter of Performance Commitment, the Committed Net Profit will net off the actual realised net profit corresponding to the Target Equity Interests. Accordingly, if the Net Profit corresponding to the Target Equity Interest for the three years is negative, it will result in a maximum compensation amount exceeding RMB4.314 billion.

The Company will comply with the disclosure requirements under Rule 14A.63 of the Hong Kong Listing Rules.

VIII.OTHER ARRANGEMENTS RELATING TO THE TRANSACTION

Upon the Closing, the employees of the Information Center shall be resettled in accordance with the principle of "people go with the assets". Except for the Information Center, the labor contract relationship of the employees of other Target Companies will not be changed as a result of the Transaction. In addition, the Transaction does not involve other personnel placement issues.

IX. CONTINUING CONNECTED TRANSACTION

Currently, there are transactions between the Group, Yankuang Group and its associates and certain Target Groups and Target Assets. Subsequent to the completion of the Transaction, Target Companies will become subsidiaries of the Company, and the Target Assets will become a subordinate department of the Company. Therefore, the connected transactions between the Target Group, Target Assets and the Group will be eliminated. Existing transactions between the Target Group, Target Assets and Yankuang Group and its associates will become newly added continuing connected transactions of the Company.

As soon as reasonably practicable, the Company will promptly examine the status and scale of the continuing connected transactions between the Target Group, Target Assets and Yankuang Group and its associates, and publish announcements and seek the approval from Independent Shareholders (if required) for full compliance with the relevant requirements of the Listing Rules.

X. BENEFITS OF AND REASONS FOR THE TRANSACTION

As a result of the Transaction, the Company can realize the integration of the coal chemical business segment under Yankuang Group, further strengthen the three main businesses of ″coal, coal chemical industry, and coal power″, and extend the industrial chain, while optimizing the core business of the Company to strengthen the Company's profitability as well as anti-risk capabilities. Strong profitability and abundant operating cash flow of the Target Companies and Target Assets can enhance the value of the Company and Shareholders' returns.

The indirect coal liquefaction project of Shaanxi Future Energy is the first set of indirect coal liquefaction projects at the megaton level using proprietary technology in the PRC. It consist of two core technologies: low-temperature Fischer-Tropsch synthesis and high-temperature Fischer-Tropsch synthesis, which is the national energy strategic reserve and is of positive significance to promote the diversification of national energy security. Jinjitan Coal Mine is a supporting mine for the indirect coal liquefaction project of Shaanxi Future Energy. According to JORC Standards, as at 30 June 2020, the coal mine has 982 million tons of in-situ resources and 333 million tons of recoverable reserves. It is mainly high-quality thermal coal with low sulfur, low ash, high calorific value and low cohesion. The average calorific value of raw coal is about 6,000 kcal/kg. The coal mine has an approved annual production capacity of 15 million tons, which is a leading domestic, internationally first-class, intelligent mining well with demonstration effects. Fine Chemical is mainly dedicated to the production of catalysts for the indirect coal liquefaction projects of Shaanxi Future Energy, which is closely related to the business of Shaanxi Future Energy.

As at the Latest Practicable Date, the Company held 24.6575% equity interests in Shaanix Future Energy. Through the Transaction, the Company's shareholding in Shaanix Future Energy will increase to 73.9725%. The Transaction is conducive to further consolidate the Company's control over Shaanxi Future Energy. To ensure the smooth progress in the operation and management of Shaanxi Future Energy, and to implement the Company's development strategy of revolving around the main coal industry and upstream and downstream related industries, implement regional development and industrial extension, and enhance enterprise development with great profit potential, decisively implement mergers and reorganizations, improve industrial concentration and resource allocation efficiency, and enhance the development strategy of corporate core competitiveness, enhance the comprehensive competitiveness and development potential of listed companies, and further improve the interests of the Shareholders of the Company in the long run.

Based on the above, the Directors are of the view that the acquisition of 49.315% equity interests in Shaanxi Future Energy is fair and reasonable, and in the interests of the Shareholders of the Company as a whole.

Lunan Chemical is mainly engaged in the production and research and development of high-end fine chemical products, and is the cradle of the new generation of coal chemical industry development in the PRC. With a variety of leading products, Lunan Chemical has highly correlated upstream and downstream products, and its product market competitiveness is strong. It has formed product chains of methanol-formaldehyde-polyoxymethylene, acetic acid-acetic anhydride-acetate-cellulose acetate. The 300,000 tons/year caprolactam and supporting engineering projects currently under construction are the appliance featuring the largest single-set production capacity in the PRC.

Chemical Equipment has obtained the highest qualifications in the pressure vessel design and manufacturing industry and the boiler manufacturing industry. The Trading Company undertakes the supply and marketing functions of the chemical sector, and serves for the above-mentioned chemical business together with Chemical Equipment.

Jisan Electricity is a thermal cogeneration company. The raw materials required for power generation and the heat produced are mainly derived from and sold to the Company's Jining No. 3 Coal Mine, and the power generated is mainly sold to the State Grid Shandong Electric Power Company. The Information Center has been providing customized and professional information system development, construction and maintenance services for the Company for numerous years. Jisan Electricity and Information Center are the acquisition targets of the Transaction. Subsequent to the completion of the Transaction, industry synergy can be enhanced and connected transactions can be significantly reduced.

The Transaction is beneficial to the Company in obtaining quality coal chemicals and electricity assets, consolidating the Company's coal chemicals and electricity businesses development advantages, extending the industrial chain to realize the coordinated development of the business, and further enhances the Company's sustainable profitability and core competitiveness, which is in line with the Company's development strategies and the interest of the Shareholders as a whole. The Transaction is entered into based on normal commercial terms, the pricing of which is fair and reasonable, and it will not adversely affect the Company's current and future financial position and operating results.

Upon Closing, the Company will also financially consolidate the Target Group and Target Assets. The Transaction will increase the total assets of the Company, boost the operating income of the Company, enable synergy and economy of scale, improve the overall operating performance and profitability through the extension of the industrial chain, strengthen the Company's sustainability and anti-risk capability, which is beneficial for the protection of the Shareholders' interests.

XI. FINANCIAL IMPACT OF THE TRANSACTION

Upon Closing, the Target Companies and Target Assets will become subsidiaries and subordinate department of the Company, the financial information of the Target Group and Target Assets will be consolidated into the Group's accounts. The unaudited pro forma financial information of the Enlarged Group (for the purpose of illustrating the impact of the acquisition of the Target Companies and the Target Assets (as if the Transaction had occurred on 30 June 2020)) is set out in Appendix III to this circular.

Assets and liabilities

As at 30 June 2020, the unaudited consolidated total assets, total liabilities and net assets of the Group, extracted from the published interim report of the Group for the six months ended 30 June 2020, amounted to approximately RMB219,703 million, RMB135,553 million and RMB84,150 million, respectively.

Based on the unaudited pro forma financial information of the Group upon the Closing as set out in Appendix III to this circular, taking into account the Closing had taken place on 30 June 2020, the unaudited pro forma consolidated total assets, liabilities and net assets of the Enlarged Group would have been approximately RMB243,259 million, RMB152,288 million and RMB90,971 million, respectively, as a result of the Transaction.

Liquidity and sufficiency of working capital

Based on the unaudited pro forma financial information of the Group upon the Closing as set out in Appendix III to this circular, taking into account the Closing had taken place on 30 June 2020, the cash and bank balances, pledged term deposits and restricted cash would decrease from approximately RMB24,474 million to approximately RMB7,445 million and the net current liabilities would increase from approximately RMB11,155 million to approximately RMB31,497 million.

The Directors are of the view that the Enlarged Group following the Closing should be able to maintain itself as going concern with sufficient working capital by taking into consideration of the following:

– the Directors anticipate that the Enlarged Group will generate positive cash flows from its operations; and

– the undrawn borrowings facilities are available for immediate use.

Expected significant capital expenditures

Based on the information currently available to the Group, certain Target Companies expected to have significant capital expenditures, details of which are set out below:

RMB'000

Lunan Chemical	**July to December 2020**	**2021**
Follow-up capital investment in projects such as polyoxymethylene and caprolactam	113,955.62	197,184.74
Renewal of existing assets and equipment	8,794.84	13,461.13
Shaanxi Future Energy	**July to December 2020**	**2021**
Follow-up capital investment for indirect coal liquefaction projects	1,471.18	–
Follow-up investment of Jinjitan railway line and shaft project	13,991.55	8,411.30
Total	**138,213.20**	**219,057.18**

Lunan Chemical and Future Energy intend to use its own funds and self-raised funds (bank loans, etc.) to pay for the relevant capital expenditures. Save as disclosed, the Target Companies did not have any funding commitment for significant capital expenditures in the near future.

XII. POTENTIAL RISKS AND COUNTER MEASURES SUBSEQUENT TO THE COMPLETION OF THE TRANSACTION

1. Macroeconomic and Industry Fluctuation Risks

The industries in which the Target Companies engaged is cyclical, and their production, operation and development prospects are affected to a certain extent by macroeconomics, industry policies, industry cycles and fluctuations. The production and operation activities of the Target Companies such as chemical production and operation, development, transformation and sales of coal resources, as well as power production and sales may be affected by laws and regulations announced or implemented from time to time by the state and the local authorities in the places where the Target companies are located.

The Company will pay close attention to national policies and macroeconomic trends as well as industry policy changes and fluctuations, grasp the guidance of macro-control policies, actively adjust business plans, product structure and market structure, and enhance the Target Companies' overall anti-risk capability and market competitiveness. At the same time, the Company will promptly negotiate and discuss plans with Yankuang Group on industry policy changes that may affect certain Target Companies.

2. Integration Risks of Target Companies

Upon the completion of the Transaction, the Company will integrate with the Target Companies and the Target Assets in aspects such as business system, organizational structure, management system, financial management and information technology to play a synergistic effect. In the case which the integration effect of the Company after the acquisition is lower than expected, it will have certain impacts on the effect of the Transaction.

From the perspective of business operation and resources allocation, the Company will actively build and manage the business, assets, finance, personnel, organization, and management model of the Target Companies and the Target Assets, and strive to reduce the integration risk of the Transaction and exert the synergistic effect of the Transaction.

XIII. APPROVAL FROM THE BOARD

The Transaction was considered and approved at the fifth meeting of the eighth session of the Board of the Company on 30 September 2020. Li Xiyong and Wu Xiangqian, the related Directors of the Company, abstained from voting on the resolutions relating to the Transaction, while the non-related Directors had voted thereat. The Board is of the view that the terms of the Transaction Agreement are fair and reasonable; although the Transaction is not in the ordinary and usual course of business, the Transaction is on normal commercial terms or better, and in the interests of the Company and Shareholders as a whole.

XIV. LISTING RULES IMPLICATIONS

As one or more applicable percentage ratios of the Transaction is/are more than 25% but all applicable percentage ratios are less than 100%, the Transaction constitutes a major transaction of the Company and subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

In addition, Yankuang Group is the controlling shareholder of the Company. As of the Latest Practicable Date, Yankuang Group holds directly and indirectly approximately 56.01% of the Shares of the Company. In accordance with the Listing Rules, Yankuang Group is a connected person of the Company. As one or more of the applicable percentage ratios in respect of the Transaction is/are more than 5%, the Transaction also constitutes a connected transaction of the Company and is subject to the reporting, announcement, Independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

XV. EGM

The Notice of EGM was published on Monday 16 November 2020. At the EGM, among other things, the following resolution (being resolution no.1 of the Notice of EGM) will be proposed to the Shareholders:

As ordinary resolution:

1. To consider and approve Equity Interests and Assets Transfer Agreement between Yankuang Group Company Limited and Yanzhou Coal Mining Company Limited and to approve the transactions contemplated thereunder.

Whether or not you are able to attend the meeting in person, you are strongly advised to complete and sign the form of proxy published on 16 November 2020 in accordance with the instructions printed thereon. For holders of H Shares of the Company, the proxy form shall be lodged with the Company's H Share Registrar, Hong Kong Registrars Limited at 17M/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. For holders of A Shares of the Company, the proxy form shall be lodged at the Office of the Secretary to the Board at 298 South Fushan Road, Zoucheng, Shandong Province 273500, the PRC as soon as possible but in any event not later than 24 hours before the time appointed for the holding of the meeting or any adjourned meeting (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish.

Yankuang Group is the controlling Shareholder, and therefore Yankuang Group and its associates are connected persons (as defined under the Hong Kong Listing Rules) of the Company. Pursuant to Rule 14A.36 of the Hong Kong Listing Rules, where independent shareholders' approval is required with regard to a connected transaction, any connected person with a material interest in such transaction and any shareholder with a material interest in such transaction and its associates shall not vote on such transaction. Accordingly, Yankuang Group and its associates shall abstain from voting at the EGM on the resolution in relation to major and connected transaction – acquisition of the Target Equity Interests and Target Assets, which must be taken by way of poll as required under the Hong Kong Listing Rules except where the chairman of the EGM, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

As at the Latest Practicable Date, Yankuang Group controlled or was entitled to exercise control over the voting rights in respect of 2,267,169,423 A Shares and 454,989,000 H Shares in the Company, representing, in aggregate, approximately 56.01% of the entire issued share capital of the Company.

As at the Latest Practicable Date, the 2,267,169,423 A Shares held by Yankuang Group included: (i) 1,875,662,151 A Shares held by Yanchuang Group's own account, the voting rights in respect of which are exercisable by Yanchuang Group; and (ii) 391,507,272 A Shares held by the guarantees and trust account opened by Yankuang Group and CITIC Securities Co., Ltd., the voting rights in respect of which are exercisable by CITIC Securities Co., Ltd. The aforementioned guarantees and trust account provide guarantees for the exchangeable corporate bonds issued by Yankuang Group. Save as disclosed above, to the extent that the Company is aware, having made all reasonable enquiries, as at the Latest Practicable Date:

(i) there was no voting trust or other agreement or arrangement or understanding entered into by or binding upon Yankuang Group, whereby they had or might have temporarily or permanently passed control over the exercise of the voting rights in respect of their Shares in the Company to a third party, whether generally or on a case-by-case basis;

(ii) Yankuang Group was not subject to any obligation or entitlement whereby they had or might have temporarily or permanently passed control over the exercise of the voting right in respect of their Shares in the Company to a third party, whether generally or on a case-by-case basis; and

(iii) it was not expected that there would be any discrepancy between Yankuang Group's beneficial shareholding interest in the Company and the number of Shares in the Company in respect of which they would control or would be entitled to exercise control over the voting right at the EGM.

XVI. CLOSURE OF REGISTER OF MEMBERS

The H Share register of members of the Company will be closed from Tuesday, 1 December 2020 to Wednesday, 9 December 2020 (both days inclusive), during which period no transfer of the Company's H Shares will be registered. In order to attend the EGM, all share transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company's H Share Registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Monday, 30 November 2020 for registration. Holders of the Company's H Shares whose names appear on the Company's register of members of H shares which is maintained by Hong Kong Registrars Limited at the close of business on Monday, 30 November 2020 are entitled to attend the EGM.

XVII. RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 61 to 62 of this circular which contains the recommendation of the Independent Board Committee to the Shareholders regarding the resolutions to approve the Transaction; (ii) the letter from the Independent Financial Adviser set out on pages 63 to 65 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the fairness and reasonableness of the Transaction; and (iii) additional information set out in the appendices to this circular.

The Independent Board Committee, after taking into account of the opinions from Donvex Capital Limited, is of view that the terms of the Transaction Agreement are fair and reasonable; although the Transaction is not in the ordinary and usual course of business, the Transaction is on normal commercial terms or better, and in the interests of the Company and Shareholders as a whole. Accordingly, the Independent Board Committee recommends that the Independent Shareholders vote in favour of the aforesaid resolution in relation to the Transaction to be proposed at the EGM.

Having considered, among other things, the foregoing reasons for and benefits of the Transaction, the Directors are of view that the major and connected transaction in relation to the acquisition of the Target Equity Interests and Target Assets is fair and reasonable, and is entered into on normal commercial terms or better, and in the best interests of the Company. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the aforesaid resolution at the EGM.

By order of the Board
Yanzhou Coal Mining Company Limited
Zhao Qingchun
Director

I. JINJITAN COAL MINE

(i) Introduction

Jinjitan Mine, which is 100% controlled by Shaanxi Future Energy, is an underground fully mechanized longwall (FM LW) operating with an authorized output level of 15 Mtpa. The mine and an associated mine site coal preparation plant ("CPP") are located approximately 30 km northeast of Yulin City, Shaanxi Province. This area is one of the largest coalfields in the world. Transportation is well developed that includes railway and a network of expressway and provincial highways. Coal mining (including downstream power generation and chemical producing facilities) is the primary industry supporting the local economy.

Exploration of the mine field was conducted in the early 2000s. There are 72 drill holes completed mostly in the District I. A drilling program consisting of additional 67 drill holes, covering part of the west wing of the District I and the entire District II, is underway at the time of this circular and expected to be completed by end of 2020. The purpose of this drilling is to further define the geological condition and coal quality of the west wing of the District I and to upgrade resources classification in District II.

The feasibility study reports for Jinjitan Mine and its CPP were completed in 2008. Upon the establishment of Shaanxi Future Energy in 2011, Jinjitan Mine was designated to supply coal to Shaanxi Future Energy as feedstock for its coal liquefaction facilities. Construction of the mine with an initial 8.0 Mtpa capacity, commenced in February 2012, and the initial test run was conducted in June 2014. The full mine construction project was officially completed and accepted in May 2018, followed by the capacity reassessment and authorization to increase annual mining capacity to 15.0 Mtpa in July 2018. In 2019, the mine produced 15.16 Mt product coal. In terms of output level in 2019, Jinjitan ranks No. 1 among Yankuang's domestic mines and No. 12 among China's underground coal mines.

Geologic condition in the subject mining rights area is judged to be simple. Coal bearing strata are typically flat lying and the overlying surface is covered by 30 m to 50 m of unconsolidated and poorly consolidated alluvial and loess deposits. Mining depth is shallow in the topmost 2-2U Seam (200 m to 320 m) and will be deeper (250 m to 490 m) when the mining moves to the lower seams. The top seam, 2-2U Seam, averages 7.7 m thick, with seam splitting in local areas. The seam is favorable for mining by high-production FM LW faces and construction of a high capacity mine.

Coal produced from this area is used in the domestic steam and chemical markets and is generally low in sulfur content with marketable calorific values.

(ii) Competent Person's Report

The Competent Person's Report on Jinjitan Coal Mine operation was prepared by BOYD in accordance with the recommended guidelines of the JORC Code 2012. Please refer to Part A of Appendix IV to this circular for details.

(iii) Competent Person's Valuation Report

The Competent Person's Valuation Report was prepared by BOYD in compliance with the Australasian Code for Public Reporting of Technical Assessment and Valuations of Mineral Assets – The VALMIN Code (2015 Edition).

Based on the established (fully developed) and active production status of the Jinjitan mining operation, BOYD selected the income method of mineral valuation as the preferred and appropriate method for coal reserve valuation. Together with the consideration of Jinjitan Mine's rating of the operation as first-class in terms of productivity and operating cost in China, BOYD concluded the derived Technical Value of the existing operation is the same as Market Value (i.e. no further adjustments are warranted). In addition to the value assigned to the existing operation, BOYD opined that it is appropriate to recognize and assign Market Value to the large tonnage of additional resources which are not considered in the DCF-NPV analysis (Technical Value). Please refer to Part B of Appendix IV to this circular for details.

II. NO MATERIAL ADVERSE CHANGES

No material adverse changes have occurred from the effective date of the Competent Person's Report (i.e. 30 June 2020) up to the Last Practicable Date.

III. NO LEGAL CLAIMS OR PROCEEDINGS

As at the Latest Practicable Date, no legal claims or proceedings that may have an material influence on the mining and exploration rights of the Jinjitan Mine operations owned by Shaanxi Future Energy and/or the business operations and financial positions of Jinjitan Mine operations are known to the Directors to be present, on-going, pending or threatened by any third party against Shaanxi Future Energy or vice versa.

In addition, there are no land claims of material importance that may exist over the land on which exploration or mining activity of Jinjitan Mine owned by Shaanxi Future Energy is being carried out.

IV. JINTITAN COAL MINE PROFIT FORECAST

Since Pan-China has, in the valuation of Shaanxi Future Energy, assessed the mining right of Jinjitan Coal Mine based on income approach, such valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules. For purpose of Rule 14.62 of the Listing Rules, full text of the letters dated 30 September 2020 from each of Crowe and the Board including the basis and assumption relevant to the Jinjitan Coal Mine (which have already been included in the announcement published by the Company on 30 September 2020) are reproduced below:

(a) Basis and Assumptions set out in the Jinjitan Coal Mine Profit Forecast

Set out below is the information in relation to the Jinjitan Coal Mine Profit Forecast:

BASIS AND ASSUMPTIONS

(I) The degree of geological survey work as well as the internal and external conditions of the valuation target remain the same as current status without significant changes;

(II) To determine the technical and economic parameters for the Valuation based on the principle of balanced production and sales, and the principle of average social productivity;

(III) The relevant laws, regulations, policies and systems abided remain the same as status quo without significant changes, while the relevant social, political, economic environment, and development technologies and conditions followed are still as the status quo without significant changes;

(IV) Continuous operation based on the set resource reserves, production methods, production scale, product structure, development technology level as well as the market supply and demand levels;

(V) There will be no major changes in product prices, costs, tax rates, interest rates and other factors in the future mine development revenue period during the forecast period;

(VI) No consideration on the impact of mortgages, guarantees, and other rights that may be assumed in the future, or any other restrictive factors on property rights, and the additional price that a special transaction party may pay, etc., on its assessed value;

(VII) There is no significant impact caused by other force majeure and unforeseen factors.

(b) Full Text of the Report Issued by the Accountant on the Jinjitan Coal Mine Profit Forecast

INDEPENDENT ASSURANCE REPORT ON CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF THE MINING RIGHTS OF JINJITAN COAL MINE OWNED BY SHAANXI FUTURE ENERGY & CHEMICALS CO., LTD.

TO THE DIRECTORS OF YANZHOU COAL MINING COMPANY LIMITED

We have reviewed the calculations of the discounted future estimated cash flows on which the valuation report prepared by Beijing Pan-China Assets Appraisal Co., Ltd. (Tian Xing Ping Bao Zi (2020) No. 1242), of the mining rights owned by Shaanxi Future Energy & Chemicals Co., Ltd. (the "**Shaanxi Future Energy**") (the "**Valuation**") is based.

The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and will be included in an announcement dated 30 September 2020 to be issued by Yanzhou Coal Mining Company Limited (the "**Company**") in connection with the major and connected transaction in relation to the acquisition of the 49.315% equity interest in Shaanxi Future Energy (the "**Announcement**").

Directors' Responsibility for the Discounted Future Estimated Cash Flows

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and set out in the Announcement (the "**Assumptions**"). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

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

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

Reporting Accountants' Responsibility

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation is based and to report solely to you, as a body, as required by Rule 14.62(2) of the Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Our engagement was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. We reviewed the arithmetic accuracy of the compilation of the discounted future estimated cash flows. Our work does not constitute any valuation of Shaanxi Future Energy.

Because the Valuation relates to discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions.

Crowe (HK) CPA Limited
Certified Public Accountants
Hong Kong

30 September 2020
Chung Wai Chuen Alfred
Practising Certificate Number: P05444

(c) Full text of the Letter from the Board on the Jinjitan Coal Mine Profit Forecast

兗州煤業股份有限公司
YANZHOU COAL MINING COMPANY LIMITED
(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1171)

To the Shareholders,

RE: MAJOR AND CONNECTED TRANSACTION – ACQUISITION OF THE TARGET EQUITY INTERESTS AND TARGET ASSETS

Reference is made to the asset valuation report prepared by Beijing Pan-China Assets Appraisal Co., Ltd. ("**Pan-China**") regarding the valuation of Shaanxi Future Energy & Chemicals Co., Ltd. ("**Shaanxi Future Energy**") as at 30 June 2020 (the "**Valuation**") to determine the market value of Shaanxi Future Energy on 31 August 2020 (the "**Asset Valuation Report**"). In the valuation of Shaanxi Future Energy, the assessment of the mining right of Jinjitan Coal Mine is prepared in accordance with the income method (the "**Jinjitan Coal Mine Profit Forecast**") and therefore constitutes a profit forecast under Rule 14.61 of the Listing Rules.

We have reviewed and considered the Jinjitan Coal Mine Profit Forecast, including the basis and assumptions on which the forecast is based, and reviewed and considered the valuation undertaken by Pan-China. We have also taken into account the report prepared by Crowe (HK) CPA Limited, which confirms that in terms of the calculation method related to the estimated discounted future cash flow, all material aspects of the estimated discounted future cash flow have been properly prepared in accordance with the basis and assumptions set out in the Asset Valuation Report. It comes to our attention that the calculation of the Jinjitan Coal Mine Profit Forecast in the valuation is accurate.

Based on the above, we are of the view that the Asset Valuation Report of Shaanxi Future Energy on Jinjitan Coal Mine Profit Forecast prepared by Pan-China has been prepared after due and careful enquiry.

Yours faithfully,
By order of the Board
Yanzhou Coal Mining Company Limited
Zhao Qingchun
Director

30 September 2020

IV. OTHER MATTERS RELATING TO THE JINJITAN COAL MINE

(i) Mining rights and other licenses/permits required under the laws

As of the Latest Practicable Date, Shaanxi Future Energy controls 100% of the mining right for the Jinjitan Mine. There are no notices of dispute recorded against the Jinjitan Mining right. The following table shows the mining right information of Jinjitan Mine.

	Authorized				Current Mining Right Term		Capacity Verification	
Mining Right Certificate Number	Output Capacity (Mtpa)	Mining Elevation (m)	Mining Method	Area (km2)	Grant Date	Expiration	Verified Date (month/ yr)	Verified Capacity (Mtpa)
C6100002015061110138703	8.0	1,013 - 760*	UG**	91.6206	06/10/ 2019	06/10/ 2023	07/2018	15.0

* *Note shown on the Certificate: mining elevation range for the first 30 years: 1,013 - 960 m, for coal seams 2-2 and 2-2.*

** *UG = underground*

According to the Measures for the Administration of the Registration of Mining Mineral Resources (2014 Edition), the mining right will be renewed upon application after paying the mining right fee. In 2011, Shaanxi Future Energy has paid RMB1.6 billion mining right fee for 326.9 mt recoverable reserve (Chinese Standard). As of 30 June 2020, the remaining reserve mining right fee can support another 13-years operation in the output rate of 15 million mtpa. Mining rights renewal after 13-years of operation will be guaranteed by paying additional mining right fees upon valuation by then.

(ii) Environmental, social, health and safety issues

Mining and related activities are inherently disruptive to the environment. Impacts include both environmental pollution and ecological disruption, including delayed influences on ecological environment and ground water, dynamic change of the magnitude and extent of the impact, and sustained period of impact during the whole LOM (Life-of-Mine) operation. Major influence factors include: fugitive dust, noise, wastewater and solid wastes pollution, as well as the sustained and cumulative impact of surface subsidence on landform, surface structures, the ecological environment and ground water. The environmental aspects related to coal exploration, mining, and processing activities in China are subject to both national and local laws and regulations.

There was no any non-compliance with applicable regulations governing exploration, drilling and land use reported to BOYD, and Jinjitan Mine management is aware of its duties with respect to environmental protection. An environmental management system was established. The Jinjitan Mine operation is inspected routinely by local environmental protection administration to ensure compliance.

Environmental impact assessment reports and geological environment protection and land reclamation plans prepared by the Jinjitan Mine conform to the regulations of national laws and statutes. As mining continues and subsidence occurs, ecological environment remediation and land reclamation are conducted. Jinjitan Mine relocates villagers endangered by subsidence. The mine also protects and maintains roads, power lines, and water bodies impacted by mining. The mine cooperates with the daily supervision and inspection from administrative authorities responsible for ecology and land and resource. BOYD's review concludes that Jinjitan Mine management fulfills its obligation of ecological environmental protection.

The potential environmental issues for the Jinjitan Mine operation identified by BOYD are as follows:

(a) The authorized capacity of Jinjitan Mine increased from 8 Mtpa to 15 Mtpa in July 2018. According to the environmental protection laws and statutes, the environmental impact assessment and examination procedures of completion and commencement should be done according to the new capacity. Jinjitan Mine has begun this process, and BOYD is of the opinion that the job should be accelerated by maintaining close communication with environmental protection authorities.

(b) Jinjitan Mine's authorized mine area was reduced in 2019 to exclude 6.9 km2 of a newly designated water conservation area. Underground mining is likely to affect ground water system right above and nearby areas. Although the underground mining operation will not affect the area in the near future, a ground water impact assessment is necessary to address the protection of the water conservation area prior to mining of the coal resources near that area.

A potential social issue for the Jinjitan Mine identified by BOYD is the timely arrangement of village relocation. While the Jinjitan Mine is in its early stage of mining, surface subsidence has already occurred, and mine management has taken proactive steps. As indicated in the village relocation plan, six villages overlying and subject to surface subsidence will be relocated with 868 residents involved, and the budget for relocation and compensation totals RMB200 million. Although village relocation is underway, there are some minor compensation claims due to surface subsidence. Shaanxi Future Energy is discussing the compensation plan with the administrative department and relevant residents. Jinjitan Mine management is aware that it is critical to handle such claims properly and timely with the help of the local government, thus avoiding any interruption to LW face layout (the design, positioning and sequencing of longwall faces from which coal is produced, which could be interrupted if surface facilities right above such as villages were not relocated in time prior to such activities to another place which would not be affected by ground subsidence caused by underground longwall mining), installation and mining.

Health and safety aspects are major core concerns of the coal mining industry in China and the world. BOYD is of the opinion that such aspects have been properly addressed in the mine design documents and safety protocols for mining and development operations. The Jinjitan Mine management is aware of the significance of health and safety, and the mine has maintained safe records in historical operations.

Saved as disclosed in the circular, so far as the Directors are aware, there are no environmental, social, health and safety issues which may have material adverse impacts on the operations and mining activities of Jinjitan Mine.

(iii) Non-compliance incidents with the PRC laws, regulations and permits which may have a material adverse impact

So far as the Directors are aware, there were no non-compliance incidents with the PRC laws, regulations and permits which may have a material adverse impact on the operations and mining activities of Jinjitan Mine as at the Latest Practicable Date.

(iv) Key risks identified to the Jinjitan Mine operation

In accordance with Chapter 18 of the Listing Rules, BOYD identified in its Competent Person's Report certain risks relating to the Jinjitan Mine operation. Such risks are ranked as high, medium or low based on Guidance Note 7 issued by the Stock Exchange. Please refer to the Chapter 7 "Risk Assessment" of the Competent Person's Report in Part A of Appendix IV to this circular for details. The following table shows the summary of BOYD's risk assessment for the period 2020 to 2026.

	Risk Assessment		
Hazard/Risk Issue	**Severity**	**Probability**	**Overall**
Geologic			
Overall (General)	Minor	Possible	Low
Unforeseen Anomalies	Minor to Moderate	Possible	Low
Reserve Availability	Minor	Unlikely	Low
Naturally Occurring Events			
Weather	Minor to Major	Possible	Low
Earthquakes	Minor to Major	Possible	Low
Routine and Non-routine Operational Risks (Adverse mining conditions, equipment outages, etc.)	Minor to Moderate	Possible	Low to Medium

Hazard/Risk Issue	Risk Assessment Severity	Probability	Overall
LW Subsidence	Minor to Moderate	Possible	Low
Major Events			
Major Underground Fire	Minor to Major	Possible	Low to Medium
Explosions	Minor to Major	Unlikely	Low
Underground Flooding	Minor to Major	Possible	Low
External Risk – Regulation	Moderate to Major	Possible	Medium
Marketing (Commercial)	Moderate to Major	Likely	Medium to High

The China domestic market has demonstrated remarkable coal price fluctuation in the past decade. A substantial reduction in market prices would have a material adverse impact on financial performance of the subject Jinjitan Mine. Such an event would occur if there were surplus alternative coals from other suppliers, or reduction in demand from Jinjitan's customer base. In a lot of cases, market fluctuations were driven by various government policies, which is likely to be beyond the control of any individual coal producers. In other words, Jinjitan Mine is subject to similar market risks as other coal producers. Mitigation measures suggested to Jinjitan Mine would include:

– Maintain the successful operation management performance

– Continue to adopt advanced mining technologies to maintain high efficiency

– Maintain the lower operating costs

– Routinely negotiate and secure sales contracts in advance

V. INDUSTRY OVERVIEW AND PRICING TREND

(i) Industry overview

The proportion of coal in the domestic energy structures of both production and consumption have been declining year by year. According to the National Bureau of Statistics of the PRC, by the end of 2019, the proportion of coal was 68.8% in the structure of energy production and 57.7% in the structure of energy consumption. Also according to the National Bureau of Statistics of the PRC, the total domestic energy consumption has increased year by year. By the end of 2019, the total energy consumption reached 4.86 billion tons of standard coal. This indicates that coal will remain China's main energy source in the coming decades.

(ii) Pricing trend

Coal prices in China has declined signigicantly between 2013-2016 due to slow-paced economic growth. The government introduced a 276-day working day rule in March 2016 to reduce production, thus coal prices were able to recover and rebounded quickly between 2017 and the first quarter of 2019. After the first quarter of 2019, coal prices slowly declined and the COVID-19 outbreak in 2020 accelerated the downturn of the market. By June 2020, coal prices had recovered to mid-2019 levels following production and work resumption of each domestic industry.

Due to complex and changing political and economic factors, it is difficult to predict whether China's coal prices will grow steadily. In recent years, the domestic coal industry has continued to push forward the policy of increasing efficient capacities and closing mines of low efficiency, and orderly development of efficiency advanced capacity, mines of low efficiency are gradually eliminated, whilst new competitors will be tightly controlled by industry regulations due to the high threshold of the industry. Therefore, it appears likely that as a domestic advanced capacity coal mine, Jinjitan Mine will have an advantage in future market competition.

兗州煤業股份有限公司

YANZHOU COAL MINING COMPANY LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1171)

Registered office:
298 South Fushan Road
Zoucheng
Shandong Province PRC
Postal Code: 273500

Principal place of business in Hong Kong:
40th Floor, Sunlight Tower
248 Queen's Road East
Wanchai
Hong Kong

16 November 2020

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE TARGET EQUITY INTERESTS AND TARGET ASSETS

We refer to the circular of the Company dated 16 November 2020 ("**Circular**") to the Shareholders, of which this letter forms part. Terms defined therein shall have the same meanings when used in this letter unless the context otherwise requires. We have been appointed by the Board as the Independent Board Committee to advise you as to whether, in our opinion, the Transaction is fair and reasonable in so far as the Independent Shareholders are concerned.

Donvex Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee. The letter from the Independent Financial Adviser, which contains its advice, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 63 to 115 of this Circular.

Your attention is also drawn to the "Letter from the Board" set out on pages 6 to 49 of this Circular and the additional information set out in appendices to this Circular. Having taken into account the transactions contemplated under the Transaction Agreement and having considered the interests of the Independent Shareholders and the advice from the

Independent Financial Adviser, we consider that the terms of the Transaction are fair and reasonable; although the Transaction is not in the ordinary and usual course of business, the Transaction is on normal commercial terms or better, and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend that the Independent Shareholders vote in favour of the resolution to approve the major and connected transaction in relation to the acquisition of the Target Equity Interests and Target Assets.

Yours faithfully,
Yanzhou Coal Mining Company Limited
Tian Hui, Zhu Limin, Cai Chang,
Poon Chiu Kwok
Independent Board Committee

The following is the full text of the letter of advice from Donvex Capital Limited setting out their advice to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

Donvex Capital Limited
富域資本有限公司

Unit 2502, 25/F
Carpo Commercial Building
18-20 Lyndhurst Terrace
Central
Hong Kong

16 November 2020

The Independent Board Committee and the Independent Shareholders of
Yanzhou Coal Mining Company Limited

Dear Sir/Madam,

**MAJOR AND CONNECTED TRANSACTION
IN RELATION TO
THE ACQUISITION OF THE TARGET COMPANIES AND
TARGET ASSETS**

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Transaction Agreement and the Transaction, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 16 November 2020 to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used herein have the same meanings as those defined in the Circular unless otherwise stated.

As stated in the Letter from the Board, on 30 September 2020, the Company (the "**Purchaser**") and Yankuang Group (the "**Vendor**") entered into the Transaction Agreement, pursuant to which the Purchaser agreed to acquire, and the Vendor agreed to sell, 49.315%, 100%, 100%, 100%, 100% and 99% equity interests in Shaanxi Future Energy, Fine Chemical, Lunan Chemical, Chemical Equipment, Trading Company, and Jisan Electricity, respectively, as well as relevant assets and business of the Information Center, at the consideration of RMB18.355 billion.

Yankuang Group is the controlling shareholder of the Company, directly and indirectly, holding approximately 56.01% of the Shares of the Company. Therefore, Yankuang Group is a connected person of the Company. Accordingly, the entering into the Transaction Agreement and the Transaction constitute a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, and Independent Shareholders' approval requirements under the Listing Rules. The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Transaction Agreement and the Transaction. The Vendor and its associates will be required to abstain from voting on the resolution in relation to the Transaction Agreement and the Transaction.

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Tian Hui, Mr. Zhu Limin, Mr. Cai Chang and Mr. Poon Chiu Kwok, has been established to advise the Independent Shareholders on (a) whether the terms of the Transaction Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole; (b) whether the Transaction is on normal commercial terms and in the Company's ordinary and usual course of business; and (c) how the Independent Shareholders should vote in respect of the resolution to approve the Transaction Agreement and the Transaction at the EGM. In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committee and the Independent Shareholders in this regard.

INDEPENDENCE

We did not act as financial adviser to the Group, the Target Groups, and their respective connected persons in the past two years immediately preceding the Latest Practicable Date.

In the last two years, we have acted as the independent financial adviser to independent board committee and independent shareholders of the Company for (a) the major and continuing connected transaction in relation to the provision of financial services to Yankuang Group, details of which are set out in the circular of the Company dated 11 October 2019; and (b) the discloseable and connected transaction in relation to the entering into the capital increase agreement with Yankuang Group, Taizhong Property, Huaneng Fuel and Hainan Intelligent Logistics, details of which are set out in the circular of the Company dated 13 November 2020 (the "**Previous Engagements**"). Under the Previous Engagements, we were required to express our opinion on and give recommendations to the independent board committee and independent shareholders of the Company in relation to (i) the provision of comprehensive credit facility services under the financial services agreement; and (ii) the entering into the capital increase agreement and the capital increase contemplated thereunder. Apart from the independent financial adviser roles in connection with the Previous Engagements and the Transaction, we have not acted in any capacity of the Group in the past two years.

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence.

We are independent from and not connected with the Group pursuant to Rule 13.84 of the Listing Rules and, accordingly, are qualified to advise the Independent Board Committee and the Independent Shareholders in relation to the Transaction Agreement and the Transaction. Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular, which have been provided by the Directors and management of the Company and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be true until the date of the EGM.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed that, having made all reasonable enquiries, to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no material facts and representations the omission of which would make any statement in the Circular or the Circular misleading.

We consider that we have reviewed sufficient information to reach an informed view regarding the Transaction Agreement and the Transaction, and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, for the purpose of this exercise, conducted any form of independent in-depth investigation or audit into the businesses or affairs or future prospects of the Group, nor have we considered the taxation implication on the Group.

Our opinion is based on the financial, economic, market, and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion, and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise, or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell, or buy any Shares or any other securities of the Company.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Transaction, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

A. Background information on the Group, the Target Group, and the Target Assets

1. The Group

The Group is principally engaged in the business of mining, preparation, processing and sales of coal and coal chemicals.

The tables below set forth a summary of the consolidated financial information of the Group for the year ended 31 December 2018 ("**FY2018**"), the year ended 31 December 2019 ("**FY2019**"), six months ended 30 June 2019 ("**1H2019**"), and six months ended 30 June 2020 ("**1H2020**") as extracted from the annual report for the year ended 31 December 2019 ("**2019 Annual Report**") and the interim report for six months ended 30 June 2020 ("**2020 Interim Report**") of the Company:

	FY2019	**FY2018**	**1H2020**	**1H2019**
	RMB million	*RMB million*	*RMB million*	*RMB million*
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Total revenue	67,805	67,447	35,325	33,237
Profit after taxation	11,827	11,323	6,355	7,492

	As at 30 June 2020	**As at 31 December 2019**	**2018**
	RMB million	*RMB million*	*RMB million*
	(Unaudited)	(Audited)	(Audited)
Bank balances and cash	17,573	22,790	27,373
Net assets	84,150	85,349	87,045

Revenue

The revenue of the Group increased from approximately RMB67,447 million for FY2018 to approximately RMB67,805 million for FY2019, which remained stable during FY2019.

The revenue of the Group increased from approximately RMB33,237 million for 1H2019 to approximately RMB35,325 million for 1H2020, which was mainly attributable to the increase in sales volume of coal from 55,288 kilotons for 1H2019 to 67,620 kilotons for 1H2020.

Profit after taxation

The profit after taxation of the Group increased from approximately RMB11,323 million for FY2018 to approximately RMB11,827 million for FY2019, which remained stable during FY2019.

The profit after taxation of the Group decreased from approximately RMB7,492 million for 1H2019 to approximately RMB6,355 million for 1H2020, which was mainly attributable to decrease in gross profit on the sales of coal of the Group.

Bank balances and cash

The bank balances and cash of the Group decreased from approximately RMB27,373 million as at 31 December 2018 to approximately RMB22,790 million as at 31 December 2019, which was mainly due to (a) the decrease in net cash from operating activities as a result of the decrease in profit before tax and the increase in bills and accounts receivables; and (b) the increase in net cash used in investing activities as a result of purchase of intangible assets; and (c) the increase in net cash used in financing activities as a result of the payments for acquisition of additional interests in non-controlling subsidiaries by the Group in FY2019.

The bank balances and cash of the Group decreased from approximately RMB22,790 million as at 31 December 2019 to approximately RMB17,573 million as at 30 June 2020, which was mainly due to (a) the decrease in net cash from operating activities as a result of the decrease in profit before tax in 1H2020; and (b) the increase in the placement of restricted cash and long term receivables in 1H2020.

Net assets

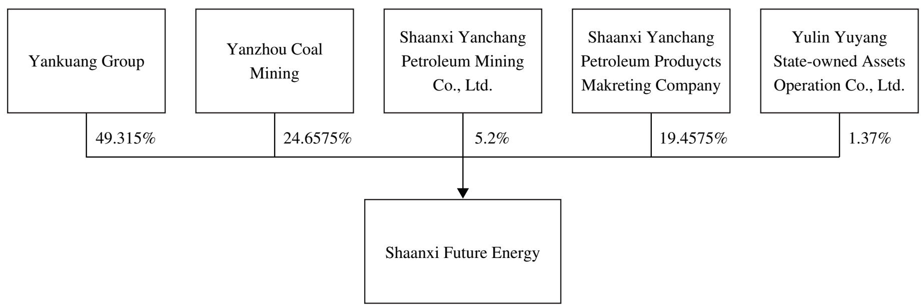
The net assets of the Group decreased from approximately RMB87,045 million as at 31 December 2018 to approximately RMB85,349 million as at 31 December 2019, which was mainly due to the net effect of (a) the increase in profit after taxation for FY2019; (b) the distribution of dividends in FY2019; and (c) the payments for acquisition of additional interests in non-controlling subsidiaries by the Group in FY2019.

The net assets of the Group decreased from approximately RMB85,349 million as at 31 December 2019 to approximately RMB84,150 million as at 30 June 2020, which was mainly due to the net effect of (a) the increase in profit after taxation for 1H2020; (b) the distribution of dividends in 1H2020; and (c) the redemption of perpetual capital securities by the Group in 1H2020.

2. The Target Group

(a) *Shaanxi Future Energy and its subsidiaries* (“**Shaanxi Future Energy Group**”)

Shaanxi Future Energy is a company established under the laws of the PRC with limited liability on 25 February 2011. It is principally engaged in the production and sales of coal, paraffin, ammonium sulfate and other chemical products. The following chart sets forth the shareholding structure of Shaanxi Future Energy as at the Latest Practicable Date:



The tables below set forth a summary of the of the consolidated audited financial information of Shaanxi Future Energy Group prepared in accordance with IFRS for two years ended 31 December 2019 and 1H2020:

	1H2020	**FY2019**	**FY2018**
	RMB’000	*RMB’000*	*RMB’000*
	(Audited)	(Audited)	(Audited)
Total revenue	4,156,146	8,751,970	6,564,897
Profit after taxation	1,059,581	2,386,234	1,370,955

		As at	
	30 June 2020	**31 December 2019**	**31 December 2018**
	RMB’000	*RMB’000*	*RMB’000*
	(Audited)	(Audited)	(Audited)
Total assets	20,867,324	20,006,701	20,510,499
Total liabilities	8,613,397	8,812,355	10,021,087
Net assets	12,253,927	11,194,346	10,489,412

Revenue

The revenue of Shaanxi Future Energy Group increased from approximately RMB6,564.9 million for FY2018 to approximately RMB8,752.0 million for FY2019, which was mainly attributable to the increase in the sales of chemical products.

Profit after taxation

The profit after taxation of Shaanxi Future Energy Group increased from approximately RMB1,371.0 million in FY2018 to approximately RMB2,386.2 million in FY2019, which was mainly attributable to the increase in revenue.

Total assets

The total assets of Shaanxi Future Energy Group decreased from approximately RMB20,510.5 million as at 31 December 2018 to approximately RMB20,006.7 million as at 31 December 2019, which was mainly due to the decrease in intangible assets as a result of the amortization and the decrease in the held-to-maturity assets.

The total assets of Shaanxi Future Energy Group increased from RMB20,006.7 million as at 31 December 2019 to approximately RMB20,867.3 million as at 30 June 2020, which was mainly attributable to the increase in inventories, trade receivables, and cash and cash equivalents.

Total liabilities

The total liabilities of Shaanxi Future Energy Group amounted to approximately RMB10,021.1 million, RMB8,812.4 million, and RMB8,613.4 million as at 31 December 2018 and 2019 and 30 June 2020, respectively. The overall decrease in total liabilities of Shaanxi Future Energy Group was mainly due to repayment of bank borrowings.

(b) Lunan Chemical

Lunan Chemical is a company established under the laws of the PRC with limited liability on 11 July 2007 and a wholly owned subsidiary of the Vendor. It is principally engaged in the production and sales of chemical products including acetic acid, ethyl acetate, methyl acetate, and polyformaldehyde etc..

The tables below set forth a summary of the of the audited financial information of Lunan Chemical prepared in accordance with IFRS for two years ended 31 December 2019 and 1H2020:

	1H2020	**FY2019**	**FY2018**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)
Total revenue	2,603,067	6,310,350	6,356,124
Profit/(Loss) after taxation	(28,045)	393,929	386,156

		As at	
	30 June 2020	**31 December 2019**	**31 December 2018**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)
Total assets	9,811,094	9,359,892	8,799,130
Total liabilities	4,249,404	3,907,998	4,026,717
Net assets	5,561,690	5,451,894	4,772,413

Revenue

The revenue of Lunan Chemical decreased from approximately RMB6,356.1 million for FY2018 to approximately RMB6,310.4 million for FY2019, which remained stable in FY2019.

Profit after taxation

The profit after taxation of Lunan Chemical slightly increased from approximately RMB386.2 million in FY2018 to approximately RMB393.9 million in FY2019. Lunan Chemical recorded loss of approximately RMB28.0 million in 1H2020, which was mainly attributable to the decrease in gross profit margin in 1H2020 as a result of the low production rate of the chemical products due to outbreak of the novel coronavirus ("**COVID-19**") in 1H2020 and the high fixed cost for the operation.

Total assets

The total assets of Lunan Chemical increased from approximately RMB8,799.1 million as at 31 December 2018 to approximately RMB9,359.9 million as at 31 December 2019, and further increased to approximately RMB9,811.1 million as at 30 June 2020. The overall increase in total assets was mainly due to the increase in property, plant and equipment and prepayments and other receivables.

Total liabilities

The total liabilities decreased from approximately RMB4,026.7 million as at 31 December 2018 to approximately RMB3,908.0 million as at 31 December 2019, which was mainly attributable to the repayment of bank borrowings.

The total liabilities increased from approximately RMB3,908.0 million as at 31 December 2019 to approximately RMB4,429.4 million as at 30 June 2020, which was mainly due to the increase in short-term bank borrowings.

(c) Fine Chemical

Fine Chemical is a company established under the laws of the PRC with limited liability on 25 May 2012 and a wholly owned subsidiary of the Vendor. It is principally engaged in the production and sales of catalyst, wax, sodium nitrate, and potassium silicate.

The table below sets forth a summary of the of the audited financial information of Fine Chemical prepared in accordance with IFRS for two years ended 31 December 2019 and 1H2020:

	1H2020	**FY2019**	**FY2018**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)
Total revenue	83,552	219,128	189,098
Profit after taxation	9,982	29,042	8,297

		As at	
	30 June 2020	**31 December 2019**	**31 December 2018**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)
Total assets	242,059	237,596	230,160
Total liabilities	83,492	89,011	110,617
Net assets	158,567	148,585	119,543

Revenue

The revenue of Fine Chemical increased from approximately RMB189.1 million for FY2018 to approximately RMB219.1 million for FY2019, which was mainly attributable to the increase in the sales of chemical products.

Profit after taxation

The profit after taxation of Fine Chemical increased from approximately RMB8.3 million in FY2018 to approximately RMB29.0 million in FY2019, which was mainly attributable to the increase in the unit price for the chemical products.

Total assets

The total assets of Fine Chemical amounted to approximately RMB230.2 million, RMB237.6 million, and RMB242.1 million as at 31 December 2018 and 2019 and 30 June 2020, respectively, which was mainly attributable to the increase in bank balances and cash and trade and bills receivables.

Total liabilities

The total liabilities amounted to approximately RMB110.6 million, RMB89.0 million, and RMB83.5 million as at 31 December 2018 and 2019 and 30 June 2020, respectively. The overall decrease in total liabilities of Fine Chemical was mainly due to settlement of trade payables and the repayment of short-term loans.

(d) Chemical Equipment

Chemical Equipment is a company established under the laws of the PRC with limited liability on 2 September 1989 and a wholly owned subsidiary of the Vendor. It is principally engaged in the manufacturing, sales, and maintenance of pressure vessels and mine mechanical and electrical equipment.

The tables below set forth a summary of the of the audited financial information of Chemical Equipment prepared in accordance with IFRS for two years ended 31 December 2019 and 1H2020:

	1H2020	**FY2019**	**FY2018**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)
Total revenue	33,555	52,907	39,189
Profit after taxation	1,605	5,339	312

	As at		
	30 June 2020	**31 December 2019**	**31 December 2018**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)
Total assets	86,689	85,907	53,999
Total liabilities	29,340	30,322	126,063
Net assets/(liabilities)	57,349	55,585	(72,064)

Revenue

The revenue of Chemical Equipment increased from approximately RMB39.2 million for FY2018 to approximately RMB52.9 million for FY2019, which was mainly attributable to the increase in sales of equipment in FY2019.

Profit after taxation

The profit after taxation of Chemical Equipment increased from approximately RMB0.3 million in FY2018 to approximately RMB5.3 million in FY2019, which was mainly attributable to the gain generated from debt restructuring during FY2019.

Total assets

The total assets of Chemical Equipment increased from approximately RMB54.0 million as at 31 December 2018 to approximately RMB85.9 million 31 December 2019, and further increased to approximately RMB86.7 million as at 30 June 2020. The overall increase in the total assets was mainly attributable to the increase in bank balances and cash and property, plant and equipment.

Total liabilities

The total liabilities decreased from approximately RMB126.1 million as at 31 December 2018 to approximately RMB30.3 million as at 31 December 2019, and further decreased to approximately RMB29.3 million as at 30 June 2020. The overall decrease in the total liabilities was mainly due to the settlement of other trade payables due to Yankuang Group.

(e) Trading Company

Trading Company is a company established under the laws of the PRC with limited liability on 25 March 2008 and a wholly owned subsidiary of the Vendor. It is principally engaged in the wholesale of chemical products, including methanol and ethanol etc..

The tables below set forth a summary of the of the audited financial information of Trading Company prepared in accordance with IFRS for two years ended 31 December 2019 and 1H2020:

	1H2020	**FY2019**	**FY2018**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)
Total revenue	3,388,079	7,170,375	10,217,082
Profit after taxation	9,012	17,723	20,422

		As at	
	30 June 2020	**31 December 2019**	**31 December 2018**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)
Total assets	704,417	547,396	579,427
Total liabilities	474,833	327,706	377,460
Net assets	229,584	219,690	201,967

Revenue

The revenue of Trading Company decreased from approximately RMB10,217.1 million for FY2018 to approximately RMB7,170.4 million for FY2019, which was mainly attributable to the decrease in revenue generated from the sales of coal and chemical products.

Profit after taxation

The profit after taxation of the Trading Company decreased from approximately RMB20.4 million in FY2018 to approximately RMB17.7 million in FY2019, which was mainly attributable to the decrease in the income from the write back of trade payables in FY2019.

Total assets

The total assets of Trading Company decreased from approximately RMB579.4 million as at 31 December 2018 to approximately RMB547.4 million as at 31 December 2019, which was mainly due to the decrease in bank balances and cash as a result of the decrease in the retention received in FY2019.

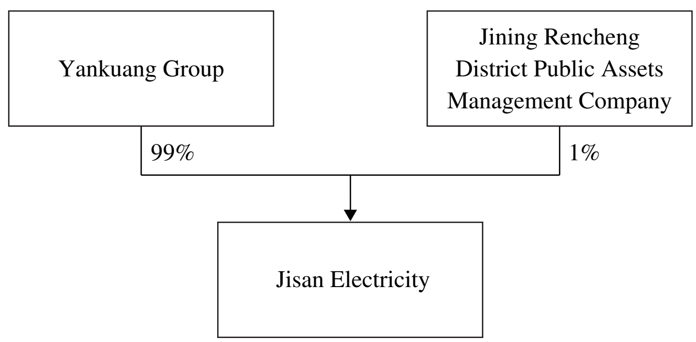
The total assets of Trading Company increased from approximately RMB547.4 million as at 31 December 2019 to approximately RMB704.4 million as at 30 June 2020, which was mainly due to the increase in bank balances and cash as a result of the increase in trade payables.

Total liabilities

The total liabilities of Trading Company decreased from approximately RMB377.5 million as at 31 December 2018 to approximately RMB327.7 million as at 31 December 2019, which was mainly attributable to settlement of trade payables. The total liabilities then increased to approximately RMB474.8 million as at 30 June 2020, which was mainly due to the increase in trade payables.

(f) Jisan Electricity

Jisan Electricity is a company established under the laws of the PRC with limited liability on 31 January 2005. It is principally engaged in the provision of heat and generation of electricity. The following chart sets forth the shareholding structure of Jisan Electricity as at the Latest Practicable Date:



The tables below set forth a summary of the of the audited financial information of Jisan Electricity prepared in accordance with IFRS for two years ended 31 December 2019 and 1H2020:

	1H2020	**FY2019**	**FY2018**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)
Total revenue	171,248	429,724	455,016
Profit after taxation	37,306	37,812	8,754

		As at	
	30 June 2020	**31 December 2019**	**31 December 2018**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)
Total assets	2,080,364	2,149,303	2,041,426
Total liabilities	1,499,589	1,605,942	1,535,877
Net assets	580,775	543,361	505,549

Revenue

The revenue of Jisan Electricity decreased from approximately RMB455.0 million for FY2018 to approximately RMB429.7 million for FY2019, which remained stable during FY2019.

Profit after taxation

The profit after taxation of Jisan Electricity increased from approximately RMB0.9 million in FY2018 to approximately RMB37.9 million in FY2019, which was mainly attributable to the fact that Jisan Electricity switched its raw materials for the generation of electricity in FY2019 from the thermal coal to the coal slime, the price of which was lower and the energy density was higher than those of the thermal coal.

Total assets

The total assets of Jisan Electricity increased from approximately RMB2,041.4 million as at 31 December 2018 to approximately RMB2,149.3 million 31 December 2019, which was mainly attributable to the increase in other receivables due from Yankuang Group.

The total assets of Jisan Electricity decreased from approximately RMB2,149.3 million 31 December 2019 to approximately RMB2,080.4 million as at 30 June 2020, which was mainly attributable to the decrease in property, plant and equipment as a result of depreciation.

Total liabilities

The total liabilities of Jisan Electricity increased from approximately RMB1,535.9 million as at 31 December 2018 to approximately RMB1,605.9 million as at 31 December 2019, which was mainly attributable to the increase in the debentures.

The total liabilities of Jisan Electricity decreased from approximately RMB1,605.9 million as at 31 December 2019 to approximately RMB1,499.6 million as at as at 30 June 2020, which was mainly due to the settlement of trade payables.

(g) Information Center

The Information Center is currently the functional department of Yankuang Group's informatization business. It is mainly engaged in the provision of mine information, development of mining information system, and provision of maintenance services for the mining systems. Information Center leased auxiliary mining facilities and provided mine information for the coal mines and received service fee from the companies which controlled the coal mines.

In the Transaction, the Company will acquire related assets including but not limited to mining information systems and auxiliary mining facilities. The employees of Information Center will be transferred from Yankuang Group to the Group upon the completion of the Transaction.

The tables below set forth a summary of the of the audited financial information of Information Center prepared in accordance with IFRS for two years ended 31 December 2019 and 1H2020:

	1H2020	**FY2019**	**FY2018**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)
Total revenue	64,392	143,302	140,851
Profit after taxation	15,698	19,901	36,798

		As at	
	30 June 2020	**31 December 2019**	**31 December 2018**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)
Total assets	259,851	262,549	265,126
Total liabilities	150,028	166,568	171,666
Net assets	109,823	95,981	93,460

Revenue

The revenue of Information Center increased from approximately RMB140.9 million for FY2018 to approximately RMB143.3 million for FY2019, which remained stable in FY2019.

Profit after taxation

The profit after taxation of Information Center decreased from approximately RMB36.8 million in FY2018 to approximately RMB19.9 million in FY2019, which was mainly attributable to the increase in the maintenance cost of auxiliary mining facilities and mining information system in FY2019.

Total assets

The total assets of Information Center amounted to approximately RMB265.1 million, RMB262.5 million, and RMB259.9 million as at 31 December 2018 and 2019 and 30 June 2020, respectively, which was mainly attributable to the decrease in property, plant and equipment and intangible assets as a result of depreciation and amortization.

Total liabilities

The total liabilities of Information Center decreased from approximately RMB171.7 million as at 31 December 2018 to approximately RMB166.6 million as at 31 December 2019, and further decreased to approximately RMB150.0 million as at 30 June 2020, which was mainly attributable to the increase in other payables due to Yankuang Group.

B. The Transaction Agreement

On 30 September 2020, the Company entered into the Transaction Agreement with Yankuang Group. The principal terms of the Transaction Agreement are summarized as follows:

Date:

30 September 2020

Parties:

(a) the Vendor; and

(b) the Purchaser

(Collectively referred to as "**Both Parties**")

Asset to be acquired

According to the terms and conditions of the Transaction Agreement, the Company conditionally agreed to acquire from Yankuang Group and Yankuang Group conditionally agreed to transfer its 49.315%, 100%, 100%, 100%, 100% and 99% equity interests in Shaanxi Future Energy, Fine Chemical, Lunan Chemical, Chemical Equipment, Trading Company and Jisan Electricity, respectively, as well as relevant assets and business of the Information Center.

Conditions precedent

Pursuant to the Transaction Agreement, the completion is subject to a series of conditions precedent, details of which have been set out in the section headed "III. The Transaction – Conditions precedent" in the Letter from the Board to this Circular.

Consideration and payment terms

The total consideration amounted to RMB18.355 billion, and shall be paid in cash in the following manner:

(a) The Company shall pay 40% of the transaction price (interest-free) to Yankuang Group in one lump sum within five Working Days after the Transaction Agreement becomes effective;

(b) The Company shall pay 30% of the transaction price and the corresponding interest (the "**Corresponding Interest**") to Yankuang Group before 30 June 2021; and

(c) The Company shall pay 30% of the Transaction price and the Corresponding Interest to Yankuang Group within twelve months after the Transaction Agreement becomes effective.

The Corresponding Interest is calculated based on the one-year benchmark interest rate of loan prime rate announced by the National Interbank Funding Center on the actual payment date of each subsequent transfer price. The calculation is from the payment date of the first tranche of transaction price to the subsequent payment date of each transaction price. The calculation period is calculated as 365 days a year.

Basis of the consideration

The consideration amounting to RMB18.355 billion was determined based on normal commercial terms after arm's length negotiations between Both Parties with reference to, among others, (i) the production and operation, financial condition and future development plan of the Target Companies and Target Assets; and (ii) the valuation results of the Target Companies and Target Assets included in the Asset Valuation Reports issued by Pan-China, an independent valuer engaged by the Company.

Set out below is a table demonstrating (i) the valuation results of 100% equity interest for each of the Target Companies and Target Assets based on the Asset Valuation Reports; and (ii) the consideration payable by the Company to Yankuang Group in respect of each of the Target Companies and the Target Assets.

	Target Companies/Target Assets	**Valuation Results of 100% equity interest**	**Consideration**
		RMB	*RMB*
1	Shaanxi Future Energy	23,937,033,251.40	10,818,247,947.93 *(Note)*
2	Fine Chemical	223,624,156.19	223,624,156.19
3	Lunan Chemical	6,187,484,899.77	6,187,484,899.77
4	Chemical Equipment	69,641,286.66	69,641,286.66

	Target Companies/Target Assets	Valuation Results of 100% equity interest *RMB*	Consideration *RMB*
5	Trading Company	229,903,330.02	229,903,330.02
6	Jisan Electricity	713,870,678.78	706,731,971.99
7	Information Center	119,796,238.31	119,796,238.31
	Total		**18,355,429,830.87**

Note:

Pursuant to the general meeting of Shaanxi Future Energy held on 6 August 2020, it is agreed that the profit in a total of RMB2 billion will be distributed to all shareholders from the distributable profit of RMB4.593 billion as of 31 December 2019 based on the registered capital of Shaanxi Future Energy. The following table sets forth the calculation of the consideration of 49.315% equity of Shaanxi Future Energy:

Items	**Unit**	**Calculation**	**Amount**
Valuation results of 100% equity interest	RMB'000	a	23,937,033
Dividends declared	RMB'000	b	2,000,000
Shareholding percentage	%	c	49.315
Consideration	RMB'000	d=(a-b)*c	10,818,248

The Company also engaged BOYD to prepare the Competent Person's Report and Competent Person's Valuation Report on the valuation under the Listing Rules in respect of the mining rights of Jinjitan Coal Mine under Shaanxi Future Energy. Pursuant to the Competent Person's Valuation Report as disclosed in Appendix IV to the Circular, the valuation on the mining rights of Jinjitan Coal Mine amounted to approximately RMB22,072 million.

C. Assessment on the Asset Valuation Reports, Jinjitan Coal Mine Valuation Report, and the consideration of the Transaction

In assessing the fairness and reasonableness of the Asset Valuation Reports and the Jinjitan Coal Mine Valuation Report, we have taken into the following factors:

1. Asset Valuation Reports

(a) The valuer

The Company has engaged Pan-China to perform the valuation and prepare the Asset Valuation Reports for the Target Companies and Target Assets. As disclosed in the Letter from the Board to this Circular, Pan-China has securities and futures related business qualifications.

We have reviewed the qualification on the valuation of mining assets of Pan-China issued by Chinese Association of Mineral Resources Appraisers and understand that Pan-China is certified with professional qualification required to perform the valuation on the Target Companies and the Target Assets.

In respect of Pan-China's experience, we have requested and obtained a list from Pan-China demonstrating their track record of valuation in relation to the acquisitions of target companies principally engaged in the same businesses as those of the Target Companies and Target Assets. Based on our review, we understand that Pan-China has accumulated extensive experience in evaluating companies and/or assets in mining, processing and manufacturing business operation which is similar to the Target Companies and Target Assets.

In addition, Pan-China confirms that (a) it is independent from the Company; (b) all relevant material information provided by the Company had been incorporated in the Asset Valuation Reports; and (c) there were no other material relevant information or representations relating to the Target Companies and Target Assets provided or made by the Company to Pan-China not having been included in the valuation.

We have also reviewed the scope of work of Pan-China and noted that there is no limitation on the scope of work which might adversely impact on the degree of assurance in the Asset Valuation Reports.

Based on the above, we are of the view that the scope of work of Pan-China is appropriate and Pan-China is qualified and competent to perform the valuation of the Target Companies and Target Assets and prepare the Asset Valuation Reports.

(b) Valuation methodology adopted for the Target Assets and each of the Target Companies

We have reviewed the Asset Valuation Reports issued by Pan-China and discussed with Pan-China regarding the assumption made and methodology adopted for the valuations of the Target Companies and Target Assets (the "**Valuation**"). We understand that:

(i) Pan-China did not adopt market approach for the Valuation since there were no acquisitions of companies similar to the business operation of the Target Companies and Target Assets in the market comparable to the Transaction;

(ii) Pan-China did not adopt income approach for the Valuation since the income generated from the Target assets and the assets of the Target Companies could not be accurately quantified or ascertained mainly due to (a) uncertain changes on the policies on thermal power generation industry; (b) short track record of profitability of Chemical Equipment;

and/or (c) uncertainty of the profitability of the Target Assets since the profitability of the Target Assets is determined with reference to the profitability of Shaanxi Future Energy; and

(iii) Pan-China has adopted asset approach for the Valuation since asset approach is a commonly utilized method in the valuation, which considers the fundamental cost to reproduce the assets appraised in accordance with the current market prices of similar assets.

After considering the reasons above, we are of the view that the valuation methodology adopted by Pan-China is reasonable and acceptable for the Valuation.

(c) Valuation assumptions

We noted that Pan-China has made the following assumption for the Valuation, including:

General assumptions for the Valuation

(i) All assets to be appraised were assumed to be in the course of trading;

(ii) The buyers and sellers, on equal footing, have the opportunity and time to get sufficient market information, and are able to trade in a voluntary and sensible manner, free from any compulsory or restrictive conditions;

(iii) The assets being appraised are in use and will continue to be used; and

(iv) The company will continue as going concern. The management has the ability to take the responsibilities for the operation of the business. The company will fully comply with all applicable laws and regulations. The business is profitable and sustainable;

Additional assumptions for the valuation of Shaanxi Future Energy

(i) No material changes will happen on the relevant laws, regulations and policies currently in force and the macroeconomic condition of the country; no material changes will happen on the political, economic and social environment in the regions where the parties are located; there will be no material adverse impact arising from other unforeseeable and force majeure factors;

(ii) The management of the company is responsible for the operation of the business and has the ability to perform his duties;

(iii) The company will comply with all applicable laws and regulations unless otherwise specified;

(iv) The accounting policies of the company to be adopted in the future are assumed to be, in all material aspects, consistent with the accounting policies adopted when the report was being prepared;

(v) The operation of business and the scope of activities of the company are assumed to be consistent with the present management style and level;

(vi) No material change on the interest rates, exchange rates, tax bases and rates, and policy duties and levies is expected;

(vii) No other force majeure or unforeseeable factors will have material adverse impact on the business of the company;

(viii) The annual cashflows for the forecast year are assumed to be stable;

(ix) It is assumed that the business operation of the company during the forecast year is consistent with the current business model as at the valuation benchmark date without material changes;

(x) It is assumed that the company can maintain a continuous cooperative relationship with the existing customers after the valuation benchmark date;

(xi) The company can continue to enjoy its preferential policies after the current preferential policies for western development expires on 31 December 2030 according to the "Announcement of the Ministry of Finance and the State Administration of Taxation and the National Development and Reform Commission on Continuing the Corporate Income Tax Policy for the Western Development"; and

(xii) The Jinjitan Coal Mine can successfully obtain the mining qualification for the remaining coal resources after the expiry of the current mining period. The cost of coal for the indirect coal liquefaction and comprehensive utilization project, a project under Shaanxi Future Energy, will remain at the cost price of Jinjitan Coal Mine in the future.

After considering the above, we are of the view that the assumptions adopted by Pan-China for the Valuation are reasonable.

(d) Application of the asset approach

The following sets forth the major assets and liabilities considered in the valuation of each Target Company and Target Assets as extracted from the Asset Valuation Reports. We have reviewed the calculation of each Target Company and Target Assets adopted by Pan-China and we consider the valuation methodology is properly applied.

(i) Shaanxi Future Energy

Assessment on the valuation result under the asset approach

		As at 30 June 2020		
Financial items	**Appraised value**	**Net book value under China Accounting Standards ("CAS")**	**Variance between the net book value and appraised value**	**Reason for the increase /decrease in the appraised value**
	RMB'000	*RMB'000*	*RMB'000*	
	a	*b*	*c=a-b*	
Inventories	437,834	405,281	32,552	The market value is higher than the book value. *(Note 1)*
Advance Payment	70,515	70,570	(55)	The variance, representing the advance payment for the patent, has been considered in the valuation of the intangible assets.
Long-term investments	83,613	65,300	18,313	The net asset value of the subsidiaries increased due to the increase of the net profit since the incorporation date of the subsidiaries.
Construction in progress	938,257	1,048,579	(110,322)	The market value of the quota for the replacement of coal production capacity is lower than the purchase price of the aforesaid capacity. *(Note 2)*
Right-of-use assets and investment properties	505,279	442,289	62,990	The consideration of the right-of-use asset and investment properties as at its acquisition date is significantly lower than its market value as at 30 June 2020. *(Note 3)*

		As at 30 June 2020		
Financial items	**Appraised value**	**Net book value under China Accounting Standards ("CAS")**	**Variance between the net book value and appraised value**	**Reason for the increase /decrease in the appraised value**
	RMB'000	*RMB'000*	*RMB'000*	
	a	*b*	*c=a-b*	
Property, plant, and equipment	12,824,613	12,990,041	(165,428)	(a) The value-added tax rate in the PRC decreased from 17% to 13% or 9% in 2019; (b) The cost of labor, machineries, and materials have significantly increased since the establishment of the properties, plant, and equipment; netting off the effect that the useful life adopted under the relevant accounting policy is longer than that of the actual expected useful life of the machineries.
Intangible assets	14,237,889	2,238,298	11,999,591	The present value of the net cash flow generated from the intangible assets, mainly representing the mining rights, is higher than the net book value of the aforesaid assets as at 30 June 2020.

Note 1: The appraised value is determined with reference to the market price of the inventories owned by Shaanxi Future Energy, including but not limited to diesel fuel, liquid wax, light hydrocarbons, liquefied petroleum, and coal.

Note 2: The appraised value is determined with reference to the market price of the replacement of coal production capacity under the only three transactions entered into since July 2019 in Ningxia Assets and Equity Exchange, Jiangxi Assets and Equity Exchange, and Hebei Environment and Energy Exchange, respectively.

Note 3: The appraised value is determined with reference to the market price of the similar land use rights and investment properties ("Similar Assets"), which shall fulfil the following criteria:

(a) The usage of the Similar Assets should be the same as that of the land use rights and investment properties of Shaanxi Future Energy;

(b) The location of the Similar Assets should be in the same district where the land use rights and investment properties of Shaanxi Future Energy are located;

(c) The date of the acquisition of the Similar Assets should be close to the date of the Transaction;

(d) The sale of the Similar Assets is conducted under normal conditions and no intervention of courts is involved; and

(e) The currency of the sale shall be denominated in RMB.

Based on the above factor, as stated in the Asset Valuation Report of Shaanxi Future Energy, the valuation of 100% equity interest of Shaanxi Future Energy as at 30 June 2020 based on the asset approach was RMB23,937,033,251.40, which was higher than the book value of the Shaanxi Future Energy by approximately RMB11,837,985,000 or 97.84%. Such significant increase was mainly attributable to the increase in the appraised value of the mining rights of Shaanxi Future Energy, details of which have been set out in the table above.

Assessment on the feasibility on the adoption of the alternative approach

In addition to the asset-based approach, we have assessed the feasibility of the market approach. We have formulated the following criteria in selecting the comparable acquisition: (a) the target companies under the comparable acquisition is engaged in the mining of coal in the PRC and the sales of coal; (b) the purchaser of the comparable acquisition is listed in the Stock Exchange; and (c) the comparable acquisition was announced on or after 1 January 2017.

As such, we have selected three comparable acquisitions. However, considering that (a) there are only three comparable acquisitions; and (b) the P/E ratio of the comparable acquisitions ranges from 91.7 to 1,470.8, which is far above that of the acquisition of Shaanxi Future Energy, we are of the view that the samples size is neither representative nor meaningful. Therefore, we concur with the view from Pan-China that there is insufficient market information available for the adoption of market approach.

Our view on the consideration of the acquisition of Shaanxi Future Energy

Based on (a) the asset-based approach adopted by Pan-China in the valuation of Shaanxi Future Energy; (b) the reference of the market price adopted for the valuation of the assets; and (c) no representative comparable acquisitions in the market, we consider that the consideration of the acquisition of Shaanxi Future Energy is fair and reasonable and in the interests of the Company and Independent Shareholders as a whole.

(ii) Lunan Chemical

Assessment on the valuation result under the asset approach

		As at 30 June 2020		
Financial items	**Appraised value**	**Net book value under CAS**	**Variance between the net book value and appraised value**	**Reason for the increase /decrease in the appraised value**
	RMB'000	*RMB'000*	*RMB'000*	
	a	*b*	*c=a-b*	
Inventories	253,718	249,480	4,238	The market value is higher than the book value. *(Note 1)*
Buildings	1,256,010	1,016,764	239,246	(a) The cost of labor, machineries, and materials have significantly increased since the establishment of the buildings; (b) The useful life adopted under the relevant accounting policy is shorter than that of the actual expected useful life of the buildings.
Other fixed assets	3,403,530	3,370,095	33,436	The market value is higher than the book value. *(Note 2)*

	As at 30 June 2020			
Financial items	**Appraised value** *RMB'000* *a*	**Net book value under CAS** *RMB'000* *b*	**Variance between the net book value and appraised value** *RMB'000* *c=a-b*	**Reason for the increase /decrease in the appraised value**
Construction in progress	797,992	786,597	11,395	The appraised value consists of the net book value, the cost of capital, and the cost of the establishment of the construction in progress which is recognized as expense according to CAS.
Right-of-use assets	669,839	440,264	229,575	The consideration of the right-of-use asset as at its acquisition date is significantly lower than its market value as at 30 June 2020. *(Note 3)*
Intangible assets	192,708	80,470	112,238	The present value of the net cash flow generated from the intangible assets is higher than the net book value of the aforesaid assets as at 30 June 2020.
Long-term payables	45,797	57,168	(11,371)	The government of Tengzhou City and Lunan Chemical mutually agreed that the long-term payment will be settled through annual instalments in the coming ten years from 2021. Hence, the present value of the long-term payables is lower than its book value.

Note 1: The appraised value is determined with reference to the market price of the inventories owned by Lunan Chemical, including but not limited to acetic acid.

Note 2: The appraised value is determined with reference to the market price of the equipment and facilities owned by Lunan Chemical. In the event that the aforementioned equipment and facilities are on sale in the market, the market price of them will be adopted as their appraised value. Otherwise, the appraised value is determined based on the market price of the similar equipment and facilities, which their usage and parameters shall be similar to the appraised equipment and facilities.

Note 3: The appraised value is determined with reference to the market price of similar land use rights with the following criteria:

(a) The usage of the similar land use rights should be the same as that of the land use rights of Lunan Chemical;

(b) The location of the similar land use rights should be in the same district where the land use rights of Lunan Chemical is located;

(c) The date of the acquisition of the similar land use rights should be close to the date of the Transaction;

(d) The sale of the similar land use rights is conducted under normal conditions and no intervention of courts is involved; and

(e) The currency of the sale shall be denominated in RMB.

Based on the above factor, as stated in the Lunan Chemical Asset Valuation Report, the valuation of 100% equity interest of Lunan Chemical as at 30 June 2020 based on the asset approach was RMB6,187,484,899.77, which was higher than the book value of the Lunan Chemical by approximately RMB645,498,000 or 11.65%. Such increase was mainly attributable to the increase in the appraised value of the building, right-of-use assets, and intangible assets of Lunan Chemical, details of which have been set out in the table above.

Assessment on the feasibility on the adoption of the alternative approach

In addition to the asset-based approach, we have assessed the feasibility of the market approach. We have formulated the following criteria in selecting the comparable acquisition: (a) the target companies under the comparable acquisition is mainly engaged in the manufacturing and sales of acetic acid in the PRC; (b) the purchaser of the comparable acquisition is listed in the Stock Exchange; and (c) the comparable acquisition was announced on or after 1 January 2017. We have used our best efforts to search the comparable transactions but there is no comparable transaction fulfilling our criteria in the market. Therefore, we concur with the view from Pan-China that there is insufficient market information available for the adoption of market approach.

Our view on the consideration of the acquisition of Lunan Chemical

Based on (a) the asset-based approach adopted by Pan-China in the valuation of Lunan Chemical; (b) the reference of the market price adopted for the valuation of the assets; and (c) no comparable acquisitions in the market, notwithstanding the loss position in 1H2020, we consider that the consideration of the acquisition of Lunan Chemical is fair and reasonable and in the interests of the Company and Independent Shareholders as a whole.

(iii) Fine Chemical

	As at 30 June 2020			
Financial items	**Appraised value** *RMB'000* *a*	**Net book value under CAS** *RMB'000* *b*	**Variance between the net book value and appraised value** *RMB'000* *c=a-b*	**Reason for the increase /decrease in the appraised value**
Inventories	19,860	17,060	2,800	The market value is higher than the book value. *(Note 1)*
Buildings	111,705	92,303	19,402	(a) The cost of labor, machineries, and materials have significantly increased since the establishment of the buildings; (b) The useful life adopted under the relevant accounting policy is shorter than that of the actual expected useful life of the buildings.

	As at 30 June 2020			
Financial items	**Appraised value** *RMB'000* *a*	**Net book value under CAS** *RMB'000* *b*	**Variance between the net book value and appraised value** *RMB'000* *c=a-b*	**Reason for the increase /decrease in the appraised value**
Machineries and equipment	99,017	58,974	40,043	(a) The value-added tax rate in the PRC decrease from 17% to 13% or 9% in 2019; (b) The useful life adopted under the relevant accounting policy is shorter than that of the actual expected useful life of the machineries equipment.
Intangible assets	15,731	12,919	2,812	The present value of the net cash flow generated from the intangible assets is higher than the net book value of the aforesaid assets as at 30 June 2020.

Note 1: The appraised value is determined with reference to the market price of the inventories owned by Fine Chemical, including but not limited to catalysts.

Based on the above factor, as stated in the Fine Chemical Asset Valuation Report, the valuation of 100% equity interest of Fine Chemical as at 30 June 2020 based on the asset approach was RMB223,624,156.19, which was higher than the book value of the Fine Chemical by approximately RMB65,057,000 or 41.03%.

(iv) Chemical Equipment

	As at 30 June 2020			
Financial items	**Appraised value** *RMB'000* *a*	**Net book value under CAS** *RMB'000* *b*	**Variance between the net book value and appraised value** *RMB'000* *c=a-b*	**Reason for the increase /decrease in the appraised value**
Trade and other receivables	27,905	27,893	13	The appraised value, which represents the recoverable amount of trade and other receivables, is larger than net book value of the trade and other receivables.
Inventories	11,933	11,300	633	The market value is higher than the book value. *(Note 1)*
Buildings	15,112	7,710	7,402	(a) The cost of labor, machineries, and materials have significantly increased since the establishment of the buildings; (b) The useful life adopted under the relevant accounting policy is shorter than that of the actual expected useful life of the buildings.

Financial items	Appraised value *RMB'000* *a*	Net book value under CAS *RMB'000* *b*	As at 30 June 2020 Variance between the net book value and appraised value *RMB'000* *c=a-b*	Reason for the increase /decrease in the appraised value
Machineries	21,531	17,773	3,758	The replacement cost decreased as a result of advance in technology, netting off the effect that the useful life adopted under the relevant accounting policy is shorter than that of the actual expected useful life of the machineries and equipment.
Long-term deferred expenses	–	4,004	(4,004)	It has been included in the appraisal value of the buildings.
Right-of-use assets	11,538	3,141	8,397	The consideration of the right-of-use asset as at its acquisition date is significantly lower than its market value as at 30 June 2020. *(Note 2)*

Note 1: The appraised value is determined with reference to the market price of the inventories owned by Chemical Equipment, including but not limited to buffer vessels.

Note 2: The appraised value is determined with reference to the market price of the similar land use rights with the following criteria:

(a) The usage of the similar land use rights should be the same as that of the land use rights of Chemical Equipment;

(b) The location of the similar land use rights should be in the same district where the land use rights of Chemical Equipment is located;

(c) The date of the acquisition of the similar land use rights should be close to the date of the Transaction;

(d) The sale of the similar land use rights is conducted under normal conditions and no intervention of courts is involved; and

(e) The currency of the sale shall be denominated in RMB.

Based on the above factor, as stated in the Chemical Equipment Asset Valuation Report, the valuation of 100% equity interest of Chemical Equipment as at 30 June 2020 based on the asset approach was RMB69,641,286.66, which was higher than the book value of the Chemical Equipment by approximately RMB16,265,000 or 30.47%.

(v) Trading Company

		As at 30 June 2020		
Financial items	**Appraised value**	**Net book value under CAS**	**Variance between the net book value and appraised value**	**Reason for the increase /decrease in the appraised value**
	RMB'000	*RMB'000*	*RMB'000*	
	a	*b*	*c=a-b*	
Property, plant and equipment	593	274	319	The replacement cost decreased as a result of advance in technology, netting off the effect that the useful life adopted under the relevant accounting policy is shorter than that of the actual expected useful life of the machineries and equipment.

Based on the above factor, as stated in the Trading Company Asset Valuation Report, the valuation of 100% equity interest of Trading Company as at 30 June 2020 based on the asset approach was RMB229,903,330.02, which was higher than the book value of the Trading Company by approximately RMB319,300 or 0.14%.

(vi) Jisan Electricity

	As at 30 June 2020			
Financial items	**Appraised value**	**Net book value under CAS**	**Variance between the net book value and appraised value**	**Reason for the increase /decrease in the appraised value**
	RMB'000	*RMB'000*	*RMB'000*	
	a	*b*	*c=a-b*	
Buildings	268,486	136,330	132,156	(a) The cost of labor, machineries, and materials have significantly increased since the establishment of the buildings; (b) The useful life adopted under the relevant accounting policy is shorter than that of the actual expected useful life of the buildings.
Machineries and electronic equipment	310,803	332,704	(21,901)	The replacement cost decreased, netting off the effect that the useful life adopted under the relevant accounting policy is shorter than that of the actual expected useful life of the machineries and electronic equipment.
Right-of-use assets	40,043	17,221	22,822	The consideration of the right-of-use asset as at its acquisition date is significantly lower than its market value as at 30 June 2020. *(Note 1)*

Financial items	Appraised value *RMB'000* *a*	Net book value under CAS *RMB'000* *b*	As at 30 June 2020 Variance between the net book value and appraised value *RMB'000* *c=a-b*	Reason for the increase /decrease in the appraised value
Intangible assets	19	–	19	The market value of the intangible assets, representing the software used by Jisan Electricity, is higher than their book value. *(Note 2)*

Note 1: The appraised value is determined with reference to the market price of the similar land use rights with the following criteria:

(a) The usage of the similar land use rights should be the same as that of the land use rights of Jisan Electricity;

(b) The location of the similar land use rights should be in the same district where the land use rights of Jisan Electricity is located;

(c) The date of the acquisition of the similar land use rights should be close to the date of the Transaction;

(d) The sale of the similar land use rights is conducted under normal conditions and no intervention of courts is involved; and

(e) The currency of the sale shall be denominated in RMB.

Note 2: The appraised value is determined with reference to the market price of the software, which is quoted from the supplier of the software.

Based on the above factor, as stated in the Jisan Electricity Asset Valuation Report, the valuation of 100% equity interest of Jisan Electricity as at 30 June 2020 based on the asset approach was RMB713,870,678.78, which was higher than the book value of the Jisan Electricity by approximately RMB133,096,000 or 22.92%.

(vii) Information Center

Financial items	Appraised value *RMB'000* *a*	Net book value under CAS *RMB'000* *b*	As at 30 June 2020 Variance between the net book value and appraised value *RMB'000* *c=a-b*	Reason for the increase /decrease in the appraised value
Trade and other receivables	59,411	59,448	(38)	The other receivables due from the independent third parties are very unlikely recoverable.
Machineries and equipment	73,893	67,598	6,295	The replacement cost decreased as a result of advance in technology, netting off the effect that the useful life adopted under the relevant accounting policy is shorter than that of the actual expected useful life of the machineries and equipment.
Intangible assets	5,079	2,391	2,688	The appraised value of the intangible assets did not take into account the amortization of the aforesaid assets.

	As at 30 June 2020			
Financial items	**Appraised value** *RMB'000* *a*	**Net book value under CAS** *RMB'000* *b*	**Variance between the net book value and appraised value** *RMB'000* *c=a-b*	**Reason for the increase /decrease in the appraised value**
Other non-current liabilities	343	1,371	(1,028)	The other non-current liabilities, representing the government grant received by the Target Assets, will no longer be repaid to the government authorities due to the completion of the project contemplated under the government grant. The appraised value represents the accrued enterprise income tax to be paid from the government grant.

Based on the above factor, as stated in the Information Center Asset Valuation Report, the valuation of the Target Assets of Information Center as at 30 June 2020 based on the asset approach was RMB119,796,238.31, which was higher than the book value of the Target Assets of Information Center by approximately RMB9,974,000 or 9.08%.

(e) Our view on the consideration of the Transaction

Based on the assessment on the valuation as stated above, in particular (a) the valuation methodology adopted by Pan-China; and (b) the reference of the appraised value and the criteria of the selection of the similar assets adopted for the Valuation, we consider that (i) the valuation of the Target Companies and Target Assets was performed on a justifiable basis; and (ii) the consideration under the Transaction Agreement determined based on the valuation is fair and reasonable and in the interests of the Company and Independent Shareholders as a whole.

2. Jinjitan Coal Mine Valuation Report

(a) The valuer

The Company has engaged BOYD to perform the valuation and prepare the Jinjitan Coal Mine Valuation Report for Jinjitan Coal Mine. BOYD is one of the largest independent consulting firms exclusively serving the coal, financial, utility, power and mineral related industries, and has been providing consultancy services since 1943 in over 60 countries.

To assess the qualification of BOYD to perform the valuation for the Jinjitan Coal Mine, we have reviewed the qualification of BOYD. BOYD confirms that (a) it is independent from the Company; (b) all relevant material information provided by the Company had been incorporated in the Asset Valuation Report; and (c) there were no other material relevant information or representations relating to the Target Companies and Target Assets provided or made by the Company to BOYD not having been included in the valuation.

We have also reviewed the scope of work of BOYD and noted that there is no limitation on the scope of work which might adversely impact on the degree of assurance in the Jinjitan Coal Mine Valuation Report.

Based on the above, we are of the view that the scope of work of BOYD is appropriate and BOYD is qualified and competent to perform the valuation of Jinjitan Coal Mine and prepare the Jinjitan Coal Mine Valuation Report.

(b) Valuation methodology adopted for Jinjitan Coal Mine

Application of income approach

Under the income approach, the appraisal value of Jinjitan Coal Mine represents the present worth of future economic benefits expected to be generated from the Jinjitan Coal Mine. BOYD has applied the discount cash flow method to estimate the net present value of the projected cash flow of the existing or planned mining operation of Jinjitan Coal Mine at a discount rate to calculate its appraisal value.

In our assessment of the income approach valuation, we have reviewed the following key quantitative assumptions in Jinjitan Coal Mine Valuation Report:

Forecasted revenue

The revenue of Jinjitan Coal Mine represented the revenue from the sales of coal, which is calculated by the annual output of product coal in tons multiplied by the forecasted unit selling price of coal per ton. We noted that BOYD has adopted (a) the average unit selling price of the coal of approximately RMB386 per ton and RMB392 per ton; and (b) the output of product coal of 14.09 million tons and 13.93 million tons the coal of Jinjitan Coal Mine during the forecast period.

We have reviewed:

(I) the average unit selling price of the coal of Jinjitan Coal Mine for twelve months ended 30 June 2020;

(II) the comparison between the unit selling price of the coal of Jinjitan Coal Mine and that of the coal of Shenmu Region for twelve months ended 30 June 2020;

(III) the reason for the increase of the unit selling price of coal of Jinjitan Coal Mine during the forecast period; and

(IV) the output of ROM coal and product coal as stated in the Jinjitan Coal Mine Valuation Report disclosed in appendix IV to this Circular.

We noted that:

(i) the output of product coal fell below the planned ROM coal;

(ii) the unit selling price of the coal of Jinjitan Coal Mine remained stable and fell within the range of the unit selling price for twelve months ended 30 June 2020;

(iii) the increase of unit selling price of the coal of Jinjitan Coal Mine from RMB386 per ton (VAT inclusive) to RMB392 per ton (VAT inclusive) during the forecasted period was due to the improvement of the quality of coal as a result of the technical upgrade of the processing of the coal; and

(iv) according to the research report, namely, 2020 interim research report on coal industry: Completion of supply-side structural reform, focus on reformation of the coal industry, and attention to the industry leader in the market (《煤炭行業2020年中期策略報告 — 供改收官，關注龍頭和轉型》), dated 2 July 2020 issued by Ping An Securities Company, Limited ("**Ping An Securities**"), a security firm established in the PRC, and with reference to the information extracted from the research department of Ping An Securities, database of BP, a British multinational oil and gas company, and Wind financial database, the market leader in China's financial information services industry, the price of the coal will increase in the future due to the expected increase in the demand on coal from overseas. As COVID-19 is expected to be under control worldwide and the vaccines of COVID-19 will be available in the future, the economy of the overseas countries is expected to recover and the consumption of coal is expected to increase.

Based on the above, we concur with BOYD that the forecasted revenue adopted in the Jinjitan Coal Mine Valuation Report is fair and reasonable.

Forecasted operating costs

The operating costs of Jinjitan Coal Mine mainly represented the cash cost of materials, salaries, repairs for the mining and non-cash cost of depreciation of equipment and amortization of mining right. We noted that the operating costs in the forecast period was forecasted with reference to the relevant historical cost of sales for three years ended 31 December 2019 and six months ended 30 June 2020.

We have reviewed:

(a) the historical financial statements of Shaanxi Future Energy; and

(b) the forecasted operating costs of coal per ton for four years ending 31 December 2024.

We noted that:

(i) the trend of the average cost of coal per ton in the forecast period is in line with the historical average unit price of the coal per ton during the three years ended 31 December 2019 and six months ended 30 June 2020; and

(ii) the operating costs during the forecast period are higher than that for the three years ended 31 December 2019 since (a) the amortization and depreciation of the equipment as mentioned under "Capital expenditure" of this section has been taken into account; and (b) the salaries of the employees are expected to increase. Save for the abovementioned operating costs, the details of other major operating costs, including amortization of mining right, cost of simple production maintenance, cost of safety production, cost of materials, cost of utilities, and cost of repairs, are similar to those for three years ended 31 December 2019;

In light of the above, we concur with BOYD that the forecasted operating costs adopted in the Jinjitan Coal Mine Valuation Report is fair and reasonable.

Capital expenditure of Jinjitan Coal Mine

We have discussed with BOYD and reviewed the capital expenditure projection of Jinjitan Coal Mine as follows:

(a) the relocation of village as a result of the exploitation of the coal mine is expected to be completed in 2021;

(b) the construction of the underground engineering project is expected to commence in 2021 and complete in 2022;

(c) the purchase of the electromechanical equipment will be purchased during the years between 2020 and 2022 for the purpose of the replacement of the existing equipment;

(d) the cost for the environmental protection as a result of the exploitation of the coal mine will incur in 2020;

(e) the construction of the fine coal processing system for the improvement of the quality of the coal will be completed in 2022;

(f) the continuous miner equipment will be purchased during the years between 2021 and 2022 for the purpose of the replacement of the existing equipment;

(g) the caving system will be purchased in 2023 for the purpose of the replacement of the existing equipment; and

(h) the aggregate capital expenditure was determined with reference to the cost for the construction of the projects or the purchase price of the equipment estimated by the management of Shaanxi Future Energy.

Based on the above, we consider that the capital expenditure is necessary for the further development of Jinjitan Coal Mine.

Adjustments on the discounted cash flow forecast made by BOYD

BOYD has made adjustments for the operating costs to reflect the amortization and depreciation for the projected capital expenditure since some capital expenditures were not included in the profit forecast prepared by the management of Shaanxi Future Energy. We have reviewed the capital expenditure and the calculation of amortization and depreciation and agreed with the adjustments made by BOYD.

Discount rate

In estimating the discount rate for the valuation of Jinjitan Coal Mine, BOYD has adopted the weighted average cost of capital ("**WACC**") to compute the cost of capital as the discount rate. We understand from BOYD that the discount rate of approximately 10.2% was adopted with reference to the following methodology:

- Cost of debt is determined by the following:
  - o Nominal risk-free rate is the yield on 10-year PRC government bonds.
  - o Borrowing spread is based on China's three-month interbank offered rate.
  - o Country risk premium is based upon excess 10-year credit default swap ("**CDS**") spreads of CDSs of the United States.
  - o Pre-tax cost of debt is calculated by adding the nominal risk-free rate, the borrowing spread, and the country risk premium.
  - o The tax rate is 25%.
- Cost of equity is determined by the following:
  - o Nominal risk-free rate is the yield on 10-year PRC government bonds.
  - o Equity risk premium is the level of risk-reward that equity investors in the stock market would require compensating them for the level of risk undertaken versus a risk-free rate. The figure is determined based on the market studies of A. Damodaran, Stern School of Business at New York University.
  - o Country risk premium is based upon excess 10-year credit default swap ("**CDS**") spreads of CDSs of the United States.
  - o Size premium, an additive factor to the cost of equity and refers to the excess return that an investor would require compensating them for the level of risk taken for a smaller sized or start-up company, is determined based on a range of data published by Duff & Phelps Global Industry Classification Standard.

- o Levered beta is the tax-effected unlevered beta, which is calculated from the peer group empirical study, multiplied by the optimal equity percentage.

- o Cost of equity is the sum of the nominal risk-free rate, the equity risk premium adjusted for the levered beta, the country risk premium, and the size premium.

- Implied WACC is nominal before considering the effects on the inflation.

- Real WACC adjusted the implied WACC by PRC inflation rate published in June 2020.

Assessment on the factors in determining the cost of equity

Our review on the comparable companies

Regarding the cost of equity, we have reviewed that the list of the eight comparable companies and noted that (i) these comparable companies are principally engaging in the production and sales of coal listed on the Shanghai Stock Exchange and the Stock Exchange; and (ii) the revenue of the comparable companies for the year ended 31 December 2019 are more than RMB3 billion, representing similar scales of business with similar business operation. As such, we concur with BOYD that the comparable companies selected by BOYD are fair and representative samples.

Our review on the specific data in determining the cost of equity

We have reviewed the specific data of the comparable companies and noted that:

(a) the levered beta is determined with reference to the daily stock return of each comparable company and the stock index during the period from 30 June 2010 to 29 June 2020;

(b) the unlevered beta of each comparable company is determined based on the debt ratio as at the balance sheet date of the latest published financial statements of each comparable company;

(c) the cost of equity is calculated based on the median of the unlevered beta of the comparable companies;

We have also assessed other factors in determining the cost of equity as follows:

(a) the equity risk premium, which is extracted from the market studies of A. Damodaran, Stern School of Business at New York University, is determined with reference to (i) the default risk of the PRC, which is estimated according to the local currency sovereign rating from the Moody's; and (ii) the estimated risk premium for the mature markets, which is estimated according to the implied premium for the S&P 500; and

(b) the size premium, which is extracted from the data published by Duff & Phelps Global Industry Classification Standard, is determined with reference to the variance of the average WACC and the lowest WACC among the metals and mining companies.

Based on the above, we consider that the cost of equity is fair and reasonable.

Other assessments on the valuation of Jinjitan Coal Mine

We noted that Crowe, the reporting accountant of the Company, has examined the calculations of the discounted future estimated cash flows on which the Jinjitan Coal Mine Valuation Report were based and is of the view that so far as the arithmetical accuracy of the calculations of the profit forecasts is concerned, the profit forecasts has been properly compiled in all material respects in accordance with the assumptions adopted by the Directors.

We have reviewed the procedures undertaken by the Directors in preparing the profit forecasts underlying in the Jinjitan Coal Mine Valuation Report. The Board has also confirmed that the profit forecasts underlying in Jinjitan Coal Mine Valuation Report had been made after due and careful enquiry.

Details of the report from Crowe and the report from the Board on the profit forecast of Jinjitan Coal Mine Valuation Report are set out in Appendix II and III to the announcement dated 30 September 2020.

Our view on the valuation performed by BOYD

Based on the factors above, we are of the view that the key quantitative assumptions adopted by BOYD in the valuation were fair and reasonable. Accordingly, we consider the calculation of net present value of the projected cash flow applied by BOYD is appropriate and the DCF methodology has been properly applied in the valuation.

As stated in the Jinjitan Coal Mine Valuation Report, the valuation of Jinjitan Coal Mine as at 30 June 2020 based on the income approach was approximately RMB22,072 million.

3. Conclusion

Based on the above and having considered that (i) the valuation methodologies have been properly adopted for each of the Target Companies, Target Assets, and Jinjitan Coal Mine; and (ii) the consideration for each the Target Companies, Target Assets, and Jinjitan Coal Mine was determined with reference to the valuation results of the Target Companies, Target Assets, and Jinjitan Coal Mine, we are of the view that the consideration under the Transaction Agreement is fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

D. Assessment on sufficiency of the working capital of the Group

As disclosed in the Letter from the Board to this Circular, with reference to the unaudited pro forma financial information of the Enlarged Group as at 30 June 2020 set out in Appendix III to the Circular, upon the completion of the Transaction and assuming that the Transaction was completed on 30 June 2020, the cash and bank balances, pledged term deposits and restricted cash would decrease from approximately RMB24,474 million to approximately RMB7,445 million and the net current liabilities would increase from approximately RMB11,155 million to approximately RMB31,497 million.

Notwithstanding the substantial reduction of the cash and bank balances upon the completion of the Transaction, the management of the Company is of the view that there is no material impact on the liquidity and working capital sufficiency of the Group due to the following reasons:

(a) the management of the Company anticipated that the Enlarged Group will generate positive cash flows from its operations after taking into account the benefits stated in the section headed "Principal factors and reasons considered – F. Reasons and benefits for the Transaction" in this letter; and

(b) the undrawn borrowings facilities of the Group of approximately RMB87.945 billion as at 30 June 2020 are available for immediate use, if necessary.

E. Assessment on the expected capital expenditures of the Group

As disclosed in the Letter from the Board to this Circular, it is expected that Shaanxi Future Energy and Lunan Chemical will incur significant capital expenditures, details of which have been set out in the section headed "XI. Financial impact of the Transaction – Expected significant capital expenditures" in the Letter from the Board to this Circular.

Shaanxi Future Energy and Lunan Chemical intend to use its internal resources and debt financing (bank loans etc.) to pay for the relevant capital expenditures. Save for the above, the Target Companies did not have any funding commitment for significant capital expenditures in the near future.

F. Reasons for and benefits of the Transaction

The Group is principally engaged in the business of mining, preparation, processing and sales of coal and coal chemicals. Having considered the following reasons of the Transaction, we are of the view that the Transaction is fair and reasonable, on normal commercial terms, and in the interests of the Company and its Shareholders as a whole:

1. Coal business

(a) Acquisition of Shaanxi Future Energy

(i) Increase in the gross profit margin of the Group

Shaanxi Future Energy is principally engaged in the production and sales of coal, paraffin, ammonium sulfate and other chemical products. As stated in the Letter from the Board, Shaanxi Future Energy fully controlled a coal mine, namely, Jinjitan Coal Mine.

As advised by the management of the Company, the raw coal from the mines of Shaanxi Future Energy is of low sulfur, low dust, and high energy density, which is in high demand in power generation industry in northwestern China. In addition, with the cost-effective mining techniques and advanced mining equipment, Shaanxi Future Energy is able to lower the cost of coal mining and achieve high gross profit margin in its coal business.

The following table sets forth the gross profit margin of the coal business of Shaanxi Future Energy for FY2018, FY2019, and 1H2020 as extracted from the audit report of Shaanxi Future Energy prepared under CAS:

	FY2018	**FY2019**	**1H2020**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)
Revenue generated from the coal business	4,156,035	5,254,013	2,799,002
Cost of sales of the coal business	(1,220,574)	(1,288,620)	(802,570)
Gross profit	2,935,461	3,965,393	1,996,432
Gross profit margin (%)	70.6	75.5	71.3

The following table sets forth the gross profit margin of the coal business of the Group for FY2018, FY2019, and 1H2020 as extracted from 2019 Annual Report and 2020 Interim Report of the Company:

	FY2018	**FY2019**	**1H2020**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Unaudited)
Revenue generated from the coal business	62,428,313	63,777,065	33,497,673
Cost of sales of the coal business	(36,177,841)	(40,176,591)	(24,632,046)
Gross profit	26,250,472	23,600,474	8,865,627
Gross profit margin (%)	42.0	37.0	26.5

As shown in the tables above, the gross profit margin of the coal business of Shaanxi Future Energy for FY2018, FY2019, and 1H2020 amounted to approximately 70.6%, 75.5%, and 71.3%, respectively, which are significantly higher than those of the Group for the respective years/period. In light of the above, we are of the view that, upon the completion of the Transaction, the gross profit margin of the coal business of the Group will be improved.

(ii) Enhancement of the coal production of the Group

As disclosed in the 2019 Annual Report of the Group, the raw coal production volume of the Group amounted to approximately 106,390 kilotons for FY2019. As stated in the valuation report of Shaanxi Future Energy, the expected annual raw coal production volume amounted to approximately 15,000 kilotons. Upon the completion of the Transaction, the raw coal production volume of the Group is expected to increase by approximately 14.1% of the Group. As such, we are of the view that the aggregate coal production of the Group will be enhanced upon the completion of the Transaction.

(iii) Conclusion

Notwithstanding:

(I) the substantial reduction of the cash and bank balances of the Group upon the completion of the acquisition of Shaanxi Future Energy;

(II) the expected capital expenditure to be incurred upon the completion of the acquisition of Shaanxi Future Energy will reduce the cash and bank balance of the Group; and

(III) the consideration of Shaanxi Future Energy is at 79% premium to its net asset value as at 30 June 2020,

we are of the view that the acquisition of Shaanxi Future Energy is fair and reasonable, having considered (i) the fair and reasonable consideration on the acquisition of Shaanxi Future Energy with reference to its Asset Valuation Report; (ii) the significant increase in the gross profit margin of the Group upon the completion of the Transaction as mentioned in this section above; and (iii) the enhancement of the coal production of the Group upon the completion of the Transaction as mentioned in this section above.

(b) Acquisition of Information Center

As advised by the management of the Company, Information Center is mainly engaged in monitoring the operation of the mines and providing complete and integrated information for the optimal resource management. The operating system of Information Center is deliberately designed for the coal mines controlled by the Group and Shaanxi Future Energy. As such, we are of the view that the acquisition of Information Center can enhance the operation of the coal business of the Group as a whole by allocating manpower and providing information on exploration and exploitation of its coal mines.

2. Coal chemicals business

(a) Acquisition of Fine Chemical

As advised by the management of the Company, Fine Chemical is mainly engaged in the manufacturing and sales of chemical products, including catalysts, which are specially designed for the production of chemical products by Shaanxi Future Energy. The production of above catalysts is kept on a strictly confidential basis and there is no substitution for the production of Shaanxi Future Energy in the market.

The following table sets forth the purchase amount of catalysts by Shaanxi Future Energy from Fine Chemical for FY2018, FY2019, and 1H2020:

	FY2018 *RMB'000*	**FY2019** *RMB'000*	**1H2020** *RMB'000*
Purchase of catalysts from Fine Chemical	167,778	192,539	75,045

As illustrated in the table above, Shaanxi Future Energy continued to purchase catalysts from Fine Chemical in the past. As such, considering that (a) the catalysts are specially designed for the production of Shaanxi Future Energy; and (b) there is no alternative catalyst for the production of Shaanxi Future Energy in the market, the acquisition of the Fine Chemical represented an upstream acquisition of business which may allow Shaanxi Future Energy to exercise full control over Fine Chemical to strengthen the supply chain of the coal chemical business of Shaanxi Future Energy.

(b) Acquisition of Lunan Chemical

As advised by the management of the Company, the customers of the Group have also requested for other chemical products, including acetic acid, for their production. Acetic acid is one of the basic components for the production of synthetic chemical products such as terephthalic acid.

We noted that the coal chemicals business of the Group is mainly engaged in the production and sales of methanol, while Lunan Chemical is mainly engaged in the manufacturing and sales of acetic acid.

In respect of the supply of acetic acid, as stated in the research report, namely, Weekly report of basic chemicals industry: Price of acetic acid kept rising recently (《近期醋酸市場價格持續上漲 — 基礎化工行業周報》), dated 20 July 2020 issued by Shengang Securities Co., Ltd. ("**Shengang Securities**"), a security firm established in the PRC, and with reference to the information extracted from the research department of Shengang Securities and BAIINFO (http://www.baiinfo.com/), a supplier of commodity market information in the PRC, the production capacity of acetic acid will not be increased in the short run as no new production plant for acetic acid has been designed and/or set up in recent years.

In relation to the demand for acetic acid, as stated in the research report, namely, Second report on petrochemical industry: Effect on the supply and demand of PX under the outbreak of COVID-19 in Japan and Korea and the market outlook of PX supply chain – report on petrochemical industry (《石化行業專題報告二：日韓疫情對PX的影響和產業鏈後市分析 — 石油石化行業專題報告》), dated 1 March 2020 issued by China Great Wall Securities Co., Ltd. ("**Great Wall Securities**"), a security firm established in the PRC, and with reference to the information extracted from the research department of Great Wall Securities and Sublime China Information (https://www.sci99.com/), a supplier of commodity market information in the PRC, the demand for acetic acid will be increased in the future as a result of the increase in the production capacity of terephthalic acid with the completion of an aggregate designed annual production capacity of approximately 20.7 million tons during the period from the second quarter of 2020 to 2022.

Based on the above, notwithstanding that:

(I) the consideration of the acquisition of Lunan Chemical is at 11.65% premium to its net assets value of RMB5.542 billion as at 30 June 2020; and

(II) Lunan Chemical was in loss position in 1H2020 as a result of the low production rate of the chemical products and the high fixed cost for the operation due to the temporary decrease in customers' demand caused by the outbreak of COVID-19 in the PRC,

taking into account:

(a) the demand on the acetic acid from the current customers of the Group;

(b) the excessive demand for the acetic acid in the market;

(c) the proven track record of the profitability of Lunan Chemical for three years ended 31 December 2019; and

(d) the recovery of the profitability of Lunan Chemical in the second half year of 2020 due to the significant increase in the purchase orders received by Lunan Chemical as a result of the resumption of commercial activities after the successful control on COVID-19 in the PRC,

we are of the view that the acquisition of Lunan Chemical would enable the Group to (i) fulfil its customers' needs; (ii) broaden its product line and provide more types of chemical products to the existing and potential customers; and (iii) improve the profitability of coal chemicals business of the Group.

(c) Acquisition of Trading Company

As advised by the management of the Company, Trading Company is mainly engaged in the production and sales of chemical products to Lunan Chemical, including methanol, the raw materials for the production of acetic acid as introduced under the paragraph "2. Coal chemicals business – (b) Acquisition of Lunan Chemical" of this section.

The following table sets forth the purchase amount of chemical products by Lunan Chemical from Trading Company for FY2018, FY2019, and 1H2020:

	FY2018	**FY2019**	**1H2020**
	RMB'000	*RMB'000*	*RMB'000*
Purchase of chemical products from Lunan Chemical	234,923	905,814	1,048,880

As illustrated in the table above, Lunan Chemical continued to purchase chemical products from Trading Company in the past. As such, considering the sufficient capacity of the methanol of Trading Company, the acquisition of the Trading Company represented an upstream acquisition of business which may allow Lunan Chemical to exercise full control over Trading Company to strengthen the supply chain of the coal chemical business of Lunan Chemical.

3. Mechanical and electrical equipment manufacturing business

(a) Acquisition of Chemical Equipment

The Group is also engaged in the manufacturing, sales, leasing, repair and maintenance of mechanical and electrical equipment including mine mechanical and electric equipment. In 1H2020, the sales income from the electrical and mechanical equipment manufacturing business amounted to approximately RMB85.1 million, representing approximately 0.2% of total revenue of the Group for 1H2020. Having considered the following reasons, we are of the view that the acquisition of Chemical Equipment is in the interests of the Company and its Shareholders as a whole:

(i) Further development on the chemical industry encouraged by Shandong Province, the PRC

Pursuant to the Overall Plan on the Reform of Production Capacity of Shandong Province （《山東新舊動能轉換綜合試驗區建設總體方案》） (the "**Overall Plan**") issued by the government of Shandong Province in January 2018, the outdated production capacity of Shandong Province must be substantially eliminated in 2020 and the industrial upgrading should be considerably completed in 2022. Regarding the chemical industry, the conversion of coal chemical industry from the conventional, high-energy consuming, and polluting to low-energy consuming and environmental-friendly is highly encouraged.

(ii) Improvement of the mechanical and electrical equipment manufacturing business of the Group

In view of (a) the requirement that the industrial upgrading should be considerably completed in 2022 as mentioned in the Overall Plan; and (b) the fact that Chemical Equipment has been qualified for the manufacturing of pressure vessels and boilers, being one of the essential conversion process in coal chemical industry, Chemical Equipment is expected to secure more business relating to the provision of facilities upgrading services to the existing and potential customers in the near future. Considering (i) the track record of Chemical Equipment; (ii) the demand to upgrade the facilities in the market as a result of the announcement of the Overall Plan; (iii) the qualification for the manufacturing of pressure vessels and boilers, we are of the view that the acquisition of Chemical Equipment will help the Group to improve the market shares in and the profitability of its mechanical and electrical equipment manufacturing business.

4. Power generation and heat business

(a) Acquisition of Jisan Electricity

As disclosed in the 2019 Annual Report of the Group, the Group owns and operates seven power plants in the PRC with a total installed capacity of approximately 482MW. As stated in the valuation report of Jisan Electricity, Jisan Electricity owns and operates power plants with a total installed capacity of approximately 270MW. Upon the Completion of the Transaction, the total installed capacity of the Group is expected to increase by approximately 56.0%. As such, we are of the view that the aggregate installed capacity of the Group will be enhanced upon the completion of the Transaction.

5. Improvement of overall profitability of the Group

We noted that the aggregate revenue of the Target Groups and Target Assets for 1H2020 represented approximately 29.7% of the total revenue of the Group for the said period, whereas the profit after taxation of the Target Groups and Target Assets for 1H2020 represented approximately 16.7% of that of the Group for the said period. Considering the above, we are of the view that the Transaction will improve the profitability of the Group.

6. Conclusion

Based on the above, considering (a) the expansion of the product line of the Group; (b) the enhanced aggregate installed capacity; (c) the improvement of the business and profitability of the Group; (d) that the upstream vertical integration of business would safeguard the smooth operation of the Group upon the completion of the Transaction; and (e) fair and reasonable consideration of the Transaction as illustrated under the paragraph headed "C. Assessment on the Asset Valuation Reports, the Jinjitan Coal Mine Valuation Report, and the consideration of the Transaction" in this letter, we are of the view that the Transaction is in the interests of the Company and its Shareholders as a whole.

G. Financial impact of the Transaction to the Group

1. Assets and liabilities

With reference to the unaudited pro forma financial information of the Enlarged Group as at 30 June 2020 set out in Appendix III to the Circular, upon the completion of the Transaction and assuming that the Transaction was completed on 30 June 2020, the total assets of the Group would have increased from approximately RMB219,703.0 million to approximately RMB243,259.1 million on a pro forma basis. The total liabilities of the Group would have increased from approximately RMB135,553.3 million to approximately RMB152,288.2 million on a pro forma basis. The net assets of the Group would have increased from approximately RMB84,149.7 million to approximately RMB90,970.9 million on a pro forma basis.

2. Profit

Upon the completion of the Transaction, the financial results of the Target Group will be consolidated into the Group. Based on the track record of the Target Group, the Company expected that the Target Group would contribute positively to the to the Group's financial performance upon the completion of the Transaction.

It should be noted that the analyses above are for illustrative purpose only and do not purport to represent how the financial positions and performance of the Group will be after the entering into of the Transaction Agreement. Having considered (a) the reasons for and the benefits of entering into the Transaction Agreement, details of which are set out under the section headed ''D. Reasons for and benefits of the Transaction'' of this letter; and (b) positive impact on earnings, we consider that the Transaction Agreement and the Transaction are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (a) the terms of the Transaction Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole; and (b) while the Transaction is not in the ordinary and usual course of business, the Transaction is on normal commercial terms or better to the Group.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favor of the resolution(s) to be proposed at the EGM to approve the Transaction Agreement and the Transaction and we recommend the Independent Shareholders to vote in favor of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Donvex Capital Limited
Doris Sy
Director

Ms. Doris Sy is a person licensed to carry out type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance and is a responsible office of Donvex Capital Limited who has around 18 years of experience in corporate finance advisory.

1. THREE-YEAR FINANCIAL INFORMATION OF THE GROUP

The Company is required to set out in this circular the information for the last three financial years with respect to the profits and losses, financial record and position, set out as a comparative table and the latest published audited balance sheet together with the notes on the annual accounts for the last financial year for the Group.

The audited consolidated financial statements of the Group for the years ended 31 December 2019, 2018 and 2017 together with the accompanying notes to the financial statements of the Company, can be found on pages 161 to 311 of the annual report of the Company for the year ended 31 December 2019, pages 161 to 331 of the annual report of the Company for the year ended 31 December 2018 and 148 to 287 of the annual report of the Company for the year ended 31 December 2017. Please see below the hyperlinks to the aforesaid documents:

Annual report for the year ended 31 December 2019:
https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0422/2020042201328.pdf

Annual report for the year ended 31 December 2018:
https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0329/ltn201903292452.pdf

Annual report for the year ended 31 December 2017:
https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0403/ltn201804031358.pdf

The unaudited consolidated financial statements of the Group for the six months ended 30 June 2020 together with the accompanying notes to the financial statements, can be found on pages 104 to 141 of the interim report of the Company for the six months ended 30 June 2020. Please see below the hyperlink to the aforesaid document:

Interim report for the six months ended 30 June 2020:
https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0828/2020082801212.pdf

2. STATEMENT OF INDEBTEDNESS OF THE ENLARGED GROUP

At the close of business on 30 September 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to the date of this circular, the bank and other borrowings of the Enlarged Group comprise the following:

	RMB'000
Unsecured borrowing	49,107,444
Secured borrowing	13,492,541
Guaranteed notes	14,218,731
Debentures	385,620
Lease liabilities	976,623
	78,180,959

The secured loans were secured by the Enlarged Group's bank deposits and other assets.

Contingent liabilities

As at 30 September 2020, the Enlarged Group has provided guarantees with respect to the performance and operation of the Group, joint operations and related parties amounting to RMB4,469 million.

The Group's subsidiary has issued a letter of support dated 27 February 2015 to Middlemount, a joint venture confirming that:

– It will not demand the repayment of any loan due from Middlemount, except to the extent that Middlemount agrees otherwise or as otherwise provided in the loan agreement; and

– It will provide financial support to Middlemount to enable it to meet its debts as and when they become due and payable, by way of new shareholder loans in proportion to its share of the net assets of Middlemount.

This letter of support will remain in force whilst the Group's subsidiary is a shareholder of Middlemount or until notice of not less than 12 months is provided or such shorter period as agreed by Middlemount.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as of 30 September 2020, the Enlarged Group did not have any other debt securities issued and outstanding, or authorised or otherwise created but unissued, loans or term loans (secured, unsecured, guaranteed or otherwise), other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, guarantees or other material contingent liabilities.

3. SUFFICIENCY OF WORKING CAPITAL

Taking into account the present internal resources and the available credit facilities of the Enlarged Group, and considering the effect of the Transaction, the Directors, after due and careful enquiry, are of the opinion that the Enlarged Group will have sufficient working capital to satisfy its present requirements, for the next 12 months from the date of this circular.

4. BUSINESS TREND AND FINANCIAL PROSPECTS OF THE GROUP

In the second half of 2020, affected by the International public health event, uncertainties and destabilizing factors in economic and social development have increased significantly, while the macroeconomic situation remained complex and challenging. The State continues to enhance the inspection on safe mining production, ecological and environmental protection governance and other policies regulation, which brings far-reaching impact on coal industry. In the second half of the year, actively seizing strategic opportunities such as the transformation from old into new driving forces, the joint and restructuring of Yankuang Group and Shandong Energy Group, the Group will continuously optimize the industrial structure and regional layout, tap potentials to improve efficiency, accelerate reform and innovation, turn challenges into opportunities and potential advantages into actual productivity, and promote a leap in development of enterprises.

(a) Grasp the development opportunities and improve the competitive strength

Focusing on the main industrial segment of coal business and related upstream and downstream industries, the Company will implement regional distribution and industrial extension, and enhance the sustainability of enterprise's development. For target enterprises with high degree of marketization, great profitability potentials and prominent synergy effect, the Company will resolutely carry out mergers and reorganizations, raise the concentration ratio and the efficiency of resources allocation, and enhance the core competitiveness of the enterprise.

(b) Optimize production organization to ensure stable production volume and increase efficiency

The Company will give coal industry prominence to the development of safety and efficiency, and full play to its role of benefit support. The Company will scientifically organize the continuities of production in local mines, promote the constant operation of intelligent working faces, and maximize steady mining and high efficiency. For coal mines in Inner Mongolia, the Company will comprehensively complete the procedure settlements, release the increment potential to the maximum extent, so as to increase the output and raise the efficiency. For Australian mines, the Company will fully release the advantageous production capacity, reduce the inefficient production capacity steadily, and enhance the operation quality and the economic efficiency continuously. For coal chemical industries, the Company will concentrate on high-end fine products, strengthen production and operation management, promote the coordination and integration of Phase I and II projects between Rongxin Chemical and Yulin Methanol Plant, to ensure stable and high yield in the first phase and high production and performance in the second phase.

(c) Deepen lean management, tap potential, decrease costs and increase profits

The Company will adhere to cost-winning, co-ordinate "volume-cost-benefit", implement product cost reduction, management cost reduction, procurement inventory reduction, and promote cost reduction in a systematic and accurate manner. Cost reduction: Strengthen lean management of the whole life cycle of costs, expand the cost control from production activities to investment, procurement and other aspects of operation management through comprehensive budget management and benchmarking management. Expenses reduction: The Company will take measures such as decreasing stock of interest-bearing liabilities, replacing high interest rates with low interest rates and others to reduce leverage and reduce debt actively. The Company will also work hard to reduce administrative expenses, sales expenses and non-productive expenses, and resolutely put an end to expenditures exceeding standards and budgets. Inventory reduction: the Company will strengthen the management of transfer and use of materials, step up the efforts to conduct a checkup of warehouses and make a better use of the stored goods, repair the old and utilize the wastes, and liquidize the remnant assets.

(d) Optimize the product structure, increase quality and improve efficiency

The Company will prioritize benefits, optimize product structure, explore market potentials, improve the overall quality and level of marketing work. The Company will carry out refinement upgrading of products, implement the strategy of "Winning with clean coal", thus increasing the added value of products and profitability. The Company will implement customized production, according to the "fixed coal mine, fixed variety, fixed quantity, fixed time" model to organize production, to meet the needs of different customers for products. The Company will also grasp the market demand, subdivide of product types, focus on areas with high market prices, low logistics costs and good sales returns when selling products. The Company will transform from high-carbon energy to low-carbon energy, coal to anthracite, black coal to green coal. The Group will carry out product-cleaning transformation, explore new ways for the clean and efficient use of coal, accelerate the extension and expansion of the industrial chain, vigorously promote the conversion of low-end fuel to high-end raw materials.

(e) Stimulate synergy and improve the quality of development.

The Company will improve the corporate governance of the controlled company continuously, make the model of the listed company in standard operation. The Company will intensify its efforts to implement the big data project, and create a digital, sharing and wise Yanzhou Coal Mining Company, to upgrade the mechanism of operation, management and risk management, adhere to the principle of market mechanism supplemented by administrative management, fully implement the construction of complete marketization and realize the complete link between internal operation factors and external market factors. The Company will carry forward the reform of "double-hundred enterprises" in depth, explore and establish a professional manager system, promote the tenure system and contractual reformation vigorously, and fully stimulate the internal impetus of the enterprise.

5. POSSIBLE RISKS OF THE GROUP

Risks arising from safety management

The three main business sectors of the Company, namely coal mining, coal chemicals and power generation, are all of high hazardous nature and of complex uncertainties, thus the risk of safety management can easily arise.

Counter measures: The Company will improve the safety management and control system, implement hierarchical management and undertake control responsibilities, and promote professional and regional coordinated management in an orderly manner. The Company will promote innovative development through the integration of information, intelligence, automation, and implement intelligent upgrading of production systems of coal mining and roadway development, etc. The Company will make special efforts to address potential safety hazards, focus on safety technology evaluation, step up formulation, review, supervision and acceptance of rectification plans. The Company will also strengthen accountability in safety assessment and step up investigation and punishment of accidents and accountability.

Risks arising from exchange rate

As an international company, the Company's overseas financing, overseas investment, international trade and other business are all affected by exchange rate fluctuations, which bring many uncertainties on the Group's operating results and strategic development.

Counter measures: The Company will strengthen research and forecast on the trend of the exchange rate, and use a variety of financial instruments to reduce the risk of exchange rate fluctuations. According to the trend of the exchange rate of the trading currency, the Company will establish appropriate hedging clauses in the trading contract. The Company will also flexibly use foreign exchange derivatives, enter into forward foreign exchange transaction contracts, and lock the exchange rate fluctuations.

Risks arising from creditability

Due to the slowdown of domestic economic growth, some partners of the Group have insufficient working fund, solvency decline, etc. This brings certain impacts on the collection of receivables to the Group.

Counter measures: The Company will strengthen access management for clients, carry out prior due diligence, and prudently grant credit quotas based on the nature, scale, credit qualifications and other conditions of the partners. The Company will monitor the situation of credit granting business dynamically, strictly implement the credit line and credit term constraint mechanism. In case of credit risks, the response mechanism shall be activated timely, and the rights and interests of the group shall be protected by legal means if necessary.

Risks arising from geopolitics

The Group's business spans across different regions and countries, and overseas business will be affected by policies, economic and international relationship changes and other factors of the local governments. In the event of any material adverse changes in these factors, the Group's business, financial position and operating performance may be adversely affected.

Counter measures: First, the Company will pay close attention to international developments, strengthen the analysis of political, economic and other development situations where its business is located, identify and predict geopolitical risks that may be faced by overseas businesses in a timely manner, and formulate countermeasures. Second, the Company will continue to adhere to its localization strategy, abide by local laws and regulations, actively integrate into local economic and social development.

A. ACCOUNTANTS' REPORT ON SHAANXI FUTURE ENERGY GROUP

The following is the text of a report for the sole purpose of inclusion in this circular, from the independent reporting accountants, Crowe (HK) CPA Limited, Certified Public Accountants, Hong Kong.

Crowe

國富浩華（香港）會計師事務所有限公司
Crowe (HK) CPA Limited
香港 銅鑼灣 禮頓道77號 禮頓中心9樓
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Causeway Bay, Hong Kong

The Directors
Yanzhou Coal Mining Company Limited

We report on the historical financial information of Shaanxi Future Energy & Chemicals Co., Ltd. (the "Target Company") and its subsidiaries (hereinafter collectively referred to as the "Target Group") set out on pages II-A-4 to II-A-72, which comprises the consolidated statements of financial position of the Target Group and the statements of financial position of the Target Company as at 31 December 2017, 2018 and 2019 and 30 June 2020, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Target Group for each of the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (the "Historical Financial Information"). This Historical Financial Information set out on pages II-A-4 to II-A-72 forms an integral part of this report, which has been prepared for for inclusion in the circular of Yanzhou Coal Mining Company Limited (the "Company") dated 16 November 2020 (the "Circular") in connection with the proposed acquisition of 49.315% equity interest in the Target Company by the Company.

DIRECTORS' RESPONSIBILITIES FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 3 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANT'S RESPONSIBILITY

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

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 3 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, true and fair view of the financial position of the Target Company and the consolidated financial position of the Target Company as at 31 December 2017, 2018 and 2019 and 30 June 2020 and of its consolidated financial performance and its consolidated cash flows for the Relevant Periods in accordance with the basis of the preparation set out in note 3 to the Historical Financial Information.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information of the Target Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2019 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in note 3 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in note 3 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE MAIN BOARD OF THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

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

Dividends

We refer to note 11 to the Historical Financial Information which states that dividends have been declared and paid by the Target Company in respect of the Relevant Periods.

Crowe (HK) CPA Limited
Certified Public Accountants

Chung Wai Chuen Alfred
Practising Certificate Number: P05444

Hong Kong
16 November 2020

I. HISTORICAL FINANCIAL INFORMATION OF SHAANXI FUTURE ENERGY & CHEMICALS CO., LTD.

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with accounting policies which conform with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "IASB") (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

(A) CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Revenue	*4*	6,519,141	6,564,897	8,751,970	4,032,867	4,156,146
Cost of sales		(3,876,637)	(4,362,666)	(5,337,437)	(2,433,850)	(2,686,002)
Gross profit		2,642,504	2,202,231	3,414,533	1,599,017	1,470,144
Other income	*5*	93,706	70,111	90,895	40,552	24,012
Research and development expenses		(8,186)	(12,049)	(80,153)	(55,339)	(3,405)
Selling and distribution expenses		(27,863)	(23,771)	(25,152)	(12,547)	(11,683)
General and administrative expenses		(242,113)	(169,219)	(178,283)	(67,570)	(78,437)
Profit from operations		2,458,048	2,067,303	3,221,840	1,504,113	1,400,631
Finance costs	*6*	(477,154)	(455,184)	(400,369)	(206,331)	(172,760)
Profit before income tax	*7*	1,980,894	1,612,119	2,821,471	1,297,782	1,227,871
Income tax expense	*8*	(299,979)	(241,164)	(435,237)	(196,831)	(168,290)
Profit and total comprehensive income for the year/period		1,680,915	1,370,955	2,386,234	1,100,951	1,059,581
Total comprehensive income for the year/period attributable to:						
Owners of the Target Company		1,680,915	1,370,955	2,386,186	1,100,951	1,059,563
Non-controlling interests		–	–	48	–	18
		1,680,915	1,370,955	2,386,234	1,100,951	1,059,581

(B) Consolidated statements of financial position

		As at 31 December			As at 30 June
		2017	2018	2019	2020
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	*12*	14,025,763	14,251,785	14,411,823	14,176,227
Investment properties	*13*	17,960	17,583	17,206	17,018
Intangible assets	*14*	2,880,098	2,854,396	2,687,357	2,663,570
Investments in securities	*15*	80,000	168,000	298,530	298,530
Right-of-use assets	*16*	–	–	32,142	–
Prepayments for property, plant and equipment and intangible assets	*19*	45,415	292,345	309,051	535,913
Deferred tax assets	*27*	–	–	526	782
		17,049,236	17,584,109	17,756,635	17,692,040
Current assets					
Inventories	*17*	242,636	204,912	252,922	405,800
Trade and bills receivables	*18*	2,424,740	406,997	59,401	94,623
Prepayments and other receivables	*19*	1,756,471	1,699,709	595,076	825,679
Cash and cash equivalents	*20*	541,304	614,772	1,342,667	1,849,182
		4,965,151	2,926,390	2,250,066	3,175,284
Deduct:					
Current liabilities					
Trade and bills payables	*21*	1,868,495	1,590,322	1,414,439	1,522,180
Contract liabilities	*22*	–	98,727	95,208	185,813
Accruals and other payables	*23*	1,263,133	510,288	424,885	425,966
Bank loans	*24*	2,600,000	1,640,000	1,601,200	1,000,000
Provisions for land subsidence, restoration, rehabilitation and environment costs	*25*	–	47,148	181,523	251,286
Obligations in relation to early retirement scheme	*26*	1,506	3,402	4,576	5,069
Lease liabilities	*16*	–	–	68,292	–
Tax payable		62,406	339	2,643	123,850
		5,795,540	3,890,226	3,792,766	3,514,164
Net current liabilities		(830,389)	(963,836)	(1,542,700)	(338,880)
Total assets less current liabilities		16,218,847	16,620,273	16,213,935	17,353,160

		As at 31 December			As at 30 June
		2017	2018	2019	2020
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current liabilities					
Other payables	*23*	58,365	63,329	–	–
Obligations in relation to early retirement scheme	*26*	6,242	11,119	15,125	14,774
Bank loans	*24*	6,930,000	5,960,000	4,898,800	4,998,800
Deferred tax liabilities	*27*	105,783	96,413	105,664	85,659
		7,100,390	6,130,861	5,019,589	5,099,233
Net assets		9,118,457	10,489,412	11,194,346	12,253,927
Representing:					
Registered capital	*28*	5,400,000	5,400,000	5,400,000	5,400,000
Reserves	*29*	3,718,457	5,089,412	5,779,598	6,839,161
		9,118,457	10,489,412	11,179,598	12,239,161
Non-controlling interests	*30*	–	–	14,748	14,766
Total equity		9,118,457	10,489,412	11,194,346	12,253,927

(C) Statement of financial position of the Target Company

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	14,025,357	14,251,433	14,403,900	14,148,496
Investment properties	17,960	17,583	22,776	22,530
Intangible assets	2,880,098	2,854,396	2,681,787	2,658,057
Investment in securities	80,000	168,000	298,530	298,530
Investments in subsidiaries	50,000	50,000	65,300	65,300
Right-of-use assets	–	–	32,142	–
Prepayments for property, plant and equipment and intangible assets	45,415	292,345	296,751	525,188
	17,098,830	17,633,757	17,801,186	17,718,101
Current assets				
Inventories	222,975	200,517	252,298	405,281
Trade and bills receivables	2,420,780	414,122	46,600	209,846
Prepayments and other receivables	1,752,546	1,701,180	594,473	725,137
Cash and cash equivalents	536,273	519,552	1,259,277	1,691,088
	4,932,574	2,835,371	2,152,648	3,031,352
Deduct:				
Current liabilities				
Trade and bills payables	1,867,663	1,589,916	1,406,193	1,508,995
Contract liabilities	–	74,285	86,960	129,119
Accruals and other payables	1,542,361	503,937	405,887	415,779
Lease liabilities	–	–	68,292	–
Bank loans, secured	2,350,000	1,640,000	1,601,200	1,000,000
Provisions for land subsidence restoration, rehabilitation and environment cost	–	47,148	181,523	251,286
Obligations in relation to early retirement scheme	1,506	3,402	4,201	4,486
Tax payable	60,706	–	16,980	122,570
	5,822,236	3,858,688	3,771,236	3,432,235
Net current liabilities	(889,662)	(1,023,317)	(1,618,588)	(400,883)
Total assets less current liabilities	16,209,168	16,610,440	16,182,598	17,317,218

		As at 31 December			As at 30 June
		2017	2018	2019	2020
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current liabilities					
Other payables		58,365	63,329	–	–
Obligations in relation to early retirement scheme		6,242	11,119	13,396	12,180
Bank loans, secured		6,930,000	5,960,000	4,898,800	4,998,800
Deferred tax liabilities		105,783	96,413	105,672	85,691
		7,100,390	6,130,861	5,017,868	5,096,671
Net assets		9,108,778	10,479,579	11,164,730	12,220,547
Representing:					
Registered capital	*28*	5,400,000	5,400,000	5,400,000	5,400,000
Reserves	*29*	3,708,778	5,079,579	5,764,730	6,820,547
Total equity		9,108,778	10,479,579	11,164,730	12,220,547

(D) Consolidated statements of changes in equity

	Registered capital	Statutory reserve	Retained earnings	Non-controlling interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1.1.2017	5,400,000	177,934	1,859,608	–	7,437,542
Profit and total comprehensive income for the year	–	–	1,680,915	–	1,680,915
Appropriation	–	141,965	(141,965)	–	–
At 31.12.2017 and 1.1.2018	5,400,000	319,899	3,398,558	–	9,118,457
Profit and total comprehensive income for the year	–	–	1,370,955	–	1,370,955
Appropriation	–	131,105	(131,105)	–	–
At 31.12.2018 and 1.1.2019	5,400,000	451,004	4,638,408	–	10,489,412
Profit and total comprehensive income for the year	–	–	2,386,186	48	2,386,234
Dividend declared – note 11	–	–	(1,696,000)	–	(1,696,000)
Appropriation	–	224,019	(224,019)	–	–
Capital contribution by non-controlling interests	–	–	–	14,700	14,700
At 31.12.2019 and 1.1.2020	5,400,000	675,023	5,104,575	14,748	11,194,346
Profit and total comprehensive income for the period	–	–	1,059,563	18	1,059,581
At 30.6.2020	**5,400,000**	**675,023**	**6,164,138**	**14,766**	**12,253,927**
(Unaudited)					
At 1.1.2019	5,400,000	451,004	4,638,408	–	10,489,412
Profit and total comprehensive income for the period	–	–	1,100,951	–	1,100,951
Capital contribution by non-controlling interests	–	–	–	14,700	14,700
At 30.6.2019	5,400,000	451,004	5,739,359	14,700	11,605,063

(E) Consolidated statements of cash flows

	Note	Year ended 31 December 2017 RMB'000	2018 RMB'000	2019 RMB'000	Six months ended 30 June 2019 RMB'000 (unaudited)	2020 RMB'000
Cash flows from operating activities						
Profit before income tax		1,980,894	1,612,119	2,821,471	1,297,782	1,227,871
Adjustments for:						
Amortisation		152,787	160,944	177,162	82,243	94,519
Depreciation		741,761	775,596	873,367	425,051	457,367
Depreciation of right-of-use assets		–	–	4,945	2,472	2,472
Loss on disposal of property, plant and equipment		–	–	–	–	112
Interest on lease liabilities		41,875	17,876	4,392	2,196	2,190
Bank interest income		(12,703)	(4,781)	(15,305)	(5,148)	(9,103)
Interest received from entrusted loan to parent and ultimate controlling company		(73,895)	(60,321)	(53,905)	(30,078)	(12,035)
Interest expense		435,186	437,172	361,769	187,000	150,597
Operating profit before working capital changes		3,265,905	2,938,605	4,173,896	1,961,518	1,913,990
Changes in working capital:						
Inventories		(90,171)	37,724	(48,010)	(85,496)	(152,878)
Trade and bills receivables		(2,402,988)	2,017,743	347,596	(191,270)	(35,222)
Prepayments and other receivables		245,456	56,762	1,104,633	1,034,849	(230,603)
Trade payables		60,528	(278,173)	(175,883)	(192,589)	107,741
Contract liabilities		–	98,727	(3,519)	(98,351)	90,605
Accruals and other payables		(519,726)	(2,246,779)	(1,149,320)	(536,569)	(59,860)
Cash generated from operations		559,004	2,624,609	4,249,393	1,892,092	1,633,773
Interest received		12,703	4,781	15,305	1,089	9,103
Income tax paid		(265,492)	(312,602)	(424,208)	(201,026)	(67,344)
Net cash generated from operating activities		306,215	2,316,788	3,840,490	1,692,155	1,575,532
Cash flows from investing activities						
Interest income		78,328	63,940	57,139	31,754	6,524
Proceed from disposal of property, plant and equipment		–	–	–	–	192
Repayment from holding company		900,000	–	800,000	–	–

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Refund of deposits		411,353	–	–	–	–
Increase in investment in securities		(40,000)	(88,000)	(130,530)	–	–
Loan to a third party		–	–	–	–	(80,000)
Loan to a related party		(500,000)	–	–	–	(60,000)
Deposits for purchase of property, plant and equipment		–	–	–	–	(8,876)
Increase in restricted cash		–	(111,387)	(67,734)	–	(3,091)
Payments for acquisition of property, plant and equipment		(848,143)	(1,091,662)	(930,754)	(78,371)	(497,605)
Net cash from/(used in) investing activities		1,538	(1,227,109)	(271,879)	(46,617)	(642,856)
Cash flows from financing activities						
Proceeds from new bank loans		5,575,600	1,170,000	540,000	540,000	300,000
Proceeds from discounted bill receivable		247,396	1,391,882	–	–	–
Repayment of bank loans		(4,840,600)	(3,100,000)	(1,640,000)	(970,000)	(801,200)
Contribution by non-controlling interests		–	–	14,700	14,700	–
Refund of finance lease deposits		–	–	10,000	–	–
Dividend paid		–	–	(1,696,000)	–	–
Payment on finance lease		(686,002)	(345,846)	–	–	(70,767)
Interest paid		(438,481)	(426,358)	(362,531)	(187,000)	(153,016)
Net cash used in financing activities		(142,087)	(1,310,322)	(3,133,831)	(602,300)	(724,983)
Net increase/(decrease) in cash and cash equivalents		165,666	(220,643)	434,780	1,043,238	207,693
Cash and cash equivalents at the beginning of the year/period		354,406	520,072	299,429	299,429	734,209
Cash and cash equivalents at the end of the year/period	*20*	520,072	299,429	734,209	1,342,667	941,902

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Shaanxi Future Energy & Chemicals Co., Ltd. (the "Target Company") is a limited liability company established in the People's Republic of China (the "PRC"). The registered address of the Target Company is located at North District of Yuheng Coal Chemical Industrial Park, Qianhe Town, Yuyang District, Yulin City, Shaanxi Province.

The principal activity of the Target Company is the production and sales of chemical products, oil and coal. The Target Company and its subsidiaries (the "Target Group") are principally engaged in production of chemical raw materials. There has been no significant change in the Target Group's principal activities during the Relevant Periods.

In the opinion of directors of the Target Company (the "Directors"), as of the date of this report, the parent and ultimate controlling company of the Target Company is Yankuang Group Company Limited, a company established in the PRC and wholly owned by the State-owned Assets Supervision and Administration Commission of the People's Government of Shandong Province of the PRC.

2. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following IFRSs in issue at 30 June 2020 have not been applied in the preparation of these consolidated financial statements since they were not yet effective for the annual period beginning on 1 January 2020:

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 16	Covid-19 – Related Rent Concession[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current[1]
Amendments to IAS 16	Proceeds before Intended[4]
Amendments to IAS 37	Cost of Fulfilling a Contract[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[4]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Annual Improvements to IFRSs	2018 – 2020 Cycle[4]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 June 2020
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"), which comprise all standards and interpretations approved by the IASB. The Historical Financial Information has been prepared under the historical costs convention except for certain financial instruments, which are stated at fair value.

3.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Target Group

A number of new and amended standards became applicable for the reporting period commencing on 1 January 2017, 2018, 2019 and 2020. The Target Group had to change its accounting policies and make modified retrospective adjustments as a result of adopting the following standards:

		Effective for annual periods beginning on or after
Amendments to IFRS 12	Annual improvements 2014-2016 cycle	1 January 2017
Amendments to IAS 7	Disclosure initiative	1 January 2017
Amendments to IAS 12	Recognition of deferred tax assets for unrealized losses	1 January 2017
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contract with Customers	1 January 2018
Amendments to IFRS 1 and IAS 28	Annual improvements 2014-2016 cycle	1 January 2018
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
Amendments to IFRS 4	Applying IFRS 9 financial instruments with IFRS 4 insurance contracts	1 January 2018
Amendments to IFRS 15	Clarifications to IFRS 15	1 January 2018
Amendments to IAS 40	Transfers to investment property	1 January 2018
IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018
IFRS 16	Leases	1 January 2019
Amendments to Annual Improvements Project	Annual improvements 2015-2017 cycle	1 January 2019
Amendments to IFRS 9	Prepayment features with negative compensation	1 January 2019
Amendments to IAS 19	Plan amendment, curtailment or settlement	1 January 2019
Amendments to IAS 28	Long-term interests in associates and joint ventures	1 January 2019
IFRIC 23	Uncertainty over income tax treatments	1 January 2019
Amendments to IFRS 3 (Revised)	Definition of a business	1 January 2020
Amendments to IAS 1 (Revised) and IAS 8	Definition of material	1 January 2020
Amendments to IAS 39, IFRS 7 and IFRS 9	Interest rate benchmark reform	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting	1 January 2020

The Target Group has assessed the impact of adopting these new standards and amendments. According to the preliminary assessment, these standards are not expected to have a material impact on the Target Group's operating results and financial position.

3.1.2 Changes in accounting policy and disclosures

This note explains the impact of the adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" on the Target Group's Historical Financial Information since 1 January 2018, as well as the impact of adoption of IFRS 16 "Leases" since 1 January 2019.

(i) IFRS 9 "Financial Instruments"

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Target Group has applied IFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 January 2018) in accordance with the transition provisions under IFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets and financial liabilities on initial application are recognised in retained earnings and other components of equity as at 1 January 2018.

The Target Group's accounting policies for the classification and measurement of financial instruments and the impairment of financial assets are disclosed in detail in note 3.18 below.

Classification and measurement of financial instruments

The Directors reviewed and assessed its existing financial assets and liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on its financial assets and liabilities as regards their classification and measurement:

(a) Unlisted equity investments previously classified as available-for-sale investments at cost less impairment

For available-for-sale equity investments amounting to approximately RMB80,000,000 carried at cost less impairment as at 31 December 2017, the Target Group has not elected the option for designation at fair value through other comprehensive income and reclassified them to financial assets at fair value through profit or loss upon initial application of IFRS 9.

Upon adoption of IFRS9 on 1 January 2018, the carrying amount of the equity investments did not deviate from its fair value significantly and therefore had no impact to the consolidated profit or loss and financial position of the Target Group as at that date.

All other financial assets and financial liabilities continue to be measured on the same bases as are previously measured under IAS 39.

Loss allowance for expected credit losses ("ECL")

The adoption of IFRS 9 has changed the Target Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss model with a forward-looking expected credit loss ("ECL") model. As at 1 January 2018, the Directors reviewed and assessed the Target Group's existing financial assets and other items subject to ECL for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement of IFRS 9. The adoption of the ECL requirements under IFRS 9 had no significant impact to the Target Group's financial statements.

Summary of effects arising from initial application of IFRS 9

The table below summarises the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Target Group's financial assets and financial liabilities and reconciles the carrying amounts of financial assets and financial liabilities under IAS 39 to the carrying amounts under IFRS 9 on 1 January 2018.

	Carrying amount at 31 December 2017 (IAS 39) *RMB'000*	Adoption of IFRS 9 – Reclassification *RMB'000*	Carrying amount at 1 January 2018 (IFRS 9) *RMB'000*
Financial assets			
Available-for-sale investments			
– unlisted equity securities	80,000	(80,000)	–
FVTPL			
– unlisted equity securities	–	80,000	80,000

(ii) IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 superseded IAS 11 "Construction Contracts", IAS 18 "Revenue" and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether how much and when revenue is recognised. The Target Group has elected to adopt the modified retrospective approach for contracts with customers that are not completed as at the date of initial application (i.e. 1 January 2018) with the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings and comparative information is not restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 "Revenue". Details are described below.

The Directors are of the opinion that the adoption of IFRS 15 has no impact on the timing of revenue recognition of the Target Group.

The Target Group's accounting policies for its revenue streams are disclosed in detail in note 3.5 below.

The amount of adjustment for each financial statement line item of the consolidated statement of financial position at 1 January 2018 affected by the application of IFRS 15 is illustrated below. Line items that were not affected by the changes have not been included.

	Carrying amount previously reported at 31 December 2017 *RMB'000*	Impact on adoption of IFRS 15 – Reclassification *RMB'000*	Carrying amount as restated at 1 January 2018 *RMB'000*
Accruals and other payables	1,321,498	(14,551)	1,306,947
Contract liabilities	–	14,551	14,551

Advances received from customers

As at 1 January 2018, the "receipts in advance" of RMB14,551,000 previously included in other payables and accruals was reclassified to contract liabilities.

Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of IFRS on 1 January 2018

The following table summarises the estimated impact of applying IFRS 15 on the statement of financial position at 31 December 2018, by comparing the amounts reported under IAS 18 and related interpretations that were in effect before the change. Line items that were not affected by the adjustments have not been included. The adoption of IFRS 15 did not have material impact on the Target Group's operating, investing and financing cash flows.

Impact on the statement of financial position at 31 December 2018

	As reported	**Impact on adoption of IFRS 15**	**Amounts excluding impacts of adopting IFRS 15**
	RMB'000	*RMB'000*	*RMB'000*
Accruals and other payables	573,617	98,727	672,344
Contract liabilities	98,727	(98,727)	–

(iii) IFRS 16 "Leases"

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described in note 3.12. Comparative information has not been restated and continues to be reported under IAS 17 "Leases".

On transition to IFRS 16, the Target Group elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC-4 "Determining whether an Arrangement contains a Lease" were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

The Target Group as lessee

Operating lease

On adoption of IFRS 16, the Target Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 "Leases" (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The adoption of IFRS 16 did not have material impact on the Target Group's financial statements as it did not have any operating lease arrangements.

Finance lease

For finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the leased asset and lease liability under IAS 17 immediately before that date. Accordingly, the obligation under finance leases previously included in borrowings are now included within lease liabilities. There is no impact on the opening balance of equity.

The following table summarises the impact of the transition to IFRS 16 at 1 January 2019. Line items that were not affected by the adjustments have not been included.

	Carrying amount previously reported at 31 December 2018	**Impact on adoption of IFRS 16**	**Carrying amount as restated at 1 January 2019**
	RMB'000	*RMB'000*	*RMB'000*
Right-of-use assets	–	37,087	37,087
Property, plant and equipment	14,251,785	(37,087)	14,214,698
Lease liabilities	–	63,329	63,329
Accruals and other payables	573,617	(63,329)	510,288

3.1.3 Adoption of the going concern basis

When preparing the consolidated financial statements, the Target Group's ability to continue as a going concern has been assessed. These consolidated financial statements have been prepared by the Directors on a going concern basis notwithstanding that the Target Group had net current liabilities of approximately RMB830,389,000, RMB963,836,000, RMB1,542,700,000 and RMB338,880,000 at 31 December, 2017, 2018 and 2019 and 30 June 2020, respectively. The Directors are of the opinion that the Target Group will have sufficient funds to meet its financial obligations when they fall due in the foreseeable future taking into account of the unutilised banking facilities available to the Target Group. The Directors are of the opinion that the Target Group is able to continue as a going concern and it is appropriate to prepare the consolidated financial statements on a going concern basis.

Should the Target Group be unable to continue in business as a going concern, adjustments would have to be made to restate the value of assets to their recoverable amounts, to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively and to provide for any further liabilities which might arise.

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Target Company and entities controlled by the Target Company and its subsidiaries. If a subsidiary prepares its financial statements using accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that subsidiary's financial statements in preparing the consolidated financial statements to ensure conformity with the Target Group's accounting policies.

Control is achieved where the Target Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Target Group's returns. When the Target Group has less than a majority of the voting rights of an investee, power over the investee may be obtained through: (i) a contractual arrangement with other vote holders; (ii) rights arising from other contractual arrangements; (iii) the Target Group's voting rights and potential voting rights; or (iv) a combination of the above, based on all relevant facts and circumstances.

The Target Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Consolidation of a subsidiary begins when the Target Group obtains control of the subsidiary and ceases when the Target Group loses control of the subsidiary.

Income and expenses of subsidiaries are included in the consolidated statement of profit or loss from the date the Target Group gains control until the date when the Target Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income of subsidiaries are attributed to the owners of the Target Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Target Company 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 entities of the Target Group are eliminated in full on consolidation.

3.3 Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Target Group, liabilities incurred by the Target Group to former owners of the acquiree and the equity interests issued by the Target Group in exchange for control of the acquiree. Acquisition-related costs incurred to effect a business combination are recognised in profit or loss as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, except that:

– deferred tax assets or liabilities arising from the assets acquired and liabilities assumed in the business combination are recognised and measured in accordance with IAS 12 Income Taxes;

– assets or liabilities related to the acquiree's employee benefit arrangements are recognised and measured in accordance with IAS 19 Employee Benefits;

– liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of the acquiree's share-based payment transactions with the share-based payment transactions of the Target Group are measured in accordance with IFRS 2 Share-based Payment at the acquisition date (see the accounting policy below);

– assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard; and

– lease liabilities are measured at the present value of the remaining lease payments as if the acquired lease was a new lease at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are measured at an amount equal to the lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Target Group's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a gain on bargain purchase.

Non-controlling interests, unless as required by another standards, are measured at acquisition-date fair value except for non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured either at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets on a transaction-by-transaction basis.

Where the consideration transferred by the Target Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period cannot exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounting for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates at fair value with corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Target Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Target Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are recognised on the same basis as would be required if the Target Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Target Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are carried at cost less any accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

(i) Mining reserves

Mining reserves represent the portion of total proven and probable reserves in the mine. Mining reserves are amortised over the life of the mine on a unit of production basis of the estimated total proven and probable reserves. Changes in the annual amortisation rate resulting from changes in the remaining reserves are applied on a prospective basis from the commencement of the next financial year.

(ii) Mining resources

Mining resources represent the fair value of economically recoverable reserves (excluding the portion of total proven and probable reserves of a mining right i.e. does not include the above mining reserves) of a mining right (Details are set out in the accounting policy of exploration and evaluation expenditure). When production commences, the mining resources for the relevant areas of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each separately identifiable area of interest which is at individual mine level.

Exploration and evaluation expenditure comprises costs that are directly attributable to:

– Researching and analysing existing exploration data;

– Conducting geological studies, exploratory drilling and sampling;

– Examining and testing extraction and treatments methods; and/or

– Compiling pre-feasibility and feasibility studies.

These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors.

Exploration expenditure relates to the initial search for deposits with economic potential. Expenditure on exploration activity is not capitalised.

Evaluation expenditure relates to a detailed assessment of deposits or other projects that have been identified as having economic potential. Capitalisation of evaluation expenditure commences when there is a high degree of confidence that the Target Group will determine that a project is commercially viable, i.e. the project will provide a satisfactory return relative to its perceived risks, and therefore it is considered probable that future economic benefits will flow to the Target Group.

Exploration and evaluation expenditure incurred is accumulated in respect of each separately identifiable area of interest which is at individual mine level. These costs are only carried forward where the right of tenure for the area of interest is current and to the extent that they are expected to be recouped through successful development and commercial exploitation, or alternatively, sale of the area, or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

The carrying amount of exploration and evaluation assets is assessed for impairment when facts or circumstances suggest the carrying amount of the assets may exceed their recoverable amount.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Accumulated costs in relation to an abandoned area are written-off in full in the period in which the decision to abandon the area is made.

Capitalised exploration and evaluation expenditure considered to be tangible is recorded as a component of property, plant and equipment. Otherwise, it is recorded as an intangible asset. Exploration and evaluation expenditure acquired in a business combination are recognised at their fair value at the acquisition date (the fair value of potential economically recoverable reserves at the acquisition date which is shown as “Mining resources”).

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable (i.e. when proved reserves of coal are determined and development is approved by management), the exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining reserves or property, plant and equipment. When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

On reclassification, the carrying amounts of exploration and evaluation assets are also reviewed and, where appropriate, written down to their recoverable amount.

3.4 Impairment of tangible and intangible assets other than goodwill

At each reporting date, the Target Group reviews the carrying amounts of its tangible assets and intangible assets with finite useful life to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset (determined at the higher of its fair value less costs of disposal and its value in use) is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with an indefinite useful life will be tested for impairment annually. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as an income immediately. For the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Assessment is performed for each area of interest in conjunction with the group of operating assets (representing a cash generating unit) to which the Target Group's activity is attributed.

3.5 Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the Target Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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

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

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

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

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

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

Contract liabilities

A contract liability represents the Target Group's obligation to transfer goods or services to a customer for which the Target Group has received consideration from the customer.

The Target Group recognised revenue from the following major sources:

- Sales of goods (including coal, methanol and equipment manufacturing)
- Provision of services (including coal railway transportation, electricity and heat supply)

Sales of goods

Revenue from sale of coal, methanol and equipment manufacturing is recognised at the point when the control of the goods is transferred to the customers (generally on delivery of the goods to the location specified by the customers and accepted by the customers). It is a point of time where the customer has the ability to direct the use of the products and obtain substantially all of the remaining benefits of the products.

3.6 Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life. Expenditure incurred on projects to develop new products is capitalised only when the Target Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are carried at cost less any accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3.7 Property, plant and equipment

Property, plant and equipment (including right-of-use assets), other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Ownership interests in leasehold land and buildings

For payments of ownership interest of properties which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Target Group when the payments cannot be allocated reliably between the leasehold land and building elements.

To the extend the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of IFRS 16) or "prepaid lease payments" (before application IFRS 16) in the consolidated statement of financial position.

Depreciation is charged so as to write off the cost of items of property, plant and equipment, other than construction in progress and freehold land, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method or unit of production method.

Category	**Estimated useful life**	**Estimated residual values**
Buildings	20 – 30 years	0-3%
Machinery	10 – 20 years	0-3%
Transportation	4 – 8 years	0-3%
Other equipments	3 – 10 years	0%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at the end of each reporting periods.

Any gain or loss arising on the disposal of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised immediately in the consolidated statement of profit or loss.

3.8 Construction in progress

Construction in progress represents production site development projects under construction for production or for its own use purposes. Construction in progress is carried at cost less any impairment loss. Costs included costs of constructing the manufacturing plant and acquisition of mining rights, mining permits and licenses that form an integral part of the overall development projects. Construction in progress is classified to the appropriate category of property, plant and equipment or intangible assets when completed and ready for intended use. Depreciation or amortisation commences when the assets are ready for their intended use.

3.9 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and other financial institution and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the preparation of consolidated cash flow statement, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management.

3.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises direct materials and, where applicable, direct labour and overheads that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price less all further costs to completion and costs to be incurred in selling, marketing and distribution.

Inventories of auxiliary materials, spare parts and small tools expected to be used in production are stated at weighted average cost less allowance, if necessary, for obsolescence.

3.11 Taxation

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

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

Deferred tax is recognised on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Target Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on either (i) the same taxable entity; or (ii) 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.

3.12 Leasing

Definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identifiable asset for a period of time in exchange for consideration.

The Target Group as lessee

The Target Group assesses whether a contract is or contains a lease, at inception of the contract. The Target Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Target Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date, the Target Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Target Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options; and

- payments of penalties for terminating the lease, if the lease term reflects the Target Group exercising an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.

- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received. Whenever the Target Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under IAS 37 "Provision, Contingent Liabilities and Contingent Assets". The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

They are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Target Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Target Group presents right-of-use assets as a separate line in the consolidated statement of financial position.

The Target Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Target Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Target Group hasused this practical expedient for all leases.

Lease modification

The Target Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for a separate lease, the Target Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

3.13 Provisions and contingent liabilities

Provisions are recognised when the Target Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Target Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3.14 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

3.15 Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Target Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Target Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3.16 Retirement benefit costs

Payments to defined contribution plans including included state-managed retirement benefit schemes and superannuation funds are recognised as an expense when employees have rendered service entitling them to the contributions.

3.17 Short-term and other long-term employee benefits

Benefits accruing to employees in respect of wages and salaries, annual leave and sick leave are included in other payables and accrued expenses. Related on-costs are also included in other payables and accrued expenses as other creditors. Long service leave is provided for when it is probable that settlement will be required and it is capable of being measured reliably.

Employee benefits expected to be settled within 12 months are measured using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Target Group in respect of services provided by employees up to the reporting date.

3.18 Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Target Group becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value, except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, FVTOCI and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Target Group's business model for managing them.

Financial assets at amortised cost (debt instruments)

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

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- 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 amoritsed cost are subsequently measured using the effective interest method and are subject to impairment.

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the "Other income" line item (note 5).

Equity instruments designated as at FVTOCI

On initial recognition, the Target Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Target Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "Other income" line item in profit or loss.

Financial asset at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Target Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Target Group has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "Other income" line item.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the Target Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Impairment of financial assets

The Target Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost as well as financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Target Group always recognises lifetime ECL for bills and accounts receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Target Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

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

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Target 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. In making this assessment, the Target Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular debtor, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

Despite the foregoing, the Target Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Target Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

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

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

Definition of default

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

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target Group, in full (without taking into account any collaterals held by the Target Group).

Credit-impaired financial assets

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

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Target Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 4 years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Target Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Target Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Target Group in accordance with the contract and all the cash flows that the Target Group expects to receive, discounted at the original effective interest rate.

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

If the Target Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Target Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Target Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. On derecognition of an investment in equity instrument which the Target Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities and equity instruments

Classification as debt or equity

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities at FVTPL are stated at fair value with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liabilities and is included in the 'other incomes' line item in profit or loss.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

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

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and do not arise from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition of financial liabilities

The Target Group derecognises financial liabilities when, and only when, the Target Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Offsetting financial instruments

Financial assets and liabilities of the Target Group are offset and the net amount presented in the consolidated statement of financial position when, and only when, there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

3.19 Fair value measurement

When measuring fair value except for the Target Group's leasing transactions, net realisable value of inventories and value-in-use of intangible assets, prepaid lease payments, property, plant and equipment and construction in progress for the purpose of impairment assessment, the Target Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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.

The Target 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. Specifically, the Target Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1	–	Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2	–	Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3	–	Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Target Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

3.20 Overburden in advance

Overburden in advance comprises mining stripping (waste removal) costs both during the development and production phase of the Target Group's operations.

When stripping costs are included in the development phase of a mine before the production phase commences (development stripping). Such expenditure is capitalised as part of the cost of constructing the mine if it can be demonstrated that it is probable that future economic benefits will be realised, the costs can be reliably measured and the entity can identify the component of the ore body for which access has been improved. The stripping assets are subsequently amortised over its useful life using a units of production method, in accordance with the policy applicable to mine properties. The capitalisation of development stripping costs ceases when the mine/component is commissioned and ready for use as intended by management. Waste development costs incurred in the production phase creates two benefits, being either the production of inventory or improved access to the ore to be mined in the future. Where the benefits are realised in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where production stripping costs are incurred and the benefit is improved access to ore to be mined in the future, the costs are recognised as a stripping activity asset in mine properties.

If the costs of the inventory produced and the stripping asset are not separately identifiable, the allocation is undertaken based on waste-to-ore stripping ratio for the particular ore component concerned. If mining of waste in a period occurs in excess of the expected life-of-component average waste-to-ore strip ratio, the excess is recognised as part of the stripping asset. Where mining occurs at or below the expected life-of-component stripping ratio in a period, the entire production stripping cost is allocated to the cost of the ore inventory produced.

Amortisation is provided using the units-of-production method over the life of the identified component of ore body. The units-of-production method results in an amortisation charge proportional to the depletion of the economically recoverable mineral resources (comprising proven and probable reserves).

Stripping costs that do not satisfy the asset recognition criteria are expensed.

3.21 Land subsidence, restoration, rehabilitation and environmental costs

One consequence of coal mining is land subsidence caused by the resettlement of the land above the underground mining sites. Depending on the circumstances, the Target Group may relocate inhabitants from the land above the underground mining sites prior to mining those sites or the Target Group may compensate the inhabitants for losses or damages from land subsidence after the underground sites have been mined. The Target Group may also be required to make payments for restoration, rehabilitation or environmental protection of the land after the underground sites have been mined. An estimate of such costs is recognised in the period in which the obligation is identified and is charged as an expense in proportion to the coal extracted. At each statement of financial position date, the Target Group adjusts the estimated costs in accordance with the actual land subsidence status. The provision is also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalised cost, except where a reduction in the provision is greater than the undepreciated capitalised cost of any related assets, in which case the capitalised cost is reduced to nil and remaining adjustment is recognised in the consolidated statement of profit or loss. Changes to the capitalised cost result in an adjustment to future depreciation and financial charges.

3.22 Significant accounting judgements and estimates

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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

(i) Depreciation

Property, plant and equipment are depreciated on straight-line basis over the estimated useful lives, after taking into account the estimated residual value if any. The Target Group reviews the estimated useful lives and basis of depreciation of property, plant and equipment regularly in order to determine the amount of depreciation expenses to be recorded during any reporting period. The useful lives and basis of depreciation are based on the Target Group's historical experience with similar assets and take into account anticipated technological changes. The depreciation expenses for future periods are adjusted prospectively if there are significant changes from previous estimates.

(ii) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions, technology changes and the historical experience of selling products with similar nature. It could change significantly as a result of changes in customer preference or competitor actions. The Target Group reassesses these estimates at the end of each reporting period.

(iii) Impairment of trade receivables and other receivables

Impairment of trade receivables and other receivables is made based on assessment of their recoverability. The identification of impairment of trade receivables and other receivables requires management's judgment and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and impairment loss or reversal of impairment in the period in which such an estimate has been changed.

(iv) Current and deferred income taxes

The Target Group is subject to income taxes in Mainland China. Judgements and estimations are required in determining the provision for income taxes for certain transactions (including inter-company transactions) and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the periods in which such determinations are made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation in the periods in which such estimate is changed.

(v) Provision for land subsidence, restoration, rehabilitation and environmental costs

The provision (note 25) is reviewed regularly to verify that it properly reflects the remaining obligation arising from the current and past mining activities. Provision for land subsidence, restoration, rehabilitation and environmental costs are determined by the management based on their best estimates of the current and future costs, latest government policies and past experience.

4. OPERATING SEGMENT INFORMATION AND REVENUE

During the Relevant Periods, the Target Group's revenue was generated form production and trading of coal and other chemical products in the PRC. The Target Group sells goods directly to customers, normally within a 30 days credit period. Management monitors the operating results as a whole for the purpose of making decisions about resources allocation and performance assessment. Accordingly, no operating segment information is presented. An analysis of revenue of the Target Group is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Revenue from contracts with customers within the scope of IFRS 15					
Sales of coal	4,493,689	4,156,035	5,254,013	2,329,197	2,799,002
Sales of coal chemical products	1,956,223	2,405,971	3,481,315	1,703,386	1,208,346
Sales of other chemical products	65,075	–	–	–	136,120
	6,514,987	6,562,006	8,735,328	4,032,583	4,143,468
Revenue from other sources					
Sales of materials	2,633	1,382	11,276	67	12,440
Rental income	610	422	360	–	180
Sales of waste materials	911	1,087	5,006	217	58
	6,519,141	6,564,897	8,751,970	4,032,867	4,156,146
Disaggregated by timing of revenue recognition					
Over time	610	422	360	–	180
At a point in time	6,518,531	6,564,475	8,751,610	4,032,867	4,155,966
	6,519,141	6,564,897	8,751,970	4,032,867	4,156,146

4.1 GEOGRAPHICAL INFORMATION

All of the Target Group's revenue were generated in the PRC. All of the Target Group's non-current assets are located in the PRC.

4.2 REVENUE FROM MAJOR CUSTOMERS

Revenue from customers of the Relevant Periods contributing over 10% of the total sales of the Target Group are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Customer A	N/A	1,677,928	N/A	N/A	N/A

N/A: Not applicable as revenue generated by the customer is less than 10% of the Target Group's revenue for the Relevant Periods.

5. OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Bank interest income	12,703	4,781	15,305	5,148	9,103
Interest received from entrusted loan to parent and ultimate controlling company	73,895	60,321	53,905	30,078	12,035
Government grants *(note)*	180	1,655	2,802	100	768
Commission income	–	–	1,189	–	2
Penalties income	6,875	3,354	9,464	5,226	1,591
Sundry revenue	53	–	8,230	–	513
	93,706	70,111	90,895	40,552	24,012

Note: The Target Group obtained funding supports from various departments of the PRC Government. The purpose of the fundings is mainly the incentive to maintain employment stability and development.

6. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Bank loan interest expense	430,921	424,554	357,218	187,000	149,419
Interest on lease liabilities	41,875	17,876	4,392	2,196	2,190
Bank charges	93	136	117	90	171
Guarantee fees	–	–	34,091	17,045	19,802
Other	4,265	12,618	4,551	–	1,178
	477,154	455,184	400,369	206,331	172,760

7. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
(a) Staff costs					
Salaries and other benefits	236,663	275,049	316,612	134,918	163,646
Staff welfare	51,510	62,275	67,337	28,930	31,530
Defined contribution retirement plan contributions	84,528	96,294	95,018	50,823	48,941
	372,701	433,618	478,967	214,671	244,117
(b) Net gain of disposal of plant and equipment					
Sales proceeds	–	–	–	–	(192)
Less: Net book value of property, plant and equipment	–	–	–	–	304
	–	–	–	–	112
(c) Other items:					
Amortisation	152,787	160,944	177,162	82,243	94,519
Cost of inventories sold	3,876,637	4,362,666	5,337,437	2,433,850	2,686,002
Depreciation of property, plant and equipment	741,761	775,596	873,367	425,051	457,367
Depreciation of right-of-use assets	–	–	4,945	2,472	2,472

8. INCOME TAX EXPENSE

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Current tax					
Provision for the year/period	327,899	250,534	426,512	200,687	188,551
Deferred tax					
Charge/(credit) for the year/period – note 27	(27,920)	(9,370)	8,725	(3,856)	(20,261)
	299,979	241,164	435,237	196,831	168,290

Income tax provision of the Target Group in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the Relevant Periods, based on the existing legislation, interpretations and practices in respect thereof.

The National People's Congress approved the Corporate Income Tax Law of the PRC (the "New CIT Law") on 16 March 2007 and the State Council has announced the Detailed Implementation Regulations on 6 December 2007, which has been effective since 1 January 2008. According to the New CIT Law, the income tax rates for both domestic and foreign investment enterprises are unified at 25% effective from 1 January 2008.

According to the "Notice on publicizing the list of the first batch of high-tech enterprises to be recognised in Shannxi Provicne in 2018 Shaanxi Gaoqi banfa [2018] No. 1 published on October 19, 2018, Target Company was recognised as High-tech enterprise.

According to the "Several Options of the Central Committee of the Communist Party of China and the State Council on Deepening the implementation of the Western Development Strategy (Zhongfu [2010] No. 11), the "The Announcement of the State Administration of Taxation on Issues of Enterprise Income Tax concerning In-depth Implementation of Western Region Development Strategy (State Administration of Taxation Announcement No.12 [2012])" and other related documents, in line with the conditions of preferential policies for industries encouraged by the Western Development. The Target Company chooses to apply preferential policies for the Western Development Program, and the corporate income tax rate is 15%.

According to the "Notice on Implementing the Inclusive Tax Deduction and Exemption policies for Micro and Small Enterprises issued by Ministry of Finance and the State Administration of Taxation" (Cai Shui [2019] No. 13), the taxable income that does not exceed RMB 1 million is included in taxable income at a reduced rate of 25%, and corporate income tax is paid at a tax rate of 20%; for the annual taxable income that exceeds RMB 1 million but not more than RMB 3 million, a reduction of 50% is included in the taxable income, and corporate income tax is paid at a tax rate of 20%. The subsidiary of Target Group Shaanxi Future Clean Chemical Co., Ltd. applies the above tax rates.

A reconciliation between income tax expense and profit before income tax at applicable tax rates is set out below:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*
Profit before income tax	1,980,894	1,612,119	2,821,471	1,297,782	1,227,871
Taxation at the applicable tax rate	298,245	241,876	423,910	195,138	184,724
Tax effect of non-deductible expenses	2,612	503	19,708	5,309	–
Tax effect non-taxable income	–	–	–	–	(16,438)
Under-provision in prior year	–	–	–	–	4
Additional deduction under CIT Law	(878)	(1,215)	(8,381)	(3,616)	–
Income tax expense	299,979	241,164	435,237	196,831	168,290

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(i) Directors' remuneration

The aggregate amounts of remuneration of directors of the Target Company during the Relevant Periods and the six months ended 30 June 2019, disclosed pursuant to the Rules Governing The Listing of Securities on the Stock Exchange (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, are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Fees	–	–	–	–	–
Other emoluments:					
Salaries and other benefits	685	848	1,850	245	275
Defined contribution retirement plan contributions	122	255	226	124	60
	807	1,103	2,076	369	335

The names of the directors and their remuneration for the Relevant Periods and the six months ended 30 June 2019 are as follows:

	Year ended 31 December 2017			
	Fees	**Salaries and other benefits**	**Defined contribution retirement plan contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors				
Liu Jian (appointed on 20 April 2017)	–	–	–	–
Wang Fuqi	–	–	–	–
Zong Xinrui	–	–	–	–
Sun Qiwen	–	–	–	–
Luo Wanming	–	–	–	–
Yin Mingde	–	–	–	–
Zhu Qingrui (appointed on 29 November 2017)	–	–	–	–
Liu Huali	–	685	122	807
	–	685	122	807

	Year ended 31 December 2018			
	Fees	**Salaries and other benefits**	**Defined contribution retirement plan contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors				
Liu Jian	–	–	–	–
Wang Fuqi	–	–	–	–
Zong Xinrui	–	–	–	–
Sun Qiwen	–	–	–	–
Luo Wanming	–	–	–	–
Zhang Haijun (appointed on 10 June 2018)	–	–	–	–
Yin Mingde	–	–	–	–
Zhu Qingrui	–	126	127	253
Liu Huali	–	722	128	850
	–	848	255	1,103

	Year ended 31 December 2019			
	Fees	**Salaries and other benefits**	**Defined contribution retirement plan contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors				
Liu Jian	–	–	–	–
Wang Fuqi	–	–	–	–
Zong Xinrui	–	–	–	–
Sun Qiwen	–	–	–	–
Luo Wanming	–	–	–	–
Zhang Haijun	–	–	–	–
Yin Mingde	–	–	–	–
Zhu Qingrui	–	908	113	1,021
Liu Huali	–	942	113	1,055
	–	1,850	226	2,076

	Six months ended 30 June 2019 (unaudited)			
	Fees	**Salaries and other benefits**	**Defined contribution retirement plan contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors				
Liu Jian	–	–	–	–
Wang Fuqi	–	–	–	–
Zong Xinrui	–	–	–	–
Sun Qiwen	–	–	–	–
Luo Wanming	–	–	–	–
Zhang Haijun	–	–	–	–
Yin Mingde	–	–	–	–
Zhu Qingrui	–	115	62	177
Liu Huali	–	130	62	192
	–	245	124	369

	Six months ended 30 June 2020			
	Fees	**Salaries and other benefits**	**Defined contribution retirement plan contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors				
Liu Jian	–	–	–	–
Wang Fuqi	–	–	–	–
Zong Xinrui	–	–	–	–
Sun Qiwen	–	–	–	–
Luo Wanming	–	–	–	–
Zhang Haijun	–	–	–	–
Yin Mingde	–	–	–	–
Liu Huali	–	–	–	–
Zhu Qingrui	–	275	60	335
	–	275	60	335

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the Relevant Periods and the six months ended 30 June 2019. No emoluments were paid by the Target Company to any of the directors or supervisors as an inducement to join or upon joining the Target Company or as compensation for loss of office.

(ii) Five highest paid employees

An analysis of the headcounts of the five highest paid employees within the Target Group for the Relevant Periods and the six months ended 30 June 2019 is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
				(unaudited)	
Directors	–	850	–	–	335
Non-directors	5,189	3,994	5,956	1,221	1,360
	5,189	4,844	5,956	1,221	1,695

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
				(unaudited)	
Number of directors	–	1	–	–	1
Number of non-directors	5	4	5	5	4

Details of the remuneration of the non-directors are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Salaries and other benefits	4,577	3,484	5,390	912	1,121
Defined contribution retirement plan contribution	612	510	566	309	239
	5,189	3,994	5,956	1,221	1,360

Salaries of the highest paid employees, who are non-directors, fall within the band of nil to HK$1,000,000

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE TARGET COMPANY

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

11. DIVIDENDS

The dividends declared by the Target Company to their then shareholders during the Relevant Periods were as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Dividends paid to then shareholders	–	–	1,696,000	–	–

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery	Transportation	Other equipments	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the six months ended 30 June 2020						
Opening net book value	5,786,063	7,533,990	9,812	198,191	883,767	14,411,823
Additions	–	–	–	–	192,405	192,405
Transfer from right-of-use assets	–	29,670	–	–	–	29,670
Disposals	–	–	(304)	–	–	(304)
Depreciation	(129,633)	(294,621)	(3,264)	(29,849)	–	(457,367)
Closing net book value	5,656,430	7,269,039	6,244	168,342	1,076,172	14,176,227
At 30.6.2020						
Cost	6,714,228	9,386,151	47,491	321,865	1,076,172	17,545,907
Aggregate depreciation	(1,057,798)	(2,117,112)	(41,247)	(153,523)	–	(3,369,680)
Net book value	5,656,430	7,269,039	6,244	168,342	1,076,172	14,176,227
For the year ended 31 December 2019						
Opening net book value	5,917,379	7,774,749	14,593	247,236	297,828	14,251,785
Additions	–	–	–	–	1,070,492	1,070,492
Transfer	120,495	344,935	6,993	12,130	(484,553)	–
Transfer to right-of-use assets	–	(37,087)	–	–	–	(37,087)
Depreciation	(251,811)	(548,607)	(11,774)	(61,175)	–	(873,367)
Closing net book value	5,786,063	7,533,990	9,812	198,191	883,767	14,411,823
At 31.12.2019						
Cost	6,714,228	9,336,702	48,200	321,865	883,767	17,304,762
Aggregate depreciation	(928,165)	(1,802,712)	(38,388)	(123,674)	–	(2,892,939)
Net book value	5,786,063	7,533,990	9,812	198,191	883,767	14,411,823

	Buildings	Machinery	Transportation	Other equipments	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2018						
Opening net book value	5,337,642	8,454,654	18,765	41,463	173,239	14,025,763
Additions	–	–	–	–	1,005,478	1,005,478
Transfer	86,034	652,647	6,301	31,656	(776,638)	–
Reclassification	807,067	(921,642)	1,236	217,590	(104,251)	–
Other	(3,860)	–	–	–	–	(3,860)
Depreciation	(309,504)	(410,910)	(11,709)	(43,473)	–	(775,596)
Closing net book value	5,917,379	7,774,749	14,593	247,236	297,828	14,251,785
At 31.12.2018						
Cost	6,593,733	9,041,216	41,207	309,735	297,828	16,283,719
Aggregate depreciation	(676,354)	(1,266,467)	(26,614)	(62,499)	–	(2,031,934)
Net book value	5,917,379	7,774,749	14,593	247,236	297,828	14,251,785
For the year ended 31 December 2017						
Opening net book value	5,048,982	8,607,296	24,295	32,563	515,203	14,228,339
Transfer	526,289	364,695	712	19,733	(911,429)	–
Additions	–	–	–	–	569,465	569,465
Other	(30,280)	–	–	–	–	(30,280)
Depreciation	(207,349)	(517,337)	(6,242)	(10,833)	–	(741,761)
Closing net book value	5,337,642	8,454,654	18,765	41,463	173,239	14,025,763
At 31.12.2017						
Cost	5,704,492	9,310,211	33,670	60,489	173,239	15,282,101
Aggregate depreciation	(366,850)	(855,557)	(14,905)	(19,026)	–	(1,256,338)
Net book value	5,337,642	8,454,654	18,765	41,463	173,239	14,025,763

The Target Group's certain building for which the Target Group are in the process of obtaining the relevant building ownership certificates. The directors do not foresee any major obstacles to issuing the certificates of the above-mentioned buildings to the Target Group. The carrying amounts of above-mentioned buildings amounted to RMB2,036,730,000, RMB1,962,347,000, RMB1,887,421,000,and RMB1,849,520,000 at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively.

At 31 December 2017 and 2018, the carrying amounts of property, plant and equipment held under finance leases were appproximately RMB4,318,153,000 and RMB37,087,000, respectively. From 1 January 2019, property, plant and equipment held under finance leases have been reclassified to right-of-use assets (note 16).

13. INVESTMENT PROPERTIES

	Land use rights
	RMB'000
For the six months ended 30 June 2020	
Opening net book value	17,206
Amortisation	(188)
Closing net book value	17,018
At 30.6.2020	
Cost	18,525
Aggregate amortisation	(1,507)
Net book value	17,018
For the year ended 31 December 2019	
Opening net book value	17,583
Amortisation	(377)
Closing net book value	17,206
At 31.12.2019	
Cost	18,525
Aggregate amortisation	(1,319)
Net book value	17,206
For the year ended 31 December 2018	
Opening net book value	17,960
Amortisation	(377)
Closing net book value	17,583
At 31.12.2018	
Cost	18,525
Aggregate amortisation	(942)
Net book value	17,583
For the year ended 31 December 2017	
Opening net book value	18,337
Amortisation	(377)
Closing net book value	17,960
At 31.12.2017	
Cost	18,525
Aggregate amortisation	(565)
Net book value	17,960

14. INTANGIBLE ASSETS

	Land use rights	Mining rights	Patent	Capacity replacement indicator	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the six months ended 30 June 2020					
Opening net book value	358,691	1,287,616	439,465	601,585	2,687,357
Additions	70,861	–	–	–	70,861
Other	–	–	(137)	–	(137)
Amortisation	(4,101)	(48,606)	(33,553)	(8,071)	(94,331)
Closing net book value	425,451	1,239,010	405,775	593,514	2,663,750
At 30.6.2020					
Cost	457,219	1,656,418	671,064	641,125	3,425,826
Aggregate amortisation	(31,768)	(417,408)	(265,289)	(47,611)	(762,076)
Net book value	425,451	1,239,010	405,775	593,514	2,663,750
For the year ended 31 December 2019					
Opening net book value	357,349	1,372,869	506,450	617,728	2,854,396
Additions	9,246	–	500	–	9,746
Amortisation	(7,904)	(85,253)	(67,485)	(16,143)	(176,785)
Closing net book value	358,691	1,287,616	439,465	601,585	2,687,357
At 31.12.2019					
Cost	386,358	1,656,418	671,201	641,125	3,355,102
Aggregate amortisation	(27,667)	(368,802)	(231,736)	(39,540)	(667,745)
Net book value	358,691	1,287,616	439,465	601,585	2,687,357
For the year ended 31 December 2018					
Opening net book value	363,262	1,443,859	559,246	513,731	2,880,098
Additions	1,837	–	13,266	119,762	134,865
Amortisation	(7,750)	(70,990)	(66,062)	(15,765)	(160,567)
Closing net book value	357,349	1,372,869	506,450	617,728	2,854,396
At 31.12.2018					
Cost	377,112	1,656,418	670,701	641,125	3,345,356
Aggregate amortisation	(19,763)	(283,549)	(164,251)	(23,397)	(490,960)
Net book value	357,349	1,372,869	506,450	617,728	2,854,396

	Land use rights	Mining rights	Patent	Capacity replacement indicator	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2017					
Opening net book value	367,163	1,515,151	616,480	–	2,498,794
Additions	3,842	–	8,509	521,363	533,714
Amortisation	(7,743)	(71,292)	(65,743)	(7,632)	(152,410)
Closing net book value	363,262	1,443,859	559,246	513,731	2,880,098
At 31.12.2017					
Cost	375,275	1,656,418	657,435	521,363	3,210,491
Aggregate amortisation	(12,013)	(212,559)	(98,189)	(7,632)	(330,393)
Net book value	363,262	1,443,859	559,246	513,731	2,880,098

The mining rights of approximately RMB1,443,859,000, RMB1,372,869,000, RMB1,287,616,000 and RMB 1,239,010,000 was pledged to secure bank loans of RMB7,100,000, RMB6,830,000, RMB5,960,000,000 and RMB5,698,800,000 at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively (Note 24).

The Target Group's certain land use rights for which the Target Group are in the process of obtaining the relevant land use rights certificates. The directors do not foresee any major obstacles to issuing the certificates of the above-mentioned land use rights to the Target Group. The carrying amounts of above-mentioned buildings amounted to RMB119,969,000, RMB121,467,000, RMB135,819,000 and RMB 97,457,000 at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively.

15. INVESTMENTS IN SECURITIES

	At 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Available-for-sale investments				
Unlisted equity investments, at cost net impairment	80,000	–	–	–
Financial assets at FVTPL				
Unlisted equity investments, at fair value	–	168,000	298,530	298,530

As at 31 December 2017, the unlisted equity investments are stated at cost less impairment.

These unlisted equity investments represent investment in unlisted equity interests in private entities established in the PRC. The unlisted equity investments are reclassified and measured at fair value through profit or loss upon adoption of IFRS 9.

16. LEASE

(i) Amounts recognised in the consolidated statements of financial position

(a) Right-of-use assets

	As at 31 December 2019 *RMB'000*	As at 30 June 2020 *RMB'000*
Machinery	32,142	–

The Target Group has lease arrangements for machinery. The lease term is three years.

In respect of lease arrangement for renting certain machinery, the Target Group has options to purchase certain production equipments for a nominal amount at the end of the lease term. The Target Group's obligations are secured by the lessors' title to the leased assets for such lease.

(b) Lease liabilities

	As at 31 December 2019 *RMB'000*	As at 30 June 2020 *RMB'000*
Current – within one year	68,292	–

(ii) Amounts recognised in consolidated profit or loss

	Year ended 31 December 2019 *RMB'000*	Six months ended 30 June 2020 *RMB'000*
Depreciation expense on right-of-use assets	4,945	2,472
Interest expense on lease liabilities	4,392	2,190

(iii) Amounts recognised in consolidated cash flows statement

During the year ended 31 December 2019 and six months ended 30 June 2020, the total cash outflow for leases amount to RMB Nil and RMB70,767,000 respectively.

17. INVENTORIES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	70,120	121,125	187,943	283,342
Finished goods	267,502	98,215	66,555	124,170
	337,622	219,340	254,498	407,512
Provision for obsolete inventories	(94,986)	(14,428)	(1,576)	(1,712)
	242,636	204,912	252,922	405,800

The reversal of write-down of inventories made in prior year arose due to an increase in the estimated net realisable value.

18. TRADE AND BILLS RECEIVABLES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables – note 18(a)				
– third parties	21,136	11,350	20,299	27,308
– related parties	5,728	7,791	7,596	55,489
Less: impairment loss on trade receivables	–	–	–	–
	26,864	19,141	27,895	82,797
Bills receivables – notes 18(a) & (b)	2,397,876	387,856	31,506	11,826
	2,424,740	406,997	59,401	94,623

The Target Group normally allows credit terms to well-established customers for 30 days. The Target Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the Directors. Trade and bills receivables are expected to be recovered within one year.

(a) An aging analysis of trade and bills receivables as at the end of each reporting period, based on the date of recognition of the goods sold, is as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	2,424,740	406,997	59,401	84,492
1 to 2 years	–	–	–	10,131
	2,424,740	406,997	59,401	94,623

Details of impairment assessments on trade and bills receivables from customers are set out in note 32(a).

(b) As at 31 December 2017, 2018 and 2019 and 30 June 2020, certain of the Target Group's interest-bearing bank borrowings were secured by the Target Group's trade and bills receivables with a carrying value of RMB500,000,000, RMB160,000,000, RMBNil and RMBNil, respectively.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, certain of the Group's banking facilities of approximately RMB1,240,947,000, RMB41,270,000, RMB1,526,000 and RMB6,000,000 were secured by the Target Group's trade and bills receivables with a carrying value of RMB1,193,662,000, RMB41,270,000, RMB1,469,000 and RMB5,894,000 respectively.

19. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other receivables				
– third parties	204,193	8,018	8,185	8,011
– parent and ultimate controlling company	–	–	–	6,232
– fellow subsidiaries	–	–	–	402
Prepayments				
– third parties	93,787	503,239	246,248	438,637
– fellow subsidiaries	134,336	103,454	81,306	227,047
VAT recoverable	9,570	17,343	8,388	15,354
Entrusted loan receivable – note 19(a)	1,360,000	–	–	–
Loan to related party – note 19(d)	–	–	–	80,000
Loan to related party – note 19(b)	–	–	–	60,000
Loan to parent and ultimate controlling company – note 19(c)	–	1,360,000	560,000	525,909
	1,801,886	1,992,054	904,127	1,361,592
Analysed as:				
Current assets	1,756,471	1,699,709	595,076	825,679
Non-current assets	45,415	292,345	309,051	535,913
	1,801,886	1,992,054	904,127	1,361,592

(a) Entrusted loan receivable represents loan advanced to the holding company through an entrusted loan agreement administrated by a trust company, a financial institution in the PRC, also a related party. The entrusted loan carries interest at 4.6371% per annum and is repayable in one year.

(b) The loan carries interest at 4.35% per annum, unsecured and is repayable in one year.

(c) The loan carries interest at 4.6371% per annum, unsecured and is repayable in one year.

(d) The loan is interest free, secured and repayable by 31 December 2021.

20. CASH AND CASH EQUIVALENTS

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at banks				
– third parties	225,721	316,206	608,622	869,474
– financial institution held by parent and ultimate controlling company	315,583	298,566	734,045	979,708
	541,304	614,772	1,342,667	1,849,182
Less: restricted cash	(21,232)	(315,343)	(608,458)	(907,280)
Cash and cash equivalents in the consolidated cash flows statement	520,072	299,429	734,209	941,902

21. TRADE AND BILLS PAYABLES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables				
– third parties	1,212,170	839,028	571,076	503,219
– parent and ultimate controlling company	228	4	4	1,154
– fellow subsidiaries	319,828	548,435	438,269	391,904
Bills payables	336,269	202,855	405,090	625,903
	1,868,495	1,590,322	1,414,439	1,522,180

The Target Group normally obtains credit terms for 30 days from its suppliers.

An aging analysis of the trade and bills payables at the end of each reporting period, based on the date of receipt of goods purchased, is as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	1,380,646	1,380,535	1,226,329	1,147,992
1 to 2 years	401,564	120,567	176,427	293,094
2 to 3 years	40,212	36,748	7,819	72,277
Over 3 years	46,073	52,472	3,864	8,817
	1,868,495	1,590,322	1,414,439	1,522,180

22. CONTRACT LIABILITIES

The Target Group recognised the following revenue-related contract liabilities from contract with customers:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contract liabilities				
– third parties	–	98,388	87,363	180,737
– fellow subsidiaries	–	339	7,845	5,076
	–	98,727	95,208	185,813

Contract liabilities mainly consists of sales deposits received from customers for which the related revenue had not been recognised as at 31 December 2018 and 2019 and 30 June 2020, and the directors of the Target Group expects those related revenue to be recognised within the next twelve months.

The following table shows the movements in contract liabilities during the Relevant Periods related to carried-forward contract liabilities.

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	–	14,551	98,727	95,208
Decrease in contract liabilities as a result of recognising revenue during the year /period that was included in the contract liabilities at the beginning of the year/period	–	(14,551)	(98,727)	(95,208)
Increase in contract liabilities as a result of receiving sales deposits for the relevant unrecognised revenue at the end of the year/period	–	98,727	95,208	185,813
At the end of the year/period	–	98,727	95,208	185,813

23. ACCRUALS AND OTHER PAYABLES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Payroll payables	37,019	49,923	52,030	38,077
Interest payables	12,248	10,444	9,525	8,119
Lease payable	557,410	63,329	–	–
Other payables and accruals				
– third parties	235,989	71,079	67,100	112,069
– parent and ultimate controlling company	36,990	36,990	71,081	56,792
– fellow subsidiaries	132,987	256,034	128,136	59,725
Other tax payables	308,855	85,818	97,013	151,184
	1,321,498	573,617	424,885	425,966
Analysed as:				
Current liabilities	1,263,133	510,288	424,885	425,966
Non-current liabilities	58,365	63,329	–	–
	1,321,498	573,617	424,885	425,966

24. BANK LOANS

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans				
– Secured	8,100,000	6,990,000	5,960,000	5,698,800
– Unsecured	1,430,000	610,000	540,000	300,000
	9,530,000	7,600,000	6,500,000	5,998,800
Analysed as:				
Current liabilities	2,600,000	1,640,000	1,601,200	1,000,000
Non-current liabilities	6,930,000	5,960,000	4,898,800	4,998,800
	9,530,000	7,600,000	6,500,000	5,998,800

The bank loans were repayable as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year or on demand	2,600,000	1,640,000	1,601,200	1,000,000
After 1 year but within 2 years	970,000	261,200	400,000	700,000
After 2 years but within 5 years	1,881,100	1,781,100	3,471,100	2,131,100
After 5 years	4,078,900	3,917,700	1,027,700	2,167,700
	6,930,000	5,960,000	4,898,800	4,998,800
	9,530,000	7,600,000	6,500,000	5,998,800

Notes:

(i) The applicable interest rate per annum as at 31 December 2017, 2018 and 2019 and 30 June 2020 was ranging from 4.35% to 4.90% per annum.

(ii) The bank loan of RMB6,250,000,000, RMB6,300,000,000, RMB5,430,000,000 and RMB5,168,800,000 as at 31 December 2017, 2018 and 2019 and 30 June 2020 was secured by the guarantee from the parent and ultimate controlling company and a related party and mining rights at 31 December 2017, 2018 and 2019 and 30 June 2020 (note 14).

(iii) The bank loans of RMB500,000,000 and RMB160,000,000 were secured by the RMB500,000,000 and RMB160,000,000 bill receivables as at 31 December 2017 and 2018 respectively.

(iv) The bank loans of RMB1,350,000,000, RMB530,000,000, RMB530,000,000 and RMB530,000,000 as at 31 December 2017, 2018 and 2019 and 30 June 2020 was secured by the guarantee from the parent and ultimate controlling company.

(v) Interest payable on bank loans was included in other payables.

25. PROVISION FOR LAND SUBSIDENCE, RESTORATION, REHABILITATION AND ENVIRONMENTAL COSTS

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January	–	–	47,148	181,523
Additional provision in the year/period	–	47,148	134,375	69,763
Balance at 31 December/30 June	–	47,148	181,523	251,286

Provision for land subsidence, restoration, rehabilitation and environmental costs has been determined by the management of the Target Group based on their best estimates. However, in so far as the effect on the land and the environment from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to change in the near term.

26. OBLIGATIONS IN RELATION TO EARLY RETIREMENT SCHEME

The Target Group implemented early retirement benefit schemes which allows qualified employees to early retire on a voluntary basis. The Target Group undertakes the obligations to pay the early retirement employees' living expenses for no more than five years in the future on a monthly basis according to the early retirement benefit schemes, together with social insurance and housing fund pursuant to the regulation of the local Social Security Office. Living expenses, social insurance and the housing fund are together referred to as "the Payments". The Payments are forecasted to increase with reference to the inflation rate and adjusted based on the average death rate in China for the years ended 31 December 2017, 2018, 2019 and six months ended 30 June 2020. The Payments are discounted by the benchmark interest rate for loan of 31 December 2017, 2018, 2019 and 30 June 2020. As at 31 December 2017, 2018, 2019 and 30 June 2020, the current portion of the Payments within one year was reclassified to "Accruals and other payables".

As at 31 December 2017, 2018, 2019 and 30 June 2020, obligations in relation to retirement benefits under the Target Group's early retirement scheme are as follows:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January	3,767	7,748	14,521	19,701
Provision made during the year/period	5,079	8,278	8,581	2,430
Interest costs	185	380	712	483
Payment during the year/period	(1,283)	(1,885)	(4,113)	(2,771)
As at 31 December/30 June	7,748	14,521	19,701	19,843
Analysed as:				
Current liabilities	1,506	3,402	4,576	5,069
Non-current liabilities	6,242	11,119	15,125	14,774
	7,748	14,521	19,701	19,843

27. DEFERRED TAX ASSETS

(a) An analysis of deferred tax assets and liabilities in the consolidated statement of financial position is as follows:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets	–	–	526	782
Deferred tax liabilities	(105,783)	(96,413)	(105,664)	(85,659)
	(105,783)	(96,413)	(105,138)	(84,877)

(b) The followings are deferred tax recognised by the Target Group and movements thereon during the Relevant Periods:

Deferred tax assets

	Obligations in relation to early retirement scheme
	RMB'000
At 1.1.2017, 31.12.2017, 1.1.2018, 31.12.2018 and 1.1.2019	–
Credit for the year	526
At 31.12.2019 and 1.1.2020	526
Credit for the period	256
At 30.6.2020	782

Deferred tax liabilities

	Loss allowance on receivables and inventories	**Obligations in relation to early retirement scheme**	**Provision for land subsidence, restoration, rehabilitation environmental costs**	**Depreciation allowances**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1.1.2017	63	565	–	(134,331)	–	(133,703)
Credit for the year	15,163	642	–	12,115	–	27,920
At 31.12.2017 and 1.1.2018	15,226	1,207	–	(122,216)	–	(105,783)
(Charge)/Credit for the year	(11,842)	954	7,072	13,186	–	9,370
At 31.12.2018 and 1.1.2019	3,384	2,161	7,072	(109,030)	–	(96,413)
(Charge)/Credit for the year	(1,927)	438	20,157	(27,926)	7	(9,251)
At 31.12.2019 and 1.1.2020	1,457	2,599	27,229	(136,956)	7	(105,664)
Credit for the period	20	20	10,464	9,479	22	20,005
At 30.6.2020	1,477	2,619	37,693	(127,477)	29	(85,659)

28. CAPITAL MANAGEMENT

(a) Details of the Target Company's registered capital are set out below:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Registered capital	5,400,000	5,400,000	5,400,000	5,400,000

(b) Capital management

The Target Group's equity capital management objectives are to safeguard the Target Group's ability to continue as a going concern and to provide an adequate return to members commensurately with the level of risk. To meet these objectives, the Target Group manages the equity capital structure and makes adjustments to it in the light of changes in economic conditions by paying dividends to members, issuing new equity shares by the Target Group, and raising or repaying debts as appropriate.

The Target Group's equity capital management strategy, which was unchanged from the previous periods, is to maintain a reasonable proportion in net bank borrowings and equity capital. The Target Group monitors equity capital on the basis of the net debts-to-equity capital ratio, which is calculated as net bank borrowings over equity capital. Net debts are calculated as total debts less cash and bank balances. Equity capital comprises all components of equity.

The management of the Target Group reviews the capital structure periodically. The management considers the cost of capital and the risks associated with the capital. The Target Group manages its overall capital structure through the payment of dividends and raising of new capital as well as the issue of new debt or the redemption of existing debt.

29. RESERVES

Statutory reserve

Pursuant to the Company Law of the PRC and the Articles of Association of the PRC subsidiaries, it is required to appropriate 10% of each year's net profit of each PRC subsidiary according to the PRC accounting standard and regulations (after offsetting previous years' losses) to statutory reserve until such reserve reached 50% of its registered capital.

The appropriation to statutory reserves must be made before distribution of dividends to owners. This reserve shall only be used to make up for previous years' losses, to expand production operations, or to increase the capital of the PRC subsidiaries. The statutory reserve can be transferred to paid-in capital of the PRC subsidiaries, provided that the balance of the statutory reserve after such transfer is not less than 25% of their registered capital.

30. NON-CONTROLLING INTEREST

The following table summarises the information relating to the Target Group's subsidiary, Shaanxi Future Clean Chemicals Co., Ltd. (陝西未來清潔化學品有限公司), which had 49% non-controlling interest.

	As at 31 December 2019 *RMB'000*	As at 30 June 2020 *RMB'000*
Non-current assets	20,063	38,517
Current assets	15,696	19,570
Current liabilities	(5,662)	(27,728)
Non-current liabilities	–	(225)
Net assets	30,097	30,134
Carrying amount of non-controlling interest	14,748	14,766
Revenue	–	–
Profit for the year/period	97	36
Profit allocated to non-controlling interest	48	18
Cash flows from operating activities	98	42
Cash flows used in investing activities	(14,946)	(18,218)
Cash flows from financing activities	30,000	20,000
Net increase in cash and cash equivalents	15,152	1,824

31. RELATED PARTY TRANSACTIONS AND BALANCES

Apart from the transactions as disclosed in notes 18 to 24, the Target Group had the following material transactions with its related parties during the Relevant Periods:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Goods sold to related companies					
Sale of coal chemical products	21,834	23,417	22,006	11,038	7,826
Sales of materials	3,591	1,353	6,530	–	3,098
Sales of coal	7,571	1,123	217,360	–	429,678
Sales of coal chemical products	11,150	14,104	19,931	7,347	5,335
Loan interest income	73,895	60,321	53,905	30,078	12,035
Interest income	1,576	1,066	4,848	–	1,494
Rental income	110	110	110	–	55
Goods purchased from related companies					
Purchase of catalyst products	167,346	167,778	192,539	115,904	75,045
Purchase of material	4,918	278,199	419,478	183,771	99,384
Purchase of material and construction	264,154	318,966	512,042	154,887	218,644
Purchase of equipment	445	2,398	6,871	–	451
Construction	128,313	162,693	248,189	26,441	129,494

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Services rendered by related companies					
Technical service fee	54,498	55,113	60,438	23,847	36,368
Transportation fee	131,547	131,616	130,619	46,122	70,320
Integrated service fee	16,902	16,902	16,902	–	8,451
Agent fee	4,338	3,962	4,943	–	1,697
Maintenance fees	21,962	371,719	43,189	–	108,000
Guarantee fees paid to holding company	–	–	34,091	17,045	19,802

The Target Group have provided the following guarantee to lenders in the PRC for the loans granted to its related parties during the Relevant Periods.

(a) The Target Company have provided guarantee of RMB400,000,000 to a bank for a loan granted to its related party, Shaanxi Jingshen Railway Company Limited（陝西靖神鐵路有限責任公司）, from 26 July 2018.

(b) The Target Company have provided guarantee of RMB100,000,000 to Yulin branch of Chang'an Bank Co., Limited（長安銀行股份有限公司榆林分行）for the loan granted to it related party Yankuang Yuling Fine Chemical Co., Ltd. from 26 March 2019.

Balances and transactions with other state-controlled entities in the PRC

The Target Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Target Group itself is part of a large group of companies under the Parent Company which is controlled by the PRC government. Apart from the transactions with the Parent Company and its subsidiaries disclosed above, the Target Group also conducts business with other state-controlled entities. The directors of the Target Company consider those state-controlled entities are independent third parties so far as the Target Group's business transactions with them are concerned.

Material balances with other state-controlled entities are as follows:

	Year ended 31 December			**Six months ended 30 June**	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade sales	3,600,709	1,677,928	1,115,158	445,671	774,150
Trade purchases	422,056	363,849	451,976	190,266	34,511

Material transactions with other state-controlled entities are as follows:

	As at 31 December			**As at 30 June**
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to other state-controlled entities	–	182,060	300,344	30,680
Amounts due from other state-controlled entities	–	–	–	–

Amounts due from and to state-controlled entities are trade nature of which terms are not different from other customers and suppliers.

In addition, the Target Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the Directors are of the opinion that separate disclosure would not be meaningful.

Except as disclosed above, the Directors are of the option that transactions with other state-controlled entities are not significant to the Target Group's operations and no other transaction, arrangement or contract of significant to which the Target Company was a party and in which a director of the Target Company or a connected entity of the director of the Target Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

32. NATURE AND EXTENT OF FINANCIAL INSTRUMENTS RISKS

The Target Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk, interest rate risk and currency risk. The Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Target Group's financial performance.

(a) Credit risk

Credit risk is managed on a group basis. The credit risk of the Target Group mainly arises from cash and cash equivalents, trade receivables, deposits and other receivables. The carrying amounts of these balances represent the Target Group's maximum exposure to credit risk in relation to these assets.

The credit quality of the deposits and other receivables has been assessed with reference to historical information about the counterparties default rates and financial position of the counterparties. The Directors are of the opinion that the credit risk of the deposits and other receivables is low due to the sound financial position or collection history of the receivables due from them. Therefore, expected credit loss rate of the deposits and other receivables is assessed to be closed to zero and no provision was made as at 31 December 2018 and 2019 and 30 June 2020.

In respect of cash deposited at banks, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, expected credit loss rate of cash at bank is assessed to be closed to zero and no provision was made as at 31 December 2017, 2018 and 2019 and 30 June 2020.

As at the end of the reporting period, the Target Group's maximum exposure to credit risk which will cause a financial loss to the Target Group arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position due to failure to discharge an obligation by the counterparties.

The credit risk of the Target Group is concentrated on trade receivables from the top five largest customers at 31 December 2017, 2018 and 2019 and 30 June 2019 amounting to RMB18,272,000, RMB2,136,000, RMBNil and RMB29,022,000 respectively and accounted for 68%, 11%, 0% and 35% respectively of the Target Group's total trade receivables before impairment losses. These five largest customers include state-owned enterprises and private limited companies registered and operated in the PRC. In order to minimise credit risk, management continuously monitors the level of exposure by frequent review of the credit evaluation of the financial condition and credit quality of its customers to ensure that prompt actions will be taken to lower exposure. In addition, the Target Group performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on trade balances based on provision matrix. In this regard, the directors of the Target Company consider that the Target Group's credit risk is significantly reduced.

Financial instruments with credit risk assessment and expected credit loss measurement by group

Item	Grouping basis	Expected credit loss calculation approach
Other receivables – group of related dealings within the scope of combination	Related parties within the scope of combination	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and expectation of future economic conditions, and based on the default risk exposure and 12-month or lifetime expected credit loss rate.
Other receivables – group of receivables from government	Nature	
Other receivables – group of deposits receivables and others etc.		

Specific group and expected credit loss calculation approach

Item	Grouping basis	Expected credit loss calculation approach
Accounts receivable – grouping by age	Grouping by age combination	Simplified approach – provision matrix
Accounts receivable – group of related parties	Related parties within the scope of combination	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and expectation of future economic conditions, and based on the default risk exposure and lifetime expected credit loss rate.
Accounts receivable – state-owned enterprises	State-owned enterprises	
Bills receivable	Issuer of bills	The expected credit loss is calculated with reference to historical credit loss experience, in consideration of current conditions and expected of future economic conditions, and based on the default risk exposure and lifetime expected credit loss rate.

Management assessed that the expected credit loss rate and loss allowances for these balance to be insignificant during the Relevant Periods.

(b) Liquidity risk

Liquidity risk is the risk that the Target Group will encounter difficulty in meeting obligations associated with financial liabilities. The Target Group manages liquidity risk by monitoring its liquidity position through periodic preparation of cash flows and cash balances forecasts and periodic evaluation of the ability of the Target Group to meet its financial obligations.

The following tables show the remaining contractual maturities at the end of the each reporting period of the Target Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Target Group can be required to pay.

	At 31 December 2017				
	Carrying amount	**Total contractual undiscounted cash flows**	**Less than 1 year or on demand**	**Over 1 year but less than 5 years**	**Over 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade and bills payables	1,868,495	1,868,495	1,868,495	–	–
Accruals and other payables	1,321,498	1,321,498	1,263,133	58,365	–
Obligations in relation to early retirement scheme	7,748	9,451	1,885	5,304	2,262
Bank loans, secured	9,530,000	9,530,000	2,600,000	2,851,100	4,078,900
	12,727,741	12,729,444	5,733,513	2,914,769	4,081,162

	At 31 December 2018				
	Carrying amount	**Total contractual undiscounted cash flows**	**Less than 1 year or on demand**	**Over 1 year but less than 5 years**	**Over 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade and bills payables	1,590,322	1,590,322	1,590,322	–	–
Accruals and other payables	573,617	573,617	510,288	63,329	–
Obligations in relation to early retirement scheme	14,521	17,025	4,113	10,535	2,377
Bank loans, secured	7,600,000	7,600,000	1,640,000	2,042,300	3,917,700
	9,778,460	9,780,964	3,744,723	2,116,164	3,920,077

	At 31 December 2019				
	Carrying amount	**Total contractual undiscounted cash flows**	**Less than 1 year or on demand**	**Over 1 year but less than 5 years**	**Over 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade and bills payables	1,414,439	1,414,439	1,414,439	–	–
Accruals and other payables	424,885	424,885	424,885	–	–
Obligations in relation to early retirement scheme	19,701	22,940	5,541	14,633	2,766
Lease liabilities	68,292	70,767	70,767	–	–
Bank loans, secured	6,500,000	6,500,800	1,601,200	3,871,100	1,027,700
	8,427,316	8,433,030	3,516,831	3,885,733	1,030,466

	At 30 June 2020				
	Carrying amount	**Total contractual undiscounted cash flows**	**Less than 1 year or on demand**	**Over 1 year but less than 5 years**	**Over 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade and bills payables	1,522,180	1,522,180	1,522,180	–	–
Accruals and other payables	425,965	425,965	425,965	–	–
Obligations in relation to early retirement scheme	19,843	22,404	6,041	15,662	701
Bank loans, secured	5,998,800	5,998,800	1,000,000	2,831,100	2,167,700
	7,966,788	7,969,349	2,954,186	2,846,762	2,168,401

(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 Target Group may manage interest rate risk, when it is considered significant and cost-effective, by entering into appropriate swap contracts.

As at the end of each of the Relevant Periods, the Target Group does not have any significant exposure to the interest rate risk.

Sensitivity Analysis

The following table details the Group's sensitivity to a change of 100 basis points in the interest rate, assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year and all the variables were held constant. It includes the interest rate fluctuation of the abovementioned PBOC rate, LIBOR and LPR.

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
(Decrease) increase in profit or loss				
– if increases by 100 basis points	(76,287)	(56,252)	(45,973)	(35,637)
– if decreases by 100 basis points	76,287	56,252	45,973	35,637

(d) Currency risk

The Target Group's major businesses are in the PRC and the majority of the transactions are conducted in RMB. Most of the Target Group's assets and liabilities are denominated in RMB. As a result, the Target Group does not have material foreign currency risk during the Relevant Periods.

(e) Fair value

Fair value hierarchy

The following table presents the fair value of the Target Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13 "Fair Value Measurement". The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs, that is, unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using Level 2 inputs, that is, observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

The directors of the Target Company perform valuations of financial instruments at the end of each reporting period. As at 31 December 2018 and 2019 and 30 June 2020, the financial assets at fair value through profit or loss of the Target Group amounted to RMB168,000,000, RMB298,530,000 and RMB298,530,000 respectively are the only financial instruments carried at fair value and are categorised into Level 3 of the fair value hierarchy.

The Target Group did not have any financial liabilities measured at fair values as at 31 December 2017, 2018 and 2019 and 30 June 2020.

During the Relevant Periods, 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 liabilities.

Information about Level 3 fair value measurement

Unlisted equity investment is measured using valuation techniques based on inputs that can be observed in the markets in addition to unobservable inputs such as company specific financial information.

The Target Group uses the key inputs of market comparable companies, which include the valuation multiple, to determine the fair value of the unlisted equity investment as at 31 December 2018 and 2019 and 30 June 2020. The unobservable inputs are valuation multiple and marketability discount. Valuation multiple represents price-to-book ratio. The higher the valuation multiple, the lower the discounts for lack of marketability, the higher the fair value.

At 30 June 2020

Valuation techniques	**Significant unobservable inputs**	**Range**	**Increase/ (decrease) in unobservable inputs**	**Favourable/ (unfavourable) impact on profit or loss**
				RMB'000
Market Comparable Companies	Discount for lack of marketability	0%-15%	5% (5%)	(1,912) 1,912
	Market multiples	1.0-1.3	5% (5%)	14,958 (14,958)

At 31 December 2019

Valuation techniques	**Significant unobservable inputs**	**Range**	**Increase/ (decrease) in unobservable inputs**	**Favourable/ (unfavourable) impact on profit or loss**
				RMB'000
Market Comparable Companies	Discount for lack of marketability	0%-15%	5% (5%)	(2,034) 2,034
	Market multiples	1.0-1.4	5% (5%)	15,651 (15,651)

At 31 December 2018

Valuation techniques	Significant unobservable inputs	Range	Increase/ (decrease) in unobservable inputs *RMB'000*	Favourable/ (unfavourable) impact on profit or loss
Market Comparable Companies	Discount for lack of marketability	0%-15%	5% (5%)	(1,468) 1,468
	Market multiples	1.0-1.4	5% (5%)	8,319 (8,319)

Based on above valuation, there were no material gain or loss recognised in profit or loss during the Relevant Periods as the carrying amounts of unlisted equity investments approximate to their fair values.

The movements during the Relevant Periods in the balance of the Level 3 fair value measurement are as follows:

	As at 31 December 2018 *RMB'000*	As at 31 December 2019 *RMB'000*	As at 30 June 2020 *RMB'000*
At 1 January	80,000	168,000	298,530
Additions	88,000	130,530	–
At 31 December/30 June	168,000	298,530	298,530

The carrying amounts of the Target Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2017, 2018 and 2019 and 30 June 2020.

33. INVESTMENTS IN SUBSIDIARIES

The Target Company had direct interests in subsidiaries which are private limited liability company comprising the Group, the particulars of which are set out below:

Name of company	Place and date of incorporation	Legal form of entity	Effective interest attributable to the Target Group 2017	2018	2019	2020	Principal Activities
Shaanxi Future Clean Oil and Chemical Sales Co., Ltd. (陝西未來清潔油與化學品銷售有限公司)	PRC	Limited liabilities	100%	100%	100%	100%	Production and chemical products
Shaanxi Future Clean Chemicals Co., Ltd. (陝西未來清潔化學品有限公司)	PRC	Limited liabilities	–	–	51%	51%	Production and chemical products

34. CONTINGENT LIABILITIES

The Target Company have provided guarantee of RMB400,000,000 to a bank for a loan granted to its related party, Shaanxi Jingshen Railway Company Limited from 26 July 2018.

35. SUBSEQUENT EVENTS

a. Since the outbreak of the new coronavirus disease ("COVID-19 outbreak") in January 2020, the containment of the COVID-19 outbreak has been being under way throughout the country. The Target Group actively responds to and implements the national regulations and requirements for the prevention and control of the COVID-19. Since 30 June 2020, the COVID-19 outbreak was contained to some extent, but not completely eradicated, so that the Target Group will continue to responds to and implements the national regulations and requirements for the prevention and control of the COVID-19.

   It is expected that the COVID-19 outbreak and its containment measures will have a certain temporary impact on the Target Group's production and operations in the second half of 2020. The extent of impact depends on the progress and duration of the containment of the outbreak and the implementation of prevention and control policies in various regions.

   The Target Group keeps eyes on the development of the COVID-19 outbreak, evaluates its impact on the financial status and operating results of the Target Group, strengthens its efforts to contain the outbreak and promotes the resumption of work and production in an active and orderly manner.

b. The Target Company have declared a dividend of RMB2,000,000,000 on 6 August 2020.

36. CAPITAL COMMITMENT

Save as disclosed elsewhere is the consolidated financial statements, the Group had the following capital commitments.

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Capital expenditure contracted for but not provided in the consolidated financial statements				
Acquisition of investment in securities	168,000	–	–	–
Acquisition of property, plant and equipment	472,134	267,957	209,358	727,881
	640,134	267,957	209,358	727,881

37. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group in respect of any period subsequent to 30 June 2020 and up to the date of this report.

38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Liabilities from financing activities			
	Bank loan	**Interest payable**	**Lease liabilities**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2017	8,795,000	19,808	1,201,537	10,016,345
Cash flows	735,000	(438,481)	(686,002)	(389,483)
Other changes	–	430,921	41,875	472,796
As at 31 December 2017 and 1 January 2018	9,530,000	12,248	557,410	10,099,658
Cash flows	(1,930,000)	(426,358)	(345,846)	(2,702,204)
Other changes	–	424,554	(148,235)	276,319
As at 31 December 2018 and 1 January 2019	7,600,000	10,444	63,329	7,673,773
Cash flows	(1,100,000)	(187,000)	–	(1,287,000)
Other changes	–	186,081	4,963	191,044
As at 31 December 2019 and 1 January 2020	6,500,000	9,525	68,292	6,577,817
Cash flows	(501,200)	(153,016)	(70,767)	(724,983)
Other changes	–	151,610	2,475	154,085
As at 30 June 2020	5,998,800	8,119	–	6,006,919

B. ACCOUNTANTS' REPORT ON FINE CHEMICAL

The following is the text of a report for the sole purpose of inclusion in this circular, from the independent reporting accountants, Crowe (HK) CPA Limited, Certified Public Accountants, Hong Kong.

Crowe

國富浩華（香港）會計師事務所有限公司
Crowe (HK) CPA Limited
香港 銅鑼灣 禮頓道77號 禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

The Directors
Yanzhou Coal Mining Company Limited

Dear Sirs,

We report on the historical financial information of Yankuang Yuling Fine Chemical Co., Ltd. (the "Target Company") set out on pages II-B-4 to II-B-48, which comprises the statements of financial position of the Target Company and the statements of financial position of the Target Company as at 31 December 2017, 2018 and 2019 and 30 June 2020, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the Target Company for each of the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (the "Historical Financial Information"). This Historical Financial Information set out on pages II-B-4 to II-B-48 forms an integral part of this report, which has been prepared for inclusion in the circular of Yanzhou Coal Mining Company Limited (the "Company") dated 16 November 2020 (the "Circular") in connection with the proposed acquisition of 100% equity interest in the Target Company by the Company.

DIRECTORS' RESPONSIBILITIES FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 3 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with the Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 3 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, true and fair view of the financial position of the Target Company and the financial position of the Target Company as at 31 December 2017, 2018 and 2019 and 30 June 2020 and of its financial performance and its cash flows for the Relevant Periods in accordance with the basis of the preparation set out in note 3 to the Historical Financial Information.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION.

We have reviewed the stub period comparative financial information of the Target Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended 30 June 2019 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in note 3 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the

Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in note 3 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE MAIN BOARD OF THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

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

Dividends

We refer to note 11 to the Historical Financial Information which states that dividends have been declared and paid by the Target Company in respect of the relevant periods.

Crowe (HK) CPA Limited
Certified Public Accountants

Chung Wai Chuen Alfred
Practising Certificate Number: P05444

Hong Kong
16 November 2020

I. HISTORICAL FINANCIAL INFORMATION OF YANKUANG YULING FINE CHEMICAL CO., LTD.

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Target Company for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with accounting policies which conform with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "IASB") (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

(A) Statements of profit or loss and other comprehensive income

		Year ended 31 December			Six months ended 30 June	
	Note	**2017**	**2018**	**2019**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Revenue	*4*	184,461	189,098	219,128	112,156	83,552
Cost of sales		(141,771)	(157,655)	(164,427)	(84,876)	(59,840)
Gross profit		42,690	31,443	54,701	27,280	23,712
Other income	*5*	315	126	287	34	144
General and administrative expenses		(7,386)	(7,272)	(6,753)	(3,051)	(7,462)
Selling and distribution expenses		(4,182)	(4,171)	(3,894)	(1,889)	(1,273)
Research and development expenses		(7,456)	(7,939)	(6,804)	(2,160)	(1,908)
Profit from operations		23,981	12,187	37,537	20,214	13,213
Finance costs	*6*	(2,996)	(2,274)	(3,182)	(1,043)	(1,458)
Profit before income tax	*7*	20,985	9,913	34,355	19,171	11,755
Income tax expense	*8*	(2,697)	(1,616)	(5,313)	(2,680)	(1,773)
Profit and total comprehensive income for the year/period		18,288	8,297	29,042	16,491	9,982

(B) Statements of financial position

	Note	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000	As at 31 December 2019 RMB'000	As at 30 June 2020 RMB'000
Non-current assets					
Property, plant and equipment	*12*	196,965	180,092	162,059	151,277
Intangible assets	*13*	21,990	18,362	14,733	12,919
Prepayments	*17*	485	375	–	–
Right-of-use assets	*14*	–	–	266	211
		219,440	198,829	177,058	164,407
Current assets					
Inventories	*15*	26,313	22,548	18,444	17,060
Trade and bills receivables	*16*	12,067	6,695	39,147	53,149
Prepayments and other receivables	*17*	2,143	1,647	688	985
Cash and cash equivalents	*18*	3,427	441	2,259	6,458
		43,950	31,331	60,538	77,652
Deduct:					
Current liabilities					
Trade and bills payables	*19*	87,262	106,666	12,492	17,699
Contract liabilities	*20*	–	271	926	670
Accruals and other payables	*21*	60,438	3,423	3,857	4,144
Short-term bank loan, secured	*27*	–	–	70,000	–
Loan from a related company	*28*	–	–	–	60,000
Tax payable		–	–	1,538	804
		147,700	110,360	88,813	83,317
Net current liabilities		(103,750)	(79,029)	(28,275)	(5,665)
Total assets less current liabilities		115,690	119,800	148,783	158,742
Non-current liabilities					
Deferred tax liabilities	*22*	–	257	198	175
Net assets		115,690	119,543	148,585	158,567
Representing:					
Registered capital	*23*	46,200	46,200	46,200	46,200
Reserves	*24*	69,490	73,343	102,385	112,367
Total equity		115,690	119,543	148,585	158,567

(C) Statements of changes in equity

	Registered capital *RMB'000*	Statutory reserve *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
At 1.1.2017	46,200	4,990	46,212	97,402
Profit and total comprehensive income for the year	–	–	18,288	18,288
Appropriation	–	1,748	(1,748)	–
At 31.12.2017 and 1.1.2018	46,200	6,738	62,752	115,690
Profit and total comprehensive income for the year	–	–	8,297	8,297
Dividend paid *(Note 11)*	–	–	(4,444)	(4,444)
Appropriation	–	820	(820)	–
At 31.12.2018 and 1.1.2019	46,200	7,558	65,785	119,543
Profit and total comprehensive income for the year	–	–	29,042	29,042
Appropriation	–	3,043	(3,043)	–
At 31.12.2019 and 1.1.2020	46,200	10,601	91,784	148,585
Profit and total comprehensive income for the period	–	–	9,982	9,982
At 30.6.2020	46,200	10,601	101,766	158,567
(Unaudited)				
At 1.1.2019	46,200	7,558	65,785	119,543
Profit and total comprehensive income for the period	–	–	16,491	16,491
At 30.6.2019	46,200	7,558	82,276	136,034

(D) Statements of cash flows

	Note	Year ended 31 December 2017 RMB'000	2018 RMB'000	2019 RMB'000	Six months ended 30 June 2019 RMB'000 (unaudited)	2020 RMB'000
Cash flows from operating activities						
Profit before income tax		20,985	9,913	34,355	19,171	11,755
Adjustments for:						
Amortisation		3,496	3,628	3,629	1,814	1,814
Depreciation		21,510	23,644	22,848	11,424	11,366
Depreciation of right-of-use assets		–	–	109	55	55
Bank interest income		(36)	(28)	(38)	(23)	(30)
Interest expense		2,984	2,266	3,177	1,039	1,456
Operating profit before working capital changes		48,939	39,423	64,080	33,480	26,416
Changes in working capital:						
Inventories		619	3,765	4,104	7,995	1,384
Trade and bills receivables		81,354	5,372	(32,452)	22,704	(14,002)
Prepayments and other receivables		17,622	1,391	959	(56,221)	(297)
Trade payables		76,693	19,404	(94,174)	(95,178)	5,207
Contract liabilities		–	271	655	(238)	(256)
Accruals and other payables		35,184	(60,830)	(3,873)	1,749	(78)
Cash generated from/(used in) operations		260,411	8,796	(60,701)	(85,709)	18,374
Interest received		36	28	38	23	30
Income tax paid		(2,697)	(1,359)	(3,834)	(4,392)	(2,530)
Net cash generated from/(used in) operating activities		257,750	7,465	(64,497)	(90,078)	15,874

	Note	Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from investing activities						
Payments for acquisition of property, plant and equipment		(14,452)	(3,741)	(508)	(4)	(219)
Net cash used in investing activities		(14,452)	(3,741)	(508)	(4)	(219)
Cash flows from financing activities						
Proceeds from new bank loans		–	100,000	100,000	100,000	–
Repayment of bank loans		(240,000)	(100,000)	(30,000)	–	(70,000)
Loan from a related party		–	–	–	–	60,000
Dividend paid		–	(4,444)	–	–	–
Interest paid		(2,984)	(2,266)	(3,177)	(1,039)	(1,456)
Net cash (used in)/from financing activities		(242,984)	(6,710)	66,823	98,961	(11,456)
Net increase/(decrease) in cash and cash equivalents		314	(2,986)	1,818	8,879	4,199
Cash and cash equivalents at the beginning of the year/ period		3,113	3,427	441	441	2,259
Cash and cash equivalents at the end of the year/period		3,427	441	2,259	9,320	6,458
Analysis of the balances of cash and cash equivalents						
Cash at banks		3,427	441	2,259	9,320	6,458

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Yankuang Yuling Fine Chemical Co., Ltd. (the "Target Company") is a limited liability company established in the People's Republic of China (the "PRC"). The registered address of the Target Company is located at Shaanxi Province, Yulin City Yuyang District, Qianhe Town, North District of Yuheng Coal Chemical Industrial Park.

The principal activity of the Target Company is the production and sales of Fischer Tropsch synthesis catalysts, paraffin wax, sodium nitrate and potassium silicate. There has been no significant change in the Target Company's principal activities during the Relevant Periods.

In the opinion of directors of the Target Company (the "Directors"), as of the date of this report, the parent and ultimate controlling company of the Target Company is Yankuang Group Company Limited, a company established in the PRC and wholly owned by the State-owned Assets Supervision and Administration Commission of the People's Government of Shandong Province of the PRC.

2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following IFRSs in issue at 30 June 2020 have not been applied in the preparation of these financial statements since they were not yet effective for the annual period beginning on 1 January 2020:

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 16	Covid-19 – Related Rent Concession[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current[1]
Amendments to IAS 16	Proceeds before Intended[4]
Amendments to IAS 37	Cost of Fulfilling a Contract[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[4]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Annual Improvements to IFRSs	2018 – 2020 Cycle[4]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 June 2020
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2022

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of presentation

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"), which comprise all standards and interpretations approved by the IASB. The Historical Financial Information has been prepared under the historical costs convention except for certain financial instruments, which are stated at fair value.

3.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Target Company

A number of new and amended standards became applicable for the reporting period commencing on 1 January 2017, 2018, 2019 and 2020. The Target Company had to change its accounting policies and make modified retrospective adjustments as a result of adopting the following standards:

		Effective for annual periods beginning on or after
Amendments to IFRS 12	Annual improvements 2014-2016 cycle	1 January 2017
Amendments to IAS 7	Disclosure initiative	1 January 2017
Amendments to IAS 12	Recognition of deferred tax assets for unrealized losses	1 January 2017
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contract with Customers	1 January 2018
Amendments to IFRS 1 and IAS 28	Annual improvements 2014-2016 cycle	1 January 2018
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
Amendments to IFRS 4	Applying IFRS 9 financial instruments with IFRS 4 insurance contracts	1 January 2018
Amendments to IFRS 15	Clarifications to IFRS 15	1 January 2018
Amendments to IAS 40	Transfers to investment property	1 January 2018
IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018
IFRS 16	Leases	1 January 2019
Amendments to Annual Improvements Project	Annual improvements 2015-2017 cycle	1 January 2019
Amendments to IFRS 9	Prepayment features with negative compensation	1 January 2019
Amendments to IAS 19	Plan amendment, curtailment or settlement	1 January 2019
Amendments to IAS 28	Long-term interests in associates and joint ventures	1 January 2019
IFRIC 23	Uncertainty over income tax treatments	1 January 2019
Amendments to IFRS 3 (Revised)	Definition of a business	1 January 2020
Amendments to IAS 1 (Revised) and IAS 8	Definition of material	1 January 2020
Amendments to IAS 39, IFRS 7 and IFRS 9	Interest rate benchmark reform	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting	1 January 2020

The Target Company has assessed the impact of adopting these new standards and amendments. According to the preliminary assessment, these standards are not expected to have a material impact on the Target Company's operating results and financial position.

3.1.2 Changes in accounting policy and disclosures

This note explains the impact of the adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" on the Target Company's Historical Financial Information since 1 January 2018, as well as the impact of adoption of IFRS 16 "Leases" since 1 January 2019.

(i) IFRS 9 "Financial Instruments"

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Target Company has applied IFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 January 2018) in accordance with the transition provisions under IFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets and financial liabilities on initial application are recognised in retained earnings and other components of equity as at 1 January 2018.

The Target Company's accounting policies for the classification and measurement of financial instruments and the impairment of financial assets are disclosed in detail in note 3.15 below.

Classification and measurement of financial instruments

The directors of the Target Company reviewed and assessed its existing financial assets and liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 did not have significant impact on the Target Company's classification and measures of its financial assets and financial liabilities.

Loss allowance for expected credit losses ("ECL")

The adoption of IFRS 9 has changed the Target Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss model with a forward-looking expected credit loss ("ECL") model. As at 1 January 2018, the Directors reviewed and assessed the Target Company's existing financial assets and other items subject to ECL for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement of IFRS 9. The adoption of the ECL requirements under IFRS 9 had no significant impact to the Target Company's financial statements.

(ii) IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 superseded IAS 11 "Construction Contracts", IAS 18 "Revenue" and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether how much and when revenue is recognised. The Target Company has elected to adopt the modified retrospective approach for contracts with customers that are not completed as at the date of initial application (i.e. 1 January 2018) with the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings and comparative information is not restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 "Revenue". Details are described below.

The Directors are of the opinion that the adoption of IFRS 15 has no impact on the timing of revenue recognition of the Target Company.

The Target Company's accounting policies for its revenue streams are disclosed in detail in note 3.3 below.

The amount of adjustment for each financial statement line item of the statement of financial position at 1 January 2018 affected by the application of IFRS 15 is illustrated below. Line items that were not affected by the changes have not been included.

	Carrying amount previously reported at 31 December 2017	Impact on adoption of IFRS 15 – Reclassification	Carrying amount as restated at 1 January 2018
	RMB'000	*RMB'000*	*RMB'000*
Accruals and other payables	60,438	(42,460)	17,978
Contract liabilities	–	42,460	42,460

Advances received from customers

As at 1 January 2018, the "receipts in advance" of RMB42,460,000 previously included in other payables and accruals was reclassified to contract liabilities.

Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of IFRS on 1 January 2018

The following table summarises the estimated impact of applying IFRS 15 on the statement of financial position at 31 December 2018, by comparing the amounts reported under IAS 18 and related interpretations that were in effect before the change. Line items that were not affected by the adjustments have not been included. The adoption of IFRS 15 did not have material impact on the Target Company's operating, investing and financing cash flows.

Impact on the statement of financial position at 31 December 2018

	As reported	Impact on adoption of IFRS 15	Amounts excluding impacts of adopting IFRS 15
	RMB'000	*RMB'000*	*RMB'000*
Other payables and accruals	3,423	271	3,694
Contract liabilities	271	(271)	–

(iii) IFRS 16 "Leases"

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described in note 3.10. Comparative information has not been restated and continues to be reported under IAS 17 "Leases".

On transition to IFRS 16, the Target Company elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC-4 "Determining whether an Arrangement contains a Lease" were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

The Target Company as lessee

Operating lease

On adoption of IFRS 16, the Target Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 "Leases" (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The adoption of IFRS 16 did not have material impact on the Target Company's financial statements as it did not have any operating lease arrangements.

Finance lease

In addition, the Target Company leases land use right that were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the leased asset and lease liability under IAS 17 immediately before that date. There is no impact on the opening balance of equity.

The following table summarises the impact of the transition to IFRS 16 at 1 January 2019. Line items that were not affected by the adjustments have not been included.

	Carrying amount previously reported at 31 December 2018	**Impact on adoption of IFRS 16**	**Carrying amount as restated at 1 January 2019**
	RMB'000	*RMB'000*	*RMB'000*
Prepayments	375	(375)	–
Right-of-use assets	–	375	375

Practical expedients applied

On the date of initial application of IFRS 16, the Target Company has used the following practical expedients permitted by the standard:

- not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Target Company relied on its assessment made applying IAS 17 and IFRIC-4 "Determining whether an Arrangement contains a Lease";
- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous by applying IAS 37 as an alternative to performing an impairment review;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

3.1.3 Adoption of the going concern basis

When preparing the financial statements, the Target Company's ability to continue as a going concern has been assessed. These financial statements have been prepared by the Directors on a going concern basis notwithstanding that the Target Company had net current liabilities of approximately RMB103,750,000, RMB79,029,000, RMB28,275,000 and RMB5,665,000 at 31 December, 2017, 2018 and 2019 and 30 June 2020, respectively. The Directors have prepared a cash flow forecast of the Target Company covering a period of twelve months from 30 June 2020 (the "Cash Flow Forecast"). Based on the Cash Flow Forecast, the Directors are of the opinion that the Target Company is able to continue as a going concern and it is appropriate to prepare the financial statements on a going concern basis.

Should the Target Company be unable to continue in business as a going concern, adjustments would have to be made to restate the value of assets to their recoverable amounts, to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively and to provide for any further liabilities which might arise.

3.2 Impairment of tangible and intangible assets other than goodwill

At each reporting date, the Target Company reviews the carrying amounts of its tangible assets and intangible assets with finite useful life to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset (determined at the higher of its fair value less costs of disposal and its value in use) is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with an indefinite useful life will be tested for impairment annually. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as an income immediately. For the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Assessment is performed for each area of interest in conjunction with the group of operating assets (representing a cash generating unit) to which the Target Company's activity is attributed.

3.3 Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the Target Company uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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

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

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

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

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

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

Contract liabilities

A contract liability represents the Target Company's obligation to transfer goods or services to a customer for which the Target Company has received consideration from the customer.

The Target Company recognised revenue from the following major sources:

- Sales of goods (including catalyst and sodium nitrate)

Sales of goods

Revenue from sale of catalyst and sodium nitrate is recognised at the point when the control of the goods is transferred to the customers (generally on delivery of the goods to the location specified by the customers and accepted by the customers). It is a point of time where the customer has the ability to direct the use of the products and obtain substantially all of the remaining benefits of the products.

3.4 Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life. Expenditure incurred on projects to develop new products is capitalised only when the Target Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development.

3.5 Property, plant and equipment

Property, plant and equipment (including right-of-use assets), other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Ownership interests in leasehold land and buildings

For payments of ownership interest of properties which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Target Company when the payments cannot be allocated reliably between the leasehold land and building elements.

To the extend the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of IFRS 16) or "prepaid lease payments" (before application IFRS 16) in the statement of financial position.

Depreciation is charged so as to write off the cost of items of property, plant and equipment, other than construction in progress and freehold land, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method or unit of production method.

Category	**Estimated useful life**	**Estimated residual values**
Land and buildings	20 years	0%
Machinery	1 – 10 years	0%
Electronic and other equipment	4 years	0%
Motor vehicles	1 – 10 years	0%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at the end of each reporting periods.

Any gain or loss arising on the disposal of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised immediately in the statement of profit or loss.

3.6 Construction in progress

Construction in progress represents production site development projects under construction for production or for its own use purposes. Construction in progress is carried at cost less any impairment loss. Costs included costs of constructing the manufacturing plant and acquisition of mining rights, mining permits and licenses that form an integral part of the overall development projects. Construction in progress is classified to the appropriate category of property, plant and equipment or intangible assets when completed and ready for intended use. Depreciation or amortisation commences when the assets are ready for their intended use.

3.7 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and other financial institution and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the preparation of cash flow statement, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Target Company's cash management.

3.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises direct materials and, where applicable, direct labour and overheads that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price less all further costs to completion and costs to be incurred in selling, marketing and distribution.

Inventories of auxiliary materials, spare parts and small tools expected to be used in production are stated at weighted average cost less allowance, if necessary, for obsolescence.

3.9 Taxation

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

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

Deferred tax is recognised on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Target Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on either (i) the same taxable entity; or (ii) 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.

3.10 Leasing

Definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identifiable asset for a period of time in exchange for consideration.

The Target Company as lessee

The Target Company assesses whether a contract is or contains a lease, at inception of the contract. The Target Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Target Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date, the Target Company measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Target Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the Target Company exercising an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.

- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received. Whenever the Target Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under IAS 37 "Provision, Contingent Liabilities and Contingent Assets". The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

They are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Target Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Target Company presents right-of-use assets as a separate line in the statement of financial position.

The Target Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Target Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Target Company hasused this practical expedient for all leases.

3.11 Provisions and contingent liabilities

Provisions are recognised when the Target Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Target Company are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3.12 Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Target Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Target Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

3.13 Retirement benefit costs

Payments to defined contribution plans including included state-managed retirement benefit schemes and superannuation funds are recognised as an expense when employees have rendered service entitling them to the contributions.

3.14 Short-term and other long-term employee benefits

Benefits accruing to employees in respect of wages and salaries, annual leave and sick leave are included in other payables and accrued expenses. Related on-costs are also included in other payables and accrued expenses as other creditors. Long service leave is provided for when it is probable that settlement will be required and it is capable of being measured reliably.

Employee benefits expected to be settled within 12 months are measured using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Target Company in respect of services provided by employees up to the reporting date.

3.15 Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Target Company becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value, except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, FVTOCI and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Target Company's business model for managing them.

Financial assets at amortised cost (debt instruments)

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

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- 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 amoritsed cost are subsequently measured using the effective interest method and are subject to impairment.

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the "Other income" line item (note 5).

Equity instruments designated as at FVTOCI

On initial recognition, the Target Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Target Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "Other income" line item in profit or loss.

Financial asset at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Target Company designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.

- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Target Company has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "Other income" line item.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or

- on initial recognition, it is part of a portfolio of identified financial instruments that the Target Company manages together and has evidence of a recent actual pattern of short-term profit-taking; or

- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Impairment of financial assets

The Target Company recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost as well as financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Target Company always recognises lifetime ECL for bills and accounts receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Target Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

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

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Target Company 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. In making this assessment, the Target Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

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

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

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

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

- significant increases in credit risk on other financial instruments of the same debtor;

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

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

Despite the foregoing, the Target Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Target Company considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

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

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

Definition of default

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

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target Company, in full (without taking into account any collaterals held by the Target Company).

Credit-impaired financial assets

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

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;

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

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Target Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 4 years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Target Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Target Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Target Company in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at the original effective interest rate.

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

If the Target Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Target Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Target Company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. On derecognition of an investment in equity instrument which the Target Company has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities and equity instruments

Classification as debt or equity

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities at FVTPL are stated at fair value with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liabilities and is included in the 'other income' line item in profit or loss.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

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

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and do not arise from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition of financial liabilities

The Target Company derecognises financial liabilities when, and only when, the Target Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Offsetting financial instruments

Financial assets and liabilities of the Target Company are offset and the net amount presented in the statement of financial position when, and only when, there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

3.16 Fair value measurement

When measuring fair value except for the Target Company's leasing transactions, net realisable value of inventories and value-in-use of intangible assets, prepaid lease payments, property, plant and equipment and construction in progress for the purpose of impairment assessment, the Target Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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.

The Target Company 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. Specifically, the Target Company categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1	–	Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2	–	Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3	–	Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Target Company determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

3.17 Significant accounting judgements and estimates

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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

(i) Depreciation

Property, plant and equipment are depreciated on straight-line basis over the estimated useful lives, after taking into account the estimated residual value if any. The Target Company reviews the estimated useful lives and basis of depreciation of property, plant and equipment regularly in order to determine the amount of depreciation expenses to be recorded during any reporting period. The useful lives and basis of depreciation are based on the Target Company's historical experience with similar assets and take into account anticipated technological changes. The depreciation expenses for future periods are adjusted prospectively if there are significant changes from previous estimates.

(ii) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions, technology changes and the historical experience of selling products with similar nature. It could change significantly as a result of changes in customer preference or competitor actions. The Target Company reassesses these estimates at the end of each reporting period.

(iii) Impairment of trade receivables and other receivables

Impairment of trade receivables and other receivables is made based on assessment of their recoverability. The identification of impairment of trade receivables and other receivables requires management's judgment and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and impairment loss or reversal of impairment in the period in which such an estimate has been changed.

(iv) Current and deferred income taxes

The Target Company is subject to income taxes in Mainland China. Judgements and estimations are required in determining the provision for income taxes for certain transactions (including inter-company transactions) and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the periods in which such determinations are made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation in the periods in which such estimate is changed.

4. OPERATING SEGMENT INFORMATION AND REVENUE

During the Relevant Periods, the Target Company's revenue was generated form production and trading of catalyst and sodium nitrate in the PRC. The Target Company sells goods directly to its related parties, normally within 180 days to 365 days credit period. The Target Company also sells goods to third party customers on Cash On Delivery (COD) basis, no credit period granted to third party customers. Management monitors the operating results as a whole for the purpose of making decisions about resources allocation and performance assessment. Accordingly, no operating segment information is presented. An analysis of revenue of the Target Company is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Revenue from contracts with customers within the scope of IFRS 15					
Sales of catalyst	167,346	167,778	192,539	99,115	75,045
Sales of sodium nitrate	16,889	21,190	26,328	12,894	8,387
	184,235	188,968	218,867	112,009	83,432
Revenue from other sources					
Sales of waste materials	226	130	261	147	120
	184,461	189,098	219,128	112,156	83,552
Disaggregated by timing of revenue recognition					
– At a point in time	184,461	189,098	219,128	112,156	83,552

4.1 Geographical information

All of the Target Company's revenue were generated in the PRC. All of the Target Company's non-current assets are located in the PRC.

4.2 Revenue from major customers

Revenue from customers of the Relevant Periods contributing over 10% of the total sales of the Target Company are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Customer A	167,346	167,778	192,539	99,115	75,045

5. OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Bank interest income	36	28	38	23	30
Government grants *(Note)*	258	69	206	–	90
Commission fee	–	14	–	–	23
Penalty income	21	15	43	11	1
	315	126	287	34	144

Note: Government grants have been received from PRC local government authorities to support a company's project, local worker's Employment Support Scheme. There are no unfulfilled conditions or contingencies relating to these grants.

6. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Interest on bank loans	2,984	2,266	3,177	1,039	1,456
Bank charges	12	8	5	4	2
	2,996	2,274	3,182	1,043	1,458

7. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
(a) Staff costs					
Salaries and other benefits	4,489	4,626	4,532	1,935	1,954
Staff welfare	1,661	1,915	1,977	1,032	1,024
Defined contribution retirement plan contributions	575	756	707	258	259
	6,725	7,297	7,216	3,225	3,237
(b) Other items:					
Amortisation	3,496	3,628	3,629	1,814	1,814
Cost of inventories sold	141,771	157,655	164,427	84,876	59,840
Depreciation of property, plant and equipment	21,510	23,644	22,848	11,424	11,366
Depreciation on right-of-use assets	–	–	109	55	55

8. INCOME TAX EXPENSE

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Current tax					
Provision for the year/period	2,697	1,359	5,372	2,680	1,796
Deferred tax					
Charge/(credit) for the year/period – note 22	–	257	(59)	–	(23)
	2,697	1,616	5,313	2,680	1,773

Income tax provision of the Target Company has been calculated at the applicable tax rate on the estimated assessable profits for the Relevant Periods, based on the existing legislation, interpretations and practices in respect thereof.

The National People's Congress approved the Corporate Income Tax Law of the PRC (the "New CIT Law") on 16 March 2007 and the State Council has announced the Detailed Implementation Regulations on 6 December 2007, which has been effective since 1 January 2008. According to the New CIT Law, the income tax rates for both domestic and foreign investment enterprises are unified at 25% effective from 1 January 2008.

According to the "Notice on Announcement of the List of the Second Batch of High-tech Enterprises and the List of the First Batch of High-tech Enterprises (Supplementary) in Shaanxi Province in 2017" (Shaanke Chanfa "2017" No. 221) announced on December 29, 2017, the Target Company is recognised as a high-tech enterprise and enjoys 15% tax preferential policies. The high-tech enterprise certificate number is GR201761000958. The date of issuance is December 24, 2017. The validity period is three years, from 2017 to 2020.

A reconciliation between income tax expense and profit before income tax at applicable tax rates is set out below:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Profit before income tax	20,985	9,913	34,355	19,171	11,755
Taxation at the applicable tax rate	3,148	1,487	5,154	2,876	1,763
Tax effect of non-deductible expenses	128	422	441	–	10
Additional deduction of research and development expenses and capital expenditure	(579)	(293)	(282)	(196)	–
Income tax expense	2,697	1,616	5,313	2,680	1,773

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

No directors' emoluments has been paid by the Target Company during the Relevant Periods and the six months ended 30 June 2019, disclosed pursuant to the Rules Governing The Listing of Securities on the Stock Exchange (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:

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the Relevant Periods and the six months ended 30 June 2019. No emoluments were paid by the Target Company to any of the directors or supervisors as an inducements to join or upon joining the Target Company or as compensating for loss of office.

Five highest paid employees

An analysis of the five highest paid employees within the Target Company for the Relevant Periods and the six months ended 30 June 2019 is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Directors	–	–	–	–	–
Non-directors	2,005	1,854	1,751	677	855
	2,005	1,854	1,751	677	855
Number of directors	–	–	–	–	–
Number of non-directors	5	5	5	5	5

Details of the remuneration of the non-directors are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Other emoluments					
Salaries and other benefits	1,818	1,665	1,558	576	759
Defined contribution retirement plan contribution	187	189	193	101	96
	2,005	1,854	1,751	677	855

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE TARGET COMPANY

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

11. DIVIDENDS

The dividends declared by the Target Company to their then shareholders during the Relevant Periods were as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Dividends paid to then shareholders	–	4,444	–	–	–

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery	Motor vehicle	Electronic and other equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the six months ended 30 June 2020						
Opening net book value	93,231	68,660	41	127	–	162,059
Additions	–	584	–	–	–	584
Depreciation	(3,010)	(8,315)	(22)	(19)	–	(11,366)
Closing net book value	90,221	60,929	19	108	–	151,277
At 30.6.2020						
Cost	120,407	149,773	312	2,312	–	272,804
Aggregate depreciation	(30,186)	(88,844)	(293)	(2,204)	–	(121,527)
Net book value	90,221	60,929	19	108	–	151,277
For the year ended 31 December 2019						
Opening net book value	97,306	82,585	87	114	–	180,092
Additions	1,853	2,919	–	43	–	4,815
Depreciation	(5,928)	(16,844)	(46)	(30)	–	(22,848)
Closing net book value	93,231	68,660	41	127	–	162,059
At 31.12.2019						
Cost	120,407	149,189	312	2,312	–	272,220
Aggregate depreciation	(27,176)	(80,529)	(271)	(2,185)	–	(110,161)
Net book value	93,231	68,660	41	127	–	162,059

	Buildings RMB'000	Machinery RMB'000	Motor vehicle RMB'000	Electronic and other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
For the year ended 31 December 2018						
Opening net book value	103,234	92,319	165	462	785	196,965
Additions	–	6,771	–	–	–	6,771
Transfer from CIP	–	785	–	–	(785)	–
Depreciation	(5,928)	(17,290)	(78)	(348)	–	(23,644)
Closing net book value	97,306	82,585	87	114	–	180,092
At 31.12.2018						
Cost	118,554	146,270	312	2,269	–	267,405
Aggregate depreciation	(21,248)	(63,685)	(225)	(2,155)	–	(87,313)
Net book value	97,306	82,585	87	114	–	180,092
For the year ended 31 December 2017						
Opening net book value	103,647	92,645	243	983	–	197,518
Additions	5,254	14,738	–	180	785	20,957
Depreciation	(5,667)	(15,064)	(78)	(701)	–	(21,510)
Closing net book value	103,234	92,319	165	462	785	196,965
At 31.12.2017						
Cost	118,554	138,714	312	2,269	785	260,634
Aggregate depreciation	(15,320)	(46,395)	(147)	(1,807)	–	(63,669)
Net book value	103,234	92,319	165	462	785	196,965

The Target Company is in the process of obtaining the relevant building ownership certificate. The directors do not foresee any major obstacles to issuing the certificates of the above-mentioned buildings to the Target Company. The carrying amount of the above-mentioned buildings amounted to RMB103,234,000, RMB97,306,000, RMB93,231,000, RMB73,156,000 at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively.

13. INTANGIBLE ASSETS

	Patents
	RMB'000
For the six months ended 30 June 2020	
Opening net book value	14,733
Amortisation	(1,814)
Closing net book value	12,919
At 30.6.2020	
Cost	32,000
Aggregate amortisation	(19,081)
Net book value	12,919
For the year ended 31 December 2019	
Opening net book value	18,362
Amortisation	(3,629)
Closing net book value	14,733
At 31.12.2019	
Cost	32,000
Aggregate amortisation	(17,267)
Net book value	14,733
For the year ended 31 December 2018	
Opening net book value	21,990
Amortisation	(3,628)
Closing net book value	18,362
At 31.12.2018	
Cost	32,000
Aggregate amortisation	(13,638)
Net book value	18,362
For the year ended 31 December 2017	
Opening net book value	23,486
Additions	2,000
Amortisation	(3,496)
Closing net book value	21,990
At 31.12.2017	
Cost	32,000
Aggregate amortisation	(10,010)
Net book value	21,990

As at 31 December 2019 and 30 June 2020, right-of-use assets represents prepaid lease payments of land use rights located in the PRC leased from a related company.

14. LEASE

(i) Amounts recognised in the statements of financial position

Right-of-use assets

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Land use rights	–	–	266	211

As at 31 December 2019 and 30 June 2020, right-of-use assets represents prepaid lease payments of land use rights located in the PRC leased from a related company.

Amounts recognised in profit or loss

	Year ended 31 December 2017	Year ended 31 December 2018	Year ended 31 December 2019	Period ended 30 June 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Depreciation expense on right-of-use assets	–	–	109	55

15. INVENTORIES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	5,796	3,811	5,602	6,391
Finished goods	20,517	18,737	12,842	10,669
	26,313	22,548	18,444	17,060

16. TRADE AND BILLS RECEIVABLES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables – note 16(a)				
– third parties	–	95	–	–
– related parties	–	–	22,047	52,149
Less: impairment loss on trade receivables	–	–	–	–
	–	95	22,047	52,149
Bills receivables – note 16(b)				
– third parties	2,000	2,000	–	1,000
– related parties	10,067	4,600	17,100	–
	12,067	6,695	39,147	53,149

The Target Company normally allows credit terms to related parties ranging from 180 to 365 days. The Target Company seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the Directors. Trade and bills receivables are expected to be recovered within one year.

(a) An aging analysis of trade and bills receivables as at the end of each reporting period, based on the date of recognition of the goods sold, is as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	12,067	6,695	39,147	53,149

Details of impairment assessments on trade and bill receivables from customers are set out in note 26(a).

(b) As at 31 December 2018, bills receivables of RMB2,300,000 were pledged to obtain general banking facilities available to the Target Company. There were no pledges as at 31 December 2017, 2019 and 30 June 2020.

17. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other receivables				
– related parties	233	227	456	290
Prepayments	813	874	232	695
VAT receivables	1,582	921	–	–
	2,628	2,022	688	985
Analysed as:				
Non-current assets	485	375	–	–
Current assets	2,143	1,647	688	985
	2,628	2,022	688	985

The current portion of prepayments and other receivables are expected to be recovered or recognised as expense within one year.

18. CASH AND CASH EQUIVALENTS

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at banks	3,427	441	2,259	6,458

19. TRADE AND BILLS PAYABLES

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables				
– third parties	13,085	10,725	6,676	13,861
– related parties	74,177	93,799	5,816	3,838
	87,262	104,524	12,492	17,699
Bills payables	–	2,142	–	–
	87,262	106,666	12,492	17,699

The Target Company normally obtains credit terms of 90 – 180 days from its suppliers.

An aging analysis of the trade and bills payables at the end of each reporting period, based on the date of receipt of goods purchased, is as follows:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	87,262	106,666	12,492	17,699

20. CONTRACT LIABILITIES

The Target Company recognised the following revenue-related contract liabilities from contract with customers:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contract liabilities	–	271	926	670

Contract liabilities mainly consists of sales deposits received from customers for which the related revenue had not been recognised as at 31 December 2018 and 2019 and 30 June 2020, and the Directors expects those related revenue to be recognised within the next twelve months.

The following table shows the movements in contract liabilities during the Relevant Periods related to carried-forward contract liabilities.

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	–	42,460	271	926
Decrease in contract liabilities as a result of recognising revenue during the year /period that was included in the contract liabilities at the beginning of the year/period	–	(42,460)	(271)	(926)
Increase in contract liabilities as a result of receiving sales deposits, for the relevant unrecognised revenue at the end of the year/period	–	271	926	670
At the end of the year/period	–	271	926	670

21. ACCRUALS AND OTHER PAYABLES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Payroll payables	1,360	1,902	2,479	1,635
Other payables, accruals and receipt in advance				
– third parties	1,094	215	33	942
– related parties	57,130	–	5	–
Other tax payables	854	1,306	1,340	1,567
	60,438	3,423	3,857	4,144

22. DEFERRED TAX LIABILITIES

The followings are deferred tax liabilities recognised by the Target Company and movements thereon during the Relevant Periods:

	Accelerated depreciation allowances
	RMB'000
At 1.1.2017	–
Credit/(charge) for the year	–
At 31.12.2017 and 1.1.2018	–
Charge for the year	257
At 31.12.2018 and 1.1.2019	257
Credit for the year	(59)
At 31.12.2019 and 1.1.2020	198
Credit for the period	(23)
At 30.6.2020	175

23. CAPITAL MANAGEMENT

(a) Details of the Target Company's registered capital are set out below:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Registered capital	46,200	46,200	46,200	46,200

(b) Capital management

The Target Company's equity capital management objectives are to safeguard the Target Company's ability to continue as a going concern and to provide an adequate return to members commensurately with the level of risk. To meet these objectives, the Target Company manages the equity capital structure and makes adjustments to it in the light of changes in economic conditions by paying dividends to members, issuing new equity shares by the Target Company, and raising or repaying debts as appropriate.

The Target Company's equity capital management strategy, which was unchanged from the previous periods, is to maintain a reasonable proportion in net bank borrowings and equity capital. The Target Company monitors equity capital on the basis of the net debts-to-equity capital ratio, which is calculated as net bank borrowings over equity capital. Net debts are calculated as total debts less cash and bank balances. Equity capital comprises all components of equity.

The management of the Target Company reviews the capital structure periodically. The management considers the cost of capital and the risks associated with the capital. The Target Company manages its overall capital structure through the payment of dividends and raising of new capital as well as the issue of new debt or the redemption of existing debt.

24. RESERVES

(a) Statutory reserve

Pursuant to the Company Law of the PRC and the Articles of Association, it is required to appropriate 10% of each year's net profit according to the PRC accounting standard and regulations (after offsetting previous years' losses) to statutory reserve until such reserve reached 50% of its registered capital.

The appropriation to statutory reserves must be made before distribution of dividends to owners. This reserve shall only be used to make up for previous years' losses, to expand production operations, or to increase the capital of the Target Company. The statutory reserve can be transferred to paid-in capital of the Target Company, provided that the balance of the statutory reserve after such transfer is not less than 25% of their registered capital.

25. RELATED PARTY TRANSACTIONS AND BALANCES

Apart from the transactions as disclosed in notes 14, 16, 17, 19, 21, 27 and 28, the Target Company had the following material transactions with its related parties during the Relevant Periods:

	Year ended 31 December			**Six months ended 30 June**	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Goods sold to related companies					
– Sales of catalyst products	167,346	167,778	192,539	99,115	75,045
– Interest income	13	10	16	9	27
Goods purchased from related companies					
– Purchase of goods	30,661	34,176	32,148	16,673	11,357
– Services rendered by related companies	9,960	2,830	5,424	684	275

26. NATURE AND EXTENT OF FINANCIAL INSTRUMENTS RISKS

The Target Company's activities expose it to a variety of financial risks, including credit risk, liquidity risk, interest rate risk and currency risk. The Target Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Target Company's financial performance.

(a) Credit risk

Credit risk is managed on a group basis. The credit risk of the Target Company mainly arises from cash at banks, trade and bills receivables, other receivables. The carrying amounts of these balances represent the Target Company's maximum exposure to credit risk in relation to these assets.

The credit quality of the other receivables has been assessed with reference to historical information about the counterparties default rates and financial position of the counterparties. The directors of the Target Company are of the opinion that the credit risk of the other receivables is low due to the sound financial position or collection history of the receivables due from them. Therefore, expected credit loss rate of the other receivables is assessed to be closed to zero and no provision was made as at 31 December 2018 and 2019 and 30 June 2020.

In respect of cash deposited at banks, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, expected credit loss rate of cash at bank is assessed to be closed to zero and no provision was made as at 31 December 2017, 2018 and 2019 and 30 June 2020.

As at the end of the reporting period, the Target Company's maximum exposure to credit risk which will cause a financial loss to the Target Company arising from the carrying amount of the respective recognised financial assets as stated in the statement of financial position due to failure to discharge an obligation by the counterparties.

The credit risk of the Target Company is concentrated on trade receivables from the largest customer at 31 December 2017, 2018 and 2019 and 30 June 2019 amounting to RMBNil, RMBNil, RMB22,047,000 and RMB52,149,000 respectively and accounted for 0%, 0%, 100% and 100% respectively of the Target Company's total trade and bills receivables before impairment losses. The largest customer is a related company. In order to minimise credit risk, management continuously monitors the level of exposure by frequent review of the credit evaluation of the financial condition and credit quality of its customers to ensure that prompt actions will be taken to lower exposure. In addition, the Target Company performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on trade balances based on provision matrix. In this regard, the directors of the Target Company consider that the Target Company's credit risk is significantly reduced.

Financial instruments with credit risk assessment and expected credit loss measurement by group

Item	Grouping basis	Expected credit loss calculation approach
Other receivables – group of related dealings within the scope of combination	Related parties within the scope of combination	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and expectation of future economic conditions, and based on the default risk exposure and 12-month or lifetime expected credit loss rate.
Other receivables – group of receivables from government	Nature	
Other receivables – group of deposits receivables and others etc.		

Specific group and expected credit loss calculation approach

Item	Grouping basis	Expected credit loss calculation approach
Accounts receivable – grouping by age	Grouping by age combination	Simplified approach – provision matrix
Accounts receivable – group of related parties	Related parties within the scope of combination	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and expectation of future economic conditions, and based on the default risk exposure and lifetime expected credit loss rate.
Accounts receivable – state-owned enterprises	State-owned enterprises	
Bills receivable	Issuer of bills	The expected credit loss is calculated with reference to historical credit loss experience, in consideration of current conditions and expected of future economic conditions, and based on the default risk exposure and lifetime expected credit loss rate.

Management assessed that the expected credit loss rate and loss allowances for these balance to be insignificant during the Relevant Periods.

(b) Liquidity risk

Liquidity risk is the risk that the Target Company will encounter difficulty in meeting obligations associated with financial liability. The Target Company manages liquidity risk by monitoring its liquidity position through periodic preparation of cash flows and cash balances forecasts and periodic evaluation of the ability of the Target Company to meet its financial obligations.

The following tables show the remaining contractual maturities at the end of the each reporting period of the Target Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Target Company can be required to pay.

	At 31 December 2017				
	Carrying amount	**Total contractual undiscounted cash flows**	**Less than 1 year or on demand**	**Over 1 year but less than 5 years**	**Over 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade and bills payables	87,262	87,262	87,262	–	–
Accruals and other payables	60,438	60,438	60,438	–	–
	147,700	147,700	147,700	–	–

	At 31 December 2018				
	Carrying amount	**Total contractual undiscounted cash flows**	**Less than 1 year or on demand**	**Over 1 year but less than 5 years**	**Over 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade and bills payables	106,666	106,666	106,666	–	–
Accruals and other payables	3,423	3,423	3,423	–	–
	110,089	110,089	110,089	–	–

	At 31 December 2019				
	Carrying amount	**Total contractual undiscounted cash flows**	**Less than 1 year or on demand**	**Over 1 year but less than 5 years**	**Over 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade and bills payables	12,492	12,492	12,492	–	–
Accruals and other payables	3,857	3,857	3,857	–	–
Short-term loans, secured	70,000	74,241	74,241	–	–
	86,349	90,590	90,590	–	–

	At 30 June 2020				
	Carrying amount	**Total contractual undiscounted cash flows**	**Less than 1 year or on demand**	**Over 1 year but less than 5 years**	**Over 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade and bills payables	17,699	17,699	17,699	–	–
Accruals and other payables	4,144	4,144	4,144	–	–
Loans from a related company	60,000	60,653	60,653	–	–
	81,843	82,496	82,496	–	–

(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 Target Company may manage interest rate risk, when it is considered significant and cost-effective, by entering into appropriate swap contracts.

As at the end of each of the Relevant Periods, the Target Company does not have any significant exposure to the interest rate risk.

(d) Currency risk

The Target Company's major businesses are in the PRC and the majority of the transactions are conducted in RMB. Most of the Target Company's assets and liabilities are denominated in RMB. As a result, the Target Company does not have material foreign currency risk during the Relevant Periods.

(e) Fair value

The Target Company considered that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximated their fair values.

27. SHORT-TERM BANK LOAN, SECURED

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Repayable:				
Within one year	–	–	70,000	–

The loan was interest bearing at 4.35% per annum, secured by a guarantee by a related company, Shaanxi Future Energy & Chemicals Co., Ltd and repayable by 25 March 2020.

28. LOAN FROM A RELATED COMPANY

The loan is interest bearing at 4.35% per annum, unsecured and repayable by 22 March 2021.

29. CONTINGENT LIABILITIES

At the end of each reporting period, the Target Company did not have any significant contingent liabilities.

30. SUBSEQUENT EVENTS

Since the outbreak of the new coronavirus disease ("COVID-19 outbreak") in January 2020, the containment of the COVID-19 outbreak has been being under way throughout the country. The Target Company actively responds to and implements the national regulations and requirements for the prevention and control of the COVID-19. Since 30 June 2020, the COVID-19 outbreak was contained to some extent, but not completely eradicated, so that the Target Company will continue to responds to and implements the national regulations and requirements for the prevention and control of the COVID-19.

It is expected that the COVID-19 outbreak and its containment measures will have a certain temporary impact on the Target Company's production and operations in the second half of 2020. The extent of impact depends on the progress and duration of the containment of the outbreak and the implementation of prevention and control policies in various regions.

The Target Company keeps eyes on the development of the COVID-19 outbreak, evaluates its impact on the financial status and operating results of the Target Company, strengthens its efforts to contain the outbreak and promotes the resumption of work and production in an active and orderly manner.

31. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 30 June 2020 and up to the date of this report.

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Bank loans	**Loan from a related company**
	RMB'000	*RMB'000*
At 1 January 2019	–	–
Proceeds from bank loans	100,000	–
Repayment of bank loans	(30,000)	–
Financing cost recognised – note 6	3,177	–
Interest paid	(3,177)	–
At 31 December 2019 and 1 January 2020	70,000	–
Proceeds from short-term loans	–	60,000
Repayment of bank loans	(70,000)	–
Financing cost recognised – note 6	1,456	–
Interest paid	(1,456)	–
At 30 June 2020	–	60,000

C. ACCOUNTANTS' REPORT ON LUNAN CHEMICAL

The following is the text of a report for the sole purpose of inclusion in this circular, from the independent reporting accountants, Crowe (HK) CPA Limited, Certified Public Accountants, Hong Kong.

國富浩華（香港）會計師事務所有限公司
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香港 銅鑼灣 禮頓道77號 禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

The Directors
Yanzhou Coal Mining Company Limited

Dear Sirs,

We report on the historical financial information of Yankuang Lunan Chemical Co., Ltd (the "Target Company") set out on page II-C-4 to II-C-61, which comprises the statements of financial position of the Target Company as at 31 December 2017, 2018 and 2019 and 30 June 2020, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the Target Company for each of the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (the "Historical Financial Information"). This Historical Financial Information set out on pages II-C-4 to II-C-61 forms an integral part of this report, which has been prepared for for inclusion in the circular of Yanzhou Coal Mining Company Limited (the "Company") dated 16 November 2020 (the "Circular") in connection with the proposed acquisition of 100% equity interest in the Target Company by the Company.

DIRECTORS' RESPONSIBILITIES FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in note 3 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANT'S RESPONSIBILITY

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

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 3 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, true and fair view of the financial position of the Target Company as at 31 December 2017, 2018 and 2019 and 30 June 2020 and of its financial performance and its cash flows for the Relevant Periods in accordance with the basis of the preparation set out in note 3 to the Historical Financial Information.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION.

We have reviewed the stub period comparative financial information of the Target Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended 30 June 2019 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 3 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in note 3 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE MAIN BOARD OF THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

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

Dividends

We refer to note 11 to the Historical Financial Information which states that no dividends have been paid by the Target Company in respect of the Relevant Periods.

Crowe (HK) CPA Limited
Certified Public Accountants

Chung Wai Chuen Alfred
Practising Certificate Number: P05444

Hong Kong
16 November 2020

I. HISTORICAL FINANCIAL INFORMATION OF YANKUANG LUNAN CHEMICAL CO., LTD.

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Target Company for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with accounting policies which conform with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "IASB") (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

(A) STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Six months ended 30 June	
		2017	**2018**	**2019**	**2019**	**2020**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Revenue	*4*	4,079,409	6,356,124	6,310,350	2,915,584	2,603,067
Cost of sales		(3,295,343)	(5,167,736)	(5,385,883)	(2,456,355)	(2,437,362)
Gross profit		784,066	1,188,388	924,467	459,229	165,705
Other income	*5*	17,883	64,783	43,949	17,670	25,370
Selling and distribution expenses		(134,135)	(1,464)	(434)	(213)	(239)
Research and development expenses		(144,327)	(90,308)	(199,969)	(77,137)	(72,470)
General and administrative expenses		(47,573)	(509,611)	(144,228)	(59,985)	(80,621)
Profit from operations		475,914	651,788	623,785	339,564	37,745
Finance costs	*6*	(277,807)	(221,674)	(170,052)	(81,355)	(76,684)
Profit/(loss) before income tax	*7*	198,107	430,114	453,733	258,209	(38,939)
Income tax (expense)/credit	*8*	(59,058)	(43,958)	(59,804)	(33,957)	10,894
Profit/(loss) for the year/period		139,049	386,156	393,929	224,252	(28,045)
Other comprehensive income:						
Items that will not be reclassified to profit or loss:						
Equity investment at fair value – net movement in fair value reserve (non-recycling), net of tax		–	(953)	381	–	(296)
Profit/(loss) and other comprehensive income for the year/period		139,049	385,203	394,310	224,252	(28,341)

(B) STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 30 June
		2017	2018	2019	2020
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	*12*	3,850,764	4,743,832	4,631,478	4,725,186
Intangible assets	*13*	287,157	334,853	599,610	520,734
Investments in securities	*14*	10,000	8,879	9,327	8,980
Right-of-use assets	*15*	–	–	466,502	448,268
Prepayments	*18*	6,129	3,405	29,439	24,338
Other non-current assets		110,578	127,225	300,693	653,547
Long term deposits		–	825,636	855,796	870,555
Deferred tax assets	*25*	10,111	14,801	–	7,069
		4,274,739	6,058,631	6,892,845	7,258,677
Current assets					
Inventories	*16*	202,375	279,865	291,600	249,480
Trade and bills receivables	*17*	481,591	1,035,357	987,043	837,737
Prepayments and other receivables	*18*	1,988,258	859,026	954,691	963,069
Cash and cash equivalents	*19*	1,595,975	566,251	233,713	502,131
		4,268,199	2,740,499	2,467,047	2,552,417
Deduct:					
Current liabilities					
Trade and bills payables	*20*	1,274,975	741,178	743,883	839,233
Lease liabilities	*15*	–	–	294,000	–
Contract liabilities	*21*	–	3,383	3,178	1,609
Accruals and other payables	*22*	2,799,767	149,590	164,486	712,285
Obligations in relations to early retirement scheme	*23*	1,287	1,273	9,585	9,014
Bank borrowings	*24*	2,327,050	1,150,700	1,744,107	2,191,024
Tax payables		–	38,599	45,933	6,360
		6,403,079	2,084,723	3,005,172	3,759,525
Net current (liabilities)/assets		(2,134,880)	655,776	(538,125)	(1,207,108)
Total assets less current liabilities		2,139,859	6,714,407	6,354,720	6,051,569

		As at 31 December			As at 30 June
		2017	2018	2019	2020
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current liabilities					
Lease liabilities	*15*	–	–	400,000	400,000
Contract liabilities	*21*	–	309	1,985	157
Accruals and other payables	*22*	610,000	378,000	–	–
Obligations in relations to early retirement scheme	*23*	2,649	30,523	19,404	14,616
Bank borrowings	*24*	710,000	1,533,162	467,560	65,106
Deferred income		–	–	10,000	10,000
Deferred tax liabilities	*25*	–	–	3,877	–
		1,322,649	1,941,994	902,826	489,879
Net assets		817,210	4,772,413	5,451,894	5,561,690
Representing:					
Registered capital	*26*	1,647,120	4,523,020	4,808,191	5,040,691
Reserves	*27*	(829,910)	249,393	643,703	520,999
Total equity		817,210	4,772,413	5,451,894	5,561,690

(C) STATEMENTS OF CHANGES IN EQUITY

	Registered capital *RMB'000*	Capital reserve *RMB'000*	Accumulated losses *RMB'000*	Fair value reserve (non-recycling) *RMB'000*	Total *RMB'000*
At 1.1.2017	949,620	–	(968,959)	–	(19,339)
Issuance of shares	697,500	–	–	–	697,500
Profit and total comprehensive income for the year	–	–	139,049	–	139,049
At 31.12.2017 and 1.1.2018	1,647,120	–	(829,910)	–	817,210
Conversion of loan to registered capital	1,070,000	–	–	–	1,070,000
Issuance of shares	1,805,900	694,100	–	–	2,500,000
Profit and total comprehensive income for the year	–	–	386,156	(953)	385,203
At 31.12.2018 and 1.1.2019	4,523,020	694,100	(443,754)	(953)	4,772,413
Issuance of shares	285,171	–	–	–	285,171
Profit and total comprehensive income for the year	–	–	393,929	381	394,310
At 31.12.2019 and 1.1.2020	4,808,191	694,100	(49,825)	(572)	5,451,894
Issuance of shares	232,500	–	–	–	232,500
Transfer of unutilised employee education fund to capital reserve	–	8,452	–	–	8,452
Distribution to holding company	–	(102,815)	–	–	(102,815)
Loss and total comprehensive income for the period	–	–	(28,045)	(296)	(28,341)
At 30.6.2020	5,040,691	599,737	(77,870)	(868)	5,561,690

	Registered capital	Capital reserve	Accumulated losses	Fair value reserve (non-recycling)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
(Unaudited)					
At 1.1.2019	4,523,020	694,100	(443,754)	(953)	4,772,413
Issuance of shares	285,171	–	–	–	285,171
Profit and total comprehensive income for the period	–	–	224,252	–	224,252
At 30.6.2019	4,808,191	694,100	(219,502)	(953)	5,281,836

(E) STATEMENTS OF CASH FLOWS

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Cash flows from operating activities						
Profit/(loss) before income tax		198,107	430,114	453,733	258,209	(38,939)
Adjustments for:						
Amortisation		63,591	21,201	28,737	14,616	16,508
Depreciation		3,112,686	349,665	417,788	208,863	221,993
Impairment		–	–	–	–	1,381
Gain on disposal of property, plant and equipment		–	–	(66)	–	(679)
Impairment on other receivables		–	365,688	–	–	–
Provision/(reversal) of obsolete inventories		–	1,552	–	–	–
Bank interest income		(16,774)	(64,382)	(37,850)	(17,670)	(18,024)
Interest on leases		30,167	27,155	26,114	8,961	9,658
Interest expenses		236,875	178,917	119,971	62,221	48,772
Guarantee fees		8,500	9,005	21,302	8,300	9,005
Operating profit before working capital changes		3,633,152	1,318,915	1,029,729	543,500	249,675
Changes in working capital:						
Inventories		(44,250)	(79,043)	(11,734)	71,267	42,120
Trade and bills receivables		984,078	(553,765)	48,313	(238,840)	149,306
Prepayments and other receivables		(2,011,826)	746,898	(269,133)	(1,723,777)	(361,231)
Trade payables		(1,576,348)	(533,797)	2,705	684,864	95,350
Contract liabilities		–	3,383	(205)	(3,383)	(1,569)
Accruals and other payables		(3,103,026)	(706,392)	290,408	1,094,442	80,398
Cash (used in)/generated from operations		(2,118,220)	196,199	1,090,083	428,073	254,049
Interest received		16,774	64,382	37,850	17,670	18,024
Income tax paid		–	(8,888)	(33,859)	(33,282)	(39,574)
Net cash (used in)/generated from operating activities		(2,101,446)	251,693	1,094,074	412,461	232,499

	Note	Year ended 31 December 2017 RMB'000	2018 RMB'000	2019 RMB'000	Six months ended 30 June 2019 RMB'000 (unaudited)	2020 RMB'000
Cash flows from investing activities						
Cash inflow resulted from merger of fellow subsidiary by absorption		257,440	–	–	–	–
Sales proceeds from disposal of property, plant and equipment		–	–	–	–	1,075
Payments for acquisition of property, plant and equipment		(307,897)	(1,305,775)	(1,039,081)	(5,059)	(702,845)
Net (used in)/cash from investing activities		(50,457)	(1,305,775)	(1,039,081)	(5,059)	(701,770)
Cash flows from financing activities						
Proceeds from new bank loans	*35*	2,535,790	1,969,210	1,321,659	1,104,290	1,916,000
Repayment of bank loans	*35*	(1,716,540)	(2,327,050)	(1,796,940)	(1,115,000)	(1,873,818)
Interest paid	*35*	(188,875)	(198,447)	(136,669)	(72,173)	(53,446)
Issuance of shares		–	2,500,000	–	–	232,500
Proceeds from finance lease borrowings	*35*	378,000	–	400,000	–	–
Advances from related companies	*35*	1,190,000	–	–	–	570,000
Repayment of finance lease borrowings	*35*	–	(719,000)	(84,000)	–	(294,000)
Repayment to related companies	*35*	(930,000)	–	–	–	–
Guarantee fee paid		(8,500)	(14,943)	(21,302)	(8,300)	(9,005)
Interest on discounted bills		(72,637)	(8,502)	(6,329)	(653)	(1,474)
Net cash from/(used in) financing activities		1,187,238	1,201,268	(323,581)	(91,836)	486,757

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Net (decrease)/increase in cash and cash equivalents		(964,665)	147,186	(268,588)	315,566	17,486
Cash and cash equivalents at the beginning of the year/period		1,233,940	269,275	416,461	416,461	147,873
Cash and cash equivalents at the end of the year/period	*19*	269,275	416,461	147,873	732,027	165,359

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Yankuang Lunan Chemical Co., Ltd (the "Target Company") is a limited liability company established in the People's Republic of China (the "PRC"). The registered address of the Target Company is located at Lunan High Tech Chemical Industrial Park, Mushi County, Tengzhou City of Shandong Province.

The principal activity of the Target Company is the manufacturing and distribution of chemicals products as well as supplying of energy such as water, electricity and gas. There has been no significant change in the Target Company's principal activities during the Relevant Periods.

In the opinion of directors of the Target Company (the "Directors"), as of the date of this report, the parent and ultimate controlling company of the Target Company is Yankuang Group Company Limited, a company established in the PRC and wholly owned by the State-owned Assets Supervision and Administration Commission of the People's Government of Shandong Province of the PRC.

2. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following IFRSs in issue at 30 June 2020 have not been applied in the preparation of these financial statements since they were not yet effective for the annual period beginning on 1 January 2020:

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 16	Covid-19 – Related Rent Concession[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current[1]
Amendments to IAS 16	Proceeds before Intended[4]
Amendments to IAS 37	Cost of Fulfilling a Contract[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[4]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Annual Improvements to IFRSs	2018 – 2020 Cycle[4]

[1] Effective for annual periods beginning on or after 1 January 2023
[2] Effective for annual periods beginning on or after 1 June 2020
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 January 2022

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of presentation

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"), which comprise all standards and interpretations approved by the IASB. The Historical Financial Information has been prepared under the historical costs convention except for certain financial instruments, which are stated at fair value.

3.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Target Company

A number of new and amended standards became applicable for the reporting period commencing on 1 January 2017, 2018, 2019 and 2020. The Target Company had to change its accounting policies and make modified retrospective adjustments as a result of adopting the following standards:

		Effective for annual periods beginning on or after
Amendments to IFRS 12	Annual improvements 2014-2016 cycle	1 January 2017
Amendments to IAS 7	Disclosure initiative	1 January 2017
Amendments to IAS 12	Recognition of deferred tax assets for unrealized losses	1 January 2017
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contract with Customers	1 January 2018
Amendments to IFRS 1 and IAS 28	Annual improvements 2014-2016 cycle	1 January 2018
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
Amendments to IFRS 4	Applying IFRS 9 financial instruments with IFRS 4 insurance contracts	1 January 2018
Amendments to IFRS 15	Clarifications to IFRS 15	1 January 2018
Amendments to IAS 40	Transfers to investment property	1 January 2018
IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018
IFRS 16	Leases	1 January 2019
Amendments to Annual Improvements Project	Annual improvements 2015-2017 cycle	1 January 2019
Amendments to IFRS 9	Prepayment features with negative compensation	1 January 2019
Amendments to IAS 19	Plan amendment, curtailment or settlement	1 January 2019
Amendments to IAS 28	Long-term interests in associates and joint ventures	1 January 2019
IFRIC 23	Uncertainty over income tax treatments	1 January 2019
Amendments to IFRS 3 (Revised)	Definition of a business	1 January 2020
Amendments to IAS 1 (Revised) and IAS 8	Definition of material	1 January 2020
Amendments to IAS 39, IFRS 7 and IFRS 9	Interest rate benchmark reform	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting	1 January 2020

The Target Company has assessed the impact of adopting these new standards and amendments. According to the preliminary assessment, these standards are not expected to have a material impact on the Target Company's operating results and financial position.

3.1.2 Changes in accounting policy and disclosures

This note explains the impact of the adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" on the Target Company's Historical Financial Information since 1 January 2018, as well as the impact of adoption of IFRS 16 "Leases" since 1 January 2019.

(i) IFRS 9 "Financial Instruments"

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Target Company has applied IFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 January 2018) in accordance with the transition provisions under IFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets and financial liabilities on initial application are recognised in retained earnings and other components of equity as at 1 January 2018.

The Target Company's accounting policies for the classification and measurement of financial instruments and the impairment of financial assets are disclosed in detail in note 3.15 below.

Classification and measurement of financial instruments

The Directors reviewed and assessed its existing financial assets and liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on its financial assets and liabilities as regards their classification and measurement:

(a) Unlisted equity investments previously classified as available-for-sale investments at cost less impairment

For available-for-sale equity investments amounting to approximately RMB10,000,000 carried at cost less impairment as at 31 December 2017, the Target Company has elected to present in other comprehensive income for fair value change as it is held for medium or long-term strategic purpose, and reclassified them to financial assets at fair value through other comprehensive income ("FVTOCI") upon initial application of IFRS 9. The Target Company measures them at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investment revaluation reserve, which will not be reclassified to profit or loss when they are derecognised. Upon adoption of IFRS 9 on 1 January 2018, the carrying amount of the equity investments did not deviate from its fair value significantly and therefore had no impact to the profit upon and financial within at the Target Company as at that date.

All other financial assets and financial liabilities continue to be measured on the same bases as are previously measured under IAS 39.

Loss allowance for expected credit losses ("ECL")

The adoption of IFRS 9 has changed the Target Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss model with a forward-looking expected credit loss ("ECL") model. As at 1 January 2018, the Directors reviewed and assessed the Target Company's existing financial assets and other items subject to ECL for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement of IFRS 9. The adoption of the ECL requirements under IFRS 9 had no significant impact to the Target Company's financial statements.

Summary of effects arising from initial application of IFRS 9

The table below summarises the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Target Company's financial assets and financial liabilities and reconciles the carrying amounts of financial assets and financial liabilities under IAS 39 to the carrying amounts under IFRS 9 on 1 January 2018.

	Carrying amount at 31 December 2017 (IAS 39) *RMB'000*	**Adoption of IFRS 9 – Reclassification** *RMB'000*	**Carrying amount at 1 January 2018 (IFRS 9)** *RMB'000*
Financial assets			
Available-for-sale investments			
– unlisted equity securities	10,000	(10,000)	–
FVTOCI			
– unlisted equity securities	–	10,000	10,000

(ii) IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 superseded IAS 11 "Construction Contracts", IAS 18 "Revenue" and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether how much and when revenue is recognised. The Target Company has elected to adopt the modified retrospective approach for contracts with customers that are not completed as at the date of initial application (i.e. 1 January 2018) with the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings and comparative information is not restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 "Revenue". Details are described below.

The Directors are of the opinion that the adoption of IFRS 15 has no impact on the timing of revenue recognition of the Target Company.

The Target Company's accounting policies for its revenue streams are disclosed in detail in note 3.3 below.

The amount of adjustment for each financial statement line item of the statement of financial position at 1 January 2018 affected by the application of IFRS 15 is illustrated below. Line items that were not affected by the changes have not been included.

	Carrying amount previously reported at 31 December 2017 *RMB'000*	**Impact on adoption of IFRS 15 – Reclassification** *RMB'000*	**Carrying amount as restated at 1 January 2018** *RMB'000*
Accruals and other payables	3,413,703	(309,769)	3,103,934
Contract liabilities	–	309,769	309,769

Advances received from customers

As at 1 January 2018, the "receipts in advance" of RMB309,769,000 previously included in accruals and other payables was reclassified to contract liabilities.

Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of IFRS on 1 January 2018

The following table summarises the estimated impact of applying IFRS 15 on the statement of financial position at 31 December 2018, by comparing the amounts reported under IAS 18 and related interpretations that were in effect before the change. Line items that were not affected by the adjustments have not been included. The adoption of IFRS 15 did not have material impact on the Target Company's operating, investing and financing cash flows.

Impact on the statement of financial position at 31 December 2018

	As reported	**Impact on adoption of IFRS 15**	**Amounts excluding impacts of adopting IFRS 15**
	RMB'000	*RMB'000*	*RMB'000*
Accruals and other payables	559,386	3,692	563,078
Contract liabilities	3,692	(3,692)	–

(iii) IFRS 16 "Leases"

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described in note 3.10. Comparative information has not been restated and continues to be reported under IAS 17 "Leases".

On transition to IFRS 16, the Target Company elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC-4 "Determining whether an Arrangement contains a Lease" were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

The Target Company as lessee

Operating lease

On adoption of IFRS 16, the Target Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 "Leases" (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The adoption of IFRS 16 did not have material impact on the Target Company's financial statements as it did not have any operating lease arrangements.

Finance lease

In addition, the Target Company leases certain production equipment that were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the leased asset and lease liability under IAS 17 immediately before that date. Accordingly, the obligation under finance leases previously included in accruals and other payables are now included within lease liabilities. There is no impact on the opening balance of equity.

The following table summarises the impact of the transition to IFRS 16 at 1 January 2019. Line items that were not affected by the adjustments have not been included.

	Carrying amount previously reported at 31 December 2018	**Impact on adoption of IFRS 16**	**Carrying amount as restated at 1 January 2019**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	4,743,832	(502,971)	4,240,861
Right-of-use assets	–	502,971	502,971
Lease liabilities	–	378,000	378,000
Accruals and other payables	559,386	(378,000)	181,386

Practical expedients applied

On the date of initial application of IFRS 16, the Target Company has used the following practical expedients permitted by the standard:

- not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Target Company relied on its assessment made applying IAS 17 and IFRIC-4 "Determining whether an Arrangement contains a Lease";
- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous by applying IAS 37 as an alternative to performing an impairment review;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

3.1.3 Adoption of the going concern basis

When preparing the financial statements, the Target Company's ability to continue as a going concern has been assessed. These financial statements have been prepared by the Directors on a going concern basis notwithstanding that the Target Company had net current liabilities of approximately RMB2,133,593,000, RMB234,539,000 and RMB1,198,093,000 at 31 December, 2017, 2019 and 30 June 2020, respectively. The Directors are of the opinion that the Target Company will have sufficient funds to meet its financial obligations when they fall due in the foreseeable future taking into account of the unutilised banking facilities available to the Target Company. The Directors are of the opinion that the Target Company is able to continue as a going concern and it is appropriate to prepare the financial statements on a going concern basis.

Should the Target Company be unable to continue in business as a going concern, adjustments would have to be made to restate the value of assets to their recoverable amounts, to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively and to provide for any further liabilities which might arise.

3.2 Impairment of tangible and intangible assets other than goodwill

At each reporting date, the Target Company reviews the carrying amounts of its tangible assets and intangible assets with finite useful life to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset (determined at the higher of its fair value less costs of disposal and its value in use) is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with an indefinite useful life will be tested for impairment annually. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as an income immediately. For the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Assessment is performed for each area of interest in conjunction with the group of operating assets (representing a cash generating unit) to which the Target Company's activity is attributed.

3.3 Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the Target Company uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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

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

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

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

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

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

Contract liabilities

A contract liability represents the Target Company's obligation to transfer goods or services to a customer for which the Target Company has received consideration from the customer.

The Target Company recognised revenue from the following major sources:

- Sales of goods (including coal, methanol and equipment manufacturing)
- Provision of services (including coal railway transportation, electricity and heat supply)

Sales of goods

Revenue from sale of coal, methanol and equipment manufacturing is recognised at the point when the control of the goods is transferred to the customers (generally on delivery of the goods to the location specified by the customers and accepted by the customers). It is a point of time where the customer has the ability to direct the use of the products and obtain substantially all of the remaining benefits of the products.

3.4 Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life. Expenditure incurred on projects to develop new products is capitalised only when the Target Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development.

3.5 Property, plant and equipment

Property, plant and equipment (including right-of-use assets), other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Ownership interests in leasehold land and buildings

For payments of ownership interest of properties which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Target Company when the payments cannot be allocated reliably between the leasehold land and building elements.

To the extend the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of IFRS 16) or "prepaid lease payments" (before application IFRS 16) in the statement of financial position.

Depreciation is charged so as to write off the cost of items of property, plant and equipment, other than construction in progress and freehold land, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method or unit of production method.

Category	Estimated useful life	Estimated residual values
Land and buildings	The shorter of the unexpired lease term and the estimated useful lives from 20 – 40 years	5%
Machinery	10 – 35 years	5%
Motor vehicles	4 – 10 years	5%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at the end of each reporting periods.

Any gain or loss arising on the disposal of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised immediately in the statement of profit or loss.

3.6 Construction in progress

Construction in progress represents production site development projects under construction for production or for its own use purposes. Construction in progress is carried at cost less any impairment loss. Costs included costs of constructing the manufacturing plant and acquisition of mining rights, mining permits and licenses that form an integral part of the overall development projects. Construction in progress is classified to the appropriate category of property, plant and equipment or intangible assets when completed and ready for intended use. Depreciation or amortisation commences when the assets are ready for their intended use.

3.7 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and other financial institution and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the preparation of cash flow statement, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Target Company's cash management.

3.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises direct materials and, where applicable, direct labour and overheads that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price less all further costs to completion and costs to be incurred in selling, marketing and distribution.

Inventories of auxiliary materials, spare parts and small tools expected to be used in production are stated at weighted average cost less allowance, if necessary, for obsolescence.

3.9 Taxation

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

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

Deferred tax is recognised on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Target Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on either (i) the same taxable entity; or (ii) 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.

3.10 Leasing

Definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identifiable asset for a period of time in exchange for consideration.

The Target Company as lessee

The Target Company assesses whether a contract is or contains a lease, at inception of the contract. The Target Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Target Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date, the Target Company measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Target Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the Target Company exercising an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.

- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received. Whenever the Target Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under IAS 37 "Provision, Contingent Liabilities and Contingent Assets". The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

They are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Target Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Target Company presents right-of-use assets as a separate line in the statement of financial position.

The Target Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Target Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Target Company hasused this practical expedient for all leases.

3.11 Provisions and contingent liabilities

Provisions are recognised when the Target Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Target Company are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3.12 Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Target Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Target Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

3.13 Retirement benefit costs

Payments to defined contribution plans including included state-managed retirement benefit schemes and superannuation funds are recognised as an expense when employees have rendered service entitling them to the contributions.

3.14 Short-term and other long-term employee benefits

Benefits accruing to employees in respect of wages and salaries, annual leave and sick leave are included in other payables and accrued expenses. Related on-costs are also included in other payables and accrued expenses as other creditors. Long service leave is provided for when it is probable that settlement will be required and it is capable of being measured reliably.

Employee benefits expected to be settled within 12 months are measured using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Target Company in respect of services provided by employees up to the reporting date.

3.15 Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Target Company becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value, except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, FVTOCI and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Target Company's business model for managing them.

Financial assets at amortised cost (debt instruments)

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

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

- 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 amoritsed cost are subsequently measured using the effective interest method and are subject to impairment.

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the "Other income" line item (note 5).

Equity instruments designated as at FVTOCI

On initial recognition, the Target Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Target Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "Other income" line item in profit or loss.

Financial asset at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Target Company designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.

- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Target Company has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "Other income" line item.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or

- on initial recognition, it is part of a portfolio of identified financial instruments that the Target Company manages together and has evidence of a recent actual pattern of short-term profit-taking; or

- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Impairment of financial assets

The Target Company recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost as well as financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Target Company always recognises lifetime ECL for bills and accounts receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Target Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

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

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Target Company 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. In making this assessment, the Target Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

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

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

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

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

- significant increases in credit risk on other financial instruments of the same debtor;

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

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

Despite the foregoing, the Target Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Target Company considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

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

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

Definition of default

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

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target Company, in full (without taking into account any collaterals held by the Target Company).

Credit-impaired financial assets

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

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Target Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 4 years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Target Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Target Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Target Company in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at the original effective interest rate.

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

If the Target Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Target Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Target Company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. On derecognition of an investment in equity instrument which the Target Company has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities and equity instruments

Classification as debt or equity

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities at FVTPL are stated at fair value with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liabilities and is included in the 'other income' line item in profit or loss.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

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

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Target Company entity are initially measured at their fair values and, if not designated as at FVTPL and do not arise from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and

- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition of financial liabilities

The Target Company derecognises financial liabilities when, and only when, the Target Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Offsetting financial instruments

Financial assets and liabilities of the Target Company are offset and the net amount presented in the statement of financial position when, and only when, there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

3.16 Fair value measurement

When measuring fair value except for the Target Company's leasing transactions, net realisable value of inventories and value-in-use of intangible assets, prepaid lease payments, property, plant and equipment and construction in progress for the purpose of impairment assessment, the Target Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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.

The Target Company 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. Specifically, the Target Company categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Target Company determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

3.17 Significant accounting judgements and estimates

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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

(i) Depreciation

Property, plant and equipment are depreciated on straight-line basis over the estimated useful lives, after taking into account the estimated residual value if any. The Target Company reviews the estimated useful lives and basis of depreciation of property, plant and equipment regularly in order to determine the amount of depreciation expenses to be recorded during any reporting period. The useful lives and basis of depreciation are based on the Target Company's historical experience with similar assets and take into account anticipated technological changes. The depreciation expenses for future periods are adjusted prospectively if there are significant changes from previous estimates.

(ii) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions, technology changes and the historical experience of selling products with similar nature. It could change significantly as a result of changes in customer preference or competitor actions. The Target Company reassesses these estimates at the end of each reporting period.

(iii) Impairment of trade receivables and other receivables

Impairment of trade receivables and other receivables is made based on assessment of their recoverability. The identification of impairment of trade receivables and other receivables requires management's judgment and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and impairment loss or reversal of impairment in the period in which such an estimate has been changed.

(iv) Current and deferred income taxes

The Target Company is subject to income taxes in Mainland China. Judgements and estimations are required in determining the provision for income taxes for certain transactions (including inter-company transactions) and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the periods in which such determinations are made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation in the periods in which such estimate is changed.

4. OPERATING SEGMENT INFORMATION AND REVENUE

During the Relevant Periods, the Target Company's revenue was generated from manufacturing and distribution of chemical products as well as supplying of energy such as water, electricity and gas in the PRC. The Target Company sells chemical products to customers via its trading arm, Yankuang Coal Chemicals International Trading Co., Ltd., normally within a 90 days credit period. Management monitors the operating results as a whole for the purpose of making decisions about resources allocation and performance assessment. Accordingly, no operating segment information is presented. An analysis of revenue of the Target Company is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Revenue from contracts with customers within the scope of IFRS15					
Sales of chemical products	3,748,016	5,837,092	5,723,992	2,673,255	2,380,968
Sales of energy (water, electricity & gas)	324,546	452,347	454,098	239,373	204,432
	4,072,562	6,289,439	6,178,090	2,912,628	2,585,400
Revenue from other sources					
Sales of materials	6,082	63,609	125,936	1,041	13,043
Rental income	224	1,046	2,379	1,371	709
Sales of waste materials	541	2,030	3,945	544	3,915
	4,079,409	6,356,124	6,310,350	2,915,584	2,603,067
Disaggregated by timing of revenue recognition					
– Over time	224	1,046	2,379	1,371	709
– At a point in time	4,079,185	6,355,078	6,307,971	2,914,213	2,602,358
	4,079,409	6,356,124	6,310,350	2,915,584	2,603,067

4.1 Geographical information

All of the Target Company's revenue were generated in the PRC. All of the Target Company's non-current assets are located in the PRC.

4.2 Revenue from major customers

Revenue from customers of the Relevant Periods contributing over 10% of the total sales of the Target Company are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Customer A	3,329,532	5,429,989	5,457,302	2,439,447	2,351,407

5. OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Interest income	16,774	64,382	37,850	17,670	18,024
Government grants – *Note*	86	233	1,174	–	900
Penalties income	1,022	163	4,713	–	5,655
Gain on disposal of property, plant and equipment	–	–	66	–	679
Sundry income	1	5	146	–	112
	17,883	64,783	43,949	17,670	25,370

Note: Government grants have been received from PRC local government authorities to support a company project, local worker's Employment Support Scheme. There are no unfulfilled conditions or contingencies relating to these grants.

6. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Interest on bank loans	164,238	170,415	113,641	61,568	47,298
Interest on leases	30,167	27,155	26,114	8,961	9,658
Interest on bank acceptance facilities	72,637	8,502	6,330	653	1,474
Bank charges	2,265	6,597	2,665	1,873	9,249
Guarantee fees	8,500	9,005	21,302	8,300	9,005
	277,807	221,674	170,052	81,355	76,684

7. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(loss) before income tax is arrived at after charging:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
(a) Staff costs					
Salaries and other benefits	39,638	129,807	193,109	75,282	101,449
Staff welfare	5,131	13,041	19,116	2,256	14,178
Defined contribution retirement plan contribution	8,597	21,036	29,064	18,069	14,430
	53,366	163,884	241,289	95,607	130,057
(b) Other items:					
Amortisation	63,590	21,201	28,737	14,616	16,508
Cost of inventories sold	3,295,343	5,167,736	5,385,883	2,456,355	2,437,362
Depreciation of property, plant and equipment	3,112,686	349,665	381,319	190,629	196,314
Depreciation of right-of-use assets	–	–	36,469	18,234	18,234
Provision for obsolete inventories	–	1,552	–	–	–

8. INCOME EXPENSE/(CREDIT)

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Current tax					
Provision for the year/period	–	48,480	41,193	23,389	–
Deferred tax					
Charge/(credit) for the year/period	59,058	(4,522)	18,611	10,568	(10,894)
	59,058	43,958	59,804	33,957	(10,894)

Income tax provision of the Target Company in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the Relevant Periods, based on the existing legislation, interpretations and practices in respect thereof.

The National People's Congress approved the Corporate Income Tax Law of the PRC (the "New CIT Law") on 16 March 2007 and the State Council has announced the Detailed Implementation Regulations on 6 December 2007, which has been effective since 1 January 2008. According to the New CIT Law, the income tax rates for both domestic and foreign investment enterprises are unified at 25% effective from 1 January 2008.

The Target Company was awarded as High-tech Enterprises on August 16, 2018, by the Tax Authority of Mushi branch, Tengzhou City, Shandong Province, according to China Corporate Income Tax Law (CIT) with the Presidential Order No.63, section 28, subsection 2 and entitled for a preferential tax rate of 15% from 2018 - 2020. The high-tech enterprise certificate number is GR201837000399.

A reconciliation between income tax expense and profit/(loss) before income tax at applicable tax rates is set out below:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Profit/(loss) before income tax	198,107	430,114	453,733	258,209	(38,939)
Taxation at the applicable tax rate	49,526	64,517	68,060	38,731	(5,841)
Tax effect of non-deductible expenses	9,635	40,272	36,651	19,277	5,181
Tax effect of non-taxable income	(103)	–	–	–	–
Additional deduction of research and development expenses	–	(60,831)	(44,907)	(24,051)	(10,234)
Income tax expense/(credit)	59,058	43,958	59,804	33,957	(10,894)

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

The aggregate amounts of remuneration of directors of the Target Company during the Relevant Periods and the six months ended 30 June 2019, disclosed pursuant to the Rules Governing The Listing of Securities on the Stock Exchange (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, are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Fees	–	–	–	–	–
Other emoluments:					
Salaries and other benefits	1,243	2,734	2,566	862	907
Defined contribution retirement plan contributions	177	204	158	78	85
	1,420	2,938	2,724	940	992

The names of the directors and their remuneration for the Relevant Periods and the six months ended 30 June 2019 are as follows:

(i) Directors' remuneration

	Year ended 31 December 2017			
	Fees	**Salaries and other benefits**	**Defined contribution retirement plan contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors				
Liu Qiang	–	274	36	310
Jin Dao Yuan	–	132	34	166
Kong Ling Tao	–	339	37	376
Zhen De Yuan	–	193	37	230
Jin Jun Jie	–	305	33	338
	–	1,243	177	1,420

	Year ended 31 December 2018			
	Fees	**Salaries and other benefits**	**Defined contribution retirement plan contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors				
Liu Qiang	–	623	40	663
Jin Dao Yuan	–	610	41	651
Kong Ling Tao	–	427	41	468
Zhen De Yuan	–	642	41	683
Jin Jun Jie	–	432	41	473
	–	2,734	204	2,938

Year ended 31 December 2019

	Fees	Salaries and other benefits	Defined contribution retirement plan contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors				
Liu Qiang	–	881	41	922
Jin Dao Yuan	–	738	36	774
Kong Ling Tao	–	563	42	605
Zhen De Yuan	–	161	–	161
Jin Jun Jie	–	223	39	262
	–	2,566	158	2,724

Six months ended 30 June 2019 (unaudited)

	Fees	Salaries and other benefits	Defined contribution retirement plan contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors				
Liu Qiang	–	214	21	235
Jin Dao Yuan	–	214	20	234
Kong Ling Tao	–	211	17	228
Zhen De Yuan	–	–	–	–
Jin Jun Jie	–	223	20	243
	–	862	78	940

Six months ended 30 June 2020

	Fees	Salaries and other benefits	Defined contribution retirement plan contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors				
Liu Qiang	–	409	20	429
Jin Dao Yuan	–	121	22	143
Kong Ling Tao	–	112	23	135
Zhen De Yuan	–	–	–	–
Jin Jun Jie	–	265	20	285
	–	907	85	992

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the Relevant Periods and the six months ended 30 June 2019. No emoluments were paid by the Target Company to any of the directors or supervisors as an inducements to join or upon joining the Target Company or as compensating for loss of office.

Five highest paid employees

An analysis of the five highest paid employees within the Target Company for the Relevant Periods and the six months ended 30 June 2019 is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Directors	–	–	–	–	–
Non-directors	2,297	3,082	4,062	1,953	1,578
	2,297	3,082	4,062	1,953	1,578
Number of directors	–	–	–	–	–
Number of non-directors	5	5	5	5	5

Details of the remuneration of the non-directors are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Salaries and other benefits	1,113	2,546	3,506	1,664	1,272
Defined contribution retirement plan contribution	1,184	536	556	289	306
	2,297	3,082	4,062	1,953	1,578

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE TARGET COMPANY

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

11. DIVIDENDS

No dividends were declared or paid by the Target Company during the Relevant Periods nor has any dividend been proposed since 30 June 2020.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Machinery *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
For the six months ended 30 June 2020					
Opening net book value	1,014,289	2,820,410	13,122	783,657	4,631,478
Additions	16,104	24,851	–	415,497	456,452
Transfer	38,512	263,593	–	(302,105)	–
Disposals	(50,336)	(5,642)	–	(110,452)	(166,430)
Depreciation	(32,570)	(161,557)	(2,187)	–	(196,314)
Closing net book value	985,999	2,941,655	10,935	786,597	4,725,186
At 30.6.2020					
Cost	1,588,281	6,274,806	74,907	786,597	8,724,591
Aggregate depreciation	(602,282)	(3,333,151)	(63,972)	–	(3,999,405)
Net book value	985,999	2,941,655	10,935	786,597	4,725,186
For the year ended 31 December 2019					
Opening net book value	1,077,943	3,523,166	17,198	125,525	4,743,832
Additions	7,843	100,246	285	1,005,410	1,113,784
Transfer	–	22,307	–	(22,307)	–
Disposals	(7,553)	(9,323)	–	(324,972)	(341,848)
Transfer to right-of-use assets	–	(502,971)	–	–	(502,971)
Depreciation	(63,944)	(313,015)	(4,360)	–	(381,319)
Closing net book value	1,014,289	2,820,410	13,123	783,656	4,631,478
At 31.12.2019					
Cost	1,619,032	6,017,770	74,907	783,656	8,495,365
Aggregate depreciation	(604,743)	(3,197,360)	(61,784)	–	(3,863,887)
Net book value	1,014,289	2,820,410	13,123	783,656	4,631,478

	Buildings	Machinery	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2018					
Opening net book value	825,951	2,944,613	10,909	69,291	3,850,764
Additions	273,810	537,690	10,031	676,027	1,497,558
Transfer	28,005	337,271	–	(365,276)	–
Disposals	–	(308)	–	(254,517)	(254,825)
Depreciation	(49,823)	(296,100)	(3,742)	–	(349,665)
Closing net book value	1,077,943	3,523,166	17,198	125,525	4,743,832
At 31.12.2018					
Cost	1,625,912	6,685,321	77,210	125,525	8,513,968
Aggregate depreciation	(547,969)	(3,162,155)	(60,012)	–	(3,770,136)
Net book value	1,077,943	3,523,166	17,198	125,525	4,743,832
For the year ended 31 December 2017					
Opening net book value	411,233	1,512,336	1,431	250,768	2,175,768
Additions	807,205	4,395,485	65,648	137,918	5,406,256
Transfer	–	68,626	–	(68,626)	–
Disposals	(22,133)	(345,672)	–	(250,769)	(618,574)
Depreciation	(370,354)	(2,686,162)	(56,170)	–	(3,112,686)
Closing net book value	825,951	2,944,613	10,909	69,291	3,850,764
At 31.12.2017					
Cost	1,324,097	5,810,895	67,179	69,291	7,271,462
Aggregate depreciation	(498,146)	(2,866,282)	(56,270)	–	(3,420,698)
Net book value	825,951	2,944,613	10,909	69,291	3,850,764

The Target Company's certain buildings are in the process of obtaining the relevant building ownership certificates. The directors of the Target Company do not foresee any major obstacles to issuing the certificates of the above-mentioned buildings to the Target Company. The carrying amounts of above-mentioned buildings amounted to approximately RMB149,295,000, RMB271,639,000, RMB3,800,000 and RMB8,839,000 as at 31 December 2017, 2018, 2019 and 30 June 2020 respectively.

13. INTANGIBLE ASSETS

	Patents	Land use rights	Toal
	RMB'000	*RMB'000*	*RMB'000*
For the six months ended 30 June 2020			
Opening net book value	89,084	510,526	599,610
Disposals	–	(62,368)	(62,368)
Amortisation	(8,614)	(7,894)	(16,508)
Closing net book value	80,470	440,264	520,734
At 30.6.2020			
Cost	181,143	512,495	693,638
Aggregate amortisation	(100,673)	(72,231)	(172,904)
Net book value	80,470	440,264	520,734
For the year ended 31 December 2019			
Opening net book value	106,991	227,862	334,853
Additions	–	293,494	293,494
Amortisation	(17,907)	(10,830)	(28,737)
Closing net book value	89,084	510,526	599,610
At 31.12.2019			
Cost	181,143	575,493	756,636
Aggregate amortisation	(92,059)	(64,967)	(157,026)
Net book value	89,084	510,526	599,610
For the year ended 31 December 2018			
Opening net book value	89,910	197,247	287,157
Additions	30,911	37,986	68,897
Amortisation	(13,830)	(7,371)	(21,201)
Closing net book value	106,991	227,862	334,853
At 31.12.2018			
Cost	181,143	281,999	463,142
Aggregate amortisation	(74,152)	(54,137)	(128,289)
Net book value	106,991	227,862	334,853

	Patents	Land use rights	Toal
	RMB'000	*RMB'000*	*RMB'000*
For the year ended 31 December 2017			
Opening net book value	103,221	149,403	252,624
Additions	15,865	82,258	98,123
Amortisation	(29,176)	(34,414)	(63,590)
Closing net book value	89,910	197,247	287,157
At 31.12.2017			
Cost	150,232	244,013	394,245
Aggregate amortisation	(60,322)	(46,766)	(107,088)
Net book value	89,910	197,247	287,157

14. INVESTMENTS IN SECURITIES

	As at 31 December			At 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Available-for-sale investments				
Unlisted equity investments, at cost net impairment	10,000	–	–	–
Financial assets at FVTOCI				
Unlisted equity investments, at fair value	–	8,879	9,327	8,980

As at 31 December 2017, the unlisted equity investments are stated at cost less impairment.

These unlisted equity investments represent investment in unlisted equity interests in private entities established in the PRC. The unlisted equity investments are reclassified and measured at fair value through other comprehensive income upon adoption of IFRS 9.

15. LEASE

(i) Amounts recognised in the statements of financial position

Right-of-use assets

	As at 31 December 2019	As at 30 June 2020
	RMB'000	*RMB'000*
Machinery	466,502	448,268

The Target Company has a lease arrangement for machinery. The lease term is five years.

In respect of lease arrangement for renting certain machinery, the Target Company has options to purchase certain production equipment for a nominal amount at the end of the lease term. The Target Company's obligations are secured by the lessors' title to the leased assets for such lease.

	Lease liabilities
	RMB'000
As at 1 January 2019	378,000
Interest	26,114
Repayment	(110,114)
As at 31 December 2019 and 1 January 2020	294,000
Addition	400,000
Interest	9,658
Repayment	(303,658)
As at 30 June 2020	400,000

The lease liabilities based on their maturity are as follow:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Analysed into:				
Within one year	–	–	294,000	–
In the second to fifth year, inclusive	–	–	400,000	400,000
	–	–	694,000	400,000

(ii) Amounts recognised in profit or loss

	Year ended 31 December 2017	Year ended 31 December 2018	Year ended 31 December 2019	Period ended 30 June 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Depreciation expense on right-of-use assets	–	–	36,469	18,234
Interest expense on lease liabilities	–	–	26,114	9,658

(iii) Amounts recognised at cash flows statement

During the year ended 31 December 2019 and period ended 30 June 2020, the total cash outflow for leases amount to RMB84,000,000, RMB294,000,000 respectively.

16. INVENTORIES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	110,392	121,484	244,242	197,423
Finished goods	91,983	159,933	47,358	52,057
Provision for obsolete inventories	–	(1,552)	–	–
	202,375	279,865	291,600	249,480

The obsolete inventories in 2018 was used up during production in 2019.

17. TRADE AND BILLS RECEIVABLES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables				
– third parties	3,905	27,339	2,535	35,877
– related parties	4,210	97,120	35,527	117,402
	8,115	124,459	38,062	153,279
Less: impairment loss on trade receivables	–	–	–	–
	8,115	124,459	38,062	153,279
Bills receivables	473,476	910,898	948,981	684,458
	481,591	1,035,357	987,043	837,737

The Target Company normally allows credit terms to bank endorsed customers ranging from 90 to 180 days. The Target Company seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors. Trade and bills receivables are expected to be recovered within one year.

An aging analysis of trade and bills receivables as at the end of each reporting period, based on the date of recognition of the goods sold, is as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	481,288	1,035,054	967,294	837,434
1 to 2 years	–	–	19,446	–
2 to 3 years	–	–	–	–
3 to 4 years	303	–	–	–
4 to 5 years	–	303	–	–
Over 5 years	–	–	303	303
	481,591	1,035,357	987,043	837,737

Bills receivables amounting to approximately RMBNil, RMB709,531,000, RMB609,526,000 and RMB218,440,000 as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively, were pledged to secure borrowings of the Target Company (note 24).

18. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other receivables				
– third parties	1,175,041	176,690	248,930	566,494
– related parties	763,852	1,017,843	1,020,588	643,028
Prepayments				
– third parties	47,376	29,877	69,486	135,432
– related parties	8,118	3,709	10,814	8,141
Impairment on other receivables	–	(365,688)	(365,688)	(365,688)
	1,994,387	862,431	984,130	987,407
Analysed as:				
Current assets	1,988,258	859,026	954,691	963,069
Non-current assets	6,129	3,405	29,439	24,338
	1,994,387	862,431	984,130	987,407

19. CASH AND CASH EQUIVALENTS

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at banks				
– third parties	1,306,786	235,649	85,844	336,783
– financial institution held by parent and ultimate controlling company	289,189	330,602	147,869	165,348
	1,595,975	566,251	233,713	502,131
Less:				
Restricted cash	(1,326,700)	(149,790)	(85,840)	(336,772)
Cash and cash equivalents in the cash flows statement	269,275	416,461	147,873	165,359

20. TRADE AND BILLS PAYABLES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables				
– third parties	154,531	333,422	364,309	317,049
– related parties	6,444	73,068	46,108	81,205
Bills payables	1,114,000	334,688	333,466	440,979
	1,274,975	741,178	743,883	839,233

The Target Company normally obtains credit terms ranging from 0 to 90 days from its suppliers.

An aging analysis of the trade and bills payables at the end of each reporting period, based on the date of receipt of goods purchased, is as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	1,263,392	666,335	685,028	799,479
1 to 2 years	5,077	30,834	16,623	6,860
2 to 3 years	4,231	6,780	8,890	921
Over 3 years	2,275	37,229	33,342	31,973
	1,274,975	741,178	743,883	839,233

21. CONTRACT LIABILITIES

The Target Company recognised the following revenue-related contract liabilities from contract with customers:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contract liabilities	–	3,692	5,163	1,766
Analysed as:				
Current liabilities	–	3,383	3,178	1,609
Non-current liabilities	–	309	1,985	157
	–	3,692	5,163	1,766

Contract liabilities mainly consists of sales deposits received from customers for which the related revenue had not been recognised as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively.

The following table shows the movements in contract liabilities during the Relevant Periods related to carried-forward contract liabilities.

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	–	309,769	3,692	5,163
Decrease in contract liabilities as a result of recognising revenue during the year/period that was included in the contract liabilities at the beginning of the year/period	–	(309,769)	(3,692)	(5,163)
Increase in contract liabilities as a result of receiving sales deposits for the relevant unrecognised revenue at the end of the year/period	–	3,692	5,163	1,766
At the end of the year/period	–	3,692	5,163	1,766

22. ACCRUALS AND OTHER PAYABLES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Payroll payables	7,678	15,585	16,405	11,318
Received in advance				
– third parties	9,488	–	–	–
– related parties	300,281	–	–	–
Other payables and accruals	765,435	132,890	125,027	119,732
Lease liabilities	487,000	378,000	–	–
Amounts due to related parties	1,839,885	1,115	23,054	581,235
	3,409,767	527,590	164,486	712,285
Analysed as:				
Current liabilities	2,799,767	149,590	164,486	712,285
Non-current liabilities	610,000	378,000	–	–
	3,409,767	527,590	164,486	712,285

The amount due to related parties were unsecured, interest free and with no fixed term of repayment.

23. OBLIGATIONS IN RELATIONS TO EARLY RETIREMENT SCHEME

The Target Company implemented certain early retirement benefit schemes which allow qualified employees to early retire on a voluntary basis. The Target Company undertakes the obligations to pay the early retirement employees' living expenses for no more than five years in the future on a monthly basis according to the early retirement benefit schemes, together with social insurance and housing fund pursuant to the regulation of the local Social Security Office. Living expenses, social insurance and the housing fund are together referred to as "the Payments". The Payments are forecasted to increase with reference to the inflation rate and adjusted based on the average death rate in China for the years ended 31 December 2017, 2018, 2019 and six months ended 30 June

2020. The Payments are discounted by the benchmark interest rate for loan of 31 December 2017, 2018, 2019 and 30 June 2020. As at 31 December 2017, 2018, 2019 and 30 June 2020, the current portion of the payments within one year was reclassified to "Accruals and other payables".

As at 31 December 2017, 2018, 2019 and 30 June 2020, obligations in relation to retirement benefits under the Target Company early retirement schemes are as follows:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January	4,699	3,936	31,796	28,989
Provision made during the year/period	524	29,133	6,778	3,655
Interest costs	230	193	1,558	1,421
Payment during the year/period	(1,517)	(1,466)	(11,143)	(10,435)
As at 31 December/30 June	3,936	31,796	28,989	23,630
Analysed as:				
Current liabilities	1,287	1,273	9,585	9,014
Non-current liabilities	2,649	30,523	19,404	14,616
	3,936	31,796	28,989	23,630

24. BANK BORROWINGS

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank borrowings	3,037,050	2,683,862	2,211,667	2,256,130
Analysed as:				
Current liabilities	2,327,050	1,150,700	1,744,107	2,191,024
Non-current liabilities	710,000	1,533,162	467,560	65,106
	3,037,050	2,683,862	2,211,667	2,256,130

The bank loans were repayable as follows:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year or on demand	2,327,050	1,150,700	1,744,107	2,191,024
After 1 year but within 2 years	190,000	50,000	128,590	65,106
After 2 years but within 5 years	520,000	1,483,162	338,970	–
	710,000	1,533,162	467,560	65,106
	3,037,050	2,683,862	2,211,667	2,256,130

Notes:

The applicable interest rate per annum as at 31 December 2017, 2018 and 2019 and 30 June 2020 ranged from 4.75% to 5.70% per annum.

The bank loans of RMB140,000,000, RMB184,920,000, RMB268,170,000 and RMB238,850,000 as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively, were guaranteed by an independent third party, Shandong Xinxing Property Co., Ltd..

Interest payable on bank loan was included in other payables.

Certain bank borrowings of the Target Company were secured by way of charges against the long term deposits of the Target Company amounting to approximately RMB800,000,000 and an amount of RMB1,909,000,000 was guaranteed by the parent company and ultimate controlling shareholders, Yankuang Group.

The Target Company had been granted bank facilities by various local banks with the total facilities granted amounting to RMB4,134,050,000, RMB3,057,210,000, RMB2,902,581,000 and RMB2,323,850,000 as at 31 December 2017, 2018, 2019 and 30 June 2020. The unutilized bank facilities amounting to RMB2,036,250,000, RMB1,517,080,000, RMB1,997,830,000 and RMB5,689,000 as at 31 December 2017, 2018, 2019 and 30 June 2020.

25. DEFERRED TAX ASSETS/LIABILITIES

An analysis of deferred tax in the statement of financial position is as follows:

	Untilised tax losses	Property, plant and equipment	Impairment loss on other receivables	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1.1.2017	69,169	–	–	–	69,169
(Charged)/credited to profit or loss	(60,251)	209	–	984	(59,058)
At 31.12.2017 and 1.1.2018	8,918	209	–	984	10,111
(Charged)/credited to profit or loss	(8,918)	(44,837)	54,853	3,424	4,522
Credited to other comprehensive income	–	–	–	168	168
At 31.12.2018 and 1.1.2019	–	(44,628)	54,853	4,576	14,801
Credited/(charged) to profit or loss	–	(17,242)	–	(1,369)	(18,611)
Credited to other comprehensive income	–	–	–	(67)	(67)
At 31.12.2019 and 1.1.2020	–	(61,870)	54,853	3,140	(3,877)
(Charged)/credited to profit or loss	22,227	(9,316)	–	(2,017)	10,894
Credited to other comprehensive income	–	–	–	52	52
At 30.06.2020	22,227	(71,186)	54,853	1,175	7,069

26. CAPITAL MANAGEMENT

(a) Details of the Target Company's registered capital are set out below:

	As at 31 December			As at 30 June
	2018	2019	2020	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Registered capital	1,647,120	4,523,020	4,808,191	5,040,691

(b) Capital management

The Target Company's equity capital management objectives are to safeguard the Target Company's ability to continue as a going concern and to provide an adequate return to members commensurately with the level of risk. To meet these objectives, the Target Company manages the equity capital structure and makes adjustments to it in the light of changes in economic conditions by paying dividends to members, issuing new equity shares by the Target Company, and raising or repaying debts as appropriate.

The Target Company's equity capital management strategy, which was unchanged from the previous periods, is to maintain a reasonable proportion in net bank borrowings and equity capital. The Target Company monitors equity capital on the basis of the net debts-to-equity capital ratio, which is calculated as net bank borrowings over equity capital. Net debts are calculated as total debts less cash and bank balances. Equity capital comprises all components of equity.

The management of the Target Company reviews the capital structure periodically. The management considers the cost of capital and the risks associated with the capital. The Target Company manages its overall capital structure through the payment of dividends and raising of new capital as well as the issue of new debt or the redemption of existing debt.

27. RESERVES

Statutory reserve

Pursuant to the Company Law of the PRC and the Articles of Association, it is required to appropriate 10% of each year's net profit according to the PRC accounting standard and regulations (after offsetting previous years' losses) to statutory reserve until such reserve reached 50% of its registered capital.

The appropriation to statutory reserves must be made before distribution of dividends to owners. This reserve shall only be used to make up for previous years' losses, to expand production operations, or to increase the capital of the Target Company. The statutory reserve can be transferred to paid-in capital of the Target Company, provided that the balance of the statutory reserve after such transfer is not less than 25% of their registered capital.

28. EMPLOYEE RETIREMENT BENEFITS

The employees of the Company in the PRC are members of a state-managed pension obligations operated by the PRC Government. The Company is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the pension obligations to fund the benefits. The only obligation of the Company with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

29. RELATED PARTY TRANSACTIONS AND BALANCES

Apart from the transactions as disclosed in notes 18, 19, 21, 23 and 24, the Target Company had the following material transactions with its related parties during the Relevant Periods presented:

	Year ended 31 December			Four months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Goods sold to related companies					
Sales of chemical products	3,329,532	5,430,072	5,457,302	2,890,224	2,351,407
Sales of gas, water and electricity	389,251	333,744	248,359	134,621	62,360
Goods purchased from related companies					
Purchase of catalyst products	6,385	253,022	1,030,517	276,793	1,145,247
Purchase of material	1,043,591	206,779	8,791	2,439	1,256
Purchase of equipment	21,478	112,740	136,979	14,919	28,800
Purchase of coal	4,574	904,997	1,985,722	1,290,363	152,736
Purchase of services	–	28,195	20,162	–	–

Balances and transactions with other state-controlled entities in the PRC

The Target Companies operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Target Company itself is part of a large group of companies under the Parent Company which is controlled by the PRC government. Apart from the transactions with the Parent Company and its subsidiaries disclosed above, the Target Company also conducts business with other state-controlled entities. The directors of the Target Company consider those state-controlled entities are independent third parties so far as the Target Company's business transactions with them are concerned.

Material balances with other state-controlled entities are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade sales	190,618	357,114	415,533	242,926	199,489
Trade purchases	–	213,593	–	–	–

Material transactions with other state-conbtrolled entities are as follows:

	As at 31 December			As at 30 June
	2018	2019	2020	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to other state-controlled Entities	–	37,499	–	48,988
Amounts due from other state-controlled entities	3,904	27,339	2,458	33,282

Amounts due from and to state-controlled entities are trade nature of which terms are not different from other customers and suppliers.

In addition, the Target Company has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors of the Target Company are of the opinion that separate disclosure would not be meaningful.

Except as disclosed above, the directors of the Target Company are of the option that transactions with other state-controlled entities are not significant to the Target Company's operations and no other transaction, arrangement or contract of significant to which the Target Company was a party and in which a director of the Target Company or a connected entity of the director of the Target Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

30. NATURE AND EXTENT OF FINANCIAL INSTRUMENTS RISKS

The Target Company's activities expose it to a variety of financial risks, including credit risk, liquidity risk, interest rate risk and currency risk. The Target Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Target Company's financial performance.

(a) Credit risk

Credit risk is managed on a group basis. The credit risk of the Target Company mainly arises from cash and cash equivalents, trade and bills receivables, deposits and other receivables. The carrying amounts of these balances represent the Target Company's maximum exposure to credit risk in relation to these assets.

In respect of cash deposited at banks, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, expected credit loss rate of cash at bank is assessed to be closed to zero and no provision was made as at 31 December 2017, 2018 and 2019 and 30 June 2020.

As at the end of the reporting period, the Target Company's maximum exposure to credit risk which will cause a financial loss to the Target Company arising from the carrying amount of the respective recognised financial assets as stated in the statement of financial position due to failure to discharge an obligation by the counterparties.

The credit risk of the Target Company is concentrated on trade receivables from the top five largest customers at 31 December 2017, 2018 and 2019 and 30 June 2019 amounting to RMB8,115,000, RMB124,458,000, RMB38,062,000 and RMB153,279,000 respectively and accounted for 100%, 100%, 100% and 100% respectively of the Target Company's total trade receivables before impairment losses. These five largest customers include state-owned enterprises and private limited companies registered and operated in the PRC. In order to minimise credit risk, management continuously monitors the level of exposure by frequent review of the credit evaluation of the financial condition and credit quality of its customers to ensure that prompt actions will be taken to lower exposure. In addition, the Target Company performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on trade balances based on provision matrix. In this regard, the directors of the Target Company consider that the Target Company's credit risk is significantly reduced.

Financial instruments with credit risk assessment and expected credit loss measurement by group

Item	**Grouping basis**	**Expected credit loss calculation approach**
Other receivables – group of related dealings within the scope of combination	Related parties within the scope of combination	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and expectation of future economic conditions, and based on the default risk exposure and 12-month or lifetime expected credit loss rate.
Other receivables – group of receivables from government	Nature	
Other receivables – group of deposits receivables and others etc.		

Specific group and expected credit loss calculation approach

Item	Grouping basis	Expected credit loss calculation approach
Accounts receivable – grouping by age	Grouping by age combination	Simplified approach – provision matrix
Accounts receivable – group of related parties	Related parties within the scope of combination	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and expectation of future economic conditions, and based on the default risk exposure and lifetime expected credit loss rate.
Accounts receivable – state-owned enterprises	State-owned enterprises	
Bills receivable	Issuer of bills	The expected credit loss is calculated with reference to historical credit loss experience, in consideration of current conditions and expected of future economic conditions, and based on the default risk exposure and lifetime expected credit loss rate.

Management assessed that the expected credit loss rate and loss allowances for trade receivables to be insignificant during the Relevant Periods. Movements in expected loss allowances for other receivables are as follows:

	Stage 3 – Lifetime expected credit loss (credit-impaired)		
	As at 31 December		As at 30 June
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	–	365,888	365,888
Impairment loss for the year/period	365,888	–	–
At 31 December/30 June	365,888	365,888	365,888

(b) Liquidity risk

Liquidity risk is the risk that the Target Company will encounter difficulty in meeting obligations associated with financial liabilities. The Target Company manages liquidity risk by monitoring its liquidity position through periodic preparation of cash flows and cash balances forecasts and periodic evaluation of the ability of the Target Company to meet its financial obligations.

The following tables show the remaining contractual maturities at the end of the each reporting period of the Target Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Target Company can be required to pay.

	At 31 December 2017				
	Carrying amount	**Total contractual undiscounted cash flows**	**Less than 1 year or on demand**	**Over 1 year but less than 5 years**	**Over 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade and bills payables	1,274,975	1,274,975	1,274,975	–	–
Accruals and other payables	2,926,703	2,926,703	2,855,047	672,462	–
Bank borrowings	3,037,050	3,278,046	2,461,535	816,511	–
	7,238,728	7,479,724	6,591,557	1,488,973	–

	At 31 December 2018				
	Carrying amount	**Total contractual undiscounted cash flows**	**Less than 1 year or on demand**	**Over 1 year but less than 5 years**	**Over 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade and bills payables	741,178	741,178	741,178	–	–
Accruals and other payables	559,386	559,386	91,064	468,322	–
Bank borrowings	2,683,862	2,959,696	1,278,349	1,681,347	–
	3,984,426	4,260,260	2,110,591	2,149,669	–

	At 31 December 2019				
	Carrying amount	**Total contractual undiscounted cash flows**	**Less than 1 year or on demand**	**Over 1 year but less than 5 years**	**Over 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade and bills payables	743,883	743,883	743,883	–	–
Lease liabilities	694,000	768,470	117,027	651,443	–
Accruals and other payables	193,475	193,475	107,317	86,158	–
Bank borrowings	2,211,667	2,379,359	1,903,652	475,707	–
	3,843,025	4,085,187	2,871,879	1,213,308	–

	At 30 June 2020				
	Carrying amount	Total contractual undiscounted cash flows	Less than 1 year or on demand	Over 1 year but less than 5 years	Over 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade and bills payables	839,233	839,233	839,233	–	–
Lease liabilities	400,000	438,442	10,298	428,144	–
Accruals and other payables	735,915	735,915	655,116	80,799	–
Bank bank borrowings	2,256,130	2,359,190	2,291,533	67,657	–
	4,231,278	4,372,780	3,796,180	576,600	–

(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 Target Company may manage interest rate risk, when it is considered significant and cost-effective, by entering into appropriate swap contracts.

Sensitivity Analysis

The following table details the Target Company's sensitivity to a change of 100 basis points in the interest rate, assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year and all the variables were held constant. It includes the interest rate fluctuation of the abovementioned PBOC rate, LIBOR and LPR.

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
(Decrease) increase in profit or loss				
– if increases by 100 basis points	(32,111)	(13,176)	(11,780)	(15,253)
– if decreases by 100 basis points	32,111	13,176	11,780	15,253

As at the end of each of the Relevant Periods, the Target Company does not have any significant exposure to the interest rate risk.

(d) Currency risk

The Target Company's major businesses are in the PRC and the majority of the transactions are conducted in RMB. Most of the Target Company's assets and liabilities are denominated in RMB. As a result, the Target Company does not have material foreign currency risk during the Relevant Periods.

(e) Fair value

Fair value hierarchy

The following table presents the fair value of the Target Company's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13 "Fair Value Measurement". The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs, that is, unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using Level 2 inputs, that is, observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

The directors of the Target Company perform valuations of financial instruments at the end of each reporting period. As at 31 December 2018 and 2019 and 30 June 2020, the financial assets at fair value through other comprehensive income of the Target Company amounted to RMB8,879,000, RMB9,327,000 and RMB8,980,000 respectively are the only financial instruments carried at fair value and are categorised into Level 3 of the fair value hierarchy.

The Target Company did not have any financial liabilities measured at fair values as at 31 December 2017, 2018 and 2019 and 30 June 2020.

During the Relevant Periods, 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 liabilities.

Information about Level 3 fair value measurement

Unlisted equity investment is measured using valuation techniques based on inputs that can be observed in the markets in addition to unobservable inputs such as company specific financial information.

The Target Company uses the key inputs of market comparable companies, which include the valuation multiple, to determine the fair value of the unlisted equity investment as at 31 December 2018 and 2019 and 30 June 2020. The unobservable inputs are valuation multiple and marketability discount. Valuation multiple represents price-to-book ratio. The higher the valuation multiple, the lower the discounts for lack of marketability, the higher the fair value.

At 30 June 2020

Valuation techniques	Significant unobservable inputs	Range
Market Comparable Companies	Discount for lack of marketability	16%
	Market multiples	1.3

At 31 December 2019

Valuation techniques	Significant unobservable inputs	Range
Market Comparable Companies	Discount for lack of marketability	16%
	Market multiples	1.6

At 31 December 2018

Valuation techniques	Significant unobservable inputs	Range
Market Comparable Companies	Discount for lack of marketability	16%
	Market multiples	1.2

The impact on profit or loss arising from possible changes in unobservable inputs as at 31 December 2018, 2019 and 30 June 2020 were not material.

The movements during the Relevant Periods in the balance of the Level 3 fair value measurement are as follows:

	As at 31 December		As at 30 June
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	10,000	8,879	9,327
Net unrealised gains or losses recognised in other comprehensive income during the year/period	(1,121)	448	(347)
At 31 December/30 June	8,879	9,327	8,980

The carrying amounts of the Target Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2017, 2018 and 2019 and 30 June 2020.

31. MAJOR NON-CASH TRANSACTIONS

(a) During the year ended 31 December 2017, the increase in paid-up registered capital of RMB697,500,000 was in the form of assets.

(b) During the year ended 31 December 2018, loan due to the parent company of RMB1,070,000,000 was converted into paid-up registered capital.

(c) During the year ended 31 December 2019, the increase in paid-up registered capital of RMB285,171,000 was in the form of a piece of land use right.

32. CONTINGENT LIABILITIES

At the end of each reporting period, the Company had no significant contingent liabilities.

33. SUBSEQUENT EVENTS

Following the outbreak of Coronavirus Disease 2019 (the"COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been implemented across the PRC, including extension of the Chinese New Year holiday nationwide, postponement of work resumption after the Chinese New Year holiday in some regions, certain level of restrictions and controls over the travelling of people and traffic arrangements, and heightening of hygiene and epidemic prevention requirements in factories etc. Though it has affected the business and economic activities of the Company to certain extent, the Company's prefabricated construction factories have resumed production gradually under such challenging environment.

As at the date on which the financial statements were authorized for issue, the Company was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak. The Company will continue to observe the development of the COVID-19 outbreak closely and evaluate its impact on the financial position and operating results of the Company.

34. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company in respect of any period subsequent to 30 June 2020 and up to the date of this report.

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Lease liabilities	Amount due to related parties	Bank borrowings
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2017	557,050	136,567	2,933,300
Cash flows	378,000	260,000	630,375
Other changes	(448,050)	1,443,318	(526,625)
As at 31 December 2017 and 1 January 2018	487,000	1,839,885	3,037,050
Cash flows	(719,000)	–	(556,287)
Other changes	610,000	(1,838,770)	203,099
As at 31 December 2018 and 1 January 2019	378,000	1,115	2,683,862
Cash flows	316,000	–	(611,950)
Other changes	–	21,939	139,755
As at 31 December 2019 and 1 January 2020	694,000	23,054	2,211,667
Cash flows	(294,000)	570,000	(11,284)
Other changes	–	(11,819)	55,747
As at 30 June 2020	400,000	581,235	2,256,130

D. ACCOUNTANTS' REPORT ON CHEMICAL EQUIPMENT

The following is the text of a report for the sole purpose of inclusion in this circular, from the independent reporting accountants, Crowe (HK) CPA Limited, Certified Public Accountants, Hong Kong.

國富浩華（香港）會計師事務所有限公司
Crowe (HK) CPA Limited
香港 銅鑼灣 禮頓道77號 禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

The Directors
Yanzhou Coal Mining Company Limited

Dear Sirs,

We report on the historical financial information of Yankuang Jining Chemical Equipment Co., Ltd. (the "Target Company") set out on pages II-D-4 to II-D-51, which comprises the statements of financial position of the Target Company as at 31 December 2017, 2018 and 2019 and 30 June 2020, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the Target Company for each of the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (the "Historical Financial Information"). This Historical Financial Information set out on pages II-D-4 to II-D-51 forms an integral part of this report, which has been prepared for for inclusion in the circular of Yanzhou Coal Mining Company Limited (the "Company") dated 16 November 2020 (the "Circular") in connection with the proposed acquisition of 100% equity interest in the Target Company by the Company.

DIRECTORS' RESPONSIBILITIES FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 3 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANT'S RESPONSIBILITY

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

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 3 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, true and fair view of the financial position of the Target Company and the financial position of the Target Company as at 31 December 2017, 2018 and 2019 and 30 June 2020 and of its financial performance and its cash flows for the Relevant Periods in accordance with the basis of the preparation set out in note 3 to the Historical Financial Information.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION.

We have reviewed the stub period comparative financial information of the Target Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended 30 June 2019 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in note 3 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in note 3 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE MAIN BOARD OF THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

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

Dividends

We refer to note 11 to the Historical Financial Information which states that no dividends have been declared and paid by the Target Company in respect of the Relevant Period.

Crowe (HK) CPA Limited
Certified Public Accountants

Chung Wai Chuen Alfred
Practising Certificate Number: P05444

Hong Kong
16 November 2020

I. HISTORICAL FINANCIAL INFORMATION OF YANKUANG JINING CHEMICAL EQUIPMENT CO., LTD.

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Target Company for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with accounting policies which conform with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "IASB") (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

(A) STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Six months ended 30 June	
	Note	**2017**	**2018**	**2019**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Revenue	*4*	27,539	39,189	52,907	25,171	33,555
Cost of sales		(25,150)	(36,387)	(47,351)	(22,390)	(29,912)
Gross profit		2,389	2,802	5,556	2,781	3,643
Other income	*5*	19	16	2,614	2,555	111
Selling and distribution expenses		(332)	(707)	(801)	(386)	(438)
General and administrative expenses		(2,424)	(1,793)	(1,989)	(929)	(1,833)
(Loss)/profit from operations		(348)	318	5,380	4,021	1,483
Finance costs	*6*	(6)	(71)	(61)	(32)	(28)
(Loss)/profit before income tax	*7*	(354)	247	5,319	3,989	1,455
Income tax credit	*8*	217	65	20	–	150
(Loss)/profit and total comprehensive (loss)/income for the year/period		(137)	312	5,339	3,989	1,605

(B) STATEMENTS OF FINANCIAL POSITION

	Note	As at 31 December 2017 RMB'000	2018 RMB'000	2019 RMB'000	As at 30 June 2020 RMB'000
Non-current assets					
Property, plant and equipment	*12*	13,556	12,238	26,625	25,483
Intangible assets	*13*	3,368	3,277	3,187	3,141
Right-of-use assets	*14(a)*	–	–	749	702
Deferred tax assets	*22*	3,138	3,203	3,221	3,371
		20,062	18,718	33,782	32,697
Current assets					
Inventories	*15*	7,199	10,148	10,245	11,300
Trade and bills receivables	*16*	20,060	22,049	22,072	27,477
Prepayments and other receivables	*17*	1,776	1,134	7,148	5,039
Cash and cash equivalents	*18*	55	1,950	12,660	10,176
		29,090	35,281	52,125	53,992
Deduct:					
Current liabilities					
Lease liabilities	*14(b)*	–	–	174	146
Trade payables	*19*	11,251	14,208	17,870	18,480
Contract liabilities	*20*	–	609	147	141
Accruals and other payables	*21*	109,411	110,498	11,499	9,950
		120,662	125,315	29,690	28,717
Net current (liabilities)/assets		(91,572)	(90,034)	22,435	25,275
Total assets less current liabilities		(71,510)	(71,316)	56,217	57,972
Non-current liabilities					
Accruals and other payables	*21*	866	748	23	14
Lease liabilities	*14(b)*	–	–	609	609
		866	748	632	623
Net (liabilities)/assets		(72,376)	(72,064)	55,585	57,349

	Note	2017	2018	2019	2020
			As at 31 December		As at 30 June
		RMB'000	RMB'000	RMB'000	RMB'000
Representing:					
Registered capital	23	10,790	10,790	111,899	111,899
Reserves	24	(83,166)	(82,854)	(56,314)	(54,550)
Total (deficit)/equity		(72,376)	(72,064)	55,585	57,349

(C) STATEMENTS OF CHANGES IN EQUITY

	Registered capital	Capital reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1.1.2017	10,790	–	(83,052)	(72,262)
Loss and total comprehensive loss for the year	–	–	(137)	(137)
Transfer of unutilised employee education fund to capital reserve	–	23	–	23
At 31.12.2017 and 1.1.2018	10,790	23	(83,189)	(72,376)
Profit and total comprehensive income for the year	–	–	312	312
At 31.12.2018 and 1.1.2019	10,790	23	(82,877)	(72,064)
Profit and total comprehensive income for the year	–	–	5,339	5,339
Conversion of loan from holding company as registered capital	101,109	–	–	101,109
Capital contribution from holding company	–	21,201	–	21,201
At 31.12.2019 and 1.1.2020	111,899	21,224	(77,538)	55,585
Profit and total comprehensive income for the period	–	–	1,605	1,605
Transfer of unutilised employee education fund to capital reserve	–	159	–	159
At 30.6.2020	111,899	21,383	(75,933)	57,349
(Unaudited)				
At 1.1.2019	10,790	23	(82,877)	(72,064)
Profit and total comprehensive income for the period	–	–	3,989	3,989
At 30.6.2019	10,790	23	(78,888)	(68,075)

(D) STATEMENTS OF CASH FLOWS

	Note	Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Cash flows from operating activities						
(Loss)/profit before income tax		(354)	247	5,319	3,989	1,455
Adjustments for:						
Amortisation		91	91	90	45	46
Depreciation		1,226	1,334	1,306	653	1,142
Bank interest income		–	(2)	(45)	(3)	(43)
Depreciation on right-of-use assets		–	–	93	46	47
Interest expense		–	68	60	31	26
Write back of trade payables		–	–	(2,549)	(2,549)	–
Operating profit before working capital changes		963	1,738	4,274	2,212	2,673
Changes in working capital:						
Inventories		(2,558)	(2,949)	(97)	(1,408)	(1,055)
Trade and bills receivables		(4,942)	(1,989)	(23)	1,213	(5,405)
Prepayments and other receivables		(1,309)	642	(6,012)	(4,361)	2,109
Trade payables		4,189	2,957	6,211	(1,320)	610
Contract liabilities		–	609	(462)	(609)	(6)
Accruals and other payables		3,765	1,133	(2,558)	4,255	3,073
Cash generated from/(used in) operations		108	2,141	1,333	(18)	1,999
Interest received		–	2	45	3	43
Net cash generated from/(used in) operating activities		108	2,143	1,378	(15)	2,042

	Note	Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from investing activities						
Sales proceeds from disposal of property, plant and equipment		–	–	171	–	30
Payments for acquisition of property, plant and equipment		(58)	(19)	(11,811)	–	(4,499)
Net cash used in investing activities		(58)	(19)	(11,640)	–	(4,469)
Cash flows from financing activities						
Capital contribution from holding company		–	–	21,201	–	–
Repayment of lease liabilities		–	(229)	(229)	(114)	(57)
Net cash (used in)/from financing activities		–	(229)	20,972	(114)	(57)
Net increase/(decrease) in cash and cash equivalents		50	1,895	10,710	(129)	(2,484)
Cash and cash equivalents at the beginning of the year/period		5	55	1,950	1,950	12,660
Cash and cash equivalents at the end of the year/period		55	1,950	12,660	1,821	10,176
Analysis of the balances of cash and cash equivalents	*18*					
Cash at bank		55	1,950	12,660	1,821	10,176

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Yankuang Jining Chemical Equipment Co., Ltd. (the "Target Company") is a limited liability company established in the People's Republic of China (the "PRC"). The registered address of the Target Company is located at No. 1, Jiejia Road, Rencheng Economic Development Zone, Jining City.

The principal activity of the Target Company is machine repairing and sales of waste materials. There has been no significant change in the Target Company's principal activities during the Relevant Periods.

In the opinion of directors of the Target Company (the "Directors"), as of the date of this report, the parent and ultimate controlling company of the Target Company is Yankuang Group Company Limited, a company established in the PRC and wholly owned by the State-owned Assets Supervision and Administration Commission of the People's Government of Shandong Province of the PRC.

2. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following IFRSs in issue at 30 June 2020 have not been applied in the preparation of these financial statements since they were not yet effective for the annual period beginning on 1 January 2020:

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 16	Covid-19 – Related Rent Concession[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current[1]
Amendments to IAS 16	Proceeds before Intended[4]
Amendments to IAS 37	Cost of Fulfilling a Contract[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[4]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Annual Improvements to IFRSs	2018 – 2020 Cycle[4]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 June 2020
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2022

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"), which comprise all standards and interpretations approved by the IASB. The Historical Financial Information has been prepared under the historical costs convention.

3.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Target Company

A number of new and amended standards became applicable for the reporting period commencing on 1 January 2017, 2018, 2019 and 2020. The Target Company had to change its accounting policies and make modified retrospective adjustments as a result of adopting the following standards:

		Effective for annual periods beginning on or after
Amendments to IFRS 12	Annual improvements 2014-2016 cycle	1 January 2017
Amendments to IAS 7	Disclosure initiative	1 January 2017
Amendments to IAS 12	Recognition of deferred tax assets for unrealized losses	1 January 2017
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contract with Customers	1 January 2018
Amendments to IFRS 1 and IAS 28	Annual improvements 2014-2016 cycle	1 January 2018
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
Amendments to IFRS 4	Applying IFRS 9 financial instruments with IFRS 4 insurance contracts	1 January 2018

		Effective for annual periods beginning on or after
Amendments to IFRS 15	Clarifications to IFRS 15	1 January 2018
Amendments to IAS 40	Transfers to investment property	1 January 2018
IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018
IFRS 16	Leases	1 January 2019
Amendments to Annual Improvements Project	Annual improvements 2015-2017 cycle	1 January 2019
Amendments to IFRS 9	Prepayment features with negative compensation	1 January 2019
Amendments to IAS 19	Plan amendment, curtailment or settlement	1 January 2019
Amendments to IAS 28	Long-term interests in associates and joint ventures	1 January 2019
IFRIC 23	Uncertainty over income tax treatments	1 January 2019
Amendments to IFRS 3 (Revised)	Definition of a business	1 January 2020
Amendments to IAS 1 (Revised) and IAS 8	Definition of material	1 January 2020
Amendments to IAS 39, IFRS 7 and IFRS 9	Interest rate benchmark reform	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting	1 January 2020

The Target Company has assessed the impact of adopting these new standards and amendments. According to the preliminary assessment, these standards are not expected to have a material impact on the Target Company's operating results and financial position.

3.1.2 Changes in accounting policy and disclosures

This note explains the impact of the adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" on the Target Company's Historical Financial Information since 1 January 2018, as well as the impact of adoption of IFRS 16 "Leases" since 1 January 2019.

(i) IFRS 9 "Financial Instruments"

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Target Company has applied IFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 January 2018) in accordance with the transition provisions under IFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets and financial liabilities on initial application are recognised in retained earnings and other components of equity as at 1 January 2018.

The Target Company's accounting policies for the classification and measurement of financial instruments and the impairment of financial assets are disclosed in detail in note 3.15 below.

Classification and measurement of financial instruments

The directors of the Target Company reviewed and assessed its existing financial assets and liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 did not have any impact on the classification and measurement of its financial assets.

Loss allowance for expected credit losses ("ECL")

The adoption of IFRS 9 has changed the Target Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss model with a forward-looking expected credit loss ("ECL") model. As at 1 January 2018, the Directors reviewed and assessed the Target Company's existing financial assets and other items subject to ECL for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement of IFRS 9. The adoption of the ECL requirements under IFRS 9 had no significant impact to the Target Company's financial statements.

(ii) IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 superseded IAS 11 "Construction Contracts", IAS 18 "Revenue" and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether how much and when revenue is recognised. The Target Company has elected to adopt the modified retrospective approach for contracts with customers that are not completed as at the date of initial application (i.e. 1 January 2018) with the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings and comparative information is not restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 "Revenue". Details are described below.

The Directors are of the opinion that the adoption of IFRS 15 has no impact on the timing of revenue recognition of the Target Company.

The Target Company's accounting policies for its revenue streams are disclosed in detail in note 3.3 below.

The amount of adjustment for each financial statement line item of the statement of financial position at 1 January 2018 affected by the application of IFRS 15 is illustrated below. Line items that were not affected by the changes have not been included.

	Carrying amount previously reported at 31 December 2017	**Impact on adoption of IFRS 15 – Reclassification**	**Carrying amount as restated at 1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*
Accurals and other payables	110,277	(639)	109,638
Contract liabilities	–	639	639

Advances received from customers

As at 1 January 2018, the "receipts in advance" of RMB639,000 previously included in accruals and other payables was reclassified to contract liabilities.

Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of IFRS on 1 January 2018

The following table summarises the estimated impact of applying IFRS 15 on the statement of financial position at 31 December 2018, by comparing the amounts reported under IAS 18 and related interpretations that were in effect before the change. Line items that were not affected by the adjustments have not been included. The adoption of IFRS 15 did not have material impact on the Target Company's operating, investing and financing cash flows.

Impact on the statement of financial position at 31 December 2018

	As reported	**Impact on adoption of IFRS 15**	**Amounts excluding impacts of adopting IFRS 15**
	RMB'000	*RMB'000*	*RMB'000*
Accruals and other payables	111,246	609	111,855
Contract liabilities	609	(609)	–

(iii) IFRS 16 "Leases"

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described in note 3.9. Comparative information has not been restated and continues to be reported under IAS 17 "Leases".

On transition to IFRS 16, the Target Company elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC-4 "Determining whether an Arrangement contains a Lease" were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

The Target Company as lessee

Operating lease

On adoption of IFRS 16, the Target Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 "Leases" (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The adoption of IFRS 16 did not have material impact on the Target Company's financial statements as it did not have any operating lease arrangements.

Finance lease

In addition, the Target Company leases certain production equipment that were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the leased asset and lease liability under IAS 17 immediately before that date. Accordingly, the obligation under finance leases previously included in accruals and other paybles are now included within lease liabilities. There is no impact on the opening balance of equity.

The following table summarises the impact of the transition to IFRS 16 at 1 January 2019. Line items that were not affected by the adjustments have not been included.

	Carrying amount previously reported at 31 December 2018 *RMB'000*	**Impact on adoption of IFRS 16** *RMB'000*	**Carrying amount as restated at 1 January 2019** *RMB'000*
Right-of-use assets	–	842	842
Property, plant and equipment	12,238	(842)	11,396
Lease liabilities	–	945	945
Accruals and other payables	111,246	(945)	110,301

Practical expedients applied

On the date of initial application of IFRS 16, the Target Company has used the following practical expedients permitted by the standard:

- not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Target Company relied on its assessment made applying IAS 17 and IFRIC-4 "Determining whether an Arrangement contains a Lease";
- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous by applying IAS 37 as an alternative to performing an impairment review;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

3.2 Impairment of tangible and intangible assets other than goodwill

At each reporting date, the Target Company reviews the carrying amounts of its tangible assets and intangible assets with finite useful life to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset (determined at the higher of its fair value less costs of disposal and its value in use) is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with an indefinite useful life will be tested for impairment annually. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as an income immediately. For the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Assessment is performed for each area of interest in conjunction with the group of operating assets (representing a cash generating unit) to which the Target Company's activity is attributed.

3.3 Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the Target Company uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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

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

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

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

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

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

Contract liabilities

A contract liability represents the Target Company's obligation to transfer goods or services to a customer for which the Target Company has received consideration from the customer.

The Target Company recognised revenue from the following major sources:

- Sales of goods (Machine repairing)

Sales of goods

Revenue from sale of waste materials and machine repairing is recognised at the point when the control of the goods is transferred to the customers (generally on delivery of the goods to the location specified by the customers and accepted by the customers). It is a point of time where the customer has the ability to direct the use of the products and obtain substantially all of the remaining benefits of the products.

3.4 Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

3.5 Property, plant and equipment

Property, plant and equipment (including right-of-use assets), other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Ownership interests in leasehold land and buildings

For payments of ownership interest of properties which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Target Company when the payments cannot be allocated reliably between the leasehold land and building elements.

To the extend the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of IFRS 16) or "prepaid lease payments" (before application IFRS 16) in the statement of financial position.

Depreciation is charged so as to write off the cost of items of property, plant and equipment, other than construction in progress and freehold land, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method or unit of production method.

Category	Estimated useful life	Estimated residual values
Land and buildings	The shorter of the unexpired lease term and the estimated useful lives from 20 – 40 years	5%
Machinery	10 – 35 years	5%
Electronic and other equipments	3 – 10 years	5%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at the end of each reporting periods.

Any gain or loss arising on the disposal of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised immediately in the statement of profit or loss.

3.6 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and other financial institution and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the preparation of cash flow statement, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Target Company's cash management.

3.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises direct materials and, where applicable, direct labour and overheads that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price less all further costs to completion and costs to be incurred in selling, marketing and distribution.

Inventories of auxiliary materials, spare parts and small tools expected to be used in production are stated at weighted average cost less allowance, if necessary, for obsolescence.

3.8 Taxation

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

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

Deferred tax is recognised on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on either (i) the same taxable entity; or (ii) 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.

3.9 Leasing

Definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identifiable asset for a period of time in exchange for consideration.

The Target Company as lessee

The Target Company assesses whether a contract is or contains a lease, at inception of the contract. The Target Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Target Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date, the Target Company measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Target Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;

- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the Target Company exercising an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received. Whenever the Target Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under IAS 37 "Provision, Contingent Liabilities and Contingent Assets". The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

They are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Target Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Target Company presents right-of-use assets as a separate line in the statement of financial position.

The Target Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Target Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Target Company hasused this practical expedient for all leases.

Lease modification

The Target Company accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for a separate lease, the Target Company remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

3.10 Provisions and contingent liabilities

Provisions are recognised when the Target Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Target Company are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3.11 Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Target Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Target Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

3.12 Retirement benefit costs

Payments to defined contribution plans including included state-managed retirement benefit schemes and superannuation funds are recognised as an expense when employees have rendered service entitling them to the contributions.

3.13 Short-term and other long-term employee benefits

Benefits accruing to employees in respect of wages and salaries, annual leave and sick leave are included in other payables and accrued expenses. Related on-costs are also included in other payables and accrued expenses as other creditors. Long service leave is provided for when it is probable that settlement will be required and it is capable of being measured reliably.

Employee benefits expected to be settled within 12 months are measured using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Target Company in respect of services provided by employees up to the reporting date.

3.14 Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Target Company becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value, except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, FVTOCI and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Target Company's business model for managing them.

Financial assets at amortised cost (debt instruments)

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

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

- 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 amoritsed cost are subsequently measured using the effective interest method and are subject to impairment.

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the "Other income" line item (note 5).

Equity instruments designated as at FVTOCI

On initial recognition, the Target Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Target Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "Other income" line item in profit or loss.

Financial asset at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Target Company designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.

- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Target Company has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "Other income" line item.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or

- on initial recognition, it is part of a portfolio of identified financial instruments that the Target Company manages together and has evidence of a recent actual pattern of short-term profit-taking; or

- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Impairment of financial assets

The Target Company recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost as well as financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Target Company always recognises lifetime ECL for bills and accounts receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Target Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

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

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Target Company 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. In making this assessment, the Target Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

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

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

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

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

- significant increases in credit risk on other financial instruments of the same debtor;

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

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

Despite the foregoing, the Target Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Target Company considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

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

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

Definition of default

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

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target Company, in full (without taking into account any collaterals held by the Target Company).

Credit-impaired financial assets

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

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Target Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 4 years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Target Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Target Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Target Company in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at the original effective interest rate.

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

If the Target Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Target Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Target Company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. On derecognition of an investment in equity instrument which the Target Company has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities and equity instruments

Classification as debt or equity

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities at FVTPL are stated at fair value with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liabilities and is included in the 'other income' line item in profit or loss.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

Financial liabilities and equity instruments

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

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and do not arise from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition of financial liabilities

The Target Company derecognises financial liabilities when, and only when, the Target Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Offsetting financial instruments

Financial assets and liabilities of the Target Company are offset and the net amount presented in the statement of financial position when, and only when, there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

3.15 Fair value measurement

When measuring fair value except for the Target Company's leasing transactions, net realisable value of inventories and value-in-use of intangible assets, prepaid lease payments, property, plant and equipment and construction in progress for the purpose of impairment assessment, the Target Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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.

The Target Company 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. Specifically, the Target Company categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Target Company determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

3.16 Significant accounting judgements and estimates

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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

(i) Depreciation

Property, plant and equipment are depreciated on straight-line basis over the estimated useful lives, after taking into account the estimated residual value if any. The Target Company reviews the estimated useful lives and basis of depreciation of property, plant and equipment regularly in order to determine the amount of depreciation expenses to be recorded during any reporting period. The useful lives and basis of depreciation are based on the Target Company's historical experience with similar assets and take into account anticipated technological changes. The depreciation expenses for future periods are adjusted prospectively if there are significant changes from previous estimates.

(ii) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions, technology changes and the historical experience of selling products with similar nature. It could change significantly as a result of changes in customer preference or competitor actions. The Target Company reassesses these estimates at the end of each reporting period.

(iii) Impairment of trade receivables and other receivables

Impairment of trade receivables and other receivables is made based on assessment of their recoverability. The identification of impairment of trade receivables and other receivables requires management's judgment and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and impairment loss or reversal of impairment in the period in which such an estimate has been changed.

(iv) Current and deferred income taxes

The Target Company is subject to income taxes in Mainland China. Judgements and estimations are required in determining the provision for income taxes for certain transactions (including inter-company transactions) and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the periods in which such determinations are made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation in the periods in which such estimate is changed.

4. OPERATING SEGMENT INFORMATION AND REVENUE

During the Relevant Periods, the Target Company's revenue was generated form machine repairing and trading of waste materials in the PRC. The Target Company sells goods directly to customers, normally within a 90 to 365 days credit period. Management monitors the operating results as a whole for the purpose of making decisions about resources allocation and performance assessment. Accordingly, no operating segment information is presented. An analysis of revenue of the Target Company is as follows:

	Year ended 31 December			**Six months ended 30 June**	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Revenue from contracts with customers within the scope of IFRS 15					
Machine repairing	27,412	39,108	52,646	25,171	33,505
Revenue from other sources					
Sales of waste materials	127	81	261	–	50
	27,539	39,189	52,907	25,171	33,555
Disaggregated by timing of revenue recognition					
– At a point in time	27,539	39,189	52,907	25,171	33,555

4.1 Geographical information

All of the Target Company's revenue were generated in the PRC. All of the Target Company's non-current assets are located in the PRC.

4.2 Revenue from major customers

Revenue from customers of the Relevant Periods contributing over 10% of the total sales of the Target Company are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Customer A	5,794	7,807	10,742	4,544	16,757
Customer B	3,472	N/A	9,453	4,181	N/A
Customer C	4,526	N/A	N/A	3,458	N/A
Customer D	N/A	4,997	N/A	N/A	N/A
Customer E	3,482	N/A	N/A	N/A	N/A
Customer F	N/A	N/A	6,871	N/A	N/A

N/A: Not applicable as revenue generated by the customer is less than 10% of the Target Company's revenue for the Relevant Periods.

5. OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Bank interest income	–	2	45	3	43
Government grants *(note (i))*	18	14	1	–	57
Penalties income	1	–	19	3	11
Write back of trade payables	–	–	2,549	2,549	–
	19	16	2,614	2,555	111

(i) Government grants have been received from PRC local government authorities as an incentive for the Target Company for maintain employment stability.

6. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Interest on lease liabilities	–	68	60	31	26
Bank charges	6	3	1	1	2
	6	71	61	32	28

7. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax is arrived at after charging:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			(unaudited)		
(a) Staff costs					
Salaries and other benefits	2,517	3,047	4,111	1,291	2,241
Staff welfare	197	198	335	153	216
Defined contribution retirement plan contributions	1,713	1,576	2,127	908	594
	4,427	4,821	6,573	2,352	3,051
(b) Other items:					
Amortisation	91	91	90	45	46
Cost of sales	25,150	36,387	47,351	22,390	29,912
Depreciation of property, plant and equipment	1,226	1,334	1,306	653	1,142
Depreciation of right-of-use assets	–	–	93	46	47

8. INCOME TAX EXPENSE

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Current tax					
Provision for the year/period	–	–	(2)	–	–
Deferred tax					
Credit for the year/period – note 22	(217)	(65)	(18)	–	(150)
	(217)	(65)	(20)	–	(150)

Income tax provision of the Target Company in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the Relevant Periods, based on the existing legislation, interpretations and practices in respect thereof.

The National People's Congress approved the Corporate Income Tax Law of the PRC (the "New CIT Law") on 16 March 2007 and the State Council has announced the Detailed Implementation Regulations on 6 December 2007, which has been effective since 1 January 2008. According to the New CIT Law, the income tax rates for both domestic and foreign investment enterprises are unified at 25% effective from 1 January 2008.

A reconciliation between income tax expense and (loss)/profit before income tax at applicable tax rates is set out below:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
(Loss)/profit before income tax	(354)	247	5,319	3,989	1,455
Taxation at the applicable tax rate	(89)	62	1,262	997	364
Tax effect of non-deductible expenses	9	17	215	–	77
Tax loss on the prior year	(137)	(144)	(1,497)	(997)	(591)
Income tax (credit)/expense	(217)	(65)	(20)	–	(150)

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

The aggregate amounts of remuneration of directors of the Target Company during the Relevant Periods and the six months ended 30 June 2019, disclosed pursuant to the Rules Governing The Listing of Securities on the Stock Exchange (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, are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Fees	–	–	–	–	–
Other emoluments:					
Salaries and other benefits	90	88	123	60	88
Defined contribution retirement plan contributions	13	17	22	9	12
	103	105	145	69	100

The names of the directors and their remuneration for the Relevant Periods and the six months ended 30 June 2019 are as follows:

(i) Directors' remuneration

	Year ended 31 December 2017			
	Fees	Salaries and other benefits	Defined contribution retirement plan contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Director				
Shi Shanxue	–	90	13	103
	–	90	13	103

	Year ended 31 December 2018			
	Fees	Salaries and other benefits	Defined contribution retirement plan contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Director				
Shi Shanxue	–	88	17	105
	–	88	17	105

	Year ended 31 December 2019			
	Fees	Salaries and other benefits	Defined contribution retirement plan contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Director				
Shi Shanxue	–	123	22	145
	–	123	22	145

	Six months ended 30 June 2019 (unaudited)			
	Fees	Salaries and other benefits	Defined contribution retirement plan contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Director				
Shi Shanxue	–	60	9	69
	–	60	9	69

	Six months ended 30 June 2020			
	Fees	Salaries and other benefits	Defined contribution retirement plan contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Director				
Shi Shanxue	–	88	12	100
	–	88	12	100

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the Relevant Periods and the six months ended 30 June 2019. No emoluments were paid by the Target Company to any of the directors or supervisors as an inducements to join or upon joining the Target Company or as compensating for loss of office.

(ii) Five highest paid employees

An analysis of the five highest paid employees within the Target Company for the Relevant Periods and the six months ended 30 June 2019 is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Directors	103	105	145	69	100
Non-directors	314	329	575	223	337
	417	434	720	292	437
Number of directors	1	1	1	1	1
Number of non-directors	4	4	4	4	4

Details of the remuneration of the non-directors are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Salaries and other benefits	272	277	529	193	305
Defined contribution retirement plan contribution	42	52	46	30	32
	314	329	575	223	337

Salaries of the highest paid employees, who are non-directors, fall within the band of nil to HK$1,000,000.

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE TARGET COMPANY

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

11. DIVIDENDS

No dividends were declared and paid by the Target Company during the Relevant Periods, nor has any dividend been proposed since 30 June 2020.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings	**Machinery**	**Electronic and other equipments**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
For the six months ended 30 June 2020				
Opening net book value	7,650	18,974	1	26,625
Depreciation	(285)	(857)	–	(1,142)
Closing net book value	7,365	18,117	1	25,483
At 30.6.2020				
Cost	15,877	31,750	103	47,730
Aggregate depreciation	(8,512)	(13,633)	(102)	(22,247)
Net book value	7,365	18,117	1	25,483
For the year ended 31 December 2019				
Opening net book value	8,226	4,010	2	12,238
Additions	–	16,535	–	16,535
Transfer to right-of-use assets	–	(842)	–	(842)
Depreciation	(576)	(729)	(1)	(1,306)
Closing net book value	7,650	18,974	1	26,625

	Buildings *RMB'000*	Machinery *RMB'000*	Electronic and other equipments *RMB'000*	Total *RMB'000*
At 31.12.2019				
Cost	15,877	31,829	103	47,809
Aggregate depreciation	(8,227)	(12,855)	(102)	(21,184)
Net book value	7,650	18,974	1	26,625
For the year ended 31 December 2018				
Opening net book value	8,796	4,757	3	13,556
Additions	–	16	–	16
Depreciation	(570)	(763)	(1)	(1,334)
Closing net book value	8,226	4,010	2	12,238
At 31.12.2018				
Cost	15,877	17,498	322	33,697
Aggregate depreciation	(7,651)	(13,488)	(320)	(21,459)
Net book value	8,226	4,010	2	12,238
For the year ended 31 December 2017				
Opening net book value	9,001	4,392	15	13,408
Additions	330	1,042	2	1,374
Depreciation	(535)	(677)	(14)	(1,226)
Closing net book value	8,796	4,757	3	13,556
At 31.12.2017				
Cost	15,877	17,482	322	33,681
Aggregate depreciation	(7,081)	(12,725)	(319)	(20,125)
Net book value	8,796	4,757	3	13,556

At 31 December 2017 and 2018, the carrying amount of property, plant and equipment held under finance lease was approximately RMB936,000 and RMB842,000 respectively. From 1 January 2019, property, plant and equipment held under finance leases have been reclassified to right-of-use assets (note 14).

13. INTANGIBLE ASSETS

	Land use rights *RMB'000*
For the six months ended 30 June 2020	
Opening net book value	3,187
Amortisation	(46)
Closing net book value	3,141
At 30.6.2020	
Cost	4,531
Aggregate amortisation	(1,390)
Net book value	3,141
For the year ended 31 December 2019	
Opening net book value	3,277
Amortisation	(90)
Closing net book value	3,187
At 31.12.2019	
Cost	4,531
Aggregate amortisation	(1,344)
Net book value	3,187
For the year ended 31 December 2018	
Opening net book value	3,368
Amortisation	(91)
Closing net book value	3,277
At 31.12.2018	
Cost	4,531
Aggregate amortisation	(1,254)
Net book value	3,277
For the year ended 31 December 2017	
Opening net book value	3,459
Amortisation	(91)
Closing net book value	3,368
At 31.12.2017	
Cost	4,531
Aggregate amortisation	(1,163)
Net book value	3,368

14. LEASE

(i) Amounts recognised in the statements of financial position

(a) Right-of-use assets

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Machinery	–	–	749	702

The Target Company has a lease arrangements for machinery. The lease term is 6 years.

In respect of lease arrangement for renting certain machinery, the Target Company has options to purchase certain production equipments for a nominal amount at the end of the lease term. The Target Company's obligations are secured by the lessors' title to the leased assets for such lease.

(b) Lease liabilities

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current	–	–	174	146
Non-current	–	–	609	609
	–	–	783	755

	As at 31 December			As at 30 June
Amounts payable under lease liabilities	**2017**	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	–	–	174	146
After one year but within two years	–	–	609	609
	–	–	783	755
Less: Amount due for settlement within 12 months (shown under current liabilities)	–	–	174	146
Amount due for settlement after 12 months	–	–	609	609

(ii) Amounts recognised in profit or loss

	Year ended 31 December 2017	Year ended 31 December 2018	Year ended 31 December 2019	Period ended 30 June 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Depreciation expense on right-of-use assets	–	–	93	47
Interest expense on lease liabilities	–	–	60	26

(iii) Amounts recognised in cash flows statement

During the year ended 31 December 2017, 31 December 2018, 31 December 2019 and period ended 30 June 2020, the total cash outflow for leases amount to Nil, RMB229,000, RMB229,000 and RMB57,00 respectively.

15. INVENTORIES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	5,082	6,352	5,991	6,341
Work in progress	7,824	9,503	513	10,414
Finished goods	513	513	9,961	765
	13,419	16,368	16,465	17,520
Provision for obsolete inventories	(6,220)	(6,220)	(6,220)	(6,220)
	7,199	10,148	10,245	11,300

16. TRADE AND BILLS RECEIVABLES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables				
– third parties	4,656	5,562	4,098	8,488
– related parties	15,254	14,287	15,717	18,338
Less: impairment loss on trade receivables	–	–	–	–
	19,910	19,849	19,815	26,826
Bills receivables	150	2,200	2,257	651
	20,060	22,049	22,072	27,477

The Target Company normally allows credit terms to well-established customers ranging from 60 to 180 days. The Target Company seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the Directors. Trade and bills receivables are expected to be recovered within one year.

An aging analysis of trade and bills receivables as at the end of each reporting period, based on the date of recognition of the goods sold, is as follows:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	17,936	20,659	20,718	20,916
1 to 2 years	1,157	1,135	1,197	6,068
2 to 3 years	318	–	5	453
Over 3 years	649	255	152	40
	20,060	22,049	22,072	27,477

Details of impairment assessments on trade and bills receivables from customers are set out in note 26(a).

17. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other receivables				
– third parties	622	468	5,581	4,010
– related parties	–	–	18	410
Prepayments	1,154	666	1,549	619
	1,776	1,134	7,148	5,039

18. CASH AND CASH EQUIVALENTS

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at banks				
– third parties	34	111	–	–
– financial institution held by parent and ultimate controlling company	4	1,839	12,653	10,176
Cash on hand	17	–	7	–
	55	1,950	12,660	10,176

19. TRADE PAYABLES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables				
– third parties	11,250	14,205	17,795	18,091
– related parties	1	3	75	389
	11,251	14,208	17,870	18,480

The Target Company normally obtains credit terms ranging from 90 to 365 days from its suppliers.

An aging analysis of the trade payables at the end of each reporting period, based on the date of receipt of goods purchased, is as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	7,174	9,444	16,031	10,914
1 to 2 years	654	1,123	766	7,181
2 to 3 years	57	330	523	61
Over 3 years	3,366	3,311	550	324
	11,251	14,208	17,870	18,480

20. CONTRACT LIABILITIES

The Target Company recognised the following revenue-related contract liabilities from contract with customers:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contract liabilities				
– third parties	–	604	142	136
– related parties	–	5	5	5
	–	609	147	141

Contract liabilities mainly consists of sales deposits received from customers for which the related revenue had not been recognised as at 31 December 2018 and 2019 and 30 June 2020, and the Directors expects those related revenue to be recognised within the next twelve months.

The following table shows the movements in contract liabilities during the Relevant Periods related to carried-forward contract liabilities.

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	–	639	609	147
Decrease in contract liabilities as a result of recognising revenue during the year /period that was included in the contract liabilities at the beginning of the year/period	–	(639)	(609)	(147)
Increase in contract liabilities as a result of receiving sales deposits for the relevant unrecognised revenue at the end of the year/period	–	609	147	141
At the end of the year/period	–	609	147	141

21. ACCRUALS AND OTHER PAYABLES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Payroll payables	430	592	604	543
Lease liabilities	1,095	945	–	–
Other payables and receipt in advance				
– third parties	2,471	1,931	2,514	2,216
– related parties	105,583	106,939	7,680	6,180
Other tax payables	698	839	724	1,025
	110,277	111,246	11,522	9,964
Analyse as:				
Current liabilities	109,411	110,498	11,499	9,950
Non-current liabilities	866	748	23	14
	110,277	111,246	11,522	9,964

22. DEFERRED TAX ASSETS

The followings are deferred tax assets recognised by the Target Company and movements thereon during the Relevant Periods:

	Loss allowance on receivables	**Provision of inventories**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1.1.2017	1,366	1,555	2,921
Credit for the year	217	–	217
At 31.12.2017 and 1.1.2018	1,583	1,555	3,138
Credit for the year	65	–	65
At 31.12.2018 and 1.1.2019	1,648	1,555	3,203
Credit for the year	18	–	18
At 31.12.2019 and 1.1.2020	1,666	1,555	3,221
Credit for the period	150	–	150
At 30.6.2020	1,816	1,555	3,371

At 31 December 2017, 2018 and 2019 and 30 June 2020, the Target Company has unused tax losses of approximately RMB17,738,000, RMB 12,467,000, RMB6,479,000 and RMB6,479,000 available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. Tax losses will be expired in year 2021.

23. CAPITAL MANAGEMENT

(a) Details of the Target Company's registered capital are set out below:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Registered Capital	10,790	10,790	111,899	111,899

(b) Capital management

The Target Company's equity capital management objectives are to safeguard the Target Company's ability to continue as a going concern and to provide an adequate return to members commensurately with the level of risk. To meet these objectives, the Target Company manages the equity capital structure and makes adjustments to it in the light of changes in economic conditions by paying dividends to members, issuing new equity shares by the Target Company, and raising or repaying debts as appropriate.

The Target Company's equity capital management strategy, which was unchanged from the previous periods, is to maintain a reasonable proportion in net bank borrowings and equity capital. The Target Company monitors equity capital on the basis of the net debts-to-equity capital ratio, which is calculated as net bank borrowings over equity capital. Net debts are calculated as total debts less cash and bank balances. Equity capital comprises all components of equity.

The management of the Target Company reviews the capital structure periodically. The management considers the cost of capital and the risks associated with the capital. The Target Company manages its overall capital structure through the payment of dividends and raising of new capital as well as the issue of new debt or the redemption of existing debt.

24. RESERVES

(a) Capital reserve

Capital reserve mainly represents capital injection from shareholder.

25. RELATED PARTY TRANSACTIONS AND BALANCES

Apart from the transactions as disclosed in notes 16, 17, 18, 19, 20 and 21, the Target Company had the following material transactions with its related parties during the Relevant Periods:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Goods sold to related companies					
Machine repairing	22,964	20,598	36,645	14,739	25,585
Goods purchased from related companies					
Purchase of machine repairing products	1	20	75	39	397

Balances and transactions with other state-controlled entities in the PRC

The Target Company operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Target Company itself is part of a large group of companies under the Parent Company which is controlled by the PRC government. Apart from the transactions with the Target Company disclosed above, the Target Company also conducts business with other state-controlled entities. The directors of the Target Company consider those state-controlled entities are independent third parties so far as the Target Company's business transactions with them are concerned.

Material balances with other state-controlled entities are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Machine Repairing	2,463	14,595	14,323	9,845	6,725
Purchase of machine repairing products	605	687	1,060	340	500

Material transactions with other state-controlled entities are as follows:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to other state-controlled entities	41	91	213	73
Amounts due from other state-controlled entities	1,852	5,503	3,711	7,076

Amounts due from and to state-controlled entities are trade nature of which terms are not different from other customers and suppliers.

In addition, the Target Company has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors of the Target Company are of the opinion that separate disclosure would not be meaningful.

Except as disclosed above, the directors of the Target Company are of the opinion that transactions with other state-controlled entities are not significant to the Target Company's operations and no other transaction, arrangement or contract of significance to which the Target Company was a party and in which a director of the Target Company or a connected entity of the director of the Target Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

26. NATURE AND EXTENT OF FINANCIAL INSTRUMENTS RISKS

The Target Company's activities expose it to a variety of financial risks, including credit risk, liquidity risk, interest rate risk and currency risk. The Target Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Target Company's financial performance.

(a) Credit risk

Credit risk is managed on a group basis. The credit risk of the Target Company mainly arises from cash and cash equivalents, trade receivables, deposits and other receivables. The carrying amounts of these balances represent the Target Company's maximum exposure to credit risk in relation to these assets.

The credit quality of the deposits and other receivables has been assessed with reference to historical information about the counterparties default rates and financial position of the counterparties. The directors of the Target Company are of the opinion that the credit risk of the deposits and other receivables is low due to the sound financial position or collection history of the receivables due from them. Therefore, expected credit loss rate of the deposits and other receivables is assessed to be closed to zero and no provision was made as at 31 December 2018 and 2019 and 30 June 2020.

In respect of cash deposited at banks, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, expected credit loss rate of cash at bank is assessed to be closed to zero and no provision was made as at 31 December 2017, 2018 and 2019 and 30 June 2020.

As at the end of the reporting period, the Target Company's maximum exposure to credit risk which will cause a financial loss to the Target Company arising from the carrying amount of the respective recognised financial assets as stated in the statement of financial position due to failure to discharge an obligation by the counterparties.

The credit risk of the Target Company is concentrated on trade and bill receivables from the top five largest customers at 31 December 2017, 2018 and 2019 and 30 June 2019 amounting to RMB 9,536,000, RMB12,312,000, RMB12,108,000 and RMB17,095,000 respectively and accounted for 48%, 56%, 55% and 62% respectively of the Target Company's total trade receivables before impairment losses. These five largest customers include state-owned enterprises and private limited companies registered and operated in the PRC. In order to minimise credit risk, management continuously monitors the level of exposure by frequent review of the credit evaluation of the financial condition and credit quality of its customers to ensure that prompt actions will be taken to lower exposure. In addition, the Target Company performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on trade balances based on provision matrix. In this regard, the directors of the Target Company consider that the Target Company's credit risk is significantly reduced.

Financial instruments with credit risk assessment and expected credit loss measurement by group

Item	Grouping basis	Expected credit loss calculation approach
Other receivables – group of related dealings within the scope of combination	Related parties within the scope of combination	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and expectation of future economic conditions, and based on the default risk exposure and 12-month or lifetime expected credit loss rate.
Other receivables – group of receivables from government	Nature	
Other receivables – group of deposits receivables and others etc.		

Specific group and expected credit loss calculation approach

Item	Grouping basis	Expected credit loss calculation approach
Accounts receivable – grouping by age	Grouping by age combination	Simplified approach – provision matrix

Item	Grouping basis	Expected credit loss calculation approach
Accounts receivable – group of related parties	Related parties within the scope of combination	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and expectation of future economic conditions, and based on the default risk exposure and lifetime expected credit loss rate.
Accounts receivable – state-owned enterprises	State-owned enterprises	
Bills receivable	Issuer of bills	The expected credit loss is calculated with reference to historical credit loss experience, in consideration of current conditions and expected of future economic conditions, and based on the default risk exposure and lifetime expected credit loss rate.

Management assessed that the expected credit loss rate and loss allowances from these balance to be insignificant during the Relevant Periods.

(b) Liquidity risk

Liquidity risk is the risk that the Target Company will encounter difficulty in meeting obligations associated with financial liabilities. The Target Company manages liquidity risk by monitoring its liquidity position through periodic preparation of cash flows and cash balances forecasts and periodic evaluation of the ability of the Target Company to meet its financial obligations.

The following tables show the remaining contractual maturities at the end of the each reporting period of the Target Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Target Company can be required to pay.

	At 31 December 2017				
	Carrying amount	**Total contractual undiscounted cash flows**	**Less than 1 year or on demand**	**Over 1 year but less than 5 years**	**Over 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade and bills payables	11,251	11,251	11,251	–	–
Accruals and other payables	110,277	110,556	109,490	1,055	11
	121,528	121,807	120,741	1,055	11

	At 31 December 2018				
	Carrying amount	Total contractual undiscounted cash flows	Less than 1 year or on demand	Over 1 year but less than 5 years	Over 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade and bills payables	14,208	14,208	14,208	–	–
Accruals and other payables	111,246	111,503	110,565	938	–
	125,454	125,711	124,773	938	–

	At 31 December 2019				
	Carrying amount	Total contractual undiscounted cash flows	Less than 1 year or on demand	Over 1 year but less than 5 years	Over 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade and bills payables	17,870	17,870	17,870	–	–
Accruals and other payables	11,499	11,499	11,499	–	
Lease liabilities	783	973	229	744	–
	30,152	30,342	29,598	744	–

	At 30 June 2020				
	Carrying amount	Total contractual undiscounted cash flows	Less than 1 year or on demand	Over 1 year but less than 5 years	Over 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade and bills payables	18,480	18,480	18,480	–	–
Accruals and other payables	9,950	9,950	9,950	–	–
Lease liabilities	755	930	186	744	–
	29,185	29,360	28,616	744	–

(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 Target Company may manage interest rate risk, when it is considered significant and cost-effective, by entering into appropriate swap contracts.

As at the end of each of the Relevant Periods, the Target Company does not have any significant exposure to the interest rate risk.

Sensitivity Analysis

The following table details the Target Company's sensitivity to a change of 100 basis points in the interest rate, assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year and all the variables were held constant. It includes the interest rate fluctuation of the abovementioned PBOC rate, LIBOR and LPR.

	As at 31 December			**As at 30 June**
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
(Decrease) increase in profit or loss				
– if increases by 100 basis points	–	20	127	102
– if decreases by 100 basis points	–	(20)	(127)	(102)

(d) Currency risk

The Target Company's major businesses are in the PRC and the majority of the transactions are conducted in RMB. Most of the Target Company's assets and liabilities are denominated in RMB. As a result, the Target Company does not have material foreign currency risk during the Relevant Periods.

(e) Fair value

The Target Company considered that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

27. CONTINGENT LIABILITIES

At the end of each reporting period, the Target Company did not have any significant contingent liabilities.

28. SUBSEQUENT EVENTS

Since the outbreak of the new coronavirus disease ("COVID-19 outbreak") in January 2020, the containment of the COVID-19 outbreak has been being under way throughout the country. The Target Company actively responds to and implements the national regulations and requirements for the prevention and control of the COVID-19. Since 30 June 2020, the COVID-19 outbreak was contained to some extent, but not completely eradicated, so that the Target Company will continue to responds to and implements the national regulations and requirements for the prevention and control of the COVID-19.

It is expected that the COVID-19 outbreak and its containment measures will have a certain temporary impact on the Target Company's production and operations in the second half of 2020. The extent of impact depends on the progress and duration of the containment of the outbreak and the implementation of prevention and control policies in various regions.

The Target Company keeps eyes on the development of the COVID-19 outbreak, evaluates its impact on the financial status and operating results of the Target Company, strengthens its efforts to contain the outbreak and promotes the resumption of work and production in an active and orderly manner.

29. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 30 June 2020 and up to the date of this report.

30. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Lease Liabilities *RMB'000*
As at 1 January 2017	
Cash flows	–
Other changes	1,095
As at 31 December 2017 and 1 January 2018	1,095
Cash flows	(229)
Other changes	68
As at 31 December 2018 and 1 January 2019	945
Cash flows	(229)
Other changes	60
As at 31 December 2019 and 1 January 2020	783
Cash flows	(57)
Other changes	26
As at 30 June 2020	755

E. ACCOUNTANTS' REPORT ON TRADING COMPANY

The following is the text of a report for the sole purpose of inclusion in this prospectus, from the independent reporting accountants, Crowe (HK) CPA Limited, Certified Public Accountants, Hong Kong.

Crowe

國富浩華（香港）會計師事務所有限公司
Crowe (HK) CPA Limited
香港 銅鑼灣 禮頓道77號 禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

The Directors
Yanzhou Coal Mining Company Limited

Dear Sirs,

We report on the historical financial information of Yankuang Coal Chemicals International Trading Co., Ltd. (the "Target Company") set out on pages II-E-4 to II-E-47, which comprises the statements of financial position of the Target Company as at 31 December 2017, 2018 and 2019 and 30 June 2020, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the Target Company for each of the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (the "Historical Financial Information"). This Historical Financial Information set out on pages II-E-4 to II-E-47 forms an integral part of this report, which has been prepared for for inclusion in the circular of Yanzhou Coal Mining Company Limited (the "Company") dated 16 November 2020 (the "Circular") in connection with the proposed acquisition of 100% equity interest in the Target Company by the Company.

DIRECTORS' RESPONSIBILITIES FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 3 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANT'S RESPONSIBILITY

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

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 3 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, true and fair view of the financial position of the Target Company as at 31 December 2017, 2018 and 2019 and 30 June 2020 and of its financial performance and its cash flows for the Relevant Periods in accordance with the basis of the preparation set out in note 3 to the Historical Financial Information.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION.

We have reviewed the stub period comparative financial information of the Target Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended 30 June 2019 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in note 3 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial

Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in note 3 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE MAIN BOARD OF THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

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

Dividends

We refer to note 11 to the Historical Financial Information which states that no dividends have been declared and paid by the Target Company in respect of the Relevant Period.

Crowe (HK) CPA Limited
Certified Public Accountants

Chung Wai Chuen Alfred
Practising Certificate Number: P05444

Hong Kong
16 November 2020

I. HISTORICAL FINANCIAL INFORMATION OF YANKUANG COAL CHEMICALS INTERNATIONAL TRADING CO., LTD.

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Target Company for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with accounting policies which conform with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "IASB") (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

(A) STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Six months ended 30 June	
	Note	**2017**	**2018**	**2019**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Revenue	*4*	11,127,075	10,217,082	7,170,375	3,387,403	3,388,079
Cost of sales		(11,076,378)	(10,166,211)	(7,129,874)	(3,354,835)	(3,361,272)
Gross profit		50,697	50,871	40,501	32,568	26,807
Other income	*5*	30,855	19,097	16,421	6,450	4,911
Selling and distribution expenses		(22,136)	(17,049)	(21,939)	(11,595)	(11,467)
General and administrative expenses		(9,386)	(14,828)	(12,897)	(6,090)	(6,736)
Profit from operations		50,030	38,091	22,086	21,333	13,515
Finance costs	*6*	(17,227)	(14,856)	(502)	(12)	(5)
Profit before income tax	*7*	32,803	23,235	21,584	21,321	13,510
Income tax expense	*8*	(8,140)	(2,813)	(3,861)	(2,889)	(4,498)
Profit and total comprehensive income for the year/period		24,663	20,422	17,723	18,432	9,012

(B) STATEMENTS OF FINANCIAL POSITION

	Note	As at 31 December 2017 RMB'000	2018 RMB'000	2019 RMB'000	As at 30 June 2020 RMB'000
Non-current assets					
Plant and equipment	12	523	573	365	274
Intangible assets	13	37	27	–	–
Deferred tax assets	21	5,473	5,098	4,877	4,823
		6,033	5,698	5,242	5,097
Current assets					
Inventories	14	20,084	6,814	–	–
Trade and bills receivables	15	366,247	231,475	274,324	278,947
Deposits, prepayments and other receivables	16	620,445	38,669	33,975	34,307
Cash and cash equivalents	17	380,280	296,771	233,855	386,066
		1,387,056	573,729	542,154	699,320
Deduct:					
Current liabilities					
Trade and bills payables	18	624,749	160,754	111,529	269,978
Contract liabilities	19	–	162,991	165,564	143,562
Accruals and other payables	20	371,568	46,406	43,807	50,840
Short-term borrowings, secured	27	200,000	–	–	–
Tax payable		1,397	554	19	3,882
Obligations in relation to early retirement scheme	28	1,275	1,219	1,435	1,489
		1,198,989	371,924	322,354	469,751
Net current assets		188,067	201,805	219,800	229,569
Total assets less current liabilities		194,100	207,503	225,042	234,666
Non-current liabilities					
Obligations in relation to early retirement scheme	28	6,979	5,536	5,352	5,082
Net assets		187,121	201,967	219,690	229,584

		As at 31 December			As at 30 June
	Note	**2017**	**2018**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Representing:					
Registered capital	*23*	260,000	260,000	260,000	260,000
Reserves	*24*	(72,879)	(58,033)	(40,310)	(30,416)
		187,121	201,967	219,690	229,584

(C) STATEMENTS OF CHANGES IN EQUITY

	Registered capital *RMB'000*	Capital reserve *RMB'000*	Statutory reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1.1.2017	260,000	–	2,086	(99,628)	162,458
Profit and total comprehensive income for the year	–	–	–	24,663	24,663
At 31.12.2017 and 1.1.2018	260,000	–	2,086	(74,965)	187,121
Profit and total comprehensive income for the year	–	–	–	20,422	20,422
Distribution to holding company	–	–	–	(5,576)	(5,576)
At 31.12.2018 and 1.1.2019	260,000	–	2,086	(60,119)	201,967
Profit and total comprehensive income for the year	–	–	–	17,723	17,723
At 31.12.2019 and 1.1.2020	260,000	–	2,086	(42,396)	219,690
Profit and total comprehensive income for the period	–	–	–	9,012	9,012
Transfer of unutilised employee education fund to capital reserve	–	882	–	–	882
At 30.6.2020	260,000	882	2,086	(33,384)	229,584
(Unaudited)					
At 1.1.2019	260,000	–	2,086	(60,119)	201,967
Profit and total comprehensive income for the period	–	–	–	18,432	18,432
At 30.6.2019	260,000	–	2,086	(41,687)	220,399

(D) STATEMENTS OF CASH FLOWS

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Cash flows from operating activities						
Profit before income tax		32,803	23,235	21,584	21,321	13,510
Adjustments for:						
Amortisation		9	10	6	3	–
Depreciation		143	179	202	101	91
Gain on disposal of plant and equipment		–	–	(3)	–	–
Provision of obsolete inventories		–	–	–	–	735
Interest income from related companies		(14,216)	(7,103)	–	–	–
Bank interest income		(4,693)	(17,893)	(13,194)	(6,449)	(4,583)
Interest expense		16,028	11,229	480	–	–
Loss on disposal of intangible assets		–	–	21	–	–
Impairment loss on trade receivables made/(written back)		430	497	417	–	(2,466)
Reversal of impairment loss on other receivables		(3,010)	(93,488)	(2,067)	–	(13,896)
Write back of trade payables		(9,827)	–	(2,833)	–	(12)
Operating profit/(loss) before working capital changes		17,667	(83,334)	4,613	14,976	(6,621)
Changes in working capital:						
Inventories		13,084	13,270	6,814	6,071	(735)
Trade and bills receivables		32,191	134,275	(43,266)	(29,704)	(2,157)
Prepayments and other receivables		(16,421)	675,264	6,761	(44,622)	13,564
Trade payables		(225,490)	(463,995)	(46,392)	24,607	158,461
Contract liabilities		–	162,991	2,573	(162,991)	(22,002)
Accruals and other payables		284,179	(418,733)	(5,181)	146,412	12,265

	Note	Year ended 31 December 2017 RMB'000	Year ended 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000	Six months ended 30 June 2019 RMB'000 (unaudited)	Six months ended 30 June 2020 RMB'000
Cash generated from/(used in) operations		105,210	19,738	(74,078)	(45,251)	152,775
Interest received		4,693	12,347	13,194	6,449	2,150
Income tax paid		(8,018)	(3,281)	(4,174)	(581)	(581)
Net cash generated from/ (used in) operating activities		101,885	28,804	(65,058)	(39,383)	154,344
Cash flows from investing activities						
Payments for acquisition of intangible assets		(248)	(266)	–	–	–
Sales proceeds from disposal of plant and equipment		–	–	9	–	–
Entrusted loan advanced to a related company		(288,000)	(290,000)	–	–	–
Repayment from a related company		400,000	478,000	–	–	–
Entrusted loan interest received		14,924	7,529	–	–	–
Net cash from investing activities		126,676	195,263	9	–	–
Cash flows from financing activities						
Proceeds from new bank loans		200,000	–	–	–	–
Repayment of bank loans		(200,000)	(200,000)	–	–	–
Bank facilities arrangement fees		(12,000)	–	–	–	–
Interest paid		(8,082)	(5,576)	–	–	–

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Net cash used in financing activities		(20,082)	(205,576)	–	–	–
Net increase/(decrease) in cash and cash equivalents		208,479	18,491	(65,049)	(39,383)	154,344
Cash and cash equivalents at the beginning of the year/period		69,801	278,280	296,771	296,771	231,722
Cash and cash equivalents at the end of the year/period	*17*	278,280	296,771	231,722	257,388	386,066

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Yankuang Coal Chemicals International Trading Co., Ltd. (the "Target Company") is a limited liability company established in the People's Republic of China (the "PRC"). The registered address of the Target Company is located at No. 7657, Xiwaihuan Road, Zoucheng City, Jining City, Shandong Province (University Science and Technology Industrial Park, Economic Development Zone).

The principal activity of the Target Company is sale of coal, methanol and equipment manufacturing. There has been no significant change in the Target Company's principal activities during the Relevant Periods.

In the opinion of directors of the Target Company (the "Directors"), as of the date of this report, the parent and ultimate controlling company of the Target Company is Yankuang Group Company Limited, a company established in the PRC and wholly owned by the State-owned Assets Supervision and Administration Commission of the People's Government of Shandong Province of the PRC.

2. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The following IFRSs in issue at 30 June 2020 have not been applied in the preparation of these financial statements since they were not yet effective for the annual period beginning on 1 January 2020:

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 16	Covid-19 – Related Rent Concession[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current[1]
Amendments to IAS 16	Proceeds before Intended[4]
Amendments to IAS 37	Cost of Fulfilling a Contract[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[4]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Annual Improvements to IFRSs	2018 – 2020 Cycle[4]

[1] Effective for annual periods beginning on or after 1 January 2023
[2] Effective for annual periods beginning on or after 1 June 2020
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 January 2022

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"), which comprise all standards and interpretations approved by the IASB. The Historical Financial Information has been prepared under the historical costs.

3.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Target Company

A number of new and amended standards became applicable for the reporting period commencing on 1 January 2017, 2018, 2019 and 2020. The Target Company had to change its accounting policies and make modified retrospective adjustments as a result of adopting the following standards:

		Effective for annual periods beginning on or after
Amendments to IFRS 12	Annual improvements 2014-2016 cycle	1 January 2017
Amendments to IAS 7	Disclosure initiative	1 January 2017
Amendments to IAS 12	Recognition of deferred tax assets for unrealized losses	1 January 2017
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contract with Customers	1 January 2018
Amendments to IFRS 1 and IAS 28	Annual improvements 2014-2016 cycle	1 January 2018
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
Amendments to IFRS 4	Applying IFRS 9 financial instruments with IFRS 4 insurance contracts	1 January 2018
Amendments to IFRS 15	Clarifications to IFRS 15	1 January 2018
Amendments to IAS 40	Transfers to investment property	1 January 2018
IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018
IFRS 16	Leases	1 January 2019
Amendments to Annual Improvements Project	Annual improvements 2015-2017 cycle	1 January 2019
Amendments to IFRS 9	Prepayment features with negative compensation	1 January 2019
Amendments to IAS 19	Plan amendment, curtailment or settlement	1 January 2019
Amendments to IAS 28	Long-term interests in associates and joint ventures	1 January 2019
IFRIC 23	Uncertainty over income tax treatments	1 January 2019
Amendments to IFRS 3 (Revised)	Definition of a business	1 January 2020
Amendments to IAS 1 (Revised) and IAS 8	Definition of material	1 January 2020
Amendments to IAS 39, IFRS 7 and IFRS 9	Interest rate benchmark reform	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting	1 January 2020

The Target Company has assessed the impact of adopting these new standards and amendments. According to the preliminary assessment, these standards are not expected to have a material impact on the Target Company's operating results and financial position.

3.1.2 Changes in accounting policy and disclosures

This note explains the impact of the adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" on the Target Company's Historical Financial Information since 1 January 2018, as well as the impact of adoption of IFRS 16 "Leases" since 1 January 2019.

(i) IFRS 9 "Financial Instruments"

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Target Company has applied IFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 January 2018) in accordance with the transition provisions under IFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets and financial liabilities on initial application are recognised in retained earnings and other components of equity as at 1 January 2018.

The Target Company's accounting policies for the classification and measurement of financial instruments and the impairment of financial assets are disclosed in detail in note 3.12 below.

Classification and measurement of financial instruments

The directors of the Target Company reviewed and assessed its existing financial assets and liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 did not have any impact on the classification and measurement of its financial assets.

Loss allowance for expected credit losses ("ECL")

The adoption of IFRS 9 has changed the Target Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss model with a forward-looking expected credit loss ("ECL") model. As at 1 January 2018, the Directors reviewed and assessed the Target Company's existing financial assets and other items subject to ECL for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement of IFRS 9. The adoption of the ECL requirements under IFRS 9 had no significant impact to the Target Company's financial statements.

(ii) IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 superseded IAS 11 "Construction Contracts", IAS 18 "Revenue" and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether how much and when revenue is recognised. The Target Company has elected to adopt the modified retrospective approach for contracts with customers that are not completed as at the date of initial application (i.e. 1 January 2018) with the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings and comparative information is not restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 "Revenue". Details are described below.

The Directors are of the opinion that the adoption of IFRS 15 has no impact on the timing of revenue recognition of the Target Company.

The Target Company's accounting policies for its revenue streams are disclosed in detail in note 3.3 below.

The amount of adjustment for each financial statement line item of the statement of financial position at 1 January 2018 affected by the application of IFRS 15 is illustrated below. Line items that were not affected by the changes have not been included.

	Carrying amount previously reported at 31 December 2017	**Impact on adoption of IFRS 15 – Reclassification**	**Carrying amount as restated at 1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*
Accruals and other payables	371,568	(162,991)	208,577
Contract liabilities	–	162,991	162,991

Advances received from customers

As at 1 January 2018, the "receipts in advance" of RMB162,991,000 previously included in other accruals and other payables accruals was reclassified to contract liabilities.

Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of IFRS on 1 January 2018

The following table summarises the estimated impact of applying IFRS 15 on the statement of financial position at 31 December 2018, by comparing the amounts reported under IAS 18 and related interpretations that were in effect before the change. Line items that were not affected by the adjustments have not been included. The adoption of IFRS 15 did not have material impact on the Target Company's operating, investing and financing cash flows.

Impact on the statement of financial position at 31 December 2018

	As reported	**Impact on adoption of IFRS 15**	**Amounts excluding impacts of adopting IFRS 15**
	RMB'000	*RMB'000*	*RMB'000*
Accruals and other payables	46,406	162,991	209,397
Contract liabilities	162,991	(162,991)	–

(iii) IFRS 16 "Leases"

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Comparative information has not been restated and continues to be reported under IAS 17 "Leases".

The adoption of IFRS 16 did not have material impact on the Target Company's financial statements as it did not have any lease arrangements.

3.2 Impairment of tangible and intangible assets other than goodwill

At each reporting date, the Target Company reviews the carrying amounts of its tangible assets and intangible assets with finite useful life to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset (determined at the higher of its fair value less costs of disposal and its value in use) is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with an indefinite useful life will be tested for impairment annually. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as an income immediately. For the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Assessment is performed for each area of interest in conjunction with the group of operating assets (representing a cash generating unit) to which the Target Company's activity is attributed.

3.3 Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the Target Company uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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

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

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

- The customer simultaneously receives and consumes the benefits provided by the Target Company's performance as the Target Company performs;
- The Target Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

- The Target Company's performance does not create an asset with an alternative use to the Target Company and the Target Company has an enforceable right to payment for performance completed to date.

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

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

Contract liabilities

A contract liability represents the Target Company's obligation to transfer goods or services to a customer for which the Target Company has received consideration from the customer.

The Target Company recognised revenue from sales of goods.

Sales of goods

Revenue from sales of goods is recognised at the point when the control of the goods is transferred to the customers (generally on delivery of the goods to the location specified by the customers and accepted by the customers). It is a point of time where the customer has the ability to direct the use of the products and obtain substantially all of the remaining benefits of the products.

3.4 Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

3.5 Plant and equipment and depreciation

Plant and equipment (including right-of-use assets), other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

To the extend the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of IFRS 16) or "prepaid lease payments" (before application IFRS 16) in the statement of financial position.

Depreciation is charged so as to write off the cost of items of plant and equipment, other than construction in progress and freehold land, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method or unit of production method.

Category	**Estimated useful life**	**Estimated residual values**
Office equipment	3 – 10 years	5%

Where parts of an item of plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at the end of each reporting periods.

Any gain or loss arising on the disposal of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised immediately in the statement of profit or loss.

3.6 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and other financial institution and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the preparation of cash flow statement, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Target Company's cash management.

3.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises direct materials and, where applicable, direct labour and overheads that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price less all further costs to completion and costs to be incurred in selling, marketing and distribution.

Inventories of auxiliary materials, spare parts and small tools expected to be used in production are stated at weighted average cost less allowance, if necessary, for obsolescence.

3.8 Taxation

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

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

Deferred tax is recognised on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Target Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on either (i) the same taxable entity; or (ii) 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.

3.9 Provisions and contingent liabilities

Provisions are recognised when the Target Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Target Company are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3.10 Retirement benefit costs

Payments to defined contribution plans including included state-managed retirement benefit schemes and superannuation funds are recognised as an expense when employees have rendered service entitling them to the contributions.

3.11 Short-term and other long-term employee benefits

Benefits accruing to employees in respect of wages and salaries, annual leave and sick leave are included in other payables and accrued expenses. Related on-costs are also included in other payables and accrued expenses as other creditors. Long service leave is provided for when it is probable that settlement will be required and it is capable of being measured reliably.

Employee benefits expected to be settled within 12 months are measured using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Target Company in respect of services provided by employees up to the reporting date.

3.12 Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Target Company becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value, except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, FVTOCI and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Target Company's business model for managing them.

Financial assets at amortised cost (debt instruments)

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

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- 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 amoritsed cost are subsequently measured using the effective interest method and are subject to impairment.

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the "Other income" line item (note 5).

Equity instruments designated as at FVTOCI

On initial recognition, the Target Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Target Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "Other income" line item in profit or loss.

Financial asset at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Target Company designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.

- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Target Company has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "Other income" line item.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the Target Company manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Impairment of financial assets

The Target Company recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost as well as financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Target Company always recognises lifetime ECL for bills and accounts receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Target Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

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

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Target Company 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. In making this assessment, the Target Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular debtor, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

Despite the foregoing, the Target Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Target Company considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

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

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

Definition of default

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

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target Company, in full (without taking into account any collaterals held by the Target Company).

Credit-impaired financial assets

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

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Target Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 4 years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Target Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Target Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Target Company in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at the original effective interest rate.

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

If the Target Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Target Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Target Company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. On derecognition of an investment in equity instrument which the Target Company has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities and equity instruments

Classification as debt or equity

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities at FVTPL are stated at fair value with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liabilities and is included in the 'other income' line item in profit or loss.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

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

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and do not arise from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition of financial liabilities

The Target Company derecognises financial liabilities when, and only when, the Target Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Offsetting financial instruments

Financial assets and liabilities of the Target Company are offset and the net amount presented in the statement of financial position when, and only when, there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

3.13 Fair value measurement

When measuring fair value except for the Target Company's leasing transactions, net realisable value of inventories and value-in-use of intangible assets, prepaid lease payments, property, plant and equipment and construction in progress for the purpose of impairment assessment, the Target Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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.

The Target Company 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. Specifically, the Target Company categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1	–	Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2	–	Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3	–	Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Target Company determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

3.14 Significant accounting judgements and estimates

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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

(i) Depreciation

Plant and equipment are depreciated on straight-line basis over the estimated useful lives, after taking into account the estimated residual value if any. The Target Company reviews the estimated useful lives and basis of depreciation of plant and equipment regularly in order to determine the amount of depreciation expenses to be recorded during any reporting period. The useful lives and basis of depreciation are based on the Target Company's historical experience with similar assets and take into account anticipated technological changes. The depreciation expenses for future periods are adjusted prospectively if there are significant changes from previous estimates.

(ii) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions, technology changes and the historical experience of selling products with similar nature. It could change significantly as a result of changes in customer preference or competitor actions. The Target Company reassesses these estimates at the end of each reporting period.

(iii) Impairment of trade receivables and other receivables

Impairment of trade receivables and other receivables is made based on assessment of their recoverability. The identification of impairment of trade receivables and other receivables requires management's judgment and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and impairment loss or reversal of impairment in the period in which such an estimate has been changed.

(iv) Current and deferred income taxes

The Target Company is subject to income taxes in Mainland China. Judgements and estimations are required in determining the provision for income taxes for certain transactions (including inter-company transactions) and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the periods in which such determinations are made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation in the periods in which such estimate is changed.

4. OPERATING SEGMENT INFORMATION AND REVENUE

During the Relevant Periods, the Target Company's revenue was generated form trading chemical products in the PRC. The Target Company sells goods directly to customers, normally within a 30 to 60 days credit period. Management monitors the operating results as a whole for the purpose of making decisions about resources allocation and performance assessment. Accordingly, no operating segment information is presented. An analysis of revenue of the Target Company is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue from contracts with customers within the scope of IFRS 15					
Sales of chemical products	7,788,181	8,980,605	6,525,933	2,913,758	2,757,919
Sales of coal and other products	1,896,893	874,446	535,713	453,820	628,931
	9,685,074	9,855,051	7,061,646	3,367,578	3,386,850
Revenue from other sources					
Commission income	1,442,001	362,031	108,729	19,825	1,229
	11,127,075	10,217,082	7,170,375	3,387,403	3,388,079
Disaggregated by timing of revenue recognition					
– Over time	5,909	14,123	9,418	–	1,229
– At a point in time	11,121,166	10,202,959	7,160,957	3,387,403	3,386,850
	11,127,075	10,217,082	7,170,375	3,387,403	3,388,079

4.1 Geographical information

All of the Target Company's revenue were generated in the PRC. All of the Target Company's non-current assets are located in the PRC.

4.2 Revenue from major customers

Revenue from customers of the Relevant Periods contributing over 10% of the total sales of the Target Company are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Customer A	N/A	N/A	905,814	N/A	1,048,880
Customer B	1,818,910	N/A	N/A	N/A	N/A
Customer C	1,317,049	N/A	N/A	N/A	N/A

N/A: Not applicable as revenue generated by the customer is less than 10% of the Target Company's revenue for the Relevant Periods.

5. OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Bank interest income	4,693	17,893	13,194	6,449	4,583
Penalties income	1	25	394	1	192
Write back of trade payables	9,827	–	2,833	–	12
Revenue from breach of contract	330	–	–	–	–
Interest received from entrusted loan to a related party	14,216	7,103	–	–	–
Gain/(loss) on futures contracts	1,788	(5,924)	–	–	–
Sundry revenue	–	–	–	–	124
	30,855	19,097	16,421	6,450	4,911

6. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest on bank loans	15,411	11,048	–	–	–
Others	617	181	480	–	–
Bank charges	1,199	3,627	22	12	5
	17,227	14,856	502	12	5

7. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
(a)	Staff costs					
	Salaries and other benefits	10,360	11,742	12,997	5,301	6,204
	Staff welfare	1,755	1,963	1,865	909	1,072
	Defined contribution retirement plan contributions	4,231	4,506	4,997	2,103	2,085
		16,346	18,211	19,859	8,313	9,361
(b)	Net gain of disposal of plant and equipment					
	Sales proceeds	–	–	(9)	–	–
	Less: Net book value of plant and equipment	–	–	6	–	–
		–	–	(3)	–	–
(c)	Other items:					
	Amortisation	9	10	6	3	–
	Cost of inventories sold	11,076,378	10,166,211	7,129,874	3,354,835	3,361,272
	Depreciation of plant and equipment	143	179	202	101	91
	Loss on disposal of intangible assets	–	–	21	–	–
	Impairment loss on trade receivables made/(written back)	430	497	417	–	(2,466)
	Provision for obsolete inventories	–	–	–	–	735

8. INCOME TAX EXPENSE

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Current tax					
Provision for the year	7,608	2,438	3,640	2,889	4,444
Deferred tax					
Charge for the year – note 21	532	375	221	–	54
	8,140	2,813	3,861	2,889	4,498

Income tax provision of the Target Company in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the Relevant Periods, based on the existing legislation, interpretations and practices in respect thereof.

The National People's Congress approved the Corporate Income Tax Law of the PRC (the "New CIT Law") on 16 March 2007 and the State Council has announced the Detailed Implementation Regulations on 6 December 2007, which has been effective since 1 January 2008. According to the New CIT Law, the income tax rates for both domestic and foreign investment enterprises are unified at 25% effective from 1 January 2008.

A reconciliation between income tax expense and profit before income tax at applicable tax rates is set out below:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Profit before income tax	32,803	23,235	21,584	21,321	13,510
Taxation at the applicable tax rate	8,201	5,809	5,396	5,330	3,378
Tax effect of non-deductible expenses	917	–	1,468	–	1,120
Tax effect of non-taxable income	(772)	(2,996)	(3,003)	(2,441)	–
Unrecognised tax loss for prior years	(206)	–	–	–	–
Income tax expense	8,140	2,813	3,861	2,889	4,498

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(i) Directors' remuneration

The aggregate amounts of remuneration of directors of the Target Company during the Relevant Periods and the six months ended 30 June 2019, disclosed pursuant to the Rules Governing The Listing of Securities on the Stock Exchange (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, are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Fees	–	–	–	–	–
Other emoluments:					
Salaries and other benefits	496	93	–	–	130
Defined contribution retirement plan contributions	101	19	–	–	24
	597	112	–	–	154

The names of the directors and their remuneration for the Relevant Periods and the six months ended 30 June 2019 are as follows:

	Year ended 31 December 2017			
	Fees	Salaries and other benefits	Defined contribution retirement plan contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Director				
Miao Zhiyuan	–	496	101	597
	–	496	101	597

	Year ended 31 December 2018			
	Fees	Salaries and other benefits	Defined contribution retirement plan contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Director				
Miao Zhiyuan (resigned on 21 August 2018)	–	93	19	112
	–	93	19	112

	Year ended 31 December 2019			
	Fees	Salaries and other benefits	Defined contribution retirement plan contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Director				
Tao Shu (appointed on 14 February 2019)	–	–	–	–
	–	–	–	–

	Six months ended 30 June 2019 (unaudited)			
	Fees	Salaries and other benefits	Defined contribution retirement plan contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Director				
Tao Shu (appointed on 14 February 2019)	–	–	–	–
	–	–	–	–

	Six months ended 30 June 2020			
	Fees	Salaries and other benefits	Defined contribution retirement plan contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors				
Yang Shumi (appointed on 1 April 2020)	–	130	24	154
Tao Shu (resigned on 31 March 2020)	–	–	–	–
	–	130	24	154

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the Relevant Periods and the six months ended 30 June 2019. No emolument were paid by the Target Company to any of the directors or supervisors as an inducement to join or upon joining the Target Company or as compensation for loss of office.

(ii) Five highest paid employees

An analysis of the five highest paid employees within the Target Company for the Relevant Periods and the six months ended 30 June 2019 is as follow:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Directors	597	112	–	–	154
Non directors	878	1,103	1,096	461	484
	1,475	1,215	1,096	461	638
Number of directors	1	1	–	–	1
Number of non-directors	4	4	5	5	4

Details of the remuneration of non-directors are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries and other benefits	730	917	911	383	396
Defined contribution retirement plan contribution	148	186	185	78	88
	878	1,103	1,096	461	484

Salaries of the highest paid employees, who are non-directors, fall within the band of nil to HK$1,000,000.

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE TARGET COMPANY

No earnings per share information is presented for the purpose of this report, as its inclusion is considered not meaningful for the Relevant Periods.

11. DIVIDENDS

No dividends were declared or paid by the Target Company during the Relevant Periods nor has any dividend been proposed since 30 June 2020.

12. PLANT AND EQUIPMENT

	Office equipment *RMB'000*
For the six months ended 30 June 2020	
Opening net book value	365
Depreciation	(91)
Closing net book value	274
At 30.6.2020	
Cost	2,800
Aggregate depreciation	(2,526)
Net book value	274
For the year ended 31 December 2019	
Opening net book value	573
Disposals	(6)
Depreciation	(202)
Closing net book value	365
At 31.12.2019	
Cost	2,800
Aggregate depreciation	(2,435)
Net book value	365
For the year ended 31 December 2018	
Opening net book value	523
Additions	229
Depreciation	(179)
Closing net book value	573
At 31.12.2018	
Cost	3,463
Aggregate depreciation	(2,890)
Net book value	573
For the year ended 31 December 2017	
Opening net book value	454
Additions	212
Depreciation	(143)
Closing net book value	523
At 31.12.2017	
Cost	3,234
Aggregate depreciation	(2,711)
Net book value	523

13. INTANGIBLE ASSETS

	Software
	RMB'000
For the six months ended 30 June 2020	
Opening and closing net book value	–
At 30.6.2020	
Cost	–
Aggregate amortisation	–
Net book value	–
For the year ended 31 December 2019	
Opening net book value	27
Disposals	(21)
Amortisation	(6)
Closing net book value	–
At 31.12.2019	
Cost	–
Aggregate amortisation	–
Net book value	–
For the year ended 31 December 2018	
Opening net book value	37
Amortisation	(10)
Closing net book value	27
At 31.12.2018	
Cost	95
Aggregate amortisation	(68)
Net book value	27
For the year ended 31 December 2017	
Opening net book value	46
Amortisation	(9)
Closing net book value	37
At 31.12.2017	
Cost	95
Aggregate amortisation	(58)
Net book value	37

14. INVENTORIES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Finished goods	20,084	6,814	–	735
Provision for obsolete inventories	–	–	–	(735)
	20,084	6,814	–	–

15. TRADE AND BILLS RECEIVABLES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables				
– third parties	207,926	190,866	188,912	185,583
– related parties	7,687	21,953	13,847	10,461
Less: impairment loss on trade receivables	(3,532)	(4,029)	(4,446)	(1,980)
	212,081	208,790	198,313	194,064
Bills receivables	154,166	22,685	76,011	84,883
	366,247	231,475	274,324	278,947

The Target Company normally allows credit terms to well-established customers ranging from 60 to 180 days. The Target Company seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the Directors. Trade and bills receivables are expected to be recovered within one year.

An aging analysis of trade and bills receivables as at the end of each reporting period, based on the date of recognition of the goods sold, is as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within year	170,036	46,449	89,858	95,372
1 to 2 years	196,211	1,946	–	–
2 to 3 years	–	183,080	1,386	–
Over 3 years	–	–	183,080	183,575
	366,247	231,475	274,324	278,947

Details of impairment assessments on trade and bills receivables from customers are set out in note 26(a).

16. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other receivables				
– third parties	110,881	16,713	14,265	309
– interest receivable from third party	–	3,073	3,067	3,067
– related parties	23,656	26,721	26,680	26,613
Less: impairment loss on other receivables	(119,456)	(25,968)	(23,901)	(10,005)
Entrusted loan *(note 16(b))*	188,000	–	–	–
Other current assets	12,992	–	–	–
Deposits	39,982	–	–	–
Prepayments				
– third parties	38,564	17,974	13,864	14,323
– related parties	325,826	156	–	–
	620,445	38,669	33,975	34,307

(a) The amount of prepayments and other receivables are expected to be recovered or recognised as expense within one year.

(b) Entrusted loan receivable represents loan advanced to a related party through an entrusted loan agreement administrated by a trust company, a financial institution in the PRC, also a related party. The entrusted loan carried interest at 6.5% per annum and is repayable in 2018.

17. CASH AND CASH EQUIVALENTS

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at banks				
– third parties	102,026	35	4,480	2,834
– financial institution held by parent and ultimate controlling company	278,254	296,736	229,375	383,232
	380,280	296,771	233,855	386,066
Less: Restricted cash	(102,000)	–	(2,133)	–
Cash and cash equivalents in cash flows statement	278,280	296,771	231,722	386,066

18. TRADE AND BILLS PAYABLES

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables				
– third parties	72,374	51,275	75,491	160,229
– related parties	50,375	109,479	36,038	109,749
Bills payables	502,000	–	–	–
	624,749	160,754	111,529	269,978

The Target Company normally obtains credit terms ranging from 30 to 90 days from its suppliers.

An aging analysis of the trade and bills payables at the end of each reporting period, based on the date of receipt of goods purchased, is follows:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	622,333	158,393	83,845	232,038
1 to 2 years	1,361	1,252	26,942	10,793
2 to 3 years	620	54	487	26,429
Over 3 years	435	1,055	255	718
	624,749	160,754	111,529	269,978

19. CONTRACT LIABILITIES

The Target Company recognised the following revenue-related contract liabilities from contract with customers:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contract liabilities	–	162,991	165,564	143,562

Contract liabilities mainly consists of sales deposits received from customers for which the related revenue had not been recognised as at 31 December 2018, 2019 and 2020, and the Directors expects those related revenue to be recognised within the next twelve months.

The following table shows the movements in contract liabilities during the Relevant Periods related to carried-forward contract liabilities.

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	–	162,991	162,991	165,564
Decrease in contract liabilities as a result of recognising revenue during the year/period that was included in the contract liabilities at the beginning of the year/period	–	–	(162,991)	(165,564)
Increase in contract liabilities as a result of receiving sales deposits for the relevant unrecognised revenue at the end of the year/period	–	–	165,564	143,562
At the end of the year/period	–	162,991	165,564	143,562

20. ACCRUALS AND OTHER PAYABLES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other tax payable	1,276	3,681	3,179	12,845
Payroll payables	820	1,014	1,180	989
Other payables and accruals				
– third parties	366,196	12,357	14,357	17,843
– related parties	3,276	3,276	3,568	500
Other current liabilities	–	26,078	21,523	18,663
	371,568	46,406	43,807	50,840

21. DEFERRED TAX ASSETS

The followings are deferred tax assets recognised by the Target Company and movements thereon during the Relevant Periods:

	Impairment loss on receivables	Obligations in relation to early retirement scheme	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1.1.2017	4,057	1,948	6,005
(Charge)/credit for the year	(648)	116	(532)
At 31.12.2017 and 1.1.2018	3,409	2,064	5,473
Charge for the year	–	(375)	(375)
At 31.12.2018 and 1.1.2019	3,409	1,689	5,098
(Charge)/credit for the year	(229)	8	(221)
At 31.12.2019 and 1.1.2020	3,180	1,697	4,877
Charge for the period	–	(54)	(54)
At 30.6.2020	3,180	1,643	4,823

22. EMPLOYEE RETIREMENT BENEFITS

The employees of the Target Company in the PRC are members of a state-managed pension obligations operated by the PRC Government. The Target Company is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the pension obligations to fund the benefits. The only obligation of the Target Company with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

23. CAPITAL MANAGEMENT

(a) Details of the Target Company's registered capital are set out below:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Registered Capital	260,000	260,000	260,000	260,000

(b) Capital management

The Target Company's equity capital management objectives are to safeguard the Target Company's ability to continue as a going concern and to provide an adequate return to members commensurately with the level of risk. To meet these objectives, the Target Company manages the equity capital structure and makes adjustments to it in the light of changes in economic conditions by paying dividends to members, issuing new equity shares by the Target Company, and raising or repaying debts as appropriate.

The Target Company's equity capital management strategy, which was unchanged from the previous periods, is to maintain a reasonable proportion in net bank borrowings and equity capital. The Target Company monitors equity capital on the basis of the net debts-to-equity capital ratio, which is calculated as net bank borrowings over equity capital. Net debts are calculated as total debts less cash and bank balances. Equity capital comprises all components of equity.

The management of the Target Company reviews the capital structure periodically. The management considers the cost of capital and the risks associated with the capital. The Target Company manages its overall capital structure through the payment of dividends and raising of new capital as well as the issue of new debt or the redemption of existing debt.

24. RESERVES

(a) Statutory reserve

Pursuant to the Company Law of the PRC and the Articles of Association, it is required to appropriate 10% of each year's net profit according to the PRC accounting standard and regulations (after offsetting previous years' losses) to statutory reserve until such reserve reached 50% of its registered capital.

The appropriation to statutory reserves must be made before distribution of dividends to owners. This reserve shall only be used to make up for previous years' losses, to expand production operations, or to increase the capital of the Target Company. The statutory reserve can be transferred to paid-in capital of the Target Company, provided that the balance of the statutory reserve after such transfer is not less than 25% of their registered capital.

25. RELATED PARTY TRANSACTIONS AND BALANCES

Apart from the transactions as disclosed in notes 15, 16, 17, 18 and 20, the Target Company had the following material transactions with its related parties during the Relevant Periods.

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Goods sold to related companies					
Sales of products	3,325,494	1,798,041	1,494,555	–	1,065,380
Bank interest income	2,129	5,566	3,291	775	1,443
Interest received from entrusted loan to a related party	14,216	7,103	–	–	–
Goods purchased from related companies					
Purchase of products	13,118,703	18,287,506	6,382,044	–	2,471,586

26. NATURE AND EXTENT OF FINANCIAL INSTRUMENTS RISKS

The Target Company's activities expose it to a variety of financial risks, including credit risk, liquidity risk, interest rate risk and currency risk. The Target Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Target Company's financial performance.

(a) Credit risk

Credit risk is managed on a group basis. The credit risk of the Target Company mainly arises from cash and cash equivalents, trade receivables, deposits and other receivables. The carrying amounts of these balances represent the Target Company's maximum exposure to credit risk in relation to these assets.

The credit quality of the deposits and other receivables has been assessed with reference to historical information about the counterparties default rates and financial position of the counterparties. The directors of the Target Company are of the opinion that the credit risk of the deposits and other receivables is low due to the sound financial position or collection history of the receivables due from them. Therefore, expected credit loss rate of the deposits and other receivables is assessed to be closed to zero and no provision was made as at 31 December 2018 and 2019 and 30 June 2020.

In respect of cash deposited at banks, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, expected credit loss rate of cash at bank is assessed to be closed to zero and no provision was made as at 31 December 2017, 2018 and 2019 and 30 June 2020.

As at the end of the reporting period, the Target Company's maximum exposure to credit risk which will cause a financial loss to the Target Company arising from the carrying amount of the respective recognised financial assets as stated in the statement of financial position due to failure to discharge an obligation by the counterparties.

The credit risk of the Target Company is concentrated on trade receivables from the top five largest customers at 31 December 2017, 2018 and 2019 and 30 June 2019 amounting to RMBNil, RMBNil, RMBNil and RMBNil respectively and accounted for 0%, 0%, 0% and 0% respectively of the Target Company's total trade receivables before impairment losses. These five largest customers include state-owned enterprises and private limited companies registered and operated in the PRC. In order to minimise credit risk, management continuously monitors the level of exposure by frequent review of the credit evaluation of the financial condition and credit quality of its customers to ensure that prompt actions will be taken to lower exposure. In addition, the Target Company performs impairment assessment under

ECL model upon application of IFRS 9 (2017: incurred loss model) on trade balances based on provision matrix. In this regard, the directors of the Target Company consider that the Target Company's credit risk is significantly reduced.

Financial instruments with credit risk assessment and expected credit loss measurement by group

Item	Grouping basis	Expected credit loss calculation approach
Other receivables – group of related dealings within the scope of combination	Related parties within the scope of combination	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and expectation of future economic conditions, and based on the default risk exposure and 12-month or lifetime expected credit loss rate.
Other receivables – group of receivables from government	Nature	
Other receivables – group of deposits receivables and others etc.		

Specific group and expected credit loss calculation approach

Item	Grouping basis	Expected credit loss calculation approach
Accounts receivable – grouping by age	Grouping by age combination	Simplified approach – provision matrix
Accounts receivable – group of related parties	Related parties within the scope of combination	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and expectation of future economic conditions, and based on the default risk exposure and lifetime expected credit loss rate.
Accounts receivable – state-owned enterprises	State-owned enterprises	
Bills receivable	Issuer of bills	The expected credit loss is calculated with reference to historical credit loss experience, in consideration of current conditions and expected of future economic conditions, and based on the default risk exposure and lifetime expected credit loss rate.

Movements in expected loss allowances for trade receivables are as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	3,102	3,532	4,029	4,446
Impairment loss made/(written back) for the year/period	430	497	417	(2,466)
At 31 December/30 June	3,532	4,029	4,446	1,980

Movements in expected loss allowances for other receivables are as follows:

	Stage 1 - 12 months expected credit loss *RMB'000*	Stage 2 - Lifetime expected credit loss (significant increase in credit risk) *RMB'000*	Stage 3 - Lifetime expected credit loss (credit-impaired) *RMB'000*	Total *RMB'000*
At 1 January 2017	–	–	122,466	122,466
Impairment loss written back for the year	–	–	(3,010)	(3,010)
At 31 December 2017 and 1 January 2018	–	–	119,456	119,456
Impairment loss written back for the year	–	–	(300)	(300)
Written off	–	–	(93,188)	(93,188)
At 31 December 2018 and 1 January 2019	–	–	25,968	25,968
Impairment loss made/(written back) for the year	3	–	(2,070)	(2,067)
At 31 December 2019 and 1 January 2020	3	–	23,898	23,901
Impairment loss written back for the period	(3)	–	–	(3)
Written off	–	–	(13,893)	(13,893)
At 30 June 2020	–	–	10,005	10,005

Loss allowance for the year ended 31 December 2017 was provided based on the incurred loss model in accordance with IAS 39. The directors of the Target Company conclude that the adoption of IFRS 9 did not have significant impact on the loss allowance as at 1 January 2018. Since 1 January 2018, the loss allowance is assessed on expected credit loss in accordance with IFRS 9.

(b) Liquidity risk

Liquidity risk is the risk that the Target Company will encounter difficulty in meeting obligations associated with financial liabilities. The Target Company manages liquidity risk by monitoring its liquidity position through periodic preparation of cash flows and cash balances forecasts and periodic evaluation of the ability of the Target Company to meet its financial obligations.

The following tables show the remaining contractual maturities at the end of the each reporting period of the Target Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Target Company can be required to pay.

	At 31 December 2017				
	Carrying amount	Total contractual undiscounted cash flows	Less than 1 year or on demand	Over 1 year but less than 5 years	Over 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade and bills payables	624,749	624,749	624,749	–	–
Short-term loans, secured	200,000	212,000	212,000		
Accruals and other payables	371,568	371,568	371,568	–	–
Obligations in relation to early retirement scheme	8,254	9,877	1,679	5,839	2,359
	1,204,571	1,218,194	1,209,996	5,839	2,359

	At 31 December 2018				
	Carrying amount	Total contractual undiscounted cash flows	Less than 1 year or on demand	Over 1 year but less than 5 years	Over 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade and bills payables	160,754	160,754	160,754	–	–
Accruals and other payables	46,406	46,406	46,406	–	–
Obligations in relation to early retirement scheme	6,755	7,947	1,550	4,962	1,435
	213,915	215,107	208,710	4,962	1,435

	At 31 December 2019				
	Carrying amount	Total contractual undiscounted cash flows	Less than 1 year or on demand	Over 1 year but less than 5 years	Over 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade and bills payables	111,529	111,529	111,529	–	–
Accruals and other payables	43,807	43,807	43,807	–	–
Obligations in relation to early retirement scheme	6,787	7,860	1,767	5,118	975
	162,123	163,196	157,103	5,118	975

	At 30 June 2020				
	Carrying amount	Total contractual undiscounted cash flows	Less than 1 year or on demand	Over 1 year but less than 5 years	Over 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade and bills payables	269,978	269,978	269,978	–	–
Accruals and other payables	50,840	50,840	50,840	–	–
Obligations in relation to early retirement scheme	6,571	7,566	1,810	4,993	763
	327,389	328,384	322,628	4,993	763

(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 Target Company may manage interest rate risk, when it is considered significant and cost-effective, by entering into appropriate swap contracts.

As at the end of each of the Relevant Periods, the Target Company does not have any significant exposure to the interest rate risk.

Sensitivity Analysis

The following table details the Target Company's sensitivity to a change of 100 basis points in the interest rate, assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year and all the variables were held constant. It includes the interest rate fluctuation of the abovementioned PBOC rate, LIBOR and LPR.

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
(Decrease) increase in profit or loss				
– if increases by 100 basis points	2,663	2,968	2,317	3,861
– if decreases by 100 basis points	(2,663)	(2,968)	(2,317)	(3,861)

(d) Currency risk

The Target Company's major businesses are in the PRC and the majority of the transactions are conducted in RMB. Most of the Target Company's assets and liabilities are denominated in RMB. As a result, the Target Company does not have material foreign currency risk during the Relevant Periods.

(e) Fair value

The Target Company considered that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the combined financial statements approximated their fair values.

27. SHORT-TERM LOANS, SECURED

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Repayable:				
Within one year	200,000	–	–	–

(i) The applicable interest rate per annum as at 31 December 2017 was 6% per annum.

(ii) The short-term loans of RMB200,000,000 as at 31 December 2017 wsa secured by the guarantee from the parent and ultimate controlling company.

28. OBLIGATIONS IN RELATION TO EARLY RETIREMENT SCHEME

The Target Company implemented early retirement benefit scheme which allows qualified employees to early retire on a voluntary basis. The Target Company undertakes the obligations to pay the early retirement employees' living expenses for no more than five years in the future on a monthly basis according to the early retirement benefit schemes, together with social insurance and housing fund pursuant to the regulation of the local Social Security Office. Living expenses, social insurance and the housing fund are together referred to as "the Payments". The Payments are forecasted to increase with reference to the inflation rate and adjusted based on the average death rate in China for the years ended 31 December 2017, 2018, 2019 and six months ended 30 June 2020. The Payments are discounted by the benchmark interest rate for loan of 31 December 2017, 2018, 2019 and 30 June 2020. As at 31 December 2017, 2018, 2019 and 30 June 2020, the current portion of the payments within one year was reclassified to current liabilities.

As at 31 December 2017, 2018, 2019 and 30 June 2020, obligations in relation to retirement benefits under the Target Company's early retirement schemes are as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January	7,789	8,254	6,755	6,787
Provision made during the year/period	1,237	–	1,101	821
Interest costs	617	180	480	–
Payment during the year	(1,389)	(1,679)	(1,549)	(1,037)
As at 31 December	8,254	6,755	6,787	6,571

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Analysed as:				
Current liabilities	1,275	1,219	1,435	1,489
Non-current liabilities	6,979	5,536	5,352	5,082
	8,254	6,755	6,787	6,571

29. CONTINGENT LIABILITIES

At the end of each reporting period, the Target Company did not have any significant contingent liabilities.

30. SUBSEQUENT EVENTS

Since the outbreak of the new coronavirus disease ("COVID-19 outbreak") in January 2020, the containment of the COVID-19 outbreak has been being under way throughout the country. The Target Company actively responds to and implements the national regulations and requirements for the prevention and control of the COVID-19. Since 30 June 2020, the COVID-19 outbreak was contained to some extent, but not completely eradicated, so that the Target Company will continue to responds to and implements the national regulations and requirements for the prevention and control of the COVID-19.

It is expected that the COVID-19 outbreak and its containment measures will have a certain temporary impact on the Target Company's production and operations in the second half of 2020. The extent of impact depends on the progress and duration of the containment of the outbreak and the implementation of prevention and control policies in various regions.

The Target Company keeps eyes on the development of the COVID-19 outbreak, evaluates its impact on the financial status and operating results of the Target Company, strengthens its efforts to contain the outbreak and promotes the resumption of work and production in an active and orderly manner.

31. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 30 June 2020 and up to the date of this report.

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Secured borrowings *RMB'000*
As at 1 January 2017	200,000
Cash flows	(8,082)
Other changes	8,082
As at 31 December 2017 and 1 January 2018	200,000
Cash flows	(205,576)
Other changes	5,576
As at 31 December 2018, 1 January 2019, 31 December 2019, 1 January 2020 and 30 June 2020	–

F. ACCOUNTANTS' REPORT ON JISAN ELECTRICITY

The following is the text of a report for the sole purpose of inclusion in this circular, from the independent reporting accountants, Crowe (HK) CPA Limited, Certified Public Accountants, Hong Kong.

Crowe

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The Directors
Yanzhou Coal Mining Company Limited

We report on the historical financial information of Shandong Yankuang Jisan Electricity Co., Ltd. (the "Target Company") set out on pages II-F-4 to II-F-56, which comprises the statements of financial position of the Target Company as at 31 December 2017, 2018 and 2019 and 30 June 2020, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the Target Company for each of the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (the "Historical Financial Information"). This Historical Financial Information set out on pages II-F-4 to II-F-56 forms an integral part of this report, which has been prepared for for inclusion in the circular of Yanzhou Coal Mining Company Limited (the "Company") dated 16 November 2020 (the "Circular") in connection with the proposed acquisition of 100% equity interest in the Target Company by the Company.

DIRECTORS' RESPONSIBILITIES FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 3 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with the Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 3 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, true and fair view of the financial position of the Target Company and the financial position of the Target Company as at 31 December 2017, 2018 and 2019 and 30 June 2020 and of its financial performance and its cash flows for the Relevant Periods in accordance with the basis of the preparation set out in note 3 to the Historical Financial Information.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information of the Target Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended 30 June 2019 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in note 3 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in note 3 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE MAIN BOARD OF THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

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

Dividends

We refer to note 11 to the Historical Financial Information which states that dividends that have been declared and paid by the Target Company in respect of the Relevant Periods.

Crowe (HK) CPA Limited
Certified Public Accountants

Chung Wai Chuen Alfred
Practising Certificate Number: P05444

Hong Kong
16 November 2020

I. HISTORICAL FINANCIAL INFORMATION OF SHANDONG YANKUANG JISAN ELECTRICITY CO., LTD.

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Target Company for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with accounting policies which conform with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "IASB") (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

(A) Statements of profit or loss and other comprehensive income

	Note	Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Revenue	4	428,870	455,016	429,724	228,990	171,248
Cost of sales		(340,262)	(381,512)	(325,057)	(176,869)	(100,600)
Gross profit		88,608	73,504	104,667	52,121	70,648
Other income	5	51,992	62,738	69,487	36,087	34,477
Share of the associates' profit or loss	15	2,050	(4,210)	(3,395)	(3,395)	–
General and administrative expenses		(31,728)	(37,546)	(38,788)	(13,733)	(17,035)
Profit from operations		110,922	94,486	131,971	71,080	88,090
Finance costs	6	(87,492)	(80,347)	(80,466)	(44,784)	(37,987)
Profit before income tax	7	23,430	14,139	51,505	26,296	50,103
Income tax expense	8	(779)	(5,385)	(13,693)	(6,604)	(12,797)
Profit and total comprehensive income for the year/period		22,651	8,754	37,812	19,692	37,306

(B) Statements of financial position

	Note	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000	As at 31 December 2019 RMB'000	As at 30 June 2020 RMB'000
Non-current assets					
Property, plant and equipment	*12*	565,617	530,211	430,003	420,479
Right-of-use assets	*14(a)*	–	–	61,865	48,556
Intangible assets	*13*	20,002	18,890	17,777	17,221
Investments in associates	*15*	7,605	3,395	–	–
		593,224	552,496	509,645	486,256
Current assets					
Inventories	*16*	4,694	3,741	–	–
Tax recoverable		315	–	–	–
Trade and bills receivables	*17*	46,453	52,835	66,874	51,221
Prepayments and other receivables	*18*	1,420,533	1,382,389	1,438,802	1,542,876
Cash and cash equivalents	*19*	54,687	49,965	133,982	11
		1,526,682	1,488,930	1,639,658	1,594,108
Deduct:					
Current liabilities					
Trade and bills payables	*20*	210,233	195,423	61,379	26,262
Accruals and other payables	*21*	92,935	58,675	14,257	13,020
Borrowings	*22*	200,000	200,000	615,000	615,000
Lease liabilities	*14(b)*	–	–	47,094	47,094
Debentures	*23*	–	–	95,320	98,320
Tax payable		–	1,679	5,980	10,509
		503,168	455,777	839,030	810,205
Net current assets		1,023,514	1,033,153	800,628	783,903
Total assets less current liabilities		1,616,738	1,585,649	1,310,273	1,270,159

		As at 31 December			As at 30 June
	Note	**2017**	**2018**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current liabilities					
Borrowings	*22*	1,000,000	1,000,000	385,000	385,000
Accruals and other payables	*21*	115,258	79,291	–	–
Debentures	*23*	–	–	341,680	285,030
Lease liabilities	*14(b)*	–	–	39,523	18,696
Deferred tax liabilities	*24*	–	809	709	658
		1,115,258	1,080,100	766,912	689,384
Net assets		501,480	505,549	543,361	580,775
Representing:					
Registered capital	*25*	430,000	430,000	430,000	430,000
Reserves	*26*	71,480	75,549	113,361	150,775
Total equity		501,480	505,549	543,361	580,775

(C) Statements of changes in equity

	Registered capital *RMB'000*	Capital reserve *RMB'000*	Statutory reserve *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
At 1.1.2017	430,000	577	5,929	42,323	478,829
Profit and total comprehensive income for the year	–	–	–	22,651	22,651
Appropriation	–	–	2,265	(2,265)	–
At 31.12.2017 and 1.1.2018	430,000	577	8,194	62,709	501,480
Profit and total comprehensive income for the year	–	–	–	8,754	8,754
Appropriation	–	–	849	(849)	–
Dividend declared – note 11	–	–	–	(4,685)	(4,685)
At 31.12.2018 and 1.1.2019	430,000	577	9,043	65,929	505,549
Profit and total comprehensive income for the year	–	–	–	37,812	37,812
Appropriation	–	–	3,807	(3,807)	–
At 31.12.2019 and 1.1.2020	430,000	577	12,850	99,934	543,361
Profit and total comprehensive income for the period	–	–	–	37,306	37,306
Transfer of unutilised employee education fund to capital reserve	–	108	–	–	108
At 30.6.2020	430,000	685	12,850	137,240	580,775
(Unaudited)					
At 1.1.2019	430,000	577	9,043	65,929	505,549
Profit and total comprehensive income for the period	–	–	–	19,278	19,278
At 30.6.2019	430,000	577	9,043	85,207	524,827

(D) Statements of cash flows

	Note	Year ended 31 December 2017 RMB'000	2018 RMB'000	2019 RMB'000	Six months ended 30 June 2019 RMB'000 (unaudited)	2020 RMB'000
Cash flows from operating activities						
Profit before income tax		23,430	14,139	51,505	26,296	50,103
Adjustments for:						
Amortisation		1,113	1,131	1,113	557	556
Depreciation		42,831	46,556	20,083	10,042	9,524
Depreciation of right-of-use assets		–	–	26,617	13,309	13,309
Bank interest income		(889)	(901)	(643)	(215)	(487)
Interest expense		87,327	80,223	73,095	40,556	35,264
Interest on lease liabilities		–	–	7,326	3,971	2,720
Loan interest received from fellow subsidiaries		(51,077)	(53,863)	(56,144)	(28,072)	(28,072)
Share of the associate's profit or loss		(2,050)	4,210	3,395	3,395	–
Operating profit before working capital changes		100,685	91,495	126,347	69,839	82,917
Changes in working capital:						
Inventories		(6)	953	3,741	546	–
Trade and bills receivables		11,696	(6,382)	(14,039)	(1,284)	15,653
Prepayments and other receivables		4,611	49,381	(56,413)	35,165	(103,759)
Trade and bills payables		(92,014)	(14,810)	(134,044)	(28,867)	(35,117)
Accruals and other payables		(50,036)	(168,174)	75,077	(18,284)	91,332
Cash generated (used in)/from operations		(25,064)	(47,537)	669	57,115	51,026
Interest received		889	901	643	215	487
Income tax paid		(779)	(2,897)	(9,492)	(4,538)	(8,319)
Net cash generated (used in)/from operating activities		(24,954)	(49,533)	(8,180)	52,792	43,194

	Note	Year ended 31 December 2017 RMB'000	2018 RMB'000	2019 RMB'000	Six months ended 30 June 2019 RMB'000 (unaudited)	2020 RMB'000
Cash flows from investing activities						
Payments for acquisition of property, plant and equipment		(90,064)	(12,617)	(9,493)	–	–
Advances from/(repayment to) related parties		25,830	214,665	(15,121)	–	(64,704)
Repayment of loan from a related party		240,000	–	–	–	–
Net cash from/(used in) investing activities		175,766	202,048	(24,614)	–	(64,704)
Cash flows from financing activities						
Proceeds from new bank loans		427,400	200,000	615,000	–	–
Repayment of bank loans		(340,000)	(200,000)	(378,000)	–	–
Repayment of debentures		–	–	–	–	(53,650)
(Increase)/decrease in restricted cash		(20,900)	40,790	12,110	4,010	–
Repayment of lease liability		(143,172)	(83,252)	(47,094)	(23,547)	(23,547)
Dividend paid		–	(4,685)	–	–	–
Interest paid		(73,470)	(69,300)	(73,095)	(24,554)	(35,264)
Net cash (used in)/from financing activities		(150,142)	(116,447)	128,921	(44,091)	(112,461)
Net increase/(decrease) in cash and cash equivalents		670	36,068	96,127	8,701	(133,971)
Cash and cash equivalents at the beginning of the year/period		1,117	1,787	37,855	37,855	133,982
Cash and cash equivalents at the end of the year/period	*19*	1,787	37,855	133,982	46,556	11

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Shandong Yankuang Jisan Electricity Co., Ltd. (the "Target Company") is a limited liability company established in the People's Republic of China (the "PRC"). The registered address of the Target Company is located at Shiqao Town, Beihu Provincial Tourist Resort, Jining, China.

The principal activity of the Target Company is thermal power generation. There has been no significant change in the Target Company's principal activities during the Relevant Periods.

In the opinion of directors of the Target Company (the "Directors"), as of the date of this report, the parent and ultimate controlling company of the Target Company is Yankuang Group Company Limited, a company established in the PRC and wholly owned by the State-owned Assets Supervision and Administration Commission of the People's Government of Shandong Province of the PRC.

2. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following IFRSs in issue at 30 June 2020 have not been applied in the preparation of these financial statements since they were not yet effective for the annual period beginning on 1 January 2020:

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 16	Covid-19 – Related Rent Concession[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current[1]
Amendments to IAS 16	Proceeds before Intended[4]
Amendments to IAS 37	Cost of Fulfilling a Contract[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[4]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Annual Improvements to IFRSs	2018 – 2020 Cycle[4]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 June 2020
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2022

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of presentation

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"), which comprise all standards and interpretations approved by the IASB. The Historical Financial Information has been prepared under the historical costs convention.

3.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Target Company

A number of new and amended standards became applicable for the reporting period commencing on 1 January 2017, 2018, 2019 and 2020. The Target Company had to change its accounting policies and make modified retrospective adjustments as a result of adopting the following standards:

		Effective for annual periods beginning on or after
Amendments to IFRS 12	Annual improvements 2014-2016 cycle	1 January 2017
Amendments to IAS 7	Disclosure initiative	1 January 2017
Amendments to IAS 12	Recognition of deferred tax assets for unrealized losses	1 January 2017
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contract with Customers	1 January 2018
Amendments to IFRS 1 and IAS 28	Annual improvements 2014-2016 cycle	1 January 2018
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
Amendments to IFRS 4	Applying IFRS 9 financial instruments with IFRS 4 insurance contracts	1 January 2018
Amendments to IFRS 15	Clarifications to IFRS 15	1 January 2018
Amendments to IAS 40	Transfers to investment property	1 January 2018
IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018
IFRS 16	Leases	1 January 2019
Amendments to Annual Improvements Project	Annual improvements 2015-2017 cycle	1 January 2019
Amendments to IFRS 9	Prepayment features with negative compensation	1 January 2019
Amendments to IAS 19	Plan amendment, curtailment or settlement	1 January 2019
Amendments to IAS 28	Long-term interests in associates and joint ventures	1 January 2019
IFRIC 23	Uncertainty over income tax treatments	1 January 2019
Amendments to IFRS 3 (Revised)	Definition of a business	1 January 2020
Amendments to IAS 1 (Revised) and IAS 8	Definition of material	1 January 2020
Amendments to IAS 39, IFRS 7 and IFRS 9	Interest rate benchmark reform	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting	1 January 2020

The Target Company has assessed the impact of adopting these new standards and amendments. According to the preliminary assessment, these standards are not expected to have a material impact on the Target Company's operating results and financial position.

3.1.2 Changes in accounting policy and disclosures

This note explains the impact of the adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" on the Target Company's Historical Financial Information since 1 January 2018, as well as the impact of adoption of IFRS 16 "Leases" since 1 January 2019.

(i) IFRS 9 "Financial Instruments"

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Target Company has applied IFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 January 2018) in accordance with the transition provisions under IFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets and financial liabilities on initial application are recognised in retained earnings and other components of equity as at 1 January 2018.

The Target Company's accounting policies for the classification and measurement of financial instruments and the impairment of financial assets are disclosed in detail in note 3.15 below.

Classification and measurement of financial instruments

The Directors reviewed and assessed its existing financial assets and liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 did not have any impact on the classification and measurement of its financial assets and liabilities.

Loss allowance for expected credit losses ("ECL")

The adoption of IFRS 9 has changed the Target Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss model with a forward-looking expected credit loss ("ECL") model. As at 1 January 2018, the Directors reviewed and assessed the Target Company's existing financial assets and other items subject to ECL for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement of IFRS 9. The adoption of the ECL requirements under IFRS 9 had no significant impact to the Target Company's financial statements.

(ii) IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 superseded IAS 11 "Construction Contracts", IAS 18 "Revenue" and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether how much and when revenue is recognised. The Target Company has elected to adopt the modified retrospective approach for contracts with customers that are not completed as at the date of initial application (i.e. 1 January 2018) with the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings and comparative information is not restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 "Revenue". Details are described below.

The Directors are of the opinion that the adoption of IFRS 15 has no impact on the timing of revenue recognition of the Target Company.

The Target Company's accounting policies for its revenue streams are disclosed in detail in note 3.3 below.

Upon adoption of IFRS 15, the Directors concluded that there is no significant impact on the Target Company's revenue recognition policy and classification of items included in the financial statements.

(iii) IFRS 16 "Leases"

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described in note 3.9. Comparative information has not been restated and continues to be reported under IAS 17 "Leases".

On transition to IFRS 16, the Target Company elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC-4 "Determining whether an Arrangement contains a Lease" were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

The Target Company as lessee

Operating lease

On adoption of IFRS 16, the Target Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 "Leases" (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The adoption of IFRS 16 did not have material impact on the Target Company's financial statements as it did not have any operating lease arrangements.

Finance lease

The Target Company leases certain production equipment that were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the leased asset and lease liability under IAS 17 immediately before that date. Accordingly, the obligation under finance leases previously included in accruals and other payables are now included within lease liabilities. There is no impact on the opening balance of equity.

The following table summarises the impact of the transition to IFRS 16 at 1 January 2019. Line items that were not affected by the adjustments have not been included.

	Carrying amount previously reported at 31 December 2018	**Impact on adoption of IFRS 16**	**Carrying amount as restated at 1 January 2019**
	RMB'000	*RMB'000*	*RMB'000*
Right-of-use assets	–	88,452	88,452
Property, plant and equipment	530,211	(88,452)	441,759
Lease liabilities	–	126,385	126,385
Accruals and other payables	137,966	(126,385)	11,581

Practical expedients applied

On the date of initial application of IFRS 16, the Target Company has used the following practical expedients permitted by the standard:

- not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Target Company relied on its assessment made applying IAS 17 and IFRIC-4 "Determining whether an Arrangement contains a Lease";

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;

- reliance on previous assessments on whether leases are onerous by applying IAS 37 as an alternative to performing an impairment review;

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and

- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

3.2 Impairment of tangible and intangible assets other than goodwill

At each reporting date, the Target Company reviews the carrying amounts of its tangible assets and intangible assets with finite useful life to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset (determined at the higher of its fair value less costs of disposal and its value in use) is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with an indefinite useful life will be tested for impairment annually. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as an income immediately. For the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Assessment is performed for each area of interest in conjunction with the group of operating assets (representing a cash generating unit) to which the Target Company's activity is attributed.

3.3 Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the Target Company uses a 5-step approach to revenue recognition:

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

- Step 2: Identify the performance obligations in the contract

- Step 3: Determine the transaction price

- Step 4: Allocate the transaction price to the performance obligations in the contract

- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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

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

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

- The customer simultaneously receives and consumes the benefits provided by the Target Company's performance as the Target Company performs;

- The Target Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

- The Target Company's performance does not create an asset with an alternative use to the Target Company and the Target Company has an enforceable right to payment for performance completed to date.

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

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

Contract liabilities

A contract liability represents the Target Company's obligation to transfer goods or services to a customer for which the Target Company has received consideration from the customer.

Provision of services

Revenue from electricity, power supply, heat and waste materials are recognised when the services are rendered.

Supply of electricity and heat is recognised at the time when the electricity or heat is transmitted.

3.4 Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life. Expenditure incurred on projects to develop new products is capitalised only when the Target Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development.

3.5 Property, plant and equipment

Property, plant and equipment (including right-of-use assets), other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is charged so as to write off the cost of items of property, plant and equipment, other than construction in progress and freehold land, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method or unit of production method.

Category	Estimated useful life
Land and buildings	5 – 35 years
Machinery	4 – 50 years
Motor vehicles	4 – 10 years
Other equipments	5 – 11 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at the end of each reporting periods.

Any gain or loss arising on the disposal of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised immediately in the statement of profit or loss.

3.6 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and other financial institution and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the preparation of cash flow statement, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Target Company's cash management.

3.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises direct materials and, where applicable, direct labour and overheads that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price less all further costs to completion and costs to be incurred in selling, marketing and distribution.

Inventories of auxiliary materials, spare parts and small tools expected to be used in production are stated at weighted average cost less allowance, if necessary, for obsolescence.

3.8 Taxation

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

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

Deferred tax is recognised on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Target Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on either (i) the same taxable entity; or (ii) 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.

3.9 Leasing

Definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identifiable asset for a period of time in exchange for consideration.

The Target Company as lessee

The Target Company assesses whether a contract is or contains a lease, at inception of the contract. The Target Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Target Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date, the Target Company measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Target Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the Target Company exercising an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received. Whenever the Target Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under IAS 37 "Provision, Contingent Liabilities and Contingent Assets". The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

They are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Target Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Target Company presents right-of-use assets as a separate line in the statement of financial position.

The Target Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Target Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Target Company hasused this practical expedient for all leases.

3.10 Provisions and contingent liabilities

Provisions are recognised when the Target Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Target Company are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3.11 Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Target Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Target Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

3.12 Retirement benefit costs

Payments to defined contribution plans including included state-managed retirement benefit schemes and superannuation funds are recognised as an expense when employees have rendered service entitling them to the contributions.

3.13 Short-term and other long-term employee benefits

Benefits accruing to employees in respect of wages and salaries, annual leave and sick leave are included in other payables and accrued expenses. Related on-costs are also included in other payables and accrued expenses as other creditors. Long service leave is provided for when it is probable that settlement will be required and it is capable of being measured reliably.

Employee benefits expected to be settled within 12 months are measured using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Target Company in respect of services provided by employees up to the reporting date.

3.14 Investments in associates

An associate is an entity over which the Target Company has 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 of those policies.

The Target Company's investments in associates are accounted for in the financial statements using the equity method. Under the equity method, investments in associates are initially recognised at cost. The Target Company's share of the profit or loss and changes in the other comprehensive income of the associates are recognised in profit or loss and other comprehensive income respectively after the date of acquisition. If the Target Company's share of losses of an associate or a joint venture equals or exceeds its interest in the associate, which determined using the equity method together with any long-term interests that, in substance, form part of the Target Company's net investment in the associate, the Target Company discontinues recognising its share of further losses. Additional losses are provided for, and a liability is recognised, only to the extent that the Target Company has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

If an associate uses accounting policies other than those of the Target Company for like transactions and events in similar circumstances, adjustments are made to make the associate's or joint venture's accounting policies conform to those of the Target Company when the associate's financial statements are used by the Target Company in applying the equity method.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment, any excess of the cost of acquisition over the Target Company's share of the net fair value of the identifiable assets and liabilities of the associate is recognised as goodwill and is included in the carrying amount of the investment.

Any excess of the Target Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognised in profit or loss in the period in which the investment is acquired.

After application of the equity method, including recognising the associate's losses (if any), the Target Company determines whether there is an objective evidence that the net investment in the associate is impaired. Goodwill that forms part of the carrying amount of an investment in an associate is not separately recognised. The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the net investment in the associate. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

When the investment ceases to be an associate upon the Target Company losing significant influence over the associate, the Target Company discontinues to apply equity method and any retained interest is measured at fair value at that date which is regarded as its fair value on initial recognition as a financial asset in accordance with IFRS 9. Any difference between the fair value of any retained interest and any proceeds from disposing of a part interest in the associate and the carrying amount of the investment at the date the equity method was discontinued is recognised in profit or loss. Any amount previously recognised in other comprehensive income in relation to that investment is accounted for on the same basis as it would have been required if the investee had directly disposed of the related assets or liabilities.

When the Target Company's ownership interest in an associate is reduced, but the Target Company continues to apply the equity method, the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest is reclassified to profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

Gains and losses resulting from transactions between the Target Company and its associate are recognised in financial statements only to the extent of unrelated investors' interests in the associate. The Target Company's share in the associate's gains or losses resulting from these transactions is eliminated.

3.15 Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Target Company becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value, except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, FVTOCI and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Target Company's business model for managing them.

Financial assets at amortised cost (debt instruments)

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

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

- 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 amoritsed cost are subsequently measured using the effective interest method and are subject to impairment.

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the "Other income" line item (note 5).

Equity instruments designated as at FVTOCI

On initial recognition, the Target Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Target Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "Other income" line item in profit or loss.

Financial asset at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Target Company designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.

- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Target Company has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "Other income" line item.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or

- on initial recognition, it is part of a portfolio of identified financial instruments that the Target Company manages together and has evidence of a recent actual pattern of short-term profit-taking; or

- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Impairment of financial assets

The Target Company recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost as well as financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Target Company always recognises lifetime ECL for bills and accounts receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Target Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

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

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Target Company 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. In making this assessment, the Target Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular debtor, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

Despite the foregoing, the Target Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Target Company considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

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

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

Definition of default

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

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target Company, in full (without taking into account any collaterals held by the Target Company).

Credit-impaired financial assets

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

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Target Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 4 years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Target Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Target Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Target Company in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at the original effective interest rate.

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

If the Target Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Target Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Target Company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. On derecognition of an investment in equity instrument which the Target Company has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities and equity instruments

Classification as debt or equity

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities at FVTPL are stated at fair value with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liabilities and is included in the 'other income' line item in profit or loss.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at FVTPL

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

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a Company entity are initially measured at their fair values and, if not designated as at FVTPL and do not arise from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition of financial liabilities

The Target Company derecognises financial liabilities when, and only when, the Target Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Offsetting financial instruments

Financial assets and liabilities of the Target Company are offset and the net amount presented in the statement of financial position when, and only when, there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

3.16 Fair value measurement

When measuring fair value except for the Target Company's leasing transactions, net realisable value of inventories and value-in-use of intangible assets, prepaid lease payments, property, plant and equipment and construction in progress for the purpose of impairment assessment, the Target Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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.

The Target Company 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. Specifically, the Target Company categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1	–	Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2	–	Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3	–	Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Target Company determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

3.17 Significant accounting judgements and estimates

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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

(i) Depreciation

Property, plant and equipment are depreciated on straight-line basis over the estimated useful lives, after taking into account the estimated residual value if any. The Target Company reviews the estimated useful lives and basis of depreciation of property, plant and equipment regularly in order to determine the amount of depreciation expenses to be recorded during any reporting period. The useful lives and basis of depreciation are based on the Target Company's historical experience with similar assets and take into account anticipated technological changes. The depreciation expenses for future periods are adjusted prospectively if there are significant changes from previous estimates.

(ii) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions, technology changes and the historical experience of selling products with similar nature. It could change significantly as a result of changes in customer preference or competitor actions. The Target Company reassesses these estimates at the end of each reporting period.

(iii) Impairment of trade receivables and other receivables

Impairment of trade receivables and other receivables is made based on assessment of their recoverability. The identification of impairment of trade receivables and other receivables requires management's judgment and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and impairment loss or reversal of impairment in the period in which such an estimate has been changed.

(iv) Current and deferred income taxes

The Target Company is subject to income taxes in Mainland China. Judgements and estimations are required in determining the provision for income taxes for certain transactions (including inter-company transactions) and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the periods in which such determinations are made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation in the periods in which such estimate is changed.

4. OPERATING SEGMENT INFORMATION AND REVENUE

During the Relevant Periods, the Target Company's revenue was generated from thermal power generation in the PRC. Management monitors the operating results as a whole for the purpose of making decisions about resources allocation and performance assessment. Accordingly, no operating segment information is presented. An analysis of revenue of the Target Company is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Revenue from contracts with customers within the scope of IFRS 15					
Sales of electricity	386,989	422,635	396,573	208,430	155,615
Revenue from other sources					
Sales of power supply	3,258	–	1,245	–	–
Sales of heat	37,879	30,994	31,853	20,560	15,633
Sales of waste materials	744	1,387	53	–	–
	428,870	455,016	429,724	228,990	171,248
Disaggregated by timing of revenue recognition					
– At a point in time	428,870	455,016	429,724	228,990	171,248

4.1 Geographical information

All of the Target Company's revenue were generated in the PRC. All of the Target Company's non-current assets are located in the PRC.

4.2 Revenue from major customers

Revenue from customers of the Relevant Periods contributing over 10% of the total sales of the Target Company are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Customer A	37,879	30,994	31,853	20,560	15,633
Customer B	386,989	422,635	396,573	208,430	155,615

5. OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Interest income					
– received from banks	645	581	299	37	193
– received from a financial institution held by parent and ultimate controlling company	244	320	344	178	294
Compensation received	–	–	490	–	–
Government grants – *note (i)*	–	450	–	–	–
Penalties income	26	13	19	2	8
VAT refunds – *note (ii)*					
– Comprehensive utilisation of resources	–	7,511	12,191	7,460	5,910
Loan interest received from fellow subsidiaries	51,077	53,863	56,144	28,072	28,072
Sundry revenue	–	–	–	338	–
	51,992	62,738	69,487	36,087	34,477

Notes:

(i) Government grant have been received from PRC local government authorities as an incentive for the Target Company to maintain employment stability.

(ii) The Target Company is entitled to receive VAT refunds from PRC local government of 50% for the years ended 31 December 2018 and 2019 and six months ended 30 June 2020 of the net VAT paid/payable. The Ministry of Finance and the State Administration of Taxation jointly issued a notice concerning the "Catalogue on Products and Labour Services relating to Comprehensive Utilization of Resources Eligible for Concessions of Value-added Tax "Cai Sui [2015] (No. 78) (the "New VAT Policy") on June 2015, which replaced, amongst others, Cai Sui [2008] No. 156, Cai Sui [2009] No. 163, Cai Sui [2011] No. 115 and Cai Sui [2013] No. 23 (the "Former VAT Policy"). The new VAT policy took effect on 1 July 2015. Under the Former VAT policy, the Target Company is entitled to receive VAT refunds from PRC local government for refunds of 80% of the net VAT paid/payable. According the New VAT policy, the applicable VAT refunds received from the PRC local government are reduced from 80% to 50%.

6. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Interest expenses					
– paid to third parties	78,531	71,402	64,962	35,834	35,265
– paid to a financial institution held by parent and ultimate controlling company	8,796	8,821	8,132	4,938	–
Interest on lease liabilities	–	–	7,326	3,971	2,720
Bank charges	165	124	46	41	2
	87,492	80,347	80,466	44,784	37,987

7. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
(a) Staff costs					
Salaries and other benefits	18,826	21,278	24,205	9,017	9,437
Staff welfare	3,945	4,080	4,360	1,484	2,587
Defined contribution retirement plan contributions	7,924	8,193	7,992	3,511	2,880
	30,695	33,551	36,557	14,012	14,904
(b) Other items:					
Amortisation	1,113	1,131	1,113	557	556
Cost of inventories sold	340,262	381,512	325,057	176,869	100,600
Depreciation of property, plant and equipment	42,831	46,556	20,083	10,042	9,524
Depreciation of right-of-use assets	–	–	26,617	13,309	13,309

8. INCOME TAX EXPENSE

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Current tax					
Provision for the year/period	779	4,576	13,793	6,604	12,848
Deferred tax					
Charge/(credit) for the year/period – *note 24*	–	809	(100)	–	(51)
	779	5,385	13,693	6,604	12,797

Income tax provision of the Target Company in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the Relevant Periods, based on the existing legislation, interpretations and practices in respect thereof.

The National People's Congress approved the Corporate Income Tax Law of the PRC (the "New CIT Law") on 16 March 2007 and the State Council has announced the Detailed Implementation Regulations on 6 December 2007, which has been effective since 1 January 2008. According to the New CIT Law, the income tax rates for both domestic and foreign investment enterprises are unified at 25% effective from 1 January 2008.

A reconciliation between income tax expense and profit before income tax at applicable tax rates is set out below:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Profit before income tax	23,430	14,139	51,505	26,296	50,103
Taxation at the applicable tax rate	5,858	3,535	12,876	6,574	12,526
Tax effect of non-deductible expenses	417	2,776	817	30	271
Tax effect of non-taxable income	(514)	(926)	–	–	–
Additional deduction under CIT Law	(4,982)	–	–	–	–
Income tax expense	779	5,385	13,693	6,604	12,797

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(i) Directors' remuneration

The aggregate amounts of remuneration of directors of the Target Company during the Relevant Periods and the six months ended 30 June 2019, disclosed pursuant to the Rules Governing The Listing of Securities on the Stock Exchange (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, are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Fee	19	4	–	–	–
Other emoluments:					
Salaries and other benefits	309	316	361	–	–
Defined contribution retirement plan contributions	30	82	–	–	–
	358	402	361	–	–

The names of the directors and their remuneration for the Relevant Periods and the six months ended 30 June 2019 are as follows:

	Year ended 31 December 2017			
	Fees	**Salaries and other benefits**	**Defined contribution retirement plan contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors				
Huang Jiali	17	169	30	216
Li Wei	2	140	–	142
Liu Jie	–	–	–	–
Zhang Haijun	–	–	–	–
Zhao Duanli	–	–	–	–
	19	309	30	358

	Year ended 31 December 2018			
	Fees	**Salaries and other benefits**	**Defined contribution retirement plan contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors				
Bo Xiangzhen (appointed on 15 June 2018)	2	99	40	141
Huang Jiali (resigned on 14 June 2018)	–	98	–	98
Li Wei (resigned on 14 June 2018)	–	–	–	–
Liu Jie	–	–	–	–
Qu Zhongpo (appointed on 15 June 2018)	2	119	42	163
Zhang Haijun	–	–	–	–
Zhao Duanli	–	–	–	–
	4	316	82	402

	Year ended 31 December 2019			
	Fees	**Salaries and other benefits**	**Defined contribution retirement plan contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors				
Bo Xiangzhen	–	160	–	160
Liu Jie	–	–	–	–
Qu Zhongpo	–	201	–	201
Zhang Haijun	–	–	–	–
Zhao Duanli	–	–	–	–
	–	361	–	361

	Six months ended 30 June 2019 (unaudited)			
	Fees	**Salaries and other benefits**	**Defined contribution retirement plan contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors				
Bo Xiangzhen	–	–	–	–
Liu Jie	–	–	–	–
Qu Zhongpo	–	–	–	–
Zhang Haijun	–	–	–	–
Zhao Duanli	–	–	–	–
	–	–	–	–

	Six months ended 30 June 2020			
	Fees	**Salaries and other benefits**	**Defined contribution retirement plan contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors				
Bo Xiangzhen	–	–	–	–
Liu Jie	–	–	–	–
Qu Zhongpo	–	–	–	–
Zhang Haijun	–	–	–	–
Zhao Duanli	–	–	–	–
	–	–	–	–

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the Relevant Periods and the six months ended 30 June 2019. No emoluments were paid by the Target Company to any of the directors or supervisors as an inducement to join or upon joining the Target Company or as compensation for loss of office.

(ii) Five highest paid employees

An analysis of the salaries and headcounts of the five highest paid employees within the Target Company for the Relevant Periods and the six months ended 30 June 2019 is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Directors	358	402	361	–	–
Non-directors	872	862	1,428	404	439
	1,230	1,264	1,789	404	439
Number of directors	2	3	2	–	–
Number of non-directors	3	2	3	5	5

Details of the remuneration of the non-directors are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Fees	–	–	–	–	–
Other emoluments					
Salaries and other benefits	730	724	1,269	345	366
Defined contribution retirement plan contribution	142	138	159	59	73
	872	862	1,428	404	439

Salaries of the highest paid employees, who are non-directors, full within the band of nil to HK$1,000,000.

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

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

11. DIVIDENDS

The dividends declared by the Target Company to their then shareholders during the Relevant Periods were as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Dividends paid to then shareholders	–	4,685	–	–	–

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Machinery *RMB'000*	Motor vehicles *RMB'000*	Other equipments *RMB'000*	Total *RMB'000*
For the six months ended 30 June 2020					
Opening net book value	142,114	286,894	13	982	430,003
Depreciation	(5,785)	(3,505)	(7)	(227)	(9,524)
Closing net book value	136,329	283,389	6	755	420,479
At 30.6.2020					
Cost	320,596	572,408	4,206	10,101	907,311
Aggregate depreciation	(184,267)	(289,019)	(4,200)	(9,346)	(486,832)
Net book value	136,329	283,389	6	755	420,479
For the year ended 31 December 2019					
Opening net book value	151,726	376,816	163	1,506	530,211
Additions	2,332	6,025	–	–	8,357
Depreciation	(11,944)	(7,465)	(150)	(524)	(20,083)
Transfer to right-of-use assets	–	(88,482)	–	–	(88,482)
Closing net book value	142,114	286,894	13	982	430,003
At 31.12.2019					
Cost	320,596	572,408	4,206	10,101	907,311
Aggregate depreciation	(178,482)	(285,514)	(4,193)	(9,119)	(477,308)
Net book value	142,114	286,894	13	982	430,003
For the year ended 31 December 2018					
Opening net book value	156,576	406,855	312	1,874	565,617
Additions	6,647	4,281	–	222	11,150
Depreciation	(11,497)	(34,320)	(149)	(590)	(46,556)
Closing net book value	151,726	376,816	163	1,506	530,211
At 31.12.2018					
Cost	318,264	862,568	4,206	10,101	1,195,139
Aggregate depreciation	(166,538)	(485,752)	(4,043)	(8,595)	(664,928)
Net book value	151,726	376,816	163	1,506	530,211

	Buildings *RMB'000*	Machinery *RMB'000*	Motor vehicles *RMB'000*	Other equipments *RMB'000*	Total *RMB'000*
For the year ended 31 December 2017					
Opening net book value	163,494	363,637	462	2,547	530,140
Additions	4,348	73,960	–	–	78,308
Depreciation	(11,266)	(30,742)	(150)	(673)	(42,831)
Closing net book value	156,576	406,855	312	1,874	565,617
At 31.12.2017					
Cost	311,617	858,287	4,206	9,879	1,183,989
Aggregate depreciation	(155,041)	(451,432)	(3,894)	(8,005)	(618,372)
Net book value	156,576	406,855	312	1,874	565,617

The Target Company's certain building for which the Target Company are in the process of obtaining the relevant building ownership certificates. The Directors do not foresee any major obstacles to issuing the certificates of the above-mentioned buildings to the Target Company. The carrying amount of above-mentioned buildings amounted to RMB49,911,000, RMB50,851,000, RMB48,567,000 and RMB47,196,000 at 31 December 2017, 2018, 2019 and 30 June 2020 respectively.

At 31 December 2017 and 2018, the carrying amount of property, plant and equipment held under finance lease was approximately RMB115,110,000 and RMB88,482,000 respectively. From 1 January 2019, property, plant and equipment held under finance lease have been reclassified to right-of-use assets (note 14).

The rental payment of property, plant and equipment held under finance lease amounts approximately RMB235,471,000. It was guaranteed by its holding company Yankuang Group Company Limited from 24 January 2017 to 23 January 2022.

13. INTANGIBLE ASSETS

	Land use rights *RMB'000*	Patents *RMB'000*	Total *RMB'000*
For the six months ended 30 June 2020			
Opening net book value	17,777	–	17,777
Amortisation	(556)	–	(556)
Closing net book value	17,221	–	17,221
At 30.6.2020			
Cost	33,337	68	33,405
Aggregate amortisation	(16,116)	(68)	(16,184)
Net book value	17,221	–	17,221
For the year ended 31 December 2019			
Opening net book value	18,890	–	18,890
Amortisation	(1,113)	–	(1,113)
Closing net book value	17,777	–	17,777
At 31.12.2019			
Cost	33,337	68	33,405
Aggregate amortisation	(15,560)	(68)	(15,628)
Net book value	17,777	–	17,777
For the year ended 31 December 2018			
Opening net book value	20,002	–	20,002
Additions	–	19	19
Amortisation	(1,112)	(19)	(1,131)
Closing net book value	18,890	–	18,890
At 31.12.2018			
Cost	33,337	68	33,405
Aggregate amortisation	(14,447)	(68)	(14,515)
Net book value	18,890	–	18,890
For the year ended 31 December 2017			
Opening net book value	21,115	–	21,115
Amortisation	(1,113)	–	(1,113)
Closing net book value	20,002	–	20,002
At 31.12.2017			
Cost	33,337	49	33,386
Aggregate amortisation	(13,335)	(49)	(13,384)
Net book value	20,002	–	20,002

The Target Company's certain land use rights for which the Target Company are in the process of obtaining the relevant land use rights certificates. The directors do not foresee any major obstacles to issuing the certificates of the above-mentioned land use rights to the Target Company. The carrying amounts of above-mentioned buildings amounted to RMB20,002,000, RMB18,890,000, RMB17,777,000 and RMB17,221,000 at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively.

14. LEASE

(i) Amounts recognised in the statements of financial position

(a) Right-of-use assets

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Machinery	–	–	61,865	48,556

The Target Company has a lease arrangement for machinery. The lease term is five years.

In respect of lease arrangement for renting certain machinery, the Target Company has options to purchase certain production equipments for a nominal amount at the end of the lease term. The Target Company's obligations are secured by the lessors' title to the leased assets for such lease.

(b) Lease liabilities

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current	–	–	47,094	47,094
Non-current	–	–	39,523	18,696
	–	–	86,617	65,790

Amounts payable under lease liabilities	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	–	–	47,094	47,094
After one year but within two years	–	–	39,523	18,696
	–	–	86,617	65,790
Less: Amount due for settlement within 12 months (shown under current liabilities)	–	–	(47,094)	(47,094)
Amount due for settlement after 12 months	–	–	39,523	18,696

(ii) Amounts recognised in profit or loss

	Year ended 31 December 2017	Year ended 31 December 2018	Year ended 31 December 2019	Six months ended 30 June 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Depreciation expense on right-of-use assets	–	–	26,617	13,309
Interest expense on lease liabilities	–	–	7,326	2,720

(iii) Amounts recognised in cash flows statement

During the year ended 31 December 2019 and six months period ended 30 June 2020, the total cash outflow for leases amount to RMB47,094,000, RMB23,547,000 respectively.

15. INVESTMENTS IN ASSOCIATES

The Target Company had direct interests in associates which are private limited liability company, the particulars of which are set out below:

Name of company	Place and date of incorporation	Legal form of entity	Effective interest attributable to the Target Company 2017	2018	2019	2020	Principal Activities
Shandong Yankuang Carbon Products Co., Ltd.（山東兗礦炭素製品有限公司）	PRC	Limited liabilities	25%	25%	25%	25%	Production and sales of carbon products and by-product sales of coal installation and maintenance of mechanical equipment, carbon technical servers
Shandong Yankuang Aluminum Anode Co., Ltd.（山東兗礦鋁用陽極有限公司）	PRC	Limited liabilities	25%	25%	25%	25%	Production and sales of aluminum anodes and by-products

The following table summarises the information relating to the Target Company's associates, Shandong Yankuang Aluminum Anode Co., Ltd., which had 25% interest.

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	159,227	148,755	139,561	134,407
Current assets	147,688	174,839	148,188	89,950
Current liabilities	(276,495)	(310,015)	(319,605)	(283,351)
Net assets/(liabilities)	30,420	13,579	(31,856)	(58,994)
Target Company's share of net assets and carrying amount of interest of interest in associate	7,605	3,395	–	–
Revenue	399,292	339,279	263,944	81,019
Profit/(loss) for the year/period	8,199	(16,840)	(45,434)	(27,138)
Target Company's share of profit or loss	2,050	(4,210)	(3,395)	–

16. INVENTORIES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	4,694	3,741	–	–

17. TRADE AND BILLS RECEIVABLES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables				
– from third parties	46,453	46,636	59,011	26,149
– from related parties	–	4,899	2,963	20,002
	46,453	51,535	61,974	46,151
Bills receivables				
– from third parties	–	1,300	4,900	5,070
	46,453	52,835	66,874	51,221

The Target Company normally allows credit terms to well-established customers ranging from 30 to 180 days. The Target Company seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the Directors. Trade and bills receivables are expected to be recovered within one year.

An aging analysis of trade receivables and bills receivables as at the end of each reporting period, based on the date of recognition of the goods sold, is as follows:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	46,453	52,835	66,874	48,258
1 to 2 years	–	–	–	2,963
	46,453	52,835	66,874	51,221

Details of impairment assessments on trade and bills receivables from customers are set out in note 28(a).

18. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deposits	15,600	12,600	12,600	12,601
Loans to a fellow subsidiary – *note (i)*	925,000	925,000	977,095	977,095
Interest receivables from a fellow subsidiary	–	57,095	59,513	89,269
Amounts due from fellow subsidiaries – *note (ii)*	447,272	375,420	385,597	452,525
VAT receivables	–	30	346	–
Other receivables	771	161	319	225
Prepayments	31,890	12,083	3,332	11,161
	1,420,533	1,382,389	1,438,802	1,542,876

Notes:

(i) The applicable interest rate of loans to a fellow subsidiary are ranging from 4.35% to 7%.

(ii) The amounts due from fellow subsidiaries are unsecured, interest-free and have no fixed term of repayments.

19. CASH AND CASH EQUIVALENTS

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash on hand	18	29	25	–
Cash at banks				
– third parties	29	80	7	11
– financial institution held by parent and ultimate controlling company	1,740	37,746	133,950	–
Restricted cash	52,900	12,110	–	–
	54,687	49,965	133,982	11
Less: restricted cash	(52,900)	(12,110)	–	–
Cash and cash equivalents in cash flows statements	1,787	37,855	133,982	11

20. TRADE AND BILLS PAYABLES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables				
– from third parties	55,048	61,523	42,604	19,121
– from fellow subsidiaries	2,185	12,900	18,775	7,141
	57,233	74,423	61,379	26,262
Bills payables				
– from fellow subsidiaries	153,000	121,000	–	–
	210,233	195,423	61,379	26,262

The Target Company normally obtains credit terms ranging from 30 to 365 days from its suppliers.

An aging analysis of the trade payables and bills payables at the end of each reporting period, based on the date of receipt of goods purchased, is as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	203,055	177,686	52,697	6,299
1 to 2 years	1,621	14,911	4,436	15,263
2 to 3 years	1,057	143	2,869	2,498
Over 3 years	4,500	2,683	1,377	2,202
	210,233	195,423	61,379	26,262

21. ACCRUALS AND OTHER PAYABLES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Payroll payables	620	361	408	3,247
Other payables and accruals	3,012	4,296	5,295	2,452
Other tax payables	6,051	6,924	8,554	7,321
Lease payables	198,510	126,385	–	–
	208,193	137,966	14,257	13,020

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Analysed as:				
Current liabilities	92,935	58,675	14,257	13,020
Non-current liabilities	115,258	79,291	–	–
	208,193	137,966	14,257	13,020

22. BORROWINGS

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Loan from a financial institution held by parent and ultimate controlling company – *note (i)*	200,000	200,000	–	–
Loan from a third party – *note (ii) to (iv)*	1,000,000	1,000,000	1,000,000	1,000,000
	1,200,000	1,200,000	1,000,000	1,000,000

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Analysed as:				
Current liabilities	200,000	200,000	615,000	615,000
Non-current liabilities	1,000,000	1,000,000	385,000	385,000
	1,200,000	1,200,000	1,000,000	1,000,000

The borrowings were repayable as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year or on demand	200,000	200,000	615,000	615,000
After 1 year but within 2 years	–	1,000,000	385,000	385,000
After 2 years but within 5 years	1,000,000	–	–	–
After 5 years	–	–	–	–
	1,000,000	1,000,000	385,000	385,000
	1,200,000	1,200,000	1,000,000	1,000,000

Note:

(i) The applicable interest rate per annum as at 31 December 2017 and 2018 were 4.35% per annum.

(ii) The applicable interest rate per annum as at 31 December 2017, 2018, 2019 and 30 June 2020 were ranging from 5.45% to 7% per annum.

(iii) The borrowing of RMB615,000,000 was guaranteed by its holding company Yankuang Group Company Limited from 28 August 2013 to 27 August 2020.

(iv) The borrowing of RMB385,000,000 was guaranteed by its holding company Yankuang Group Company Limited from 13 March 2015 to 12 March 2022.

23. DEBENTURES

On 5 November 2019, the Company issued unlisted debentures of approximately RMB531,600,000 at face value with no issuing costs. Details of debentures issued and outstanding as at 31 December 2019 and 30 June 2020 are as follows:

At 31 December 2019

Principal amount	Issuing cost	Duration	Coupon interest rate per annum	Effective interest rate per annum	Carrying amount
RMB'000	*RMB'000*	*(years)*			*RMB'000*
531,600	–	4	6.5%	6.5%	437,000

At 30 June 2020

Principal amount	Issuing cost	Duration	Coupon interest rate per annum	Effective interest rate per annum	Carrying amount
RMB'000	*RMB'000*	*(years)*			*RMB'000*
531,600	–	4	6.5%	6.5%	383,350

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Analysed as:				
Current liabilities	–	–	95,320	98,320
Non-current liabilities	–	–	341,680	285,030
	–	–	437,000	383,350

Note:

(i) The Target Company entered a contract amounting RMB531,600,000 on 24 January 2019 with Great Wall Glory Securities Co., Ltd. (長城國瑞證券有限公司), which the accounts receivables (electricity charging rights) of Target Company are pledged from 6 November 2019 to 31 January 2024.

(ii) The debentures of RMB531,600,000 were guaranteed by its holding company Yankuang Group Company Limited from 24 January 2017 to 31 January 2024.

24. DEFERRED TAX LIABILITIES

(a) The followings are deferred tax liabilities recognised by the Target Company and movements thereon during the Relevant Periods:

	Accelerated depreciation allowances
	RMB'000
At 1.1.2017, 31.12.2017 and 1.1.2018	–
Charge for the year	809
At 31.12.2018 and 1.1.2019	809
Credit for the year	(100)
At 31.12.2019 and 1.1.2020	709
Credit for the period	(51)
At 30.6.2020	658

25. CAPITAL MANAGEMENT

(a) Details of the Target Company's registered capital are set out below:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Registered Capital	430,000	430,000	430,000	430,000

(b) Capital management

The Target Company's equity capital management objectives are to safeguard the Target Company's ability to continue as a going concern and to provide an adequate return to members commensurately with the level of risk. To meet these objectives, the Target Company manages the equity capital structure and makes adjustments to it in the light of changes in economic conditions by paying dividends to members, issuing new equity shares by the Target Company, and raising or repaying debts as appropriate.

The Target Company's equity capital management strategy, which was unchanged from the previous periods, is to maintain a reasonable proportion in net bank borrowings and equity capital. The Target Company monitors equity capital on the basis of the net debts-to-equity capital ratio, which is calculated as net bank borrowings over equity capital. Net debts are calculated as total debts less cash and bank balances. Equity capital comprises all components of equity.

The management of the Target Company reviews the capital structure periodically. The management considers the cost of capital and the risks associated with the capital. The Target Company manages its overall capital structure through the payment of dividends and raising of new capital as well as the issue of new debt or the redemption of existing debt.

26. RESERVES

(a) Statutory reserve

Pursuant to the Company Law of the PRC and the Articles of Association, it is required to appropriate 10% of each year's net profit according to the PRC accounting standard and regulations (after offsetting previous years' losses) to statutory reserve until such reserve reached 50% of its registered capital.

The appropriation to statutory reserves must be made before distribution of dividends to owners. This reserve shall only be used to make up for previous years' losses, to expand production operations, or to increase the capital of the Target Company. The statutory reserve can be transferred to paid-in capital of the Target Company, provided that the balance of the statutory reserve after such transfer is not less than 25% of their registered capital.

(b) Capital reserve

Capital reserve mainly represents contribution from the shareholder.

27. RELATED PARTY TRANSACTIONS AND BALANCES

Apart from the transactions as disclosed in notes 17, 18, 19, 20 and 22, the Target Company had the following material transactions with its related parties during the Relevant Periods:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Goods sold to related companies					
Sale of heat	37,879	30,994	31,853	20,560	15,633
Sales of waste materials	744	1,387	53	–	–
Interest expense	8,796	8,821	8,132	4,938	–
Interest income	51,321	54,444	56,443	28,109	28,265
Goods purchased from related companies					
Purchase of electricity	466	438	478	76	130
Purchase of materials	277,970	227,834	206,657	105,012	71,541
Purchase of equipment	–	–	2,185	–	–

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Services rendered by related companies					
Service fee	221	305	562	57	53
Supervision fee	419	53	–	–	–
Construction fee	–	3,213	1,076	–	–
Maintenance fee	736	2,690	1,027	361	–

Balances and transactions with other state-controlled entities in the PRC

The Target Company operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Target Company itself is part of a large group of companies under the Parent Company which is controlled by the PRC government. Apart from the transactions with the Target Company disclosed above, the Target Company also conducts business with other state-controlled entities. The Directors consider those state-controlled entities are independent third parties so far as the Target Company's business transactions with them are concerned.

Material balances with other state-controlled entities are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade sales	386,989	422,635	346,573	208,430	55,615
Trade purchases	98	533	2,139	–	1,617

Material transactions with other state-controlled entities are as follows:

	Year ended 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to other state-controlled entities	792	563	563	–
Amounts due from other state-controlled entities	46,454	46,636	59,011	26,149

Amounts due from and to state-controlled entities are trade nature of which terms are not different from other customers and suppliers.

In addition, the Target Company has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors of the Target Company are of the opinion that separate disclosure would not be meaningful.

Except as disclosed above, the Directors are of the opinion that transactions with other state-controlled entities are not significant to the Target Company's operations and no other transaction, arrangement or contract of significance to which the Target Company was a party and in which a director of the Target Company or a connected entity of the director of the Target Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

28. NATURE AND EXTENT OF FINANCIAL INSTRUMENTS RISKS

The Target Company's activities expose it to a variety of financial risks, including credit risk, liquidity risk, interest rate risk and currency risk. The Target Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Target Company's financial performance.

(a) Credit risk

Credit risk is managed on a group basis. The credit risk of the Target Company mainly arises from cash and cash equivalents, trade receivables, deposits and other receivables. The carrying amounts of these balances represent the Target Company's maximum exposure to credit risk in relation to these assets.

The credit quality of the deposits and other receivables has been assessed with reference to historical information about the counterparties default rates and financial position of the counterparties. The directors of the Target Company are of the opinion that the credit risk of the deposits and other receivables is low due to the sound financial position or collection history of the receivables due from them. Therefore, expected credit loss rate of the deposits and other receivables is assessed to be closed to zero and no provision was made as at 31 December 2018 and 2019 and 30 June 2020.

In respect of cash deposited at banks, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, expected credit loss rate of cash at bank is assessed to be closed to zero and no provision was made as at 31 December 2017, 2018 and 2019 and 30 June 2020.

As at the end of the reporting period, the Target Company's maximum exposure to credit risk which will cause a financial loss to the Target Company arising from the carrying amount of the respective recognised financial assets as stated in the statement of financial position due to failure to discharge an obligation by the counterparties.

The credit risk of the Target Company is concentrated on trade receivables from the top two largest customers at 31 December 2017, 2018 and 2019 and 30 June 2020 amounting to RMB46,453,000, RMB51,535,000, RMB61,974,000 and RMB46,151,000 respectively and accounted for 100%, 100%, 100% and 100% respectively of the Target Company's total trade receivables before impairment losses. The top two customers include state-owned enterprises and private limited companies registered and operated in the PRC. In order to minimise credit risk, management continuously monitors the level of exposure by frequent review of the credit evaluation of the financial condition and credit quality of its customers to ensure that prompt actions will be taken to lower exposure. In addition, the Target Company performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on trade balances based on provision matrix. In this regard, the directors of the Target Company consider that the Target Company's credit risk is significantly reduced.

Financial instruments with credit risk assessment and expected credit loss measurement by group

Item	**Grouping basis**	**Expected credit loss calculation approach**
Other receivables – group of related dealings within the scope of combination	Related parties within the scope of combination	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and expectation of future economic conditions, and based on the default risk exposure and 12-month or lifetime expected credit loss rate.
Other receivables – group of receivables from government	Nature	
Other receivables – group of deposits receivables and others etc.		

Specific group and expected credit loss calculation approach

Item	**Grouping basis**	**Expected credit loss calculation approach**
Accounts receivable – grouping by age	Grouping by age combination	Simplified approach – provision matrix
Accounts receivable – group of related parties	Related parties within the scope of combination	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and expectation of future economic conditions, and based on the default risk exposure and lifetime expected credit loss rate.
Accounts receivable – state-owned enterprises	State-owned enterprises	

Item	Grouping basis	Expected credit loss calculation approach
Bills receivable	Issuer of bills	The expected credit loss is calculated with reference to historical credit loss experience, in consideration of current conditions and expected of future economic conditions, and based on the default risk exposure and lifetime expected credit loss rate.

Management assessed that the expected credit loss rate and loss allowances for these balance to be insignificant during the Relevant Periods.

(b) Liquidity risk

Liquidity risk is the risk that the Target Company will encounter difficulty in meeting obligations associated with financial liabilities. The Target Company manages liquidity risk by monitoring its liquidity position through periodic preparation of cash flows and cash balances forecasts and periodic evaluation of the ability of the Target Company to meet its financial obligations.

The following tables show the remaining contractual maturities at the end of the each reporting period of the Target Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Target Company can be required to pay.

	At 31 December 2017				
	Carrying amount	Total contractual undiscounted cash flows	Less than 1 year or on demand	Over 1 year but less than 5 years	Over 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade and bills payables	210,233	210,233	210,233	–	–
Accruals and other payables	208,193	246,640	131,382	115,258	–
Borrowings	1,200,000	1,471,397	261,551	1,209,846	–
	1,618,426	1,928,270	603,166	1,325,104	–

	At 31 December 2018				
	Carrying amount	**Total contractual undiscounted cash flows**	**Less than 1 year or on demand**	**Over 1 year but less than 5 years**	**Over 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade and bills payables	195,423	195,423	195,423	–	–
Accruals and other payables	137,966	157,714	78,423	79,291	–
Borrowings	1,200,000	1,418,546	268,748	1,149,798	–
	1,533,389	1,771,683	542,594	1,229,089	–

	At 31 December 2019				
	Carrying amount	**Total contractual undiscounted cash flows**	**Less than 1 year or on demand**	**Over 1 year but less than 5 years**	**Over 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade and bills payables	61,379	61,379	61,379	–	–
Accruals and other payables	14,257	14,257	14,257	–	–
Borrowings	1,000,000	1,141,740	675,478	466,262	–
Debentures	341,680	480,085	98,916	381,169	–
Lease liabilities	86,617	94,189	54,666	39,523	–
	1,503,933	1,791,650	904,696	886,954	–

	At 30 June 2020				
	Carrying amount	**Total contractual undiscounted cash flows**	**Less than 1 year or on demand**	**Over 1 year but less than 5 years**	**Over 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade and bills payables	26,262	26,262	26,262	–	–
Accruals and other payables	13,020	13,020	13,020	–	–
Borrowings	1,000,000	1,082,198	645,074	437,124	–
Debentures	383,350	516,360	115,550	400,810	–
Lease liabilities	65,790	70,641	51,945	18,696	–
	1,488,422	1,708,481	851,851	856,630	–

(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 Target Company may manage interest rate risk, when it is considered significant and cost-effective, by entering into appropriate swap contracts.

As at the end of each of the Relevant Periods, the Target Company does not have any significant exposure to the interest rate risk.

Sensitivity Analysis

The following table details the Target Company's sensitivity to a change of 100 basis points in the interest rate, assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year and all the variables were held constant. It includes the interest rate fluctuation of the abovementioned PBOC rate, LIBOR and LPR.

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
(Decrease) increase in profit or loss				
– if increases by 100 basis points	(21,232)	(20,872)	(18,431)	(19,771)
– if decreases by 100 basis points	21,232	20,872	18,431	19,771

(d) Currency risk

The Target Company's major businesses are in the PRC and the majority of the transactions are conducted in RMB. Most of the Target Company's assets and liabilities are denominated in RMB. As a result, the Target Company does not have material foreign currency risk during the Relevant Periods.

(e) Fair value

The Target Company considered that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximated their fair values.

29. CONTINGENT LIABILITIES

At the end of each reporting period, the Target Company did not have any significant contingent liabilities.

30. SUBSEQUENT EVENTS

Since the outbreak of the new coronavirus disease ("COVID-19 outbreak") in January 2020, the containment of the COVID-19 outbreak has been being under way throughout the country. The Target Company actively responds to and implements the national regulations and requirements for the prevention and control of the COVID-19. Since 30 June 2020, the COVID-19 outbreak was contained to some extent, but not completely eradicated, so that the Target Company will continue to responds to and implements the national regulations and requirements for the prevention and control of the COVID-19.

It is expected that the COVID-19 outbreak and its containment measures will have a certain temporary impact on the Target Company's production and operations in the second half of 2020. The extent of impact depends on the progress and duration of the containment of the outbreak and the implementation of prevention and control policies in various regions.

The Target Company keeps eyes on the development of the COVID-19 outbreak, evaluates its impact on the financial status and operating results of the Target Company, strengthens its efforts to contain the outbreak and promotes the resumption of work and production in an active and orderly manner.

31. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 30 June 2020 and up to the date of this report.

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Liabilities from financing activities			
	Lease liabilities	**Borrowings**	**Debentures**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net cash as at 1 January 2017	–	1,211,000	–	1,211,000
Cash flows	(143,172)	87,400	–	(55,772)
Other changes	341,682	(98,400)	–	243,282
Net cash as at 31 December 2017 and 1 January 2018	198,510	1,200,000	–	1,398,510
Cash flows	(83,252)	–	–	(83,252)
Other changes	11,127	–	–	11,127
Net cash as at 31 December 2018 and 1 January 2019	126,385	1,200,000	–	1,326,385
Cash flows	(47,094)	237,000	437,000	626,906
Other changes	7,326	(437,000)	–	(429,674)
Net cash as at 31 December 2019 and 1 January 2020	86,617	1,000,000	437,000	1,523,617
Cash flows	(23,547)	–	(53,650)	(77,197)
Other changes	2,720	–	–	2,720
Net cash as at 30 June 2020	65,790	1,000,000	383,350	1,449,140

G. ACCOUNTANTS' REPORT ON INFORMATION CENTER

The following is the text of a report for the sole purpose of inclusion in this circular, from the independent reporting accountants, Crowe (HK) CPA Limited, Certified Public Accountants, Hong Kong.

國富浩華（香港）會計師事務所有限公司
Crowe (HK) CPA Limited
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9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

The Directors
Yanzhou Coal Mining Company Limited

Dear Sirs,

We report on the historical financial information of Yankuang Group Information Center (the "Target Company") set out on pages II-G-4 to II-G-41, which comprises the statements of financial position of the Target Company as at 31 December 2017, 2018 and 2019 and 30 June 2020, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for each of the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (the "Historical Financial Information"). This Historical Financial Information set out on pages II-G-4 to II-G-41 forms integral part of this report, which has been prepared for inclusion in the circular of Yanzhou Coal Mining Company Limited (the "Company") dated 16 November 2020 (the "Circular") in connection with the proposed acquisition of the relevant assets of the Target Company by the Company.

DIRECTORS' RESPONSIBILITIES FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 3 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANT'S RESPONSIBILITY

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

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 3 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, true and fair view of the financial position of the Target Company as at 31 December 2017, 2018 and 2019 and 30 June 2020 and of its financial performance and its cash flows for the Relevant Periods in accordance with the basis of the preparation set out in note 3 to the Historical Financial Information.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information of the Target Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended 30 June 2019 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in note 3 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period

Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in note 3 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE MAIN BOARD OF THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

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

Dividends

We refer to note 11 to the Historical Financial Information which states the dividends that have been declared and paid by the Target Company in respect of the Relevant Period.

Crowe (HK) CPA Limited
Certified Public Accountants

Chung Wai Chuen Alfred
Practising Certificate Number: P05444

Hong Kong
16 November 2020

I. HISTORICAL FINANCIAL INFORMATION OF YANKUANG GROUP INFORMATION CENTER

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Target Company for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with accounting policies which conform with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "ISAB") (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

(A) STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Six months ended 30 June	
	Note	**2017**	**2018**	**2019**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	*4*	118,338	140,851	143,302	61,888	64,392
Cost of sales		(53,659)	(73,815)	(86,402)	(29,448)	(37,067)
Gross profit		64,679	67,036	56,900	32,440	27,325
Other income	*5*	1,392	1,533	1,738	864	892
Research and development expenses		(7,952)	(9,538)	(9,184)	(1,133)	(550)
Administrative expenses		(20,617)	(22,020)	(27,916)	(10,625)	(10,506)
Profit from operations		37,502	37,011	21,538	21,546	17,161
Finance costs	*6*	(232)	(213)	(1,637)	(818)	(1,463)
Profit before income tax	*7*	37,270	36,798	19,901	20,728	15,698
Income tax expense	*8*	–	–	–	–	–
Profit and total comprehensive income for the year/period		37,270	36,798	19,901	20,728	15,698

(B) STATEMENTS OF FINANCIAL POSITION

	Note	As at 31 December 2017 RMB'000	2018 RMB'000	2019 RMB'000	As at 30 June 2020 RMB'000
Non-current assets					
Property, plant and equipment	*12*	84,216	78,475	75,742	67,598
Intangible assets	*13*	3,264	3,093	2,625	2,391
		87,480	81,568	78,367	69,989
Current assets					
Inventories	*14*	135	165	192	139
Trade and bills receivables	*15*	89,988	51,281	64,338	58,331
Prepayments and other receivables	*16*	335	549	242	1,118
Cash and cash equivalents	*17*	84,528	131,563	119,410	130,274
		174,986	183,558	184,182	189,862
Deduct:					
Current liabilities					
Trade payables	*18*	5,534	3,805	6,599	14,117
Contract liabilities	*19*	–	–	–	6,041
Accruals and other payables	*20*	171,621	161,116	151,030	121,360
Obligations in relation to early retirement scheme	*21*	896	1,292	2,180	2,320
		178,051	166,213	159,809	143,838
Net current (liabilities)/assets		(3,065)	17,345	24,373	46,024
Total assets less current liabilities		84,415	98,913	102,740	116,013
Non-current liabilities					
Obligations in relation to early retirement scheme	*21*	3,328	3,450	5,176	4,819
Deferred income		2,425	2,003	1,583	1,371
		5,753	5,453	6,759	6,190
Net assets		78,662	93,460	95,981	109,823
Representing:					
Reserves					
Retained earnings		78,662	93,460	95,981	107,435
Capital reserve		–	–	–	2,388
		78,662	93,460	95,981	109,823

(C) STATEMENTS OF CHANGES IN EQUITY

	Capital reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1.1.2017	–	61,392	61,392
Profit and total comprehensive income for the year	–	37,270	37,270
Dividend declared – note 11	–	(20,000)	(20,000)
At 31.12.2017 and 1.1.2018	–	78,662	78,662
Profit and total comprehensive income for the year	–	36,798	36,798
Dividend declared – note 11		(22,000)	(22,000)
At 31.12.2018 and 1.1.2019	–	93,460	93,460
Profit and total comprehensive income for the year	–	19,901	19,901
Dividend declared – note 11	–	(17,380)	(17,380)
At 31.12.2019 and 1.1.2020	–	95,981	95,981
Profit and total comprehensive income for the period	–	15,698	15,698
Dividend declared – note 11	–	(4,244)	(4,244)
Transfer of unutilised employee education fund to capital reserve	2,388	–	2,388
At 30.6.2020	2,388	107,435	109,823
(Unaudited)			
At 1.1.2019	–	94,797	94,797
Profit and total comprehensive income for the period	–	20,728	20,728
At 30.6.2019	–	115,525	115,525

(D) STATEMENTS OF CASH FLOWS

	Note	Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Cash flows from operating activities						
Profit before income tax		37,270	36,798	19,901	20,728	15,698
Adjustments for:						
Amortisation		483	437	468	234	234
Depreciation		16,038	16,437	16,117	8,043	8,098
Gain on disposal of property, plant and equipment		(4)	–	–	–	–
Bank interest income		(750)	(1,101)	(1,313)	(651)	(586)
Interest expense		228	207	1,635	817	1,457
Impairment loss on trade receivables		–	–	–	–	(6)
Operating profit before working capital changes		53,265	52,778	36,808	29,171	24,895
Changes in working capital:						
Inventories		–	(30)	(27)	(313)	53
Trade and bills receivables		(86,881)	38,707	(13,057)	(2,950)	6,007
Prepayments and other receivables		4,735	(214)	307	(25,770)	(876)
Trade payables		5,534	(1,729)	2,794	–	7,518
Contract liabilities		–	–	–	–	6,041
Deferred income		(639)	(422)	(420)	(37)	(212)
Accruals and other payables		77,045	(11,101)	(3,414)	(1,526)	(14,967)
Obligations in relation to early retirement scheme		(435)	352	668	(490)	(695)
Cash generated from/(used in) operations		52,624	78,341	23,659	(1,915)	27,764
Interest received		750	1,101	1,313	651	586
Net cash generated from/(used in) operating activities		53,374	79,442	24,972	(1,264)	28,350

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Cash flows from investing activities						
Payments for acquisition of intangible assets		–	(266)	–	–	–
Sales proceeds from disposal of property, plant and equipment		4	–	–	–	–
Payments for acquisition of property, plant and equipment		(11,949)	(12,141)	(15,125)	(397)	(106)
Net cash used in investing activities		(11,945)	(12,407)	(15,125)	(397)	(106)
Cash flows from financing activities						
Dividend paid		(20,000)	(20,000)	(22,000)	–	(17,380)
Net cash used in financing activities		(20,000)	(20,000)	(22,000)	–	(17,380)
Net increase/(decrease) in cash and cash equivalents		21,429	47,035	(12,153)	(1,661)	10,864
Cash and cash equivalents at the beginning of the year/period		63,099	84,528	131,563	131,563	119,410
Cash and cash equivalents at the end of the year/period		84,528	131,563	119,410	129,902	130,274
Analysis of the balances of cash and cash equivalents						
Cash at bank		84,523	131,559	119,409	129,878	130,274
Cash on hand		5	4	1	24	–
		84,528	131,563	119,410	129,902	130,274

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Yankuang Group Information Center (the "Target Company") is the functional department of Yankuang Group Company Limited's information business.

The principal activity of the Target Company is the provision of mine informatization system development and construction and maintenance services, as well as communication network and digital TV services. There has been no significant change in the Target Company's principal activities during the Relevant Periods.

In the opinion of directors of the Target Company (the "Directors"), as of the date of this report, the parent and ultimate controlling company of the Target Company is Yankuang Group Company Limited ("Yankuang Group"), a company established in the PRC and wholly owned by the State-owned Assets Supervision and Administration Commission of the People's Government of Shandong Province of the PRC.

2. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The following IFRSs in issue at 30 June 2020 have not been applied in the preparation of these financial statements since they were not yet effective for the annual period beginning on 1 January 2020:

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 16	Covid-19 – Related Rent Concession[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current[1]
Amendments to IAS 16	Proceeds before Intended[4]
Amendments to IAS 37	Cost of Fulfilling a Contract[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[4]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Annual Improvements to IFRSs	2018 – 2020 Cycle[4]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 June 2020
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of presentation

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"), which comprise all standards and interpretations approved by the IASB. The Historical Financial Information has been prepared under the historical costs convention.

3.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Target Company

A number of new and amended standards became applicable for the reporting period commencing on 1 January 2017, 2018, 2019 and 2020. The Target Company had to change its accounting policies and make modified retrospective adjustments as a result of adopting the following standards:

		Effective for annual periods beginning on or after
Amendments to IFRS 12	Annual improvements 2014-2016 cycle	1 January 2017
Amendments to IAS 7	Disclosure initiative	1 January 2017
Amendments to IAS 12	Recognition of deferred tax assets for unrealized losses	1 January 2017
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contract with Customers	1 January 2018
Amendments to IFRS 1 and IAS 28	Annual improvements 2014-2016 cycle	1 January 2018
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
Amendments to IFRS 4	Applying IFRS 9 financial instruments with IFRS 4 insurance contracts	1 January 2018
Amendments to IFRS 15	Clarifications to IFRS 15	1 January 2018
Amendments to IAS 40	Transfers to investment property	1 January 2018
IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018
IFRS 16	Leases	1 January 2019
Amendments to Annual Improvements Project	Annual improvements 2015-2017 cycle	1 January 2019
Amendments to IFRS 9	Prepayment features with negative compensation	1 January 2019
Amendments to IAS 19	Plan amendment, curtailment or settlement	1 January 2019
Amendments to IAS 28	Long-term interests in associates and joint ventures	1 January 2019
IFRIC 23	Uncertainty over income tax treatments	1 January 2019
Amendments to IFRS 3 (Revised)	Definition of a business	1 January 2020
Amendments to IAS 1 (Revised) and IAS 8	Definition of material	1 January 2020
Amendments to IAS 39, IFRS 7 and IFRS 9	Interest rate benchmark reform	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting	1 January 2020

The Target Company has assessed the impact of adopting these new standards and amendments. According to the preliminary assessment, these standards are not expected to have a material impact on the Target Company's operating results and financial position.

3.1.2 Changes in accounting policy and disclosures

This note explains the impact of the adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" on the Target Company's Historical Financial Information since 1 January 2018, as well as the impact of adoption of IFRS 16 "Leases" since 1 January 2019.

(i) IFRS 9 "Financial Instruments"

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Target Company has applied IFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 January 2018) in accordance with the transition provisions under IFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets and financial liabilities on initial application are recognised in retained earnings and other components of equity as at 1 January 2018.

The Target Company's accounting policies for the classification and measurement of financial instruments and the impairment of financial assets are disclosed in detail in note 3.13 below.

Classification and measurement of financial instruments

The directors of the Target Company reviewed and assessed its existing financial assets and liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 did not have any impact on the classification and measurement of its financial assets and liabilities.

Loss allowance for expected credit losses ("ECL")

The adoption of IFRS 9 has changed the Target Company accounting for impairment losses for financial assets by replacing IAS 39's incurred loss model with a forward-looking expected credit loss ("ECL") model. As at 1 January 2018, the directors of the Target Company reviewed and assessed the Target Company's existing financial assets and other items subject to ECL for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement of IFRS 9. The adoption of the ECL requirements under IFRS 9 had no significant impact to the Target Company's financial statements.

(ii) IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 superseded IAS 11 "Construction Contracts", IAS 18 "Revenue" and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether how much and when revenue is recognised. The Target Company has elected to adopt the modified retrospective approach for contracts with customers that are not completed as at the date of initial application (i.e. 1 January 2018) with the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings and comparative information is not restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 "Revenue". Details are described below.

The Target Company's accounting policies for its revenue streams are disclosed in detail in note 3.3 below.

Upon adoption of IFRS 15, the directors of the Target Company concluded that there is no significant impact on the Target Company's revenue recognition policy and classification of items included in the financial statements.

(iii) IFRS 16 "Leases"

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Comparative information has not been restated and continues to be reported under IAS 17 "Leases". The adoption of IFRS 16 did not have material impact on the Target Company's financial statements as it did not have any lease arrangements.

3.2 Impairment of tangible and intangible assets other than goodwill

At each reporting date, the Target Company reviews the carrying amounts of its tangible assets and intangible assets with finite useful life to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset (determined at the higher of its fair value less costs of disposal and its value in use) is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with an indefinite useful life will be tested for impairment annually. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as an income immediately. For the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Assessment is performed for each area of interest in conjunction with the Target Company of operating assets (representing a cash generating unit) to which the Target Company's activity is attributed.

3.3 Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the Target Company uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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

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

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

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

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

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

Contract liabilities

A contract liability represents the Target Company's obligation to transfer goods or services to a customer for which the Target Company has received consideration from the customer.

The Target Company recognised revenue from the following major sources:

- Provision of services (including system maintenance, computer system, digital TV, communication system, website production and network release services)

Provision of services

Revenue from system maintenance, computer system, digital TV, communication system, website production and network release services is recognised when the services are rendered.

3.4 Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life. Expenditure incurred on projects to develop new products is capitalised only when the Target Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development.

3.5 Property, plant and equipment

Property, plant and equipment (including right-of-use assets), other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is charged so as to write off the cost of items of property, plant and equipment, other than construction in progress and freehold land, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method or unit of production method.

Depreciation is charged so as to write off the cost of items of property, plant and equipment, other than construction in progress and freehold land, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method or unit of production method.

Category	**Estimated useful life**
Buildings	15 – 30 years
Machinery	4 – 15 years
Motor vehicle	8 – 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at the end of each reporting periods.

Any gain or loss arising on the disposal of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised immediately in the statement of profit or loss.

3.6 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and other financial institution and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the preparation of cash flow statement, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Target Company's cash management.

3.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises direct materials and, where applicable, direct labour and overheads that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price less all further costs to completion and costs to be incurred in selling, marketing and distribution.

Inventories of auxiliary materials, spare parts and small tools expected to be used in production are stated at weighted average cost less allowance, if necessary, for obsolescence.

3.8 Taxation

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

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

Deferred tax is recognised on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Target Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on either (i) the same taxable entity; or (ii) 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.

3.9 Provisions and contingent liabilities

Provisions are recognised when the Target Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Target Company are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3.10 Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Target Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Target Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

3.11 Retirement benefit costs

Payments to defined contribution plans including included state-managed retirement benefit schemes and superannuation funds are recognised as an expense when employees have rendered service entitling them to the contributions.

3.12 Short-term and other long-term employee benefits

Benefits accruing to employees in respect of wages and salaries, annual leave and sick leave are included in other payables and accrued expenses. Related on-costs are also included in other payables and accrued expenses as other creditors. Long service leave is provided for when it is probable that settlement will be required and it is capable of being measured reliably.

Employee benefits expected to be settled within 12 months are measured using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Target Company in respect of services provided by employees up to the reporting date.

3.13 Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Target Company becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value, except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, FVTOCI and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Target Company's business model for managing them.

Financial assets at amortised cost (debt instruments)

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

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

- 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 amoritsed cost are subsequently measured using the effective interest method and are subject to impairment.

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the "Other income" line item (note 5).

Equity instruments designated as at FVTOCI

On initial recognition, the Target Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Target Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "Other income" line item in profit or loss.

Financial asset at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Target Company designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.

- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Target Company has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "Other income" line item.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or

- on initial recognition, it is part of a portfolio of identified financial instruments that the Target Company manages together and has evidence of a recent actual pattern of short-term profit-taking; or

- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Impairment of financial assets

The Target Company recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost as well as financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Target Company always recognises lifetime ECL for bills and accounts receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Target Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

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

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Target Company 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. In making this assessment, the Target Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular debtor, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

Despite the foregoing, the Target Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Target Company considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

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

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

Definition of default

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

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

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

Credit-impaired financial assets

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

- significant financial difficulty of the issuer or the borrower;

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

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

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Target Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 4 years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Target Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Target Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Target Company in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at the original effective interest rate.

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

If the Target Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Target Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Target Company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. On derecognition of an investment in equity instrument which the Target Company has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities and equity instruments

Classification as debt or equity

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities at FVTPL are stated at fair value with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liabilities and is included in the 'other income' line item in profit or loss.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

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

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and do not arise from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition of financial liabilities

The Target Company derecognises financial liabilities when, and only when, the Target Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Offsetting financial instruments

Financial assets and liabilities of the Target Company are offset and the net amount presented in the statement of financial position when, and only when, there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

3.14 Fair value measurement

When measuring fair value except for the Target Company's net realisable value of inventories and value-in-use of intangible assets and property, plant and equipment for the purpose of impairment assessment, the Target Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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.

The Target Company 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. Specifically, the Target Company categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1	–	Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2	–	Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3	–	Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Target Company determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

3.15 Significant accounting judgements and estimates

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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

(i) Depreciation

Property, plant and equipment are depreciated on straight-line basis over the estimated useful lives, after taking into account the estimated residual value if any. The Target Company reviews the estimated useful lives and basis of depreciation of property, plant and equipment regularly in order to determine the amount of depreciation expenses to be recorded during any reporting period. The useful lives and basis of depreciation are based on the Target Company's historical experience with similar assets and take into account anticipated technological changes. The depreciation expenses for future periods are adjusted prospectively if there are significant changes from previous estimates.

(ii) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions, technology changes and the historical experience of selling products with similar nature. It could change significantly as a result of changes in customer preference or competitor actions. The Target Company reassesses these estimates at the end of each reporting period.

(iii) Impairment of trade receivables and other receivables

Impairment of trade receivables and other receivables is made based on assessment of their recoverability. The identification of impairment of trade receivables and other receivables requires management's judgment and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and impairment loss or reversal of impairment in the period in which such an estimate has been changed.

(iv) Current and deferred income taxes

The Target Company is subject to income taxes in Mainland China. Judgements and estimations are required in determining the provision for income taxes for certain transactions (including inter-company transactions) and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the periods in which such determinations are made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation in the periods in which such estimate is changed.

4. OPERATING SEGMENT INFORMATION AND REVENUE

During the Relevant Periods, the Target Company's revenue was generated from system maintenance, computer system, digital TV, communication system, website production and network release services in the PRC. The Target Company provide services directly to customers, due on presentation of invoice. Management monitors the operating results as a whole for the purpose of making decisions about resources allocation and performance assessment. Accordingly, no operating segment information is presented. An analysis of revenue of the Target Company is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Revenue from contracts with customers within the scope of IFRS 15					
System maintenance revenue	60,400	84,792	83,556	34,568	44,704
Computer system revenue	30,970	31,438	30,534	16,189	9,970
Digital TV revenue	17,524	17,871	16,759	7,901	6,886
Communication system revenue	8,873	6,465	5,854	3,021	2,740
Website production and network release revenue	–	–	350	–	57
Others	571	285	6,249	209	35
	118,338	140,851	143,302	61,888	64,392
Disaggregated by timing of revenue recognition					
– Over time	60,400	84,792	83,556	34,568	44,704
– At a point in time	57,938	56,059	59,746	27,320	19,688
	118,338	140,851	143,302	61,888	64,392

4.1 Geographical information

All of the Target Company's revenue were generated in the PRC. All of the Target Company's non-current assets are located in the PRC.

4.2 Revenue from major customers

Revenue from customers of the Relevant Periods contributing over 10% of the total sales of the Target Company are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Customer A	49,608	56,013	55,403	24,981	18,041

5. OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Interest received from a financial institution held by parent and ultimate controlling company	750	1,101	1,313	651	586
Government grants – *Note*	492	421	421	211	211
Penalties	7	7	4	2	1
Sundry revenue	143	4	–	–	94
	1,392	1,533	1,738	864	892

Note: Government grants have been received from PRC local government authorities to support the Target Company's project, State-owned Assets Supervision Information System and Chemical Energy Management Center Project. There are no unfulfilled conditions or contingencies relating to these grants.

6. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Bank charges	4	6	2	1	6
Interest expense	228	207	1,635	817	1,457
	232	213	1,637	818	1,463

7. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
(a) Staff costs					
Salaries and other benefits	24,249	31,766	37,096	14,861	17,553
Staff welfare	4,621	5,107	6,702	2,656	6,036
Defined contribution retirement plan contributions	8,627	11,352	13,044	5,623	5,153
	37,497	48,225	56,842	23,140	28,742
(b) Net gain of disposal of property, plant and equipment					
Sales proceeds	(4)	–	–	–	(139)
Less: Net book value of property, plant and equipment	–	–	–	–	139
	(4)	–	–	–	–
(c) Other items:					
Amortisation	483	437	468	234	234
Cost of inventories sold	53,659	73,815	86,402	29,448	37,067
Depreciation of property, plant and equipment	16,038	16,437	16,117	8,043	8,098

8. INCOME TAX EXPENSE

The Target Company is a functional department of Yankuang Group. The operating profit or loss will be included in the statement of profit or loss of Yankuang Group and reported to the tax authority as a whole. As Yankuang Group has tax losses brought forward from prior years and the management considered that no provision for income tax is necessary as the Target Company is not required to pay income tax after utilising the tax losses available to Yankuang Group.

A reconciliation between income tax expense and profit before income tax at applicable tax rates is set out below:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Profit before income tax	37,270	36,798	19,901	20,728	15,698
Taxation at the applicable tax rate	9,317	9,199	4,975	5,182	3,924
Utilisation of tax loss of holding company	(9,317)	(9,199)	(4,975)	(5,182)	(3,924)
Income tax expense	–	–	–	–	–

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

As the Target Company is a functional department of Yankuang Group and therefore does not have any directors.

An analysis of the five highest paid employees within the Target Company for the Relevant Periods and the six months ended 30 June 2019 is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019** *(unaudited)*	**2020**
Non-directors	1,638	1,769	1,646	518	727

Details of the remuneration of the five highest paid employees are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Salaries and other benefits	1,268	1,358	1,377	394	667
Defined contribution retirement plan contribution	370	411	269	124	60
	1,638	1,769	1,646	518	727

Salaries of the five highest paid employees, who are non-directors, fall within the band of nil to HK$1,000,000.

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE TARGET COMPANY

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

11. DIVIDENDS

The dividends declared by the Target Company's to their then shareholders during the Relevant Periods were as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Dividends paid to then shareholders	20,000	22,000	17,380	–	4,244

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Machinery *RMB'000*	Motor vehicle *RMB'000*	Total *RMB'000*
For the six months ended 30 June 2020				
Opening net book value	175	75,183	384	75,742
Additions	–	93	–	93
Disposals	(139)	–	–	(139)
Depreciation	(36)	(7,999)	(63)	(8,098)
Closing net book value	–	67,277	321	67,598
At 30.6.2020				
Cost	2,465	242,203	2,704	247,372
Aggregate depreciation	(2,465)	(174,926)	(2,383)	(179,774)
Net book value	–	67,277	321	67,598
For the year ended 31 December 2019				
Opening net book value	256	77,677	542	78,475
Additions	–	13,384	–	13,384
Depreciation	(81)	(15,878)	(158)	(16,117)
Closing net book value	175	75,183	384	75,742
At 31.12.2019				
Cost	2,465	242,110	2,704	247,279
Aggregate depreciation	(2,290)	(166,927)	(2,320)	(171,537)
Net book value	175	75,183	384	75,742
For the year ended 31 December 2018				
Opening net book value	414	82,966	836	84,216
Additions	–	10,696	–	10,696
Depreciation	(158)	(15,985)	(294)	(16,437)
Closing net book value	256	77,677	542	78,475
At 31.12.2018				
Cost	2,465	266,036	2,704	271,205
Aggregate depreciation	(2,209)	(188,359)	(2,162)	(192,730)
Net book value	256	77,677	542	78,475
For the year ended 31 December 2017				
Opening net book value	439	88,690	913	90,042
Additions	–	9,985	227	10,212
Depreciation	(25)	(15,709)	(304)	(16,038)
Closing net book value	414	82,966	836	84,216
At 31.12.2017				
Cost	2,465	283,604	2,704	288,773
Aggregate depreciation	(2,051)	(200,638)	(1,868)	(204,557)
Net book value	414	82,966	836	84,216

13. INTANGIBLE ASSETS

	Patents *RMB'000*
For the six months ended 30 June 2020	
Opening net book value	2,625
Amortisation for the period	(234)
Closing net book value	2,391
At 30.6.2020	
Cost	5,573
Amortisation	(3,182)
Net book value	2,391
For the year ended 31 December 2019	
Opening net book value	3,093
Amortisation for the year	(468)
Closing net book value	2,625
At 31.12.2019	
Cost	5,573
Amortisation	(2,948)
Net book value	2,625
For the year ended 31 December 2018	
Opening net book value	3,264
Additions	266
Amortisation for the year	(437)
Closing net book value	3,093
At 31.12.2018	
Cost	5,573
Amortisation	(2,480)
Net book value	3,093
For the year ended 31 December 2017	
Opening net book value	3,747
Amortisation for the year	(483)
Closing net book value	3,264
At 31.12.2017	
Cost	5,307
Amortisation	(2,043)
Net book value	3,264

14. INVENTORIES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	135	165	192	139

15. TRADE AND BILLS RECEIVABLES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables				
– from third parties	88,456	50,378	–	58,207
– from fellow subsidiaries	32	3	64,338	130
Less: impairment loss on trade receivables	–	–	–	(6)
	88,488	50,381	64,338	58,331
Bills receivables				
– from fellow subsidiaries	1,500	900	–	–
	89,988	51,281	64,338	58,331

The Target Company normally allows credit terms to well-established customers ranging from 30 to 90 days. The Company seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management. Trade and bills receivables are expected to be recovered within one year.

An aging analysis of trade and bills receivables as at the end of each reporting period, based on the date of recognition of the goods sold, is as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	83,926	48,754	61,881	56,938
1 to 2 years	4,506	971	1,073	9
2 to 3 years	–	–	–	–
Over 3 years	1,556	1,556	1,384	1,384
	89,988	51,281	64,338	58,331

Details of impairment assessments on trade and bills receivables from customers are set out in note 24(a).

16. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other receivables	34	466	188	365
Prepayments	120	74	54	–
Deposits	–	–	–	750
Other tax receivables	181	9	–	–
Amounts due from fellow subsidiaries	–	–	–	3
	335	549	242	1,118

The amount of prepayments and other receivables are expected to be recovered or recognised as expense within one year.

The amounts due from fellow subsidiaries are unsecured, interest-free and have no fixed-terms of repayment.

17. CASH AND CASH EQUIVALENTS

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at banks				
– third parties	–	3	1	1
– financial institution held by parent and ultimate controlling company	84,523	131,556	119,408	130,273
Cash on hand	5	4	1	–
	84,528	131,563	119,410	130,274

18. TRADE PAYABLES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables				
– from third parties	1,931	2,212	6,580	5,000
– from fellow subsidiaries	3,603	1,593	19	9,117
	5,534	3,805	6,599	14,117

The Target Company normally obtains credit terms ranging from 30 to 90 days from its suppliers.

An aging analysis of the trade payables at the end of each reporting period, based on the date of receipt of goods purchased, is as follows:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	3,724	2,293	6,398	8,798
1 to 2 years	1,500	300	117	5,118
2 to 3 years	138	1,040	–	117
Over 3 years	172	172	84	84
	5,534	3,805	6,599	14,117

19. CONTRACT LIABILITIES

The Target Company recognised the following revenue-related contract liabilities from contract with customers:

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contract liabilities received from related parties	–	–	–	6,041

Contract liabilities mainly consists of sales deposits received from customers for which the related revenue had not been recognised during the Relevant Periods, and the management expects those related revenue to be recognised within the next twelve months.

The following table shows the movements in contract liabilities during the Relevant Periods related to carried-forward contract liabilities.

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	–	–	–	–
Decrease in contract liabilities as a result of recognising revenue during the year/period that was included in the contract liabilities at the beginning of the year/period	–	–	–	–
Increase in contract liabilities as a result of receiving sales deposits for the relevant unrecognised revenue at the end of the year/period	–	–	–	6,041
At the end of the year/period	–	–	–	6,041

20. ACCRUALS AND OTHER PAYABLES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Payroll payables	2,947	4,190	4,657	389
Other payables and accruals	1,881	1,759	3,222	5,348
Deposits received	221	196	210	201
VAT payables	–	–	–	702
Amount due to holding company	166,572	154,971	142,941	114,720
	171,621	161,116	151,030	121,360

The amount due to holding company is unsecured, interest-free and has no fixed terms of repayment.

21. OBLIGATIONS IN RELATION TO EARLY RETIREMENT SCHEME

The Target Company implemented early retirement benefit scheme which allows qualified employees to early retire on a voluntary basis. The Target Company undertakes the obligations to pay the early retirement employees' living expenses for no more than five years in the future on a monthly basis according to the early retirement benefit scheme, together with social insurance and housing fund pursuant to the regulation of the local Social Security Office. Living expenses, social insurance and the housing fund are together referred to as "the Payments". The Payments are forecasted to increase with reference to the inflation rate and adjusted based on the average death rate in China for the years ended 31 December 2017, 2018, 2019 and six months ended 30 June 2020. The Payments are discounted by the benchmark interest rate for loan of 31 December 2017, 2018, 2019 and 30 June 2020. As at 31 December 2017, 2018, 2019 and 30 June 2020, the current portion of the Payments within one year was reclassified to "current liabilities".

As at 31 December 2017, 2018, 2019 and 30 June 2020, obligations in relation to retirement benefits under the Target Company's early retirement scheme are as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January	4,659	4,224	4,742	7,356
Provision made during the year/period	361	1,413	2,503	866
Interest costs	228	207	1,635	1,457
Payment during the year/period	(1,024)	(1,102)	(1,524)	(2,540)
As at 31 December/30 June	4,224	4,742	7,356	7,139

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Analysed as:				
Current liabilities	896	1,292	2,180	2,320
Non-current liabilities	3,328	3,450	5,176	4,819
	4,224	4,742	7,356	7,139

22. EMPLOYEE RETIREMENT BENEFITS

The employees of the Target Company in the PRC are members of a state-managed pension obligations operated by the PRC Government. The Target Company is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the pension obligations to fund the benefits. The only obligation of the Target Company with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

23. RELATED PARTY TRANSACTIONS AND BALANCES

Apart from the transactions as disclosed in notes 15, 16, 18, 19 and 20, the Target Company had the following material transactions with its related parties during the Relevant Periods:

	As at 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
				(unaudited)	
Service fee received from related companies	101,626	123,704	139,594	70,870	54,475
Service fee paid to related companies	1,178	11,795	12,170	2,283	5,000
Interest income	750	1,101	1,313	651	586

Balances and transactions with other state-controlled entities in the PRC

The Target Company operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Target Company itself is part of a large group of companies under the Parent Company which is controlled by the PRC government. Apart from the transactions with the Target Company disclosed above, the Target Company also conducts business with other state-controlled entities. The directors of the Target Company consider those state-controlled entities are independent third parties so far as the Target Company's business transactions with them are concerned.

Material balances with other state-controlled entities are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Services fee	369	186	211	90	11
Trade purchases	4,349	4,594	6,206	2,521	2,716

Material transactions with other state-controlled entities are as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to other state-controlled entities	–	57	200	160
Amounts due from other state-controlled entities	32	–	–	775

Amounts due from and to state-controlled entities are trade nature of which terms are not different from other customers and suppliers.

In addition, the Target Company has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors of the Target Company are of the opinion that separate disclosure would not be meaningful.

Except as disclosed above, the directors of the Target Company are of the opinion that transactions with other state-controlled entities are not significant to the Target Company's operations and no other transaction, arrangement or contract of significance to which the Target Company was a party and in which a director of the Target Company or a connected entity of the director of the Target Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

24. NATURE AND EXTENT OF FINANCIAL INSTRUMENTS RISKS

The Target Company's activities expose it to a variety of financial risks, including credit risk, liquidity risk, interest rate risk and currency risk. The Target Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Target Company's financial performance.

(a) Credit risk

Credit risk is managed on a group basis. The credit risk of the Target Company mainly arises from cash and cash equivalents, trade receivables, deposits and other receivables. The carrying amounts of these balances represent the Target Company's maximum exposure to credit risk in relation to these assets.

The credit quality of the deposits and other receivables has been assessed with reference to historical information about the counterparties default rates and financial position of the counterparties. The directors of the Target Company are of the opinion that the credit risk of the deposits and other receivables is low due to the sound financial position or collection history of the receivables due from them. Therefore, expected credit loss rate of the deposits and other receivables is assessed to be closed to zero and no provision was made as at 31 December 2018 and 2019 and 30 June 2020.

In respect of cash deposited at banks, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, expected credit loss rate of cash at bank is assessed to be closed to zero and no provision was made as at 31 December 2017, 2018 and 2019 and 30 June 2020.

As at the end of the reporting period, the Target Company's maximum exposure to credit risk which will cause a financial loss to the Target Company arising from the carrying amount of the respective recognised financial assets as stated in the statement of financial position due to failure to discharge an obligation by the counterparties.

The credit risk of the Target Company is concentrated on trade receivables from the top five largest customers at 31 December 2017, 2018 and 2019 and 30 June 2020 amounting to RMB77,940,000, RMB50,381,000, RMB64,338,000 and RMB58,331,000 respectively and accounted for 88%, 72%, 66% and 53% respectively of the Target Company's total trade receivables before impairment losses. These five largest customers include state-owned enterprises and private limited companies registered and operated in the PRC. In order to minimise credit risk, management continuously monitors the level of exposure by frequent review of the credit evaluation of the financial condition and credit quality of its customers to ensure that prompt actions will be taken to lower exposure. In addition, the Target Company performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on trade balances based on provision matrix. In this regard, the directors of the Target Company consider that the Target Company's credit risk is significantly reduced.

Financial instruments with credit risk assessment and expected credit loss measurement by group

Item	**Grouping basis**	**Expected credit loss calculation approach**
Other receivables – group of related dealings within the scope of combination	Related parties within the scope of combination	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and expectation of future economic conditions, and based on the default risk exposure and 12-month or lifetime expected credit loss rate.
Other receivables – group of receivables from government	Nature	
Other receivables – group of deposits receivables and others etc.		

Specific group and expected credit loss calculation approach

Item	**Grouping basis**	**Expected credit loss calculation approach**
Accounts receivable – grouping by age	Grouping by age combination	Simplified approach – provision matrix
Accounts receivable – group of related parties	Related parties within the scope of combination	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and expectation of future economic conditions, and based on the default risk exposure and lifetime expected credit loss rate.
Accounts receivable – state-owned enterprises	State-owned enterprises	
Bills receivable	Issuer of bills	The expected credit loss is calculated with reference to historical credit loss experience, in consideration of current conditions and expected of future economic conditions, and based on the default risk exposure and lifetime expected credit loss rate.

Movements in expected loss allowances for trade receivables are as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	–	–	–	–
Impairment loss made for the year/period	–	–	–	6
At 31 December/30 June	–	–	–	6

Loss allowance for the year ended 31 December 2017 was provided based on the incurred loss model in accordance with IAS 39. The directors of the Target Company conclude that the adoption of IFRS 9 did not have significant impact on the loss allowance as at 1 January 2018. Since 1 January 2018, the loss allowance is assessed on expected credit loss in accordance with IFRS 9.

(b) Liquidity risk

Liquidity risk is the risk that the Target Company will encounter difficulty in meeting obligations associated with financial liabilities. The Target Company manages liquidity risk by monitoring its liquidity position through periodic preparation of cash flows and cash balances forecasts and periodic evaluation of the ability of the Target Company to meet its financial obligations.

The following tables show the remaining contractual maturities at the end of the each reporting period of the Target Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Target Company can be required to pay.

	At 31 December 2017				
	Carrying amount	Total contractual undiscounted cash flows	Less than 1 year or on demand	Over 1 year but less than 5 years	Over 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade payables	5,534	5,534	5,534	–	–
Accruals and other payables	171,621	171,621	171,621	–	–
Obligations in relation to early retirement scheme	4,224	4,819	1,103	3,561	155
	181,379	181,974	178,258	3,561	155

At 31 December 2018

	Carrying amount	Total contractual undiscounted cash flows	Less than 1 year or on demand	Over 1 year but less than 5 years	Over 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade payables	3,805	3,805	3,805	–	–
Accruals and other payables	161,116	161,116	161,116	–	–
Obligations in relation to early retirement scheme	4,743	5,327	1,525	3,674	128
	169,664	170,248	166,446	3,674	128

At 31 December 2019

	Carrying amount	Total contractual undiscounted cash flows	Less than 1 year or on demand	Over 1 year but less than 5 years	Over 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade payables	6,599	6,599	6,599	–	–
Accruals and other payables	151,030	151,030	151,030	–	–
Obligations in relation to early retirement scheme	7,356	8,318	2,541	5,365	412
	164,985	165,947	160,170	5,365	412

At 30 June 2020

	Carrying amount	Total contractual undiscounted cash flows	Less than 1 year or on demand	Over 1 year but less than 5 years	Over 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total amounts of contractual undiscounted obligations:					
Trade payables	14,117	14,117	14,117	–	–
Accruals and other payables	121,360	121,360	121,360	–	–
Obligations in relation to early retirement scheme	7,139	8,075	2,670	4,910	495
	142,616	143,552	138,147	4,910	495

(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 Target Company may manage interest rate risk, when it is considered significant and cost-effective, by entering into appropriate swap contracts.

As at the end of each of the Relevant Periods, the Target Company does not have any significant exposure to the interest rate risk.

Sensitivity Analysis

The following table details the Target Company's sensitivity to a change of 100 basis points in the interest rate, assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year and all the variables were held constant. It includes the interest rate fluctuation of the abovementioned PBOC rate, LIBOR and LPR.

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
(Decrease) increase in profit or loss				
– if increases by 100 basis points	845	1,316	1,194	1,303
– if decreases by 100 basis points	(845)	(1,316)	(1,194)	(1,303)

(d) Currency risk

The Target Company's major businesses are in the PRC and the majority of the transactions are conducted in RMB. Most of the Target Company's assets and liabilities are denominated in RMB. As a result, the Target Company does not have material foreign currency risk during the Relevant Periods.

(e) Fair value

The Target Company considered that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximated their fair values.

25. CONTINGENT LIABILITIES

At the end of each reporting period, the Target Company did not have any contingent liabilities.

26. SUBSEQUENT EVENTS

Since the outbreak of the new coronavirus disease ("COVID-19 outbreak") in January 2020, the containment of the COVID-19 outbreak has been being under way throughout the country. The Target Company actively responds to and implements the national regulations and requirements for the prevention and control of the COVID-19. Since 30 June 2020, the COVID-19 outbreak was contained to some extent, but not completely eradicated, so that the Target Company will continue to responds to and implements the national regulations and requirements for the prevention and control of the COVID-19.

It is expected that the COVID-19 outbreak and its containment measures will have a certain temporary impact on the Target Company's production and operations in the second half of 2020. The extent of impact depends on the progress and duration of the containment of the outbreak and the implementation of prevention and control policies in various regions.

The Target Company keeps eyes on the development of the COVID-19 outbreak, evaluates its impact on the financial status and operating results of the Target Company, strengthens its efforts to contain the outbreak and promotes the resumption of work and production in an active and orderly manner.

27. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 30 June 2020 and up to the date of this report.

A. INTRODUCTION

The following is the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the "Unaudited Pro Forma Consolidated Statement of Assets and Liabilities") which has been prepared by the directors (the "Directors") of the Company in accordance with paragraph 4.29 of the Listing Rules for the purpose of illustrating the financial effect of the proposed major and connected transaction in relation to the acquisition of the target equity interests and target assets as disclosed in the Company's announcement dated 30 September 2020 (the "Acquisition") on the Group as if the Acquisition had been completed on 30 June 2020.

The Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Group is prepared based on (i) the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020 which has been extracted from the published interim report of the Company for the six months ended 30 June 2020 and (ii) the audited consolidated statements of financial position or statement of financial position of the Target Companies and Target Assets as at 30 June 2020 as extracted from the accountants' reports thereon set out in Appendix II to this circular, after making unaudited pro forma adjustments that are (i) directly attributable and (ii) factually supportable, as if the Acquisition had been completed at 30 June 2020.

The Unaudited Pro Forma Consolidated Statement of Assets and Liabilities has been prepared by the Directors of the Company based on a number of assumptions, estimates and uncertainties for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group upon completion of the Acquisition as at 30 June 2020, or at any future dates.

* All capitalised terms herein have the same meaning as those defined in the Circular, unless otherwise indicated.

B. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group as at 30 June 2020

	The Group as at 30.6.2020	Target Companies and Target Assets as at 30.6.2020							Adjustments				The Enlarged Group as at 30.6.2020
		Shaanxi Future Energy	Fine Chemical	Lunan Chemical	Chemical Equipment	Trading Company	Jisan Electricity	Information Center				Sub-total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 1				Note 2				Note 3	Note 4	Note 5		
Non-current assets													
Intangible assets	55,964,430	2,663,570	12,919	520,734	3,141	–	17,221	2,391	12,431,885	–	–	12,431,885	71,616,291
Property, plant and equipment	60,752,938	14,176,227	151,277	4,725,186	25,483	274	420,479	67,598	141,490	–	–	141,490	80,460,952
Right-of-use assets	1,789,942	–	211	448,268	702	–	48,556	–	125	–	–	125	2,287,804
Prepayments for property, plant and equipment and intangible assets	1,891,525	535,913	–	677,885	–	–	–	–	(10,725)	–	–	(10,725)	3,094,598
Goodwill	1,653,873	–	–	–	–	–	–	–	249,522	–	–	249,522	1,903,395
Investments in securities	157,218	298,530	–	8,980	–	–	–	–	102	–	–	102	464,830
Investment properties	–	17,018	–	–	–	–	–	–	9,566	–	–	9,566	26,584
Interests in associates	17,728,977	–	–	–	–	–	–	–	(3,128,554)	–	–	(3,128,554)	14,600,423
Interests in joint ventures	339,982	–	–	–	–	–	–	–	–	–	–	–	339,982
Long-term receivables – due after one year	9,420,245	–	–	870,555	–	–	–	–	657,543	–	–	657,543	10,948,343
Royalty receivable	1,019,617	–	–	–	–	–	–	–	–	–	–	–	1,019,617
Deposits made on investments	117,926	–	–	–	–	–	–	–	–	–	–	–	117,926
Deferred tax assets	1,334,380	782	–	7,069	3,371	4,823	–	–	41,188	–	–	41,188	1,391,613
	152,171,053	17,692,040	164,407	7,258,677	32,697	5,097	486,256	69,989	10,392,142	–	–	10,392,142	188,272,358

	The Group as at 30.6.2020	Target Companies and Target Assets as at 30.6.2020								Adjustments			The Enlarged Group as at 30.6.2020
		Shaanxi Future Energy	Fine Chemical	Lunan Chemical	Chemical Equipment	Trading Company	Jisan Electricity	Information Center				Sub-total	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1				*Note 2*				*Note 3*	*Note 4*	*Note 5*		
Current assets													
Bank balances and cash	17,573,349	1,849,182	6,458	502,131	10,176	386,066	11	130,274	(19,855,430)	(58,221)	–	(19,913,651)	543,996
Pledged term deposits	210,000	–	–	–	–	–	–	–	–	–	–	–	210,000
Restricted cash	6,690,976	–	–	–	–	–	–	–	–	–	–	–	6,690,976
Bills and accounts receivables	10,282,606	94,623	53,149	837,737	27,477	278,947	51,221	58,331	10	–	(152,769)	(152,759)	11,531,332
Long-term receivables – due within one year	1,418,204	–	–	–	–	–	–	–	–	–	–	–	1,418,204
Royalty receivable	93,596	–	–	–	–	–	–	–	–	–	–	–	93,596
Inventories	8,414,754	405,800	17,060	249,480	11,300	–	–	139	39,706	–	–	39,706	9,138,239
Prepayments and other receivables	22,590,844	825,679	985	963,069	5,039	34,307	1,542,876	1,118	(801,053)	–	(60,000)	(861,053)	25,102,864
Derivative financial instruments	40,761	–	–	–	–	–	–	–	–	–	–	–	40,761
	67,315,090	3,175,284	77,652	2,552,417	53,992	699,320	1,594,108	189,862	(20,616,767)	(58,221)	(212,769)	(20,887,757)	54,769,968
Assets classified as held for sale	216,816	–	–	–	–	–	–	–	–	–	–	–	216,816
	67,531,906	3,175,284	77,652	2,552,417	53,992	699,320	1,594,108	189,862	(20,616,767)	(58,221)	(212,769)	(20,887,757)	54,986,784
Current liabilities													
Bills and accounts payables	21,541,025	1,522,180	17,699	839,233	18,480	269,978	26,262	14,117	(13,186)	–	(152,769)	(165,955)	24,083,019
Other payables and accrued expenses	23,585,563	431,035	4,144	721,299	9,950	52,329	13,020	123,680	(151,525)	–	(60,000)	(211,525)	24,729,495
Contract liabilities	3,570,108	185,813	670	1,609	141	143,562	–	6,041	–	–	–	–	3,907,944
Provision for land subsidence, restoration, rehabilitation and environmental costs	26,563	251,286	–	–	–	–	–	–	–	–	–	–	277,849
Amounts due to Parent Company and its subsidiaries	1,333,320	–	–	–	–	–	–	–	–	–	–	–	1,333,320
Borrowings – due within one year	27,462,467	1,000,000	60,000	2,191,024	–	–	615,000	–	(760,414)	–	–	(760,414)	30,568,077
Provision	59,697	–	–	–	–	–	–	–	–	–	–	–	59,697
Debentures	–	–	–	–	–	–	98,320	–	–	–	–	–	98,320
Derivative financial instruments	154,601	–	–	–	–	–	–	–	–	–	–	–	154,601
Lease liabilities	146,184	–	–	–	146	–	47,094	–	–	–	–	–	193,424
Tax payable	807,397	123,850	804	6,360	–	3,882	10,509	–	125,018	–	–	125,018	1,077,820
	78,686,925	3,514,164	83,317	3,759,525	28,717	469,751	810,205	143,838	(800,107)	–	(212,769)	(1,012,876)	86,483,566
Net current (liabilities)/assets	(11,155,019)	(338,880)	(5,665)	(1,207,108)	25,275	229,569	783,903	46,024	(19,816,660)	(58,221)	–	(19,874,881)	(31,496,782)

	The Group as at 30.6.2020	Target Companies and Target Assets as at 30.6.2020											The Enlarged Group as at 30.6.2020
		Shaanxi Future Energy	Fine Chemical	Lunan Chemical	Chemical Equipment	Trading Company	Jisan Electricity	Information Center	Adjustments			Sub-total	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1				*Note 2*				*Note 3*	*Note 4*	*Note 5*		
Total assets less current liabilities	141,016,034	17,353,160	158,742	6,051,569	57,972	234,666	1,270,159	116,013	(9,424,518)	(58,221)	–	(9,482,739)	156,775,576
Non-current liabilities													
Borrowings – due after one year	46,625,735	4,998,800	–	65,106	–	–	–	–	616,906	–	–	616,906	52,306,547
Deferred tax liabilities	4,314,786	85,659	175	–	–	–	658	–	1,945,113	–	–	1,945,113	6,346,391
Provision for land subsidence, restoration, rehabilitation and environmental costs	2,209,174	–	–	–	–	–	–	–	–	–	–	–	2,209,174
Provision	996,819	–	–	–	–	–	–	–	–	–	–	–	996,819
Debentures	–	–	–	–	–	–	285,030	–	–	–	–	–	285,030
Deferred income	–	–	–	10,000	–	–	–	1,371	(1,028)	–	–	(1,028)	10,343
Contract liabilities	–	–	–	157	–	–	–	–	–	–	–	–	157
Lease liabilities	274,355	–	–	400,000	609	–	18,696	–	–	–	–	–	693,660
Long term payables – due after one year	2,445,471	14,774	–	14,616	14	5,082	385,000	4,819	86,774	–	–	86,774	2,956,550
	56,866,340	5,099,233	175	489,879	623	5,082	689,384	6,190	2,647,765	–	–	2,647,765	65,804,671
Net assets	84,149,694	12,253,927	158,567	5,561,690	57,349	229,584	580,775	109,823	(12,072,283)	(58,221)	–	(12,130,504)	90,970,905

Notes to the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities

1. The amounts are extracted from the unaudited condensed consolidated statement of assets and liabilities of the Group as set out in the published interim report of the Group for the six months ended 30 June 2020, dated 28 August 2020.

2. The amounts are extracted from the audited consolidated statement of financial position or statements of financial position of the Target Companies and Target Assets as at 30 June 2020 as set out in Appendix IIA to Appendix IIG to this Circular.

3. The Acquisitions

   The Acquisitions represent the acquisition of 49.315%, 100%, 100%, 100%, 100% and 99% equity interests in Shaanxi Future Energy, Fine Chemical, Lunan Chemical, Chemical Equipment, Trading Company and Jisan Electricity respectively, as well as relevant assets of the Information Center held by Yankuang Group at a consideration of approximately RMB18.355 billion. The Company shall pay the consideration in cash in the following manner:

   i. The Company shall pay 40% of the transaction price (interest-free) to Yankuang Group in one lump sum within five Working Days after the Transaction Agreement becomes effective;

   ii. The Company shall pay 30% of the transaction price and the corresponding interest (the "Corresponding Interest") to Yankuang Group before 30 June 2021; and

   iii. The Company shall pay 30% of the transaction price and the Corresponding Interest to Yankuang Group within twelve months after the Transaction Agreement becomes effective.

The pro forma financial information illustrates the financial outcome as if the above payments have been made on 30 June 2020.

The identifiable assets and liabilities of the Target Companies and Target Assets will be accounted for in the consolidated financial statements of the Enlarged Group at their fair value at the date of completion of the Acquisition under the acquisition method of accounting in accordance with International Financial Reporting Standards 3 (Revised) "Business Combination".

The adjustment represents (i) the recognition of fair value adjustments on assets and liabilities; and (ii) recognition of the pro forma goodwill on the Acquisition, as if the Acquisition had been completed on 30 June 2020. These adjustments are not expected to have a continuing effect on the Enlarged Group.

	Notes	RMB'000
Fair value of consideration for the Acquisition		
Cash consideration		18,355,430
Pro forma adjustment on deemed disposal of 24.6575% equity interest in Shaanxi Future Energy held by the Group prior to the Acquisition	*(a)*	4,789,221
		23,144,651
Fair value of net identifiable assets		
Fair value of net identifiable assets of Target Companies and Target Assets	*(b)*	31,481,354
Less: Dividend declared by Shaanxi Future Energy to shareholders other than the Group before the completion of the Acquisition	*(c)*	(1,500,000)
Less: Deferred tax liabilities arising from fair value adjustments		(1,894,681)
Less: Non-controlling interest		(5,191,544)
		22,895,129
Goodwill arising from the acquisition of Target Companies and Target Assets		249,522

(a) The Group held 24.6575% equity interest in Shaanxi Future Energy as at 30 June 2020 and at the Latest Practicable Date. For the purpose of the Unaudited Pro Forma Financial Information, the fair value of 24.6575% equity interest in Shaanxi Future Energy previously held by the Group is based on the appraised value of Shaanxi Future Energy as extracted from the Asset Valuation Report prepared by Pan-China Assets Appraisal Co., Ltd. ("Pan-China"), multiplied by the percentage of equity interest held by the Group and adjusted for the discount for lack of control.

(b) For the purpose of the Unaudited Pro Forma Financial Information, the fair value of the identifiable net assets of the Target Companies and Target Assets are based on the Company's directors' estimation with reference to the valuation carried out by Pan-China, an independent qualified professional valuer not connected with the Group, based on the assumption that the Acquisition was completed on 30 June 2020.

(c) Pursuant to the announcement of the Company dated 30 September 2020, in view of the general meeting of Shaanxi Future Energy held on 6 August 2020, it was agreed that the profit in a total of RMB2 billion would be distributed to all shareholders from the distributable profit as of 31 December 2019 based on the registered capital of Shaanxi Future Energy, of which RMB500 million would be received by the Group. The effect of the distribution had been considered by the Company in determining the fair value of net identifiable assets of Shaanxi Future Energy.

(d) In view of the transaction agreement entered into between Yankuang Group and the Company, Yankuang Group made commitment to the audited aggregate net profit attributable to shareholders of the parent company after deducting non-recurring profit and loss for the target equity interests, calculated in accordance with the China Accounting Standards for Business Enterprises, shall not be less than RMB4.314 billion during the years 2020 to 2022 (the "Profit Guarantee"). The Directors considers that the fair value of the contingent consideration receivable arising from Profit Guarantee was immaterial to the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities based on the valuation performed by Pan-China Assets Appraisal Co., Ltd., an independent valuer of the Company.

The pro forma fair values of the identifiable net assets and goodwill, if any, in relation to the Acquisition are subject to change upon the completion of purchase price allocation at the completion date, which may be substantially different from their estimated amounts used in the preparation of this unaudited pro forma financial information.

4. The adjustment is made to reflect the estimated transaction expenses, such as legal and professional fees of approximately RMB58,221,000 incurred directly attributable to the Acquisition and settled by cash.

5. The adjustment represents the elimination of intra-group balances as of 30 June 2020.

6. Apart from the above, no adjustments have been made to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 30 June 2020.

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

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

Crowe

國富浩華（香港）會計師事務所有限公司
Crowe (HK) CPA Limited
香港 銅鑼灣 禮頓道77號 禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

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

To the Directors of Yanzhou Coal Mining Company Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Yanzhou Coal Mining Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 30 June 2020 and related notes as set out on pages III-1 to III-7 of the circular issued the Company dated 16 November 2020 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on page III-1 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the major and connected transaction in relation to the acquisition of the target equity interests and target assets as disclosed in the Company's announcement dated 30 September 2020 (the "Acquisition") on the Group's financial position as at 30 June 2020 as if the transaction had taken place at 30 June 2020. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's interim financial statements for the six months ended 30 June 2020, on which the interim report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

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

Our Independence and Quality Control

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

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

Reporting Accountants' Responsibilities

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

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

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

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2020 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the

Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

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

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

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

Opinion

In our opinion:

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

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

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

Crowe (HK) CPA Limited
Certified Public Accountants

Chung Wai Chuen Alfred
Practising certificate number: P05444

Hong Kong
16 November 2020

A. COMPETENT PERSON'S REPORT
JINJITAN COAL MINE
SHAANXI FUTURE ENERGY CHEMICAL COMPANY LIMITED

Shaanxi Province, People's Republic of China

Prepared For
YANZHOU COAL MINING COMPANY LIMITED

By
John T. Boyd Company
Mining and Geological Consultants Pittsburgh,
Pennsylvania, USA

Report No. 3868.012
SEPTEMBER 2020

John T. Boyd Company

Mining and Geological Consultants

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30 September 2020
File: 3868.012

Yanzhou Coal Mining Company Limited
298 Fushan South Road
Zoucheng City
Shandong Province 273500

Attention: Mr. Jin Qingbin
Board Secretary

Subject: Competent Person's Report
Jinjitan Coal Mine
Shaanxi Future Energy Chemical Company Limited
Shaanxi Province,
People's Republic of China

Dear Ladies and Gentlemen:

John T. Boyd Company (BOYD) was engaged in August 2020 by Yanzhou Coal Mining Company Limited (Yanzhou) to prepare a Competent Person's Report (CPR) of the Jinjitan Coal Mine (Jinjitan), which is currently held by Shaanxi Future Energy Chemical Company Limited (Future Energy). The subject mining and processing operations are located in Yulin, Shaanxi Province, People's Republic of China (PRC). We understand Yanzhou intends to acquire the 49.315% interest of Future Energy held by Yankuang Group Company Limited (Yankuang), and this CPR will be included in the circular to be filed on The Stock Exchange of Hong Kong (HKEx) upon this acquisition.

During August 2020, a team of BOYD's technical specialists completed a visit to the Jinjitan operation site. Our report relies on source documentation provided by Yanzhou, information collected during site visit observations and discussions with Jinjitan's technical and management personnel, and BOYD's extensive Chinese and international experience. All estimates of resources and reserves are prepared in accordance with the 2012 Australasian Code for Reporting of Exploration Results, Mineral Resources, and Ore Reserves (JORC Code 2012).

Respectfully submitted,

JOHN T. BOYD COMPANY
By:

John T. Boyd II
President and CEO

TABLE OF CONTENTS

GLOSSARY AND DEFINITIONS

ad	Air dried, as in coal quality reporting.
AFC	Armored face conveyor.
Block	A defined area of coal bordered by gate roads, usually rectangular in configuration, in which the LW face operates, also known as a panel.
BOYD	John T. Boyd Company.
cad	Calculated, air dried basis, coal quality reporting for fixed carbon.
CAPEX	Capital expenditure.
Cash (Production) Cost	All cash costs directly associated with coal production, including, but not limited to, raw materials, salary and wages, labor benefits, power, repairs, coal processing, transport of coal from mine to loading point, general administrative expense, and selling expenses.
CDS	Credit Default Swap.
CM	Continuous miner.
Coal Reserve	The economically mineable part of a Measured or Indicated Coal Resource. It includes diluting materials and allowances for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out and include consideration of the modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social, and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Coal Reserves are subdivided in order of increasing confidence into Probable Coal Reserves and Proved Coal Reserves.

Coal Resource	A concentration or occurrence of coal of intrinsic economic interest in or on the Earth's crust in such form and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics, and continuity of a Coal Resource are known, estimated, or interpreted from specific geological evidence and knowledge. Coal Resources are subdivided, in order of increasing geological confidence, into Inferred, Indicated, and Measured categories.
Coal Seam	Portion of the strata that contains solid fossil fuel.
Commercial Output	Saleable product from a particular mine, which may include varying proportions of raw and clean coals.
CP	Competent Person.
CPR	Competent Person' Report.
CPP	Coal Preparation Plant, facility used to process raw coal using mechanical washing or chemical methods.
CV	Calorific value, heat content of the coal seam.
d	Dry basis, as in coal quality reporting.
daf	Dry, ash free basis, as in coal quality reporting.
Dejian	Jiaxing Dejian Investment Partnership
DCF	Discounted Cash Flow.
Dip	Angle that stratum makes with the horizontal.
EHSM	Environmental, Health and Safety Guidelines for Mining
EIT	Earned Income Tax.
ERP	Equity Rise Premium.
Face (working face)	Mine location where active coal extraction is taking place.

Feasibility Study	In international practice, this study assesses in detail the technical soundness and economic viability of an undeveloped mining project and serves as the basis for the investment decision and as a bankable document for project financing. The study is based on a detailed mine plan and constitutes an audit of all geological, engineering, environmental, legal, and economic information accumulated on the project. Generally, a separate environmental impact study is required.
Fenwei	Fenwei Digital Information Technology Co., Ltd
FSR	Feasibility Study Report.
FM	Fully Mechanized (LW face), mining method in which the working face is equipped with hydraulic shields, AFC, and shearer.
FM LW	Fully-Mechanized Longwall.
FOB	Free-on-board, a mercantile term meaning that the seller is responsible for delivering goods to a specified location after loading to truck or rail, commonly used in coal price reporting.
Future Energy	Shaanxi Future Energy Chemical Company Limited
GAAP	Generally accepted accounting principles.
Gate	Room-and-pillar development around a longwall face supporting its operation.
Geologic Report	Compiled by a Chinese exploration team or company after exploration activity is completed in a designated area. The report generally details geologic data, including location and geography, exploration data, regional geology, mining characteristics, coal seams, hydrology, geotechnical aspects, environmental aspects, coal resource/reserve tonnages, and resource assessment. Supporting maps, cross sections, and figures may also be provided.
Gob	Spoil material allowed to subside behind the longwall retreat.
Gr.a.d	Gross value, air dried, as in coal quality reporting.
Gr.d	Gross value, dry basis, as in coal quality reporting.

HKEx	The Stock Exchange of Hong Kong.
Hr	Hour.
Indicated Coal Resource	That part of a Coal Resource for which tonnage, densities, shape, physical characteristics, quality, and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling, and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or quality continuity but are spaced closely enough for continuity to be assumed.
Inferred Coal Resource	That part of a Coal Resource for which tonnage, quality, and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed, but not verified, geological and/or quality continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes which may be limited or of uncertain quality and reliability.
In-Place Resource	Coal resources in the ground, in situ or un-mined condition.
ITR	Independent Technical Review.
JORC	Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia.
JORC Code	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2012 Edition).
Kcal/kg	Kilocalorie per kilogram, measure of coal heat content.
km	Kilometer.
kt	Kilotonne.
kW	Kilowatt.
kV	Kilovolt.

LOM	Life-of-mine.
LW	Longwall, underground mining technique, used interchangeably with equipment used in this technique.
m	Meter.
m^2	Square meter.
m^3	Cubic meter.
m^3/min	Cubic meter per minute.
m/s	Meters per second.
Marketable Reserves	Saleable coal product from Recoverable Reserves after accounting for mining and processing losses, where applicable.
Measured Coal Resource	That part of a Coal Resource for which tonnage, densities, shape, physical characteristics, quality, and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling, and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes. The locations are spaced sufficiently close to confirm geological and quality continuity.
Methane	A colorless, odorless, explosive gas (CH_4) typically associated with coal seams.
Mine Plan	The current documentation of the state of development and exploitation of a deposit during its economic life, including current mining plans. It is generally made by the operator of the mine. The study takes into consideration the quantity and quality of the minerals extracted during the reporting time, changes in economic viability categories due to changes in prices and costs, development of relevant technology, newly imposed environmental or other regulations, and data on exploration conducted concurrently with mining.
Mining Rights	The mining rights granted by the relevant authorities to conduct mining activities within the People's Republic of China, specifying the mining method, the validity period, and the annual output level. Seams and elevations may also be specified.

mm	Millimeter.
Mt	Million tonnes.
Mtpa	Million tonnes per annum.
NDRC	National Development and Reform Commission.
NEA	National Energy Administration.
Non-Cash Cost	Additional mine costs including depreciation, amortization and special accounting treatments unique to the coal industry in China.
Normal Fault	A fault where the hanging wall has dropped along the fault plane (fault angle between 45 and 90 degrees) relative to the footwall.
NPV	Net present value.
OSD	Out-of-seam dilution, i.e., roof and floor rock recovered with the coal seam during the normal mining process.
Outcrop	The part of the coal formation exposed to the surface.
Out-of-Seam	Non-coal material above and below the coal seam recovered during mining.
Overburden	Waste rock material overlying a coal seam.
P	Phosphorous, trace element that may adversely affect boiler efficiency.
Panel	An area of coal designated for extraction using longwall mining within which a series of blocks (longwall faces) are developed.
Partings	Rock material within mineable coal seams usually extracted with the coal.

PDR	Preliminary Design Report, official documented report of the final design study conducted by a recognized Chinese mine design institute. The Preliminary Design study is undertaken after an FSR has been issued for the subject project. The PDR is a more detailed, comprehensive version of the FSR and generally expands the FSR with additional mine planning analysis, including detailed mine opening and construction plans from initial work to full production status, and serves as a guide for mine construction and development.
Pillar	Column of coal left behind for support.
PRC	The People's Republic of China.
Prefeasibility Study	The study that provides a preliminary assessment of the economic viability of a deposit and forms the basis for justifying further investigations (detailed exploration and feasibility). It usually follows a successful exploration campaign and summarizes all geological, engineering, environmental, legal, and economic information accumulated to date.
Probable Coal Reserve	The economically mineable part of an Indicated, and in some circumstances, Measured Coal Resource. It includes diluting materials and allowances for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been conducted and include consideration of realistic mining, metallurgical, economic, marketing, legal, environmental, social, and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.
Productivity	Measurements of worker efficiency usually expressed in terms of tonnes per unit of time, for example, tonnes per employee-year.
Proved Coal Reserve	The economically mineable part of a Measured Coal Resource. It includes diluting materials and allowances for losses that may occur when the material is mined. Appropriate assessments that may include feasibility studies, have been conducted and include consideration of realistic mining, metallurgical, economic, marketing, legal, environmental, social, and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

Qgr.d	Gross calorific value or higher heating value on a dry basis.
Qnet.ar	Net calorific value or lower heating value on an as-received basis.
Qnet.d	Net calorific value or lower heating value on a dry basis.
Raw Coal	Coal on an as-mined basis, which may be sold directly or processed if necessary.
Recoverable Coal	Portion of coal reserve available for mining exclusive of coal losses due to mining.
Recoverable Reserves	Proved and Probable reserves prior to adjustment for preparation plant yield. Refers to that portion of the coal seam that can be recovered with the mining techniques specified in the feasibility or design study. The portion of in-place seam tonnage recovered during the mining but before OSD and coal processing consideration.
Refuse	Low heat content material remaining after commercial coal has been produced from raw coal using crushing, screening, and processing methods. Heat content typically is sufficient for utilization in specially designed boilers for power generation.
RMB	Renminbi, the Chinese currency.
ROM	Run-of-mine, the as-mined material as it leaves the mine.
SC FM LW	FM LWs equipment with sublevel caving capability.
Saleable Product	May include varying proportions of raw and clean coal.
Shearer	Equipment used to extract coal from a fully mechanized longwall face.
SPACMS	Shaanxi Provincial Administration of Coal Mine Safety
Strike	The course or bearing of an inclined coal seam or stratum on a level surface; the direction of a horizontal line perpendicular to the dip.
Tonne	Metric ton equal to 1,000 kilograms.

tph	Tonnes-per-hour.
UG	Underground.
VAT	Value-Added Tax
VM	Volatile Matter, index for coal quality.
WACC	Weighted Average Cost of Capital.
Xinbaiyi	Shaanxi Xinbaiyi Environmental Protection Technology Co., Ltd.
Yanchang	Shaanxi Yanchang Petroleum (Group) Co., LTD.
Yankuang	Yankuang Group Company Limited.
Yanzhou	Yanzhou Coal Mining Company Limited.
Yuanzhihan	Beijing Yuanzhihan Coal Engineering Design Co., Ltd.
Yield	Saleable portion of the raw coal processed in a coal preparation plant relative to the total tonnes processed.

1.0 INTRODUCTION

1.1 Introduction

BOYD was engaged by Yanzhou in August 2020 to prepare a Competent Person's Report (CPR) in accordance with JORC Code 2012 for Jinjitan Mine (Jinjitan). Yanzhou is a fully affiliated company of Yankuang, and one of the largest coal enterprises in PRC in terms of revenue and coal output in 2019. Jinjitan Mine is 100% controlled by Shaanxi Future Energy Chemical Company Limited (Future Energy), which is jointly held by Yankuang (49.3150%), Yanzhou (24.6575%), Shaanxi Yanchang Petroleum (Group) Co., LTD. (Yanchang, 19.4575%), Jiaxing Dejian Investment Partnership (Dejian, 5.2000%) and Yulin Yuyang District State-owned Assets Operation Co. LTD (Yuyang, 1.3700%). During the preparation of this report, Dejian sold all the 5.2% interest to Shaanxi Yanchang Petroleum mining Co. Ltd. in 29 September 2020.

This report provides our coal resource/reserve estimates for Jinjitan. The mine is an underground fully mechanized longwall (FM LW) operation with an authorized output level of 15 Mtpa. The estimated resources and reserves shown in this CPR represent full (100%) interest of the mine. The effective date of our resource/reserve estimates is 30 June 2020.

The mine and an associated mine site coal preparation plant (CPP) are located approximately 30 km northeast of Yulin City, in Shaanxi Province. This area is one of the largest coalfields in the world; other large mining companies with coal mining operations in this coalfield include China Shenhua Energy Company Limited and Shaanxi Coal and Chemical Industry Group Co., Ltd. Transportation is well developed and includes railway and a network of expressway and provincial highways. Coal mining (including downstream power generation and chemical producing facilities) is the primary industry supporting the local economy.

Coal produced from this area is used in the domestic steam and chemical markets and is generally low in sulfur content with marketable calorific values. Upon the formation of Future Energy in 2011, Jinjitan was designated to supply coal to Future Energy as feedstock for its coal liquefaction facilities. Construction of the mine with an initial 8.0 Mtpa capacity, commenced in February 2012, and the initial test run was conducted in June 2014. The full mine construction project was officially completed and accepted in May 2018, followed by the capacity reassessment and authorization to increase annual mining capacity to 15.0 Mtpa in July 2018. In 2019, the mine produced 15.16 Mt product coal. Approximately two million tonnes of product coal were used to supply Future Energy and the rest was sold to domestic market. In terms of output level in 2019, Jinjitan ranks No. 1 among Yankuang's domestic mines and No. 12 in terms of China's underground coal mines.

Geologic condition in the subject mining rights area is judged to be simple. Coal bearing strata are typically flat lying and the overlying surface is covered by 30m to 50m of unconsolidated and poorly consolidated alluvial and loess deposits. Mining depth is shallow in the topmost 2-2U Seam (200 m to 320 m) and will be deeper (250 m to 490 m) when the mining moves to the lower seams. The top seam, 2-2U Seam, averages 7.7 m thick, with seam splitting in local areas. The seam is favorable for mining by high-production FM LW faces and construction of a high capacity mine.

All mining to date and identified coal reserves are in the 2-2U Seam. The mine plan area for the 2-2U Seam is divided into two districts (I to the South and II to the North), and each district is subdivided into east and west wings. All mining to date is in District I, which will be fully mined before the transaction of mining to District II.

Historic product coal production of Jinjitan Mine is summarized in the following table:

Historical Product Coal Production (Mt)

2017	**2018**	**2019**	**2020 1H**
14.05	12.86	15.16	8.76

As of 30 June 2020, Jinjitan has completed five LW faces in the 2-2U Seam. Currently the mine has three sets of FM LW equipment (one high-profile, one high-profile with sublevel caving capability, and one for slicing LW). Two LW faces are maintained in operation, one each in the west and east wings. The equipment is of higher capability. It is fairly easy to achieve the 15.0 Mtpa capacity by producing coal from two faces. At the current output capacity, it will take approximately another 20 years to deplete remaining coal reserves in the 2-2U Seam.

During the course of our work, representatives of the BOYD project team, Mr. Jisheng (Jason) Han, Managing Director – China, Mr. Rongjie (Jeff) Li, Deputy General Manager – China, and Associate Environment Expert, Mr. Suiquan Wang, completed a visit to the Jinjitan Mine and CPP in August 2020. During the visit, they toured the mine and associated surface facilities, collected available source data, and discussed historic performance and future plans with mine staff and management personnel.

1.2 Mining Rights

Future Energy controls 100% of the mining right for the Jinjitan Mine. The following table shows the mining right information as provided by Future Energy.

	Authorized				Current Mining Right Term		Capacity Verification	
Mining Right Certificate Number	Output Capacity (Mtpa)	Mining Elevation (m)	Mining Method	Area (km^2)	Grant Date	Expiration	Verified Date (month/ yr)	Verified Capacity (Mtpa)
C6100002015061110138703	8.0	1,013 – 760*	UG**	91.6206	06/10/2019	06/10/2023	07/2018	15.0

* Note shown on the Certificate: mining elevation range for the first 30 years: 1,013 – 960 m, for coal seams 2-2 and 2-2U.

** UG=underground

BOYD is not qualified, nor have we completed any legal review of the status of the subject mining rights. As part of our technical study, we reviewed the documentation for the certificates related to Jinjitan Mine's current mining and future operations.

On the basis of documentation provided to us, Future Energy has a valid mining right permit for the present operating mine for the specified periods. By PRC law, the maximum holding period (term) for mining right permits is 30 years. The mining rights holder has the legal authority to renew an existing mining right permit that is expiring. We have assumed the existing mining rights certificate will be extended for the remaining operating life of the mine assuming proper filing procedures will be followed and the required amount of resource/reserve fees are duly paid.

1.3 Qualifications

BOYD has prepared numerous CPRs for a number of well-known Chinese mining companies, including: China Shenhua Energy Company Limited, Inner Mongolia Yitai Coal Company Limited, etc. These reports cover a large number of underground and openpit coal mines in PRC.

Our initial work for China Shenhua was for the company's IPO on the Hong Kong Exchange in 2005, and since then BOYD has completed a series of reports which updated our initial report, and for new acquisitions.

BOYD was retained by Inner Mongolia Yitai Coal Company Limited as the technical advisor for the company's IPO on the Hong Kong Exchange in 2012. BOYD prepared a CPR for its coal mines and a Valuation Report for the five coal mines it acquired.

BOYD personnel are familiar with geologic conditions and mining practices in the various coalfields and regions in PRC through many years of consulting services in the country, including the Ordos, Shendong and Northern Shaanxi areas, where Jinjitan Mine is located.

While the primary source of information (written and verbal) relied upon by BOYD in preparing this CPR was provided by, or at the direction of, Yanzhou, the basis of our professional opinion is founded on the technical expertise and extensive Chinese and international experience of the contributing BOYD team members. To ensure that our interpretation of the Yanzhou data was reasonable, follow-up discussions were conducted with company representatives after our initial analysis to confirm our findings and, where necessary, to collect additional information.

The findings and conclusions presented in this report are supported by the text, tables, and figures contained herein.

1.4 Project Team

The BOYD project team has extensive professional experience in preparing CPRs for coal mining operations and preparation plants.

Included in this team are:

Mr. Ronald L. Lewis – Managing Director and Chief Operating Officer, BS (Civil Engineering)

Mr. Lewis has 49 years of experience in assessment and evaluation of coal mining companies, with specialized expertise in the areas of coal/mineral reserve estimation, open pit and underground mine analysis, and economic assessment of mining operations. He is a Registered Professional Mining Engineer within the United States and a recognized expert in mining property valuation. Mr. Lewis is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is qualified as a Competent Person as defined in the JORC Code and HKEx Chapter 18 requirements. Mr. Lewis has independent status as required by Rule 18.22.

Mr. Jisheng (Jason) Han – Managing Director – China, MS (Mining Engineering)

Mr. Han has 24 years of mining engineering experience focused on ground control, geomechanics, general mining engineering, and assessment of mining operations. Experienced in roof bolting and other support design, underground structure stability analysis, remedy reinforcement design, ground control problems associated with multi-seam coal mining and ground subsidence study, feasibility study of mine projects, evaluation of underground mine plans, mining operations, operating costs, mine staffing, capital requirements, mining technique upgrade, and productivity. Expertise has been developed in mine feasibility, economic analysis of mining operations and operational assessments. Additional mine engineering expertise in ventilation analysis, evaluation of coal quality, geological impacts on mine operations and valuation of mining operations. Mr. Han is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is qualified as a Competent Person as defined in the JORC Code and HKEx Chapter 18 requirements. Mr. Han has independent status as required by Rule 18.22.

Mr. Paul D. Anderson – Associate Senior Consultant, BS (Geology)

Mr. Anderson is a Certified Professional Geologist with 45 years of professional experience in exploration, evaluation, and development of coal and mineral deposits. Mr. Anderson is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and a member of the American Institute of Professional Geologists, and is qualified as a Competent Person as defined in the JORC Code and HKEx Chapter 18 requirements. Mr. Anderson has independent status as required by Rule 18.22.

Mr. Rongjie (Jeff) Li – Deputy General Manager – China, MS (Geochemistry), BE (Geology)

Mr. Li has 14 years of consulting geological based experience in coal and sedimentary deposits on design and management of exploration programs, and interpretation of exploration data, evaluation of depositional features impacting mineability and utilization, and preparation of resource/reserve estimate. Mr. Li is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is qualified as a Competent Person as defined in the in the JORC Code and HKEx Chapter 18 requirements. Mr. Li has independent status as required by Rule 18.22.

1.5 Report Disclaimer

In preparing this report, we have relied on reported exploratory drilling results and other data, as provided by Future Energy. We have exercised due care in reviewing the information provided and believe data provided are both reasonable and representative. We have no reason to believe that the material provided is incorrect or inconsistent with our knowledge of the areas (regions) being studied. Our report has been completed in accordance with generally accepted standards and practices employed in the international mining industry. Although we have compared key information provided by Yanzhou with expected values, the results and conclusions of this report are reliant on the accuracy of the information provided. We are not responsible for any material errors or omissions in the information provided.

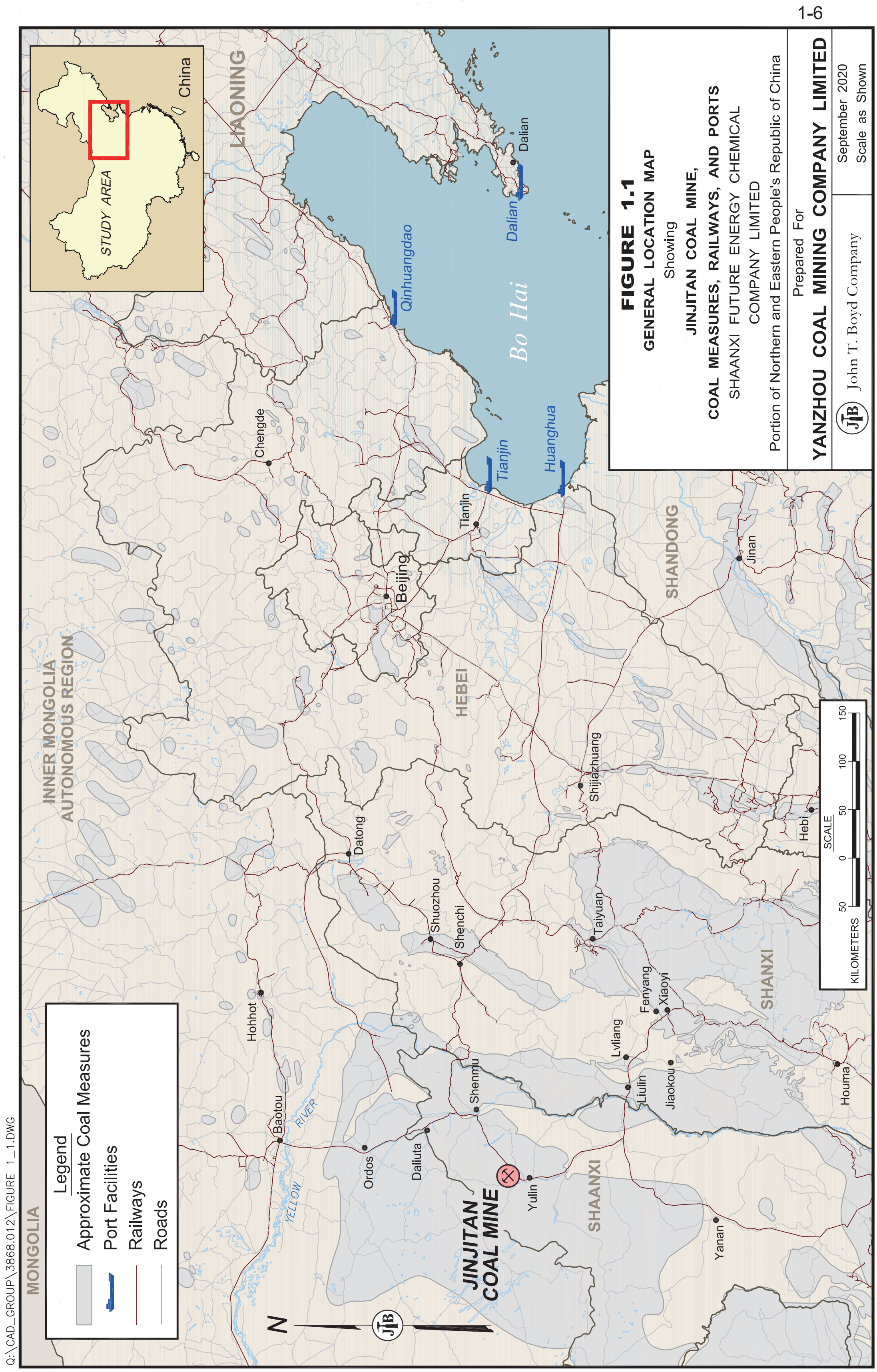
Our expertise is in technical and financial mining issues and BOYD is not qualified to represent any findings of a legal or accounting nature. BOYD's independent analyses of the available data have been developed in a manner consistent with JORC Code coal resource reporting standards. We believe our conclusions are reasonable assessments of the information provided.

Following this page are:

Figures: 1.1: General Location Map

Respectfully submitted,
JOHN T. BOYD COMPANY By:

Rongjie (Jeff) Li, CP Deputy General Manager – China	Paul D. Anderson, CP Associate Senior Consultant
Jisheng (Jason) Han, CP Managing Director – China	Ronald L. Lewis, CP Managing Director and COO


Q:\CAD_GROUP\3868.012\FIGURE 1_1.DWG
1-6
FIGURE 1.1
GENERAL LOCATION MAP
Showing
JINJITAN COAL MINE,
COAL MEASURES, RAILWAYS, AND PORTS
SHAANXI FUTURE ENERGY CHEMICAL
COMPANY LIMITED
Portion of Northern and Eastern People's Republic of China
Prepared For
YANZHOU COAL MINING COMPANY LIMITED
John T. Boyd Company
September 2020
Scale as Shown
Legend
Approximate Coal Measures
Port Facilities
Railways
Roads
STUDY AREA
China
SCALE
KILOMETERS
50
0
50
100
150
MONGOLIA
INNER MONGOLIA
AUTONOMOUS REGION
LIAONING
HEBEI
SHANDONG
SHANXI
SHAANXI
Bo Hai
Qinhuangdao
Dalian
Tianjin
Huanghua
Chengde
Beijing
Jinan
Shijiazhuang
Hebi
Datong
Shuozhou
Shenchi
Taiyuan
Fenyang
Xiaoyi
Lvliang
Liulin
Jiaokou
Houma
Hohhot
Baotou
Ordos
Dalluta
Shenmu
Yulin
Yanan
JINJITAN
COAL MINE
YELLOW
RIVER
N

2.0 EXECUTIVE SUMMARY

2.1 Location

This report provides our coal resource/reserve estimates for the Jinjitan Mine mining rights area, which is currently 100% controlled by Future Energy. Future Energy is jointly held by Yankuang (49.3150%), Yanzhou (24.6575%), Shaanxi Yanchang Petroleum (Group) Co., LTD. (Yanchang, 19.4575%), Jiaxing Dejian Investment Partnership (Dejian, 5.2000%) and Yulin Yuyang District State-owned Assets Operation Co. LTD (Yuyang, 1.3700%). During the preparation of this report, Dejian sold all the 5.2% interest to Shaanxi Yanchang Petroleum mining Co. Ltd. in 29 September 2020. The effective date of our resource/reserve estimates is 30 June 2020.

Jinjitan Mine is located in the Yushen Coalfield, approximately 30 km northeast of Yulin City, in Shaanxi Province. The Yushen Coalfield is one of the largest coalfields in the world. Other large mining companies with coal mining operations here include China Shenhua Energy Company Limited and Shaanxi Coal and Chemical Industry Group Co., Ltd. Transportation infrastructure is well developed and includes railway and a network of expressway and provincial highways. Coal mining (including downstream power generation and chemical producing) is the primary industry supporting the local economy.

2.2 Mining Right

The following table summarizes the Jinjitan mining right information, as provided by Future Energy:

	Authorized				Current Mining Right Term		Capacity Verification	
Mining Right Certificate Number	Output Capacity (Mtpa)	Mining Elevation (m)	Mining Method	Area (km^2)	Grant Date	Expiration	Verified Date (month/yr)	Verified Capacity (Mtpa)
C6100002015061110138703	8.0	1,013 – 760*	UG**	91.6206	06/10/2019	06/10/2023	07/2018	15.0

* Note shown on the Certificate: mining elevation range for the first 30 years: 1,013 – 960 m, for coal seams 2-2 and 2-2U.

** UG=underground

We assume the current term of the Jinjitan mining rights will be extended through depletion of remaining reserves during the normal course of business.

2.3 Geology

On a global basis, the geologic setting of the coal bearing strata underlying the Jinjitan mining rights area is judged to be simple. The strata are flat lying with little faulting. Though splitting of the thick 2-2 Seam occurs, the depositional setting is still simple, and the correlation is straightforward. The mine produces coal by underground longwall (LW) methods.

Coal seams underlying the Jinjitan mining rights area are located in the Yan'an Formation of the Jurassic Age. These coals are high volatile bituminous in rank and thermal in quality. The Jinjitan Mine is located in the western part of the Yushen Coalfield and the identified coal resources include five coal seams: 2-2U, 3-1, 4-3, 5-2 and 5-3U, as follows:

	Thickness (m)						
Seam	**Coal**	**Parting**	**Seam**	**Seam Interval (m)**	**Depth to Seam Range (m)**	**Seam Dip (deg.)**	**Seam Occurrence**
2-2U*	7.69	0.05	7.74		200 – 320	1 – NW	Uniform
				30 – 50			
3-1	1.99	0.02	2.01		250 – 370	1 – NW	Uniform
				60 – 80			
4-3	1.35	0.00	1.35		330 – 430	1 – NW	Erratic*
				20 – 40			
5-2	1.61	0.14	1.75		350 – 470	1 – NW	Uniform
				15 – 20			
5-3U	1.44	0.00	1.44		370 – 490	1 – NW	Erratic*

Note:

* 2-2U seam includes the area where 2-2U and 2-2L merged in east part of the property.

* The erratic seam occurrence of the thinner Seams 4-3 and 5-3U is not because of their geological setting, but is the result of the application of 1.3 m minimum coal thickness criterion.

2.4 Source Data

All source data, including exploration reports and preliminary design reports (PDR) for the Jinjitan Mine were provided by or at the direction of Future Energy. All data were developed in accordance with Chinese national standards. Available exploration data includes 72 drill holes within the 91.6 km^2 Jinjitan mining rights area.

The mining rights area is moderately defined by exploration drilling with 40%, 22% and 38% of the estimated resources classified as Measured, Indicated and Inferred, respectively.

All available data from the exploration programs were provided by or at the direction of Future Energy. The data included available: drill logs, coal quality testing results, and the complete exploration report with resource maps, figures, and cross sections. BOYD used the data as the basis to prepare independent seam mapping and estimates of coal resources/reserves in accordance with JORC Code 2012 standards.

2.5 Resource Classification

Based on our detailed review of the geologic setting of each coal seam, BOYD assigned the following drill hole spacings criteria for simple seam conditions:

Drill Hole Spacing (m) by Classification

Measured	Indicated	Inferred
750	1,500	<3,000

2.6 Resource/Reserve Estimates

Estimates of coal resources are reported on an in situ seam basis (coal plus partings). Reserve estimates are presented on a run-of-mine (ROM) or recoverable basis, and on a marketable (product) basis. Recoverable Reserves represent the seam tonnage recovered by the mine plan, including out-of-seam dilution (OSD) (roof and floor rock mined with the coal seam) and increases in moisture content incurred during the normal mining process. Marketable Reserves represent the tonnage that is produced as salable product and includes allowances for processing losses incurred and increased moisture during coal washing.

Our resource and reserve tonnage estimates for the Jinjitan Mine as of 30 June 2020, are as follows:

	Average Thickness (m)			In-Place Resource (Mt)				Recoverable Reserves (Mt)			Processing	Marketable Reserves (Mt)		
Seam	Coal	Parting	Seam	Measured	Indicated	Inferred	Total	Proved	Probable	Total	Yield %	Proved	Probable	Total
2-2U	7.69	0.05	7.74	271.34	126.82	211.89	610.05	243.62	89.76	333.37	92.9	226.32	83.38	309.71
3-1	1.99	0.02	2.01	61.64	54.57	66.77	182.98	–	–	–		–	–	–
4-3	1.35	0.00	1.35	11.51	8.01	12.10	31.61	–	–	–		–	–	–
5-2	1.61	0.14	1.75	51.53	15.36	65.53	132.41	–	–	–		–	–	–
5-3U	1.44	–	1.44	–	7.93	17.35	25.28	–	–	–		–	–	–
Total				396.02	212.68	373.63	982.33	243.62	89.76	333.37	92.9	226.32	83.38	309.71

Total Marketable Reserves are 309.71 Mt, all in the thicker 2-2U Seam. Approximately 73% of the marketable reserves are in the Proved classification, and the balance classified Probable.

BOYD has conducted an independent economic analysis for the Jinjitan Mine and concluded that there is reasonable expectation that the estimated reserves are economically mineable.

2.7 Coal Quality

Coal quality in the Yushen coalfield is well known since the Yushen Coalfield is a major coal deposit in PRC. The coal is high volatile bituminous in rank. Coal quality is generally uniform, with a low sulfur content.

The following table shows the in situ coal quality for the seams on a raw and clean (float 1.40 specific gravity) basis:

		In Situ Raw Coal %					In Situ Clean Coal (1.40 S.G.) %				
Seam	Value	Moist. (ad)	Ash (d)	Sulfur (d)	Vol (daf)	CV (net, ad) kcal/kg	Moist. (ad)	Ash (d)	Sulfur (d)	Vol (daf)	CV (net, ad) kcal/kg
2-2U	Average	7.00	8.1	0.6	37.7	6,600	5.2	2.9	0.3	36.8	7,120
	Range	2.90 – 8.54	5.06 – 15.06	0.28 – 1.38	34.76 – 41.20	6,150 – 6,780	2.12 – 7.13	1.73 – 5.17	0.17 – 0.59	33.81 – 39.09	6,690 – 7,300
3-1	Average	6.90	7.8	0.6	37.5	6,600	5.4	3.2	0.3	36.8	7,140
	Range	2.65 – 9.49	4.63 – 16.95	0.28 – 1.09	32.59 – 40.47	5,920 – 6,950	3.42 – 7.68	2.06 – 5.23	0.19 – 0.49	33.11 – 40.05	6,870 – 7,420
4-3	Average	6.98	8.8	0.5	37.8	6,500	5.0	3.2	0.3	36.6	7,110
	Range	4.25 – 8.61	3.23 – 22.57	0.25 – 1.78	31.82 – 42.38	5,510 – 6,820	1.85 – 7.65	2.07 – 4.62	0.15 – 0.85	31.91 – 40.34	6,800 – 7,320
5-2	Average	6.97	8.0	0.5	36.7	6,610	5.1	3.5	0.3	35.9	7,100
	Range	3.32 – 9.13	4.90 – 19.09	0.17 – 1.27	31.11 – 40.65	5,920 – 6,910	1.97 – 7.26	2.01 – 5.25	0.23 – 0.75	31.56 – 38.91	6,810 – 7,330
5-3U	Average	6.95	7.8	0.5	36.8	6,510	5.3	3.3	0.3	36.0	7,110
	Range	1.74 – 9.48	3.53 – 13.00	0.28 – 1.39	32.28 – 40.97	6,100 – 6,870	2.21 – 7.62	1.58 – 5.39	0.21 – 0.75	32.24 – 39.74	6,900 – 7,250

The ROM coals are expected to have higher contents of moisture and ash, and lower calorific value due to the moisture gain and increased ash content resulting from OSD added during mining. The predicted ROM coal quality for the active 2-2U Seam is shown as follows:

	Typical ROM Coal Quality %				
Seam	**Moist (ad)**	**Ash (d)**	**Vol (daf)**	**Sulfur (d)**	**CV (net, ar) kcal/kg**
2-2U	9.8	10.0	35.5	0.6	6,030

The primary market for the coal is fuel for thermal power generation plants and feedstock material for the coal chemical industry. Typical quality is a low sulfur content coal having a calorific value of approximately 6,500 kcal/kg (net, ad).

2.8 Historical Operations

2.8.1 Mine Introduction

Upon the formation of Future Energy in 2011, Jinjitan was designated to supply coal to Future Energy for its coal liquefaction facilities. Construction of the mine with an initial 8.0 Mtpa capacity commenced in February 2012, and initial test run was conducted in June 2014. The full mine construction project was officially completed and accepted in May 2018, followed by the capacity reassessment and authorization of a higher capacity of 15.0 Mtpa in July 2018.There are five coal seams attaining mineable thickness, namely, Nos. 2-2U, 3-1, 4-3, 5-2 and 5-3U in this mining rights area. Due to its favorable thickness (7.7 m on average), initial mining is in the Seam 2-2U. The mining operation in this seam will last over 30 years. The lower seams are typically thin and are categorized resource at this time.

2.8.2 LW Technology

The mine originally used one FM LW face and the thick seam was mined in two slices with a 0.5 m thick coal left above the lower slice. During the time that the first three LW faces (101, 123 and 103) mined, mine management started to consider alternative mining methods to achieve higher coal recovery and efficiency, including the high-profile FM LW and FM LW with sublevel caving capability.

The 2-2U Seam LOM plan is divided into two districts (I to the South and II to the North) with each district subdivided into an east and west wing. All mining to date has been in District I, which will be mined in advance of transitioning future mining into District II.

In June 2016, Jinjitan installed its first high-profile FM LW equipment on the 108 Face, which can mine 8.2 m coal in one pass (and had the highest cutting height of any in the world by that time). As of 30 June 2020, this equipment has mined two LW faces (108 and 106). In January 2019, a set of FM LW equipment with sublevel caving capability was installed on LW Face 117.

Currently, Jinjitan Mine has two FM LW faces working, one still in LW Face 117 at the thicker seam East Wing and the other in the LW Face 104 in the thinner seam West Wing. Due to the splitting of the 2-2U at the western part of the West Wing, the minable thickness of part of the LW faces 104, 102, and 120 is less than 6 m. The FM LW equipment installed in LW face 104 is the same equipment used for slicing mining in LW faces 101, 103, and 123. It will also be used to recover the coal in the thinner section of the LW faces 102, 120 and the lower slices of faces 101, 103 and 123. The thicker sections (where the coal splits merge) of the LW faces 104, 102, and 120 will use the high-profile FM LW equipment for coal extraction. BOYD was informed that the mine intends to purchase another set of sublevel caving FM LW equipment in 2023 and all the rest LWs will use sublevel caving technology to recover the coal.

A FM LW equipment unit consists of shearer, shields, armored face conveyor (AFC), stage loader, crusher, belt conveyor and electrics. The parameters of the three sets of FM LW equipment maintained in Jinjitan Mine area are summarized as follows:

	Shearer Parameters			
No.	**Mining Height (m)**	**Motor (kW)**	**Drum Diam. (m)**	**Cutting Depth (mm)**
FM LW – Slicing	2.9 – 5.8	2,345	2.9	865
FM LW – High Profile	4.0 – 7.9	2,925	4.0	865
FM LW – Sublevel Caving	5.0 – 7.0	2,650	3.5	865

	AFC Parameters			
No.	**Length (m)**	**Capacity (tph)**	**Motor (kW)**	**Width (mm)**
FM LW – Slicing	200	800	2X200	724
FM LW – High Profile	310	5,500	3X1,600	1,400
FM LW – Sublevel Caving	310	4,000	2X2,000	1,400
FM LW – Sublevel Caving – re	310	4,500	3X1,600	1,400

	Shields Parameters			
No.	**Support Height (mm)**	**Support Width (mm)**	**Work Resistance (kN)**	**Support Strength (MPa)**
FM LW – Slicing	1,700 – 3,500	1,500	6,400	0.92 – 1.06
FM LW – High Profile	3,800 – 8,200	2,050	21,000	1.65+
FM LW – Sublevel Caving	3,550 – 7,000	2,100	21,000	1.66+

	Stage Loader Parameters		
No.	**Length (m)**	**Motor (kW)**	**Capacity (tph)**
FM LW – Slicing	34	780	4,000
FM LW – High Profile	60	1,400	6,000
FM LW – Sublevel Caving	60	1,200	7,000

No.	Crusher Parameters Feeding Size (H x W, mm)	Motor (kW)	Capacity (tph)
FM LW – Slicing	1,800 x 650	522	4,000
FM LW – High Profile	1,600 x 1,500	1,400	7,000
FM LW – Sublevel Caving	1,600 x 1,500	1,200	7,500

2.8.3 Mine Openings

Two incline openings and one vertical shaft provide access to the underground mine. The details for the three openings are shown in the table follows:

Opening	Depth/ Length (m)	Incline (degree)	Net Cross-Section Width/ Diam.(m)	Net Cross-Section Area (m^2)	Ventilation Type	Use
Main Incline	1,058	14	5.6	21.3	Air Intake	Coal Haulage
Service Incline	3,028	5.5	6.0	23.7	Air Intake	Service
Ventilation Shaft	234	90	7.0	38.5	Air Return	Air Return

2.8.4 Underground Mine Plan

The underground mine plan is designed to include five main roadways running from south to north, namely, one conveyor belt roadway for coal transportation, two service transportation roadways, and two air return roadways. The main roadways divide each district into the west wing and the east wing. The LW panels are developed in each wing along the east-west direction using continuous miner (CM) sections and retreat LW mining is used to mine each panel towards the main roadways. The length of the LW panels generally extend in excess of 5,000 m.

LW and development faces are scheduled to operate 330 days per year on a 7-day per week basis. Major festival periods and national holidays account for 15 idle operating days annually.

Jinjitan Mine employs a four-entry gate road development design, which is very common in Chinese underground coal mines and provides good ventilation and sufficient space for material handling. A 20 m to 25 m pillar is left between the gates with crosscuts driven every 70 m. Gate roads are nominally 6.0 m to 6.4 m in width and 4.4 m to 4.6 m in height. The mine has two CM sections to develop gate roads for the LW panels. Each CM section can achieve an advance rate as much as 1,650 m/month, which satisfies the requirement to sustain LW mining.

2.8.5 Output

The Jinjitan Mine's product coal production for the period 2017 to the second quarter of 2020 is summarized as follows:

	Historical Product Tonnes (Mt)			
	2017	**2018**	**2019**	**2020 2Q**
Product Coal	14.05	12.86	15.16	8.76

In 2017 most of ROM coal was screened to various sizes and sold directly as product since construction of the CPP had not been completed. Since 2018, the output has been increasing and the 2020 half-year production reached 8.76 Mt product. The current FM LW installation has much larger output capacity than the authorized 15.0 Mtpa.

2.8.6 Staffing

Jinjitan Mine's historical workforce staffing is summarized as follows:

	Jinjitan			
	2017	**2018**	**2019**	**2020 2Q**
Product Tonnes (Mt)	14.05	12.86	15.16	8.76
No. of Personnel by Category				
Underground				
Mining	157	210	298	230
Development	94	91	111	108
Support	129	128	137	143
Subtotal	380	429	546	481
Surface Coal Handling	79	178	178	178
Surface and Support				
Management	41	41	44	50
Technical	15	18	17	14
Other Support	233	235	214	257
Subtotal	289	294	275	321
Total	748	901	999	980
Labor Productivity (Product Tonnes/ Employee-Year)				
Total Employment Basis	18,780	14,280	15,180	17,880
Underground Only Basis	36,970	29,980	27,770	36,420

In 2017, Jinjitan Mine's average labor productivity was high as a result of the operation selling raw coal (18,780 product tonnes per employee-year for the total mine workforce and 36,970 product tonnes per employee-year for the underground staffing). The labor productivity has been increasing since 2018 due to the increase in product coal output, and reached 17,880 product tonnes per employee-year for the total mine workforce and 36,420 product tonnes per employee year for the underground staffing. Jinjitan Mine's productivity is ranked as the top of class for FM LW mines both in China and in the world. The main contributing factors include the: favorable geological conditions, thick coal seam, highly productive FM LW installation and successful management.

2.8.7 Capital Expenditures

Historical capital expenditures for Jinjitan Mine for the period 2017 to June 2020 are as follows:

	Capital Expenditures (RMB Millions) Category			
	2017	**2018**	**2019**	**2020 2Q**
Mine	82.20	575.18	387.63	62.91
Coal Preparation Plant	226.29	61.96	15.23	46.73
Village Move	–	–	–	150.00
Total	308.49	637.13	402.86	259.63

Most of the mine construction work had been completed prior to the year 2017. The large spending for the mine in 2018 and 2019 was mainly for the addition of the new FM LW equipment. Most of the CPP spending occurred in 2017, although the actual production commenced in 2018. Jinjitan developed a detailed village move plan (Phase I for mining of District 1) with capital arrangement to make sure that LW operations will not be affected.

2.8.8 Operating Costs

Jinjitan Mine historical operating costs for 2017 to June 2020 are as follows:

	Historical Operating Costs							
	2017		2018		2019		2020 2Q	
Product Tonnes (Mt):	14.05		12.86		15.16		8.76	
Category	**RMB (million)**	**RMB/ Product Tonne**	**RMB (million)**	**RMB/ Product Tonne**	**RMB (million)**	**RMB/ Product Tonne**	**RMB (million)**	**RMB/ Product Tonne**
Cash								
Materials	166.04	11.82	112.89	8.78	119.41	7.88	67.94	7.75
Salaries	114.33	8.14	140.81	10.95	167.75	11.06	89.12	10.17
Welfare	64.86	4.62	77.89	6.06	81.34	5.36	45.67	5.21
Power	49.65	3.53	56.84	4.42	71.79	4.74	38.75	4.42
Repairs	55.63	3.96	54.61	4.25	36.14	2.38	30.00	3.42
Heating/Water Fees			–	–	–	–	–	–
Subsidence Compensation	38.99	2.78	52.34	4.07	85.82	5.66	56.19	6.41
Mine Administrative	(19.99)	(1.42)	10.22	0.79	11.60	0.77	1.84	0.21
Financial Expenses	55.55	3.95	103.49	8.05	52.70	3.48	32.25	3.68
Sales Expenses	25.23	1.80	20.86	1.62	21.84	1.44	10.15	1.16
Other	220.21	15.68	229.06	17.81	395.70	26.10	181.43	20.71
Subtotal – Cash	770.51	54.85	859.02	66.78	1,044.09	68.86	553.34	63.16

Category	RMB (million)	RMB/ Product Tonne	RMB (million)	RMB/ Product Tonne	RMB (million)	RMB/ Product Tonne	RMB (million)	RMB/ Product Tonne
Non-cash								
Depreciation	156.07	11.11	185.22	14.40	231.16	15.25	128.64	14.68
Amortization of Mining Right	71.29	5.08	70.99	5.52	85.25	5.62	48.61	5.55
Simple Production Maintenance	147.65	10.51	147.02	11.43	176.56	11.64	101.48	11.58
Safety Production	210.92	15.02	210.03	16.33	252.23	16.64	143.81	16.41
Subtotal – Non-cash	585.93	41.71	613.26	47.68	745.20	49.15	422.53	48.23
Total	1,356.44	96.57	1,472.28	114.46	1,789.29	118.01	975.88	111.38

Note: Numbers may not add due to rounding.

Jinjitan Mine's operating costs since 2018 appear stable and average RMB115/product tonne. This average cost is among the lowest level of all China's underground coal mines. The RMB96.57/product tonne shown for 2017 reflects the raw coal (without wash) selling operation. The negative Mine Administrative costs shown in 2017 was due to the refund of environment-related charges. The cost in Other category seems high, and we understand that it includes actual environmental compensation, technical service fees, contracted development and miscellaneous engineering tasks, repairs, etc.

2.9 Future Operations

2.9.1 Output

Jinjitan Mine planned to continue mining Seam 2-2U and to produce 15.0 Mt ROM coal each year in the period 2020 to 2024, and thereafter. The mine intends to introduce another set of equipment for FM LW with sublevel caving in 2023, and from then on the mine will maintain two sublevel caving FM LW faces to achieve the planned ROM coal output targets.

LW face performances required to attain output authorizations are reasonable and realistic considering that the mine's FM LW operation practice is established and has demonstrated the ability to achieve the 15 Mtpa production level. The projections for ROM and product tonnages are shown in the table follows:

	Projected Production (Mt)				
	2020	2021	2022	2023	2024
ROM Coal	15.00	15.00	15.00	15.00	15.00
Product Coal	13.84	14.09	14.09	13.93	13.93

2.9.2 Staffing

Staffing projections for Jinjitan Mine operations for the period 2020 to 2024 are as follows:

	Jinjitan				
	2020	2021	2022	2023	2024
Product Coal Tonnes (Mt)					
No. of Personnel by Category	13.84	14.09	14.09	13.93	13.93
Underground					
Mining	230	228	230	240	240
Development	108	105	108	110	110
Support	139	136	160	160	180
Subtotal	477	469	498	510	530
Surface Coal Handling	178	178	178	263	263
Surface and Support					
Management	50	50	52	56	56
Technical	14	14	16	18	20
Other Support	254	248	255	260	300
Subtotal	318	312	323	334	376
Total	973	959	999	1,107	1,169
Labor Productivity (Product Tonnes/Employee-Year)					
Total Employment Basis	14,230	14,690	14,100	12,590	11,920
Underground Only Basis	29,020	30,030	28,280	27,320	26,290

The increase of personnel shown for surface coal handling in 2023 is due to the addition of the new fine coal washing system, which is currently under construction. Projected average labor productivity at the 15.0 Mtpa ROM coal output level in 2024 is 26,290 product tonnes per employee-year for underground workers and 11,920 tonnes per employee-year for the total employment. Labor productivity projections are comparable to historical performance. Overall staffing levels are appropriate for the projected output considering that the mine utilizes internally contracted services.

2.9.3 Capital Expenditures

Based on the provided capital expenditure projections and BOYD's site visit discussions with mine technical and management personnel, the following capital expenditures (CAPEX) projection for Jinjitan Mine for the period 2020 (second half year) to 2024 was developed:

	Capital Expenditures (RMB millions)				
Category	**2020 2H**	**2021**	**2022**	**2023**	**2024**
Village Relocation	150	200	–	–	–
Undergound Engineering	–	110	30	–	–
Electromechanical Equipment	15	140	40	–	–
Environment Protection	220	–	–	–	–
CPP Fine Coal Processing System	95	310	156	–	–
Continous Miner	–	46	46	–	–
Sub-Level Caving FM LW Equipment	–	–	–	446	–
Sustaining Capital	33	81	81	81	81
Total	512	887	352	527	81

Village relocation budget (Phase I), as provided by Jinjitan, totals RMB500 million. Approximately RMB150 million was spent in the first half of 2020 and the rest will be spent by 2021. The underground engineering projection includes expenditures for a dewater roadway development at the west wing boundary of the No.1 district and the new air return main roadway development. The electromechanical equipment, for mine power supply upgrade and pumping system upgrade in the No.1 district, is projected to be purchased during 2020 and 2023. The environment protection related constructions, including two sets of fluidized-bed boilers and dredged water utilization project, are projected to be completed in 2020. Construction of the fine coal washing system commenced in 2020 and is projected to be completed by 2022. Jinjitan plans to purchase additional continuous miner (CM) equipment in 2021, and it seems likely the current CM sections need to be replaced after approximately 10 years of operation. A new sublevel caving FM LW face will be purchased in 2023. Based on our experience, it is reasonable to assume a general FM LW equipment life span of 8 years. In addition, BOYD assumed a RMB5/tonne unit cost for sustaining capital for the first five years, which is likely to increase thereafter to RMB10/tonne capacity.

2.9.4 Operating Costs

Jinjitan provided mine operating cost projections. However, since some capital expenditures were not included in the information provided by Jinjitan, BOYD made necessary adjustment to reflect the increased amortization and depreciation costs resulting from the additional capital expenditures projected by BOYD. The projections for future operating costs after BOYD adjustment are summarized as follows:

	Projected Operating Costs				
	2020	2021	2022	2023	2024
Product Tonnes (Mt):	13.84	14.09	14.09	13.93	13.93

Category	RMB (million)	RMB/ Product tonne	RMB (million)	RMB/ Product tonne	RMB (million)	RMB/ Product tonne	RMB (million)	RMB/ Product tonne	RMB (million)	RMB/ Product tonne
Cash										
Materials	90.00	6.50	110.00	7.81	147.85	10.50	156.27	11.22	156.27	11.22
Salaries	203.62	14.71	203.62	14.46	203.62	14.46	214.57	15.40	214.57	15.40
Welfare	76.88	5.55	76.88	5.46	76.88	5.46	83.34	5.98	83.34	5.98
Power	78.29	5.65	75.94	5.39	75.94	5.39	93.42	6.71	93.42	6.71
Repairs	71.00	5.13	66.00	4.69	60.00	4.26	67.43	4.84	67.43	4.84
Subsidence Compensation	118.17	8.54	94.53	6.71	75.63	5.37	75.63	5.43	75.63	5.43
Mine Administrative	19.40	1.40	19.40	1.38	19.40	1.38	19.40	1.39	19.40	1.39
Financial Expenses	57.39	4.15	44.21	3.14	44.21	3.14	48.71	3.50	48.71	3.50
Sales Expenses	22.28	1.61	22.28	1.58	22.28	1.58	22.28	1.60	22.28	1.60
Other	368.36	26.61	370.33	26.29	370.52	26.30	378.20	27.15	378.20	27.15
Subtotal – Cash	1,105.39	79.84	1,083.20	76.90	1,096.34	77.83	1,159.25	83.21	1,159.25	83.21
Non-cash										
Depreciation	291.13	21.03	343.65	24.40	350.83	24.91	406.61	29.19	406.61	29.19
Amortization of Mining Right	83.55	6.03	99.38	7.06	99.38	7.06	99.38	7.13	99.38	7.13
Simple Production Maintenance	157.50	11.38	169.58	12.04	169.58	12.04	169.58	12.17	169.58	12.17
Safety Production	225.00	16.25	242.25	17.20	242.25	17.20	242.25	17.39	242.25	17.39
Subtotal – Non-cash	757.18	54.69	854.86	60.69	862.04	61.20	917.82	65.88	917.82	65.88
Total	1,862.57	134.54	1,938.06	137.59	1,958.38	139.03	2,077.06	149.09	2,077.06	149.09

Note: Numbers may not add due to rounding.

It is BOYD's opinion that the projected operating costs are reasonable and generally comparable to other first-class China FM LW mines operating at similar ROM output levels.

2.10 Preparation Plant/Coal Processing

Future Energy owns and operates the Jinjitan CPP, which is used to process ROM coal produced from the Jinjitan underground mining operation. The Jinjitan CPP operation utilizes heavy media technology and commenced operation in May 2018.

Construction of a new fine coal processing facility (using heavy media cyclone technology to process fine coal) started in May 2020 and is expected to complete in 2023.

Jinjitan has provided historical CPP production data for the CPP from 2017 through June 2020. Commercial coal products produced at the Jinjitan CPP include: (1) CPP clean coarse size coal (30 mm to 80 mm), (2) clean coal (minus 30 mm), and (3) bypass (unwashed) fine coal (minus 13 mm) blended with dewatered slimes. Historical CPP throughput and product coal production are summarized as follows:

	Historical Production (Mt)				Eeighted Average Product Yield
Commercial Product	**2018**	**2019**	**2020 2Q**	**Total**	**(%)**
Coarse Clean	1.80	3.35	2.08	7.23	21.10
Clean	1.99	4.00	1.26	7.25	21.20
Bypass Fine	4.59	7.74	5.34	17.67	51.60
Total Product	8.38	15.09	8.68	32.15	93.90

Note:

1. The Jinjitan CPP commenced production in May 2018.

2. The Bypass Fine Coal includes coal slime.

The average annual shipped coal quality is as follows:

Year/Product	(%) Ad	Mt	St, d	Qnet, ar kcal/kg
2018				
Bypass Fine	10.5	13.5	0.7	5,879
Clean Coarse	8.6	10.1	0.6	6,163
Clean	9.3	12.9	0.7	6,006
2019				
Bypass Fine	10.8	13.9	0.7	5,821
Clean Coarse	7.5	9.5	0.6	6,340
Clean	8.6	12.6	0.6	6,098
2020 2Qtrs				
Bypass Fine	9.2	13.0	0.6	5,994
Clean Coarse	7.6	11.3	0.5	6,276
Clean	7.8	12.7	0.6	6,142
Weighted Average				
Bypass Fine	10.2	13.5	0.7	5,888
Clean Coarse	7.8	10.2	0.6	6,278
Clean	8.7	12.7	0.6	6,080
Overall	9.3	12.6	0.6	6,019

Based on BOYD's review of the data provided, there is no significant change on the geology and quality between the remaining reserve areas and the previously depleted areas. The discussions with Jinjitan site management indicate that there will be a technical upgrade on the Jinjitan CPP washing technology and the product quality and distribution by product will change beginning in 2023. A fine coal processing system using heavy media cyclone technology to process the current bypass fine coal product is under construction and is expected to be in production in 2023. The new system will produce fine clean coal, middling and waste reject. Based on the Feasibility Study Report for the new system, BOYD's estimates of the production, yields and quality of different products are shown below:

	Production (Mt)	Product Yield (%)	Ash (Ad %)	Qnet.ar (kcal/kg)
Plant Feed	15.00			
Commercial Product				
Coarse Clean	3.17	21.1	7.8	6,280
Clean	3.18	21.2	8.6	6,080
Fine Clean	7.12	47.5	8.6	6,080
Fine Middling	0.46	3.1	13.2	5,780
Weighted Average	13.93	92.9	8.6	6,115

Comparing with the current CPP performance, the average product yield will decrease to 92.9% from the current 93.9%. However, the average calorific value of the commercial product will be improved by 100 kcal/kg, leading to an increased margin of approximately RMB18.9/tonne from the current bypass fine product.

2.11 Environmental Overview

BOYD has completed an overview of Jinjitan's environmental practices and policies and opines that environmental protection plans of the Jinjitan operation are in compliance with relevant PRC and Shaanxi Province laws and regulations. Jinjitan Mine has made diligent efforts to incorporate responsible environmental protection policies and practices into the mine designs. The mine is in the process of updating the environmental protection report to reflect the environmental impact due to the annual coal output level increase from 8.0 Mt to 15.0 Mt.

2.12 Risk Assessment

Based on our independent assessment, BOYD concludes the Jinjitan Mine is low in overall risk for the following reasons:

- Supportive of Low Risk:
  - The subject mine has several years of operational experience and is located in an established coalfield where general mining conditions are known and necessary infrastructure to support mining and coal marketing are in place.
  - Overall ranking of the geologic setting of the defined reserves within the subject Jinjitan mining right area is simple (i.e., not complex).
  - Reserves in the 2-2U Seam, which are planned to be mined during the risk assessment period are generally well-explored by drilling and mining experience to date. Future mining projected in Jinjitan will remain in the current coal seam with little noticeable geological risk and other anomalies.

– Jinjitan Mine have enough reserve tonnage to support its operation for over 20 years, at the projected output level 15.0 Mtpa capacity. In case the mine management seeks authorization to increase output (the current LW installation and planned addition of new equipment in the near future would support a higher output level), the current estimated reserves will not be depleted before the end of the assessment period, and the risk of reserve depletion during the assessment period is low.

– While not anticipated, naturally occurring events, such as flooding due to excessive rainfall or an earthquake, could occur, but their impact would be regional in extent (i.e., not unique to the subject mines).

– Future Energy has recruited and developed the management and technical staff necessary to operate the mines.

– The company has established markets for its sales.

– On a commercial basis, Jinjitan future output projections generally do not exceed regulatory output authorizations.

• Supportive of Medium Risk:

– Typical of all coal mines, production may be temporarily interrupted, which, depending on the duration and magnitude of the interruption, could significantly impact total company performance.

– Except for routine production risks that all coal mine operators experience, BOYD has not identified any extraordinary risks related to the future operation of the subject mines over the assessment period. The subject underground mine is at general industry risk for fires, explosions, and flooding.

• Supportive of High Risk:

– Risk of external regulation is not exceptional for the subject Jinjitan Mine from the standpoint of the Chinese coal industry; however, there is medium to high risk for coal industry-wide regulation that may limit output of individual mines.

Owing to the potentially declining coal market in PRC, it is possible that markets for the subject mine may decline. Factors such as the campaign to close smaller mines would tend to support market conditions. It is BOYD's opinion that new competitors are unlikely to generate surplus production capacity. There are high barriers to entry, as new mine development requires significant capital investment and government approvals.

BOYD's risk assessment is summarized in the following matrix:

Hazard/Risk Issue	Risk Assessment Severity	Probability	Overall
Geologic			
Overall (General)	Minor	Possible	Low
Unforeseen Anomalies	Minor to Moderate	Possible	Low
Reserve Availability	Minor	Unlikely	Low
Naturally Occurring Events			
Weather	Minor to Major	Possible	Low
Earthquakes	Minor to Major	Possible	Low
Routine Operational Risks (Adverse mining conditions, equipment outages, etc.)	Minor to Moderate	Possible	Low to Medium
LW Subsidence	Minor to Moderate	Possible	Low
Major Events			
Major Underground Fire	Minor to Major	Possible	Low to Medium
Explosions	Minor to Major	Unlikely	Low
Underground Flooding	Minor to Major	Possible	Low
External Risk – Regulation	Moderate to Major	Possible	Medium
Marketing (Commercial)	Moderate to Major	Likely	Medium to High

2.13 Economic Analysis

Based on our NPV analysis and regional pricing for most of the mine's output, the Jinjitan Mine meets the NPV hurdle requirement. BOYD concludes there is reasonable expectation that the reported reserve tonnages are economically mineable, as of 30 June 2020 (i.e., effective date of the reserve estimate).

2.14 Conclusions

Based on our review of the coal resource data and the methodology used to estimate the resources and reserves, which were supplemented by visits to the site and interactions with Jinjitan personnel, we have a high degree of confidence that the resource and reserve estimates shown in this report are a reasonable representation for the Jinjitan Mine.

BOYD has reviewed the documentation provided by Future Energy with regard to the company's coal resource holdings. To the extent supported by the documentation, we have accepted that Future Energy holds the mining rights evaluated in this report for the documented periods.

3.0 GEOLOGY AND RESOURCES/RESERVES

3.1 Geology

On a global basis, the geologic setting of the coal bearing strata underlying the Jinjitan mining rights area is judged to be simple. The strata are flat lying with little faulting. Though local splitting of the thick 2-2 Seam occurs, the depositional setting is still simple, and the correlation is straightforward. Coal is mined using underground LW methods.

3.1.1 Stratigraphy

The Jinjitan Mine is located in the Yushen Coalfield, which is a well-known Jurassic Age Yan'an Formation coal deposit in Northern Shaanxi Province. The strata consist of numerous coal seams separated by shale, siltstone, and sandstone. Poorly consolidated Quaternary alluvial deposits ranging in depth from 0 m to 70 m, typically between 30 m and 50 m thick overlie the surface. The coal is high volatile bituminous in rank and is utilized as a low sulfur, thermal coal by the power generation industry, as well as feedstock material for the coal-to-liquid industry.

3.1.2 Coal Seams

The identification system used in the coalfield is to assign each major coal seam or group of seams, a number in stratigraphically descending order (the upper most seam being the lowest number). Each seam in a seam group is assigned a two number code as 2-1, 2-2, 2-3. When a seam splits, the splits are typically labeled as upper, middle, or lower, for example: 2-2U and 2-2L. If there is further splitting of the upper or lower split, an additional number is then assigned (2-2U1, 2-2U2).

General characteristics of the primary or major coal seams are shown in stratigraphically descending order as follows:

	Thickness (m)						
Seam	Coal	Parting	Seam	Seam Interval (m)	Depth to Seam Range (m)	Seam Dip (deg.)	Seam Occurrence
2-2U*	7.69	0.05	7.74				
				30 – 50	200 – 320	1 – NW	Uniform
3-1	1.99	0.02	2.01		250 – 370	1 – NW	Uniform
				60 – 80			
4-3	1.35	0.00	1.35		330 – 430	1 – NW	Erratic*
				20 – 40			
5-2	1.61	0.14	1.75	15 – 20	350 – 470	1 – NW	Uniform
5-3U	1.44	0.00	1.44		370 – 490	1 – NW	Erratic*

Note:

* 2-2U seam includes the area where 2-2U and 2-2L merged in east part of the property.

* The erratic seam occurrence of the thinner Seams 4-3 and 5-3U is not because of their geological setting, but is the result of the application of 1.3 m minimum coal thickness criterion.

The 2-2U Seam is the upper split of the thick 2-2 Seam (11 m to 12 m), which only occurs in the area at the eastern boundary of the property, where the seam is relatively thick (< 9 m). Trending westward, the seam splits and gradually thins down to less than 7 m to the western part of the mining area, where the thinning trend is enhanced by further splitting out of a thin lower coal ply, resulting in a thinner (<6 m to 7 m) 2-2U Seam in that area.

The 2-2L Seam is a thin seam, ranging from 1.3 m to 1.6 m in thickness. It occurs 1 m to 10 m below the 2-2U Seam and is considered not mineable due the mining safety issue. As a result, the 2-2L Seam is excluded from our estimate. The thickness of 3-1 Seam is uniform in most of the mining area, except in the southeast area where it thins out. The 4-3 Seam is thin, ranging from 1.1 m to 1.4 m in thickness, and uniformly extends over the eastern part of the mining area. However, when the 1.3 m cutoff thickness is applied, the remaining resources occur along the northeast boundary of the mine property. Though not thick, the 5-2 Seam is uniform all over the property. The lowest 5-3U seam is thin, ranging from 1.1 to 1.5 m in west part of the mining area.

3.1.3 Structure

The structural setting in the coalfield is generally simple. The seams are flat lying with an average 1-degree dip to the northwest, and the deposit contains little faulting. One fault, having a 16 m displacement, was identified by seismic surveys in the west corner of the property. Some smaller faults (with 1m to 3 m displacement) were also identified in the mine. These smaller faults have minor impacts on mining due to the much thicker seam thickness. To illustrate the structural setting, we have included one structure map (Figure 3.1, following this text), which shows the cross section locations, and two cross sections (Figures 3.2 and 3.3).

3.2 Source Data

3.2.1 Data Defining Coal Occurrence and Quality

Exploration drilling is conducted by exploration teams licensed by the PRC government. There are extensive written standards on all aspects of the exploration programs that must be followed.

All exploration was conducted to Chinese standards and included the following procedures:

- All holes were continuously cored drilled using standard Chinese drilling equipment. Core drills used water and mud media, double split core barrels equipped with carbide bits. Core diameter was typically 6.5 cm.

- All holes were drilled vertically which is appropriate for the flat lying structure, and there is no bias to the geologic structure.

- All core was logged, photographed, and sampled by on-site geologists. Select holes were geotechnically logged and geotechnical samples were taken.

- The entire core for all mineable coal seams were sampled and there was no subsampling. Partings less than 0.7 m thick and greater than 0.01 m thick were sampled separately. Separate roof and floor samples (each 0.1 m thick) were also taken.

- Core recovery was determined by measuring the sample length and weight, which was later compared with the geophysical logs that were run after the hole was completed. According to Chinese Standards the minimum acceptable linear and weight recovery requirements are 75% and 60%, respectively. Seam cores with lower recoveries were not analyzed per Chinese standards. While these minimum recoveries are lower than typical international standards, most recoveries are higher, and review of seam quality data shows uniform quality in the seam samples.

- Most samples taken are of the entire coal portion of the seam, per Chinese standards. In some cases, there are multiple samples within a mining horizon and in these cases, the analytical data were mathematically composited by sample thickness and density.

- All samples taken were stored at the field office of the exploration team prior to shipment to the laboratory. To insure sample security, all samples from each drill hole were delivered to the laboratory by a Sample Deliverer immediately after the completion of sampling of the drill hole.

- Upon completion of drilling, the drill holes were geophysically logged. The suite of logs include: natural gamma, density, resistivity, calliper, and vertical deviation.

- Drill holes were plugged and locations were surveyed using the 1980 Xi'an Coordinate System. The topographic control is appropriate for the flat terrain.

- Samples taken for analytical testing were delivered to a licensed laboratory where individual samples were weighed, air dried, crushed, and riffled according to Chinese standards. Subsamples of the riffled samples are taken for various analyses, with the remainder of the sample retained for future analyses.

- According to Chinese Standards, the laboratories conduct quality control procedures, including sending duplicates to other labs and internal audits.

All programs must include collection of data on: coal occurrence and quality, hydrology, geotechnical characteristics of strata, spontaneous combustion and explosiveness of coal, coalbed methane, etc. The results of exploration are presented in reports that must be approved by the government in order to apply for exploration and mining right certificates. Due to these detailed regulated procedures, drilling data, exploration reports, and mine design reports prepared in PRC are very consistent in content and presentation. However, some of the Chinese exploration and reporting practices do not conform to international standards.

There are 72 drill holes completed in the 91.6 km2 mining rights area of the Jinjitan Mine.

The mining rights area is moderately defined by exploration drilling with 40%, 22% and 38% of the estimated resources classified measured, indicated and inferred, respectively. A drilling program consisting of additional 67 drill holes, covering part of the west wing of the District I and the entire District II, was underway at the time of this report and expected to be completed by end of 2020. The purpose of this drilling is to further define the geological condition and coal quality of the west wing of the District I and to upgrade resource classification in District II.

All available data from the exploration programs were provided by or at the direction of Future Energy. The data included available drill logs, quality data, and the complete exploration report with resource maps, figures, and cross sections. While BOYD used the data as a basis for our study, we prepared our own resource maps which were used by BOYD to complete independent estimates of coal resources/reserves in accordance with JORC Code 2012 standards.

3.2.2 Other Data

A detailed resource report prepared by the exploration teams was provided. A Mine Design Report was provided for the mine, including mine layouts.

In addition to the mine production reports, BOYD personnel visited the mine site and discussed current mine development plans with appropriate Future Energy personnel. Current mine maps and plans were also provided for the purpose of this report.

3.3 Resource/Reserve Classification

In the estimation and reporting of resources, modifying factors (mining, processing, metallurgical, infrastructure, economic, marketing, legal, environment, social, and government factors) must be and were considered. Two major factors typically used to classify coal resource/reserves are:

- Geologic assurance of existence.

- Economic viability.

All systems require that the degree of geological assurance of existence be separated into various categories based on the spacing of points of observation (drill holes, mine measurements, and outcrop measurements). Based on the site-specific geological and mining conditions, the Competent Person determines the appropriate spacing criteria for the various categories. Economic viability of resources is determined by a scoping study or preliminary economic assessment that identifies that there are reasonable prospects for eventual economic extraction. Economic viability of reserves must be determined by a prefeasibility or feasibility study. Typically, the determination of resources is conducted first, and if warranted, is followed by the determination of reserves. This process was followed with a Chinese standard resource report first prepared, followed by the Mine Design Report.

Since our independent estimates of resources were prepared after the Mine Design Report and development of the current mine plans, our estimates exclude some areas that may have had reasonable prospects for eventual economic extraction prior to the mining studies, but now lie in barriers and other areas excluded from future mining. Therefore, the areas covered in our resource estimates do not match prior estimates prepared before the mining studies.

BOYD resource estimates are prepared in accordance with the JORC Code (2012 Edition).

The following definitions are stated in the JORC Code, and used in this report:

'Mineral Resource' is a concentration or occurrence of solid material of economic interest in or on the Earth's crust in such form, grade (or quality), and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade (or quality), continuity and other geological characteristics of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.

An 'Inferred Coal Resource' is that part of a Coal Resource for which quantity and grade (or quality) are estimated on the basis of limited geological evidence and sampling. Geological evidence is sufficient to imply but not verify geological and grade (or quality) continuity. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

An 'Indicated Coal Resource' is that part of a Coal Resource for which quantity, grade (or quality), densities, shape and physical characteristics are estimated with sufficient confidence to allow the application of Modifying Factors in sufficient detail to support mine planning and evaluation of the economic viability of the deposit.

A 'Measured Coal Resource' is that part of a Coal Resource for which quantity, grade (or quality), densities, shape, and physical characteristics are estimated with confidence sufficient to allow the application of Modifying Factors to support detailed mine planning and final evaluation of the economic viability of the deposit.

Coal Reserves are those portions of Coal Resources that, after the application of all Modifying Factors, result in an estimated tonnage and grade which, in the opinion of the Competent Person making the estimates, can be the basis of a technically and economically viable project, after taking account of material relevant Modifying Factors. Deriving a Coal Reserve without a mine design or mine plan through a process of factoring of the Coal Resource is unacceptable.

A 'Probable Coal Reserve' is the economically mineable part of an Indicated, and in some circumstances, a Measured Coal Resource. The confidence in the Modifying Factors applying to a Probable Coal Reserve is lower than that applying to a Proved Coal Reserve.

A 'Proved Ore Reserve' is the economically mineable part of a Measured Mineral Resource. A Proved Ore Reserve implies a high degree of confidence in the Modifying Factors.

The JORC Code requires that all resources must have a reasonable prospect for eventual economic extraction. The criteria used to determine resources that meet this requirement are discussed in the following resource/reserve section of this report.

In developing the appropriate drill hole spacing for reliability classification, both the structural setting and depositional setting were assessed. As discussed in the geology section of this report, the geologic setting, or nature, of the resource areas is judged to be simple.

The structural setting of the mine is judged to be simple. The strata are flat lying with little faulting. The depositional setting is also judged to be simple.

Based on our detailed review of the geologic setting of each seam at the mine, we have assigned the following drill hole spacings which reflect the simple geologic setting:

Drill Hole Spacing (m) by Classification		
Measured	**Indicated**	**Inferred**
750	1,500	<3,000

Resource and reserve classification of each coal seam are shown on the resource/reserve map at the end of this chapter (Figures 3.4 to 3.8).

The 2012 JORC Code requires that all reports include comment on items listed in Table 1 of the Code. Appendix A of this report shows the items listed in Table 1, and either our comments in the table, or the location of where our comments are found in this report.

3.4 Resource/Reserve Estimate Approach

The estimates of coal resources/reserves presented herein have been independently prepared by BOYD using drilling and other source data provided by Future Energy, and calculation procedures developed by BOYD.

3.4.1 Resources

In general, our approach in preparing estimates of the coal resources included the following:

- Independent review and interpretation of the source exploration data.
- Confirmation of seam correlation.
- Identification of coal seam occurrence where seam thickness is greater than 1.3 m.
- Exclusion of non-mining areas underlying protected surface structures (e.g., mine facilities, major highways, major streams, and populated areas that are not planned to be relocated), and barrier areas along main roadway as provided in the underground mine plans.
- Preparation of coal isopach maps within the identified resource areas.
- Review of seam quality.

The seam resource maps provided by Future Energy were used as a base for our estimates, and were updated to include newer features, such as changes in the mining right area, mine barriers, etc.

Based on our economic evaluation of Future Energy past and current mining practices (see Chapter 8), the 1.3 m minimum seam thickness cutoff was selected as being appropriate to define coal resources.

Estimates of in situ resource were prepared using computer mapping software (Auto CAD) for all mapped resource areas.

3.4.2 Reserves

In general, our approach for preparing estimates of the coal reserves included the following:

- A LW mine plan was developed for each underground resource area using Future Energy's life-of-mine (LOM) or five-year plans, the main roadway layout from the mine design report and current plans. Most panel layouts are of similar orientation as required for geotechnical considerations.

- Underground mine plans were not developed for resource areas that could not be logically accessed from the main roadways, nor for small or irregular resource areas that could not support a logical panel layout.

- Areas of inferred resources were not included in the mine plans.

After the mine plan was developed for the resource area, estimates of reserves were prepared within the defined mine plan for each coal seam.

3.5 Coal Resources/Reserve Estimates

Resource estimates were prepared from the seam maps showing the resource areas. Reserve assessments were completed for those portions of the resource areas included in the mine plan (subject to economic mineability confirmation).

Resource estimates are inclusive of reserves as they include the entire resource area both outside and within the mine plan. Reserves are only estimated within the defined mine plan (and by Code do not include areas of inferred resource).

3.5.1 Resource Estimates

Estimates of coal resources are stated on an in situ seam basis (coal plus partings). Our estimates were prepared by measuring the area between coal thickness isopach lines, then assigning an average thickness to each area, and finally calculating in situ tonnage by isopach interval, which are then composited to estimate the total resource for each seam. Tonnages are also determined by resource classification and by LW face.

The average in situ coal density of each seam was calculated based on the provided quality data, as follows:

Seam	In Situ Density
2-2U	1.32
3-1	1.31
4-3	1.29
5-2	1.32
5-3U	1.33

An inseam parting specific gravity of 2.1 S.G. was used in our resource estimates.

3.5.2 Reserve Estimates

BOYD completed an NPV or economic analysis for each mine plan by coal seam to confirm if the projected mine operation is economically viable (see Chapter 8), as of June 30, 2020. These analyses confirm that estimated remaining reserve tonnages are economically mineable.

Reserves are presented on both a ROM, or recoverable basis, and on a marketable (product) basis. Recoverable Reserves represent the seam tonnage to be recovered by the corresponding mine plan, including the coal seam and OSD (roof and floor rock recovered with the coal seam during the normal mining process) and moisture gain during mining. Marketable Reserves represent the tonnage that is produced as a salable product and includes allowances for losses during coal washing and increased moisture as a result of the washing process.

The mining method and equipment installed at the LW faces have to been considered in order to estimate the recoverable reserves. The Jinjitan Mine has installed three types of LW mining equipment to recover coal in different areas having different thicknesses. The following table shows the factors used in estimating both resources and reserves.

	Thickness (m)			S.G.					Recoverable Reserves								Marketable Reserves (%)				
									Shearer (m)		Shield (m) Cap. Range		SC								
Seam	Coal	Parting	Seam	Coal	Part.	OSD	Mining Method	Roof Coal Left (m)	Dia.	max.thk	min.	max.	Cut Thk	Caving %	OSD (m)	Plan Rec.%	Moist. Gain in Mining (%)	OSD &Parting Removal	% of Coal Washed	Product Yield
2-2U	8.03	0.06	8.09	1.32	2.1	2.3	SC	–	3.5	7.0	3.6	7.0	6.5	80	0.10	95	2	–	100	92.9
2-2U	7.77	0.04	7.81	1.32	2.1	2.3	FM	–	4.0	7.9	3.8	8.2	–	–	0.05	95	2	–	100	92.9
2-2U	5.89	–	5.89	1.32	2.1	2.3	FM	–	2.9	5.8	2.6	6.0	–	–	0.05	95	2	–	100	92.9
2-2U*	3.78	0.01	3.78	1.32	2.1	2.3	FM	0.5	2.9	5.8	2.6	6.0	–	–	0.05	95	2	–	100	92.9

Note:
SC – Sub Level Caving
FM – Fully Mechanized Mining
* – The lower coal plys left by the slicing mining
OSD – 0.05 m OSD for FM mining method only for areas where applicable

Underground mine plan recovery is estimated based on the geologic complexity (both structural and depositional), the configuration of the mine plan area, the coal seam thickness and mining equipment (shields and shearers) installed or planned to be used to mine each area. Mine plans are developed in order to maximize recovery of the resources. However, 100% recovery of these theoretical plans is rarely achieved, since: (a) geologic features and mine development scheduling can result in shortening or removal of projected panel areas, and (b) selected mining equipment may not be able to cut the full seam vertically in some areas due to the change of seam thickness.

The assigned maximum achievable plan recovery within the underground mine LW plan areas is 95% (for the immediate LW panel areas only, with gate roads excluded). The reserve areas are restricted to LW areas (i.e., areas not suitable for LW mining are not included). Seam 2-2U at Jinjitan Mine is stable with little faulting, and if present, will not impact the projected LWs. The irregular shaped areas, which have limited coal tonnage, have been considered as resource areas, since the projected mine plan does not recover coal in these areas.

Vertical mining recovery is determined by the type of LW equipment installed or planned to be used on the LW face. Jinjitan previously used the slicing mining method to recover the top slice of the thick 2-2U Seam and in areas where coal is less than 6 m in thickness, FM LWs equipment, having a maxim.8 m operating heigwere used. Later on Jinjitan installed a set of FM LWs equipment with a large mining height (with a maximum 7.9 m operating height where seam height warrants) for mining in areas where the coal thickness ranges from 6 m to 8 m. Vertical mining recovery of the FM LW is determined by the maximum cutting height of the equipment installed on the LW face, as well as the competency of the roof rocks. For areas that have a seam thickness greater than the height that the equipment can fully cut, the mineable coal thickness equals to the maximum cutting height of the equipment. In areas having a weak immediate roof where the dilution from the roof rock of a coal seam is an issue, it is a common practice for an underground coal mine to leave the top 0.2 m to 0.3 m of coal in the seam roof to avoid or minimize roof rock dilution, resulting in a lower vertical coal recovery. According to the mine management, the subject coal seam does not have this type of roof issue.

In 2019, a set of FM LWs equipment with sublevel caving capability (SC FM LW) was used to recover coal in the East Wing of the mining property. With this equipment, 100% of the lower ply of the seam (6.5 m) is recovered by the shearer. Then doors installed in the shields are opened, and the overlying roof coal collapses through the doors. When roof rock material is seen, the doors are closed. Based on discussion with Future Energy and BOYD's experience on SC FM LW mining method in China, we estimate that approximately 80% of the collapsed roof coal is recovered. Therefore, the overall coal seam recovery within a panel is the combined 100% recovery of the bottom ply and 80% of the thickness of the roof coal.

Considering the favorable geological setting in the subject mine, we assumed 0.1 m of OSD for SC FM LW mining in areas of thick 2-2U Seam. An as received density of 2.3 S.G. is assigned to OSD. Moisture gain from mine spray water is estimated at 2%. These factors are typical for Chinese LW operations.

Coal produced underground is conveyed to the coal preparation plant (CPP) located on the surface, for processing. Thermal coal products, including both clean and mixed products, are produced in the CPPs. Based on the historical CPP performance and variety of coal products being produced, we used 92.9% CPP product yield to estimate the marketable reserves. Further information on coal preparation is provided in Chapter 5 of this report.

Our resource and reserve tonnage estimates for the Jinjitan Mine, as of 30 June 2020, are as follows:

Seam	Average Thickness (m)			In-Place Resource (Mt)				Recoverable Reserves (Mt)			Processing	Marketable Reserves (Mt)		
	Coal	Parting	Seam	Measured	Indicated	Inferred	Total	Proved	Probable	Total	Yield %	Proved	Probable	Total
2-2U	7.69	0.05	7.74	271.34	126.82	211.89	610.05	243.62	89.76	333.37	92.9	226.32	83.38	309.71
3-1	1.99	0.02	2.01	61.64	54.57	66.77	182.98	–	–	–		–	–	–
4-3	1.35	0.00	1.35	11.51	8.01	12.10	31.61	–	–	–		–	–	–
5-2	1.61	0.14	1.75	51.53	15.36	65.53	132.41	–	–	–		–	–	–
5-3U	1.44	–	1.44	–	7.93	17.35	25.28	–	–	–		–	–	–
Total				396.02	212.68	373.63	982.33	243.62	89.76	333.37	92.9	226.32	83.38	309.71

Total Marketable Reserves are 309.71 Mt, all in the thicker 2-2U Seam. Approximately 73% of the marketable reserves are in the Proved classification, and the balance classified Probable.

Figures 3.4 to 3.8 show the individual coal seam resource/reserve mapping.

3.6 Coal Quality

Quality of the coals in the Yushen Coalfield is well known since this coalfield is a major coal deposit in PRC. The coal is high volatile bituminous in rank. Coal quality is generally uniform, with a low sulfur content.

Since all drill holes are continuously cored, there are quality data for all holes that intersect one or more coal seams, which meet the Chinese minimum thickness and core recovery requirements. The resource and reserve figures (maps) in this report show core holes having coal quality data. As shown on these figures, coal quality is well defined.

The following table shows the in situ coal quality for the seams on a raw and clean (float 1.40 specific gravity) basis:

Seam	Value	In Situ Raw Coal					In Situ Clean Coal (1.40 S.G.)				
		%				CV (net, ad)	%				CV (net, ad)
		Moist. (ad)	Ash (d)	Sulfur (d)	Vol (daf)	kcal/kg	Moist. (ad)	Ash (d)	Sulfur (d)	Vol (daf)	kcal/kg
2-2U	Average	7.00	8.1	0.6	37.7	6,600	5.2	2.9	0.3	36.8	7,120
	Range	2.90 – 8.54	5.06 – 15.06	0.28 – 1.38	34.76 –41.20	6,150 – 6,780	2.12 – 7.13	1.73 – 5.17	0.17 – 0.59	33.81 – 39.09	6,690 – 7,300
3-1	Average	6.90	7.8	0.6	37.5	6,600	5.4	3.2	0.3	36.8	7,140
	Range	2.65 – 9.49	4.63 – 16.95	0.28 – 1.09	32.59 –40.47	5,920 – 6,950	3.42 – 7.68	2.06 – 5.23	0.19 – 0.49	33.11 – 40.05	6,870 – 7,420
4-3	Average	6.98	8.8	0.5	37.8	6,500	5.0	3.2	0.3	36.6	7,110
	Range	4.25 – 8.61	3.23 – 22.57	0.25 – 1.78	31.82 –42.38	5,510 – 6,820	1.85 – 7.65	2.07 – 4.62	0.15 – 0.85	31.91 – 40.34	6,800 – 7,320
5-2	Average	6.97	8.0	0.5	36.7	6,610	5.1	3.5	0.3	35.9	7,100
	Range	3.32 – 9.13	4.90 – 19.09	0.17 – 1.27	31.11 –40.65	5,920 – 6,910	1.97 – 7.26	2.01 – 5.25	0.23 – 0.75	31.56 – 38.91	6,810 – 7,330
5-3U	Average	6.95	7.8	0.5	36.8	6,510	5.3	3.3	0.3	36.0	7,110
	Range	1.74 – 9.48	3.53 – 13.00	0.28 – 1.39	32.28 –40.97	6,100 – 6,870	2.21 – 7.62	1.58 – 5.39	0.21 – 0.75	32.24 – 39.74	6,900 – 7,250

As shown above, all seams have a low sulfur content on both raw and and clean coal bases.

As compared to the in-seam (in situ) raw coal quality, the ROM or mined coal material will have higher contents of moisture and ash, and lower calorific values due to the moisture gain and increased ash content resulting from OSD added during mining. The predicted average ROM coal quality for the active 2-2U Seam is shown below:

Typical ROM Coal Quality

	%				CV (net, ar)
Seam	**Moist (ad)**	**Ash (d)**	**Vol (daf)**	**Sulfur (d)**	**kcal/kg**
2-2U	9.8	10.0	35.5	0.6	6,030

The historical and estimated product qualities for the mine are shown in Chapter 5 of this report.

3.7 Conclusions

Based on our review of the coal resource data and the methodology BOYD used to define the resources, which were supplemented by visits to the site and interactions with Future Energy personnel, we have a high degree of confidence that the resource and reserve estimates shown in this report are a reasonable representation of the subject mining rights areas.

BOYD has reviewed the documentation provided by Future Energy with regard to the company's coal resource holdings. To the extent supported by the documentation, we have accepted (assumed) that Future Energy holds the mining rights evaluated in this report for the documented periods.

Figures:

3.1: Map Showing Cross Section Location, Jinjitan Mine
Cross Section
3.2: A-A'
3.3: B-B'
Coal Resource/Reserve Map Series
3.4: Resource/Reserve Map, 2-2U Seam
3.5: Resource Map, 3-1 Seam
3.6: Resource Map, 4-3 Seam
3.7: Resource Map, 5-2 Seam
3.8: Resource Map, 5-3U Seam

3-13

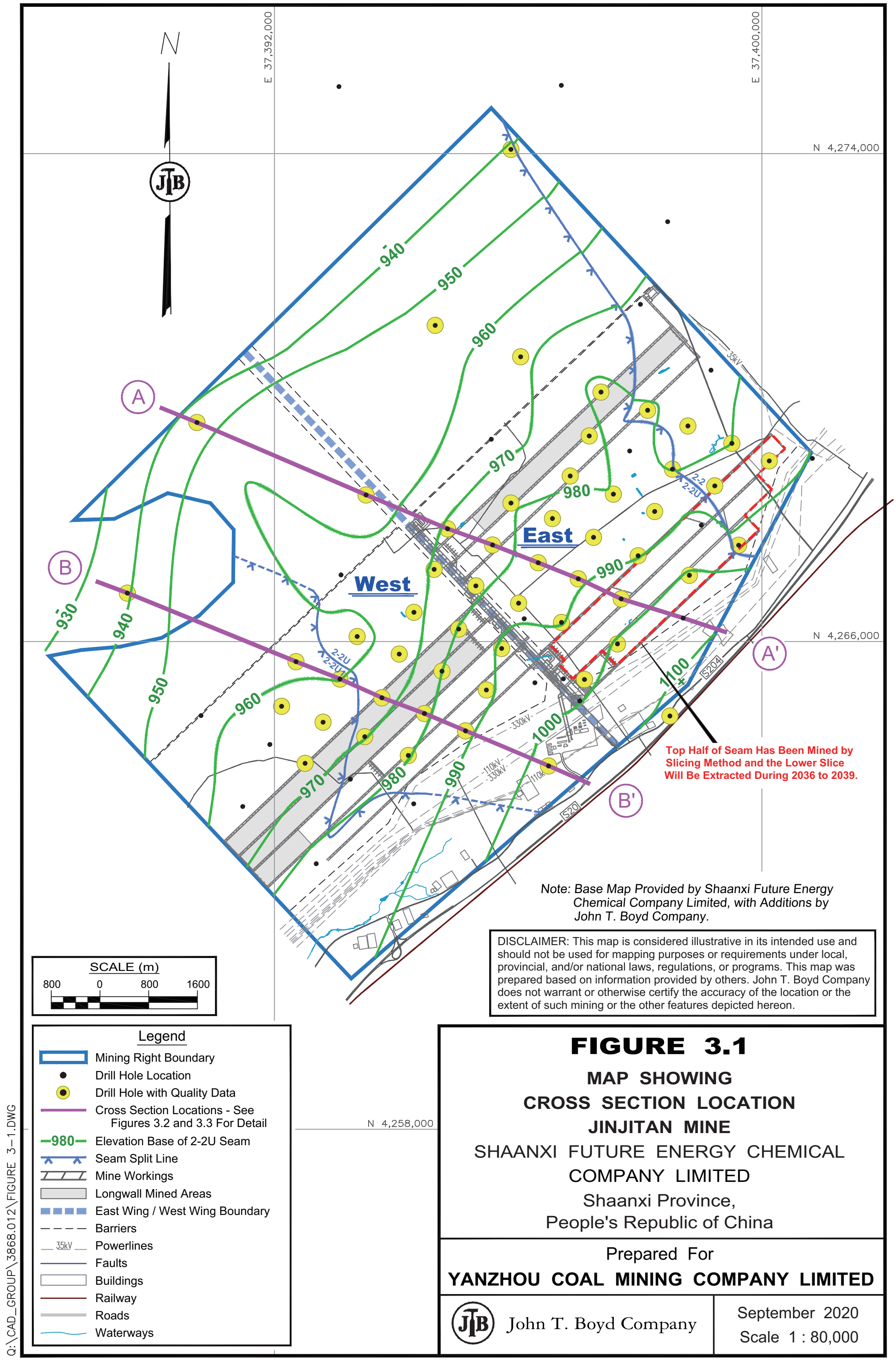


FIGURE 3.1

MAP SHOWING CROSS SECTION LOCATION JINJITAN MINE

SHAANXI FUTURE ENERGY CHEMICAL COMPANY LIMITED

Shaanxi Province, People's Republic of China

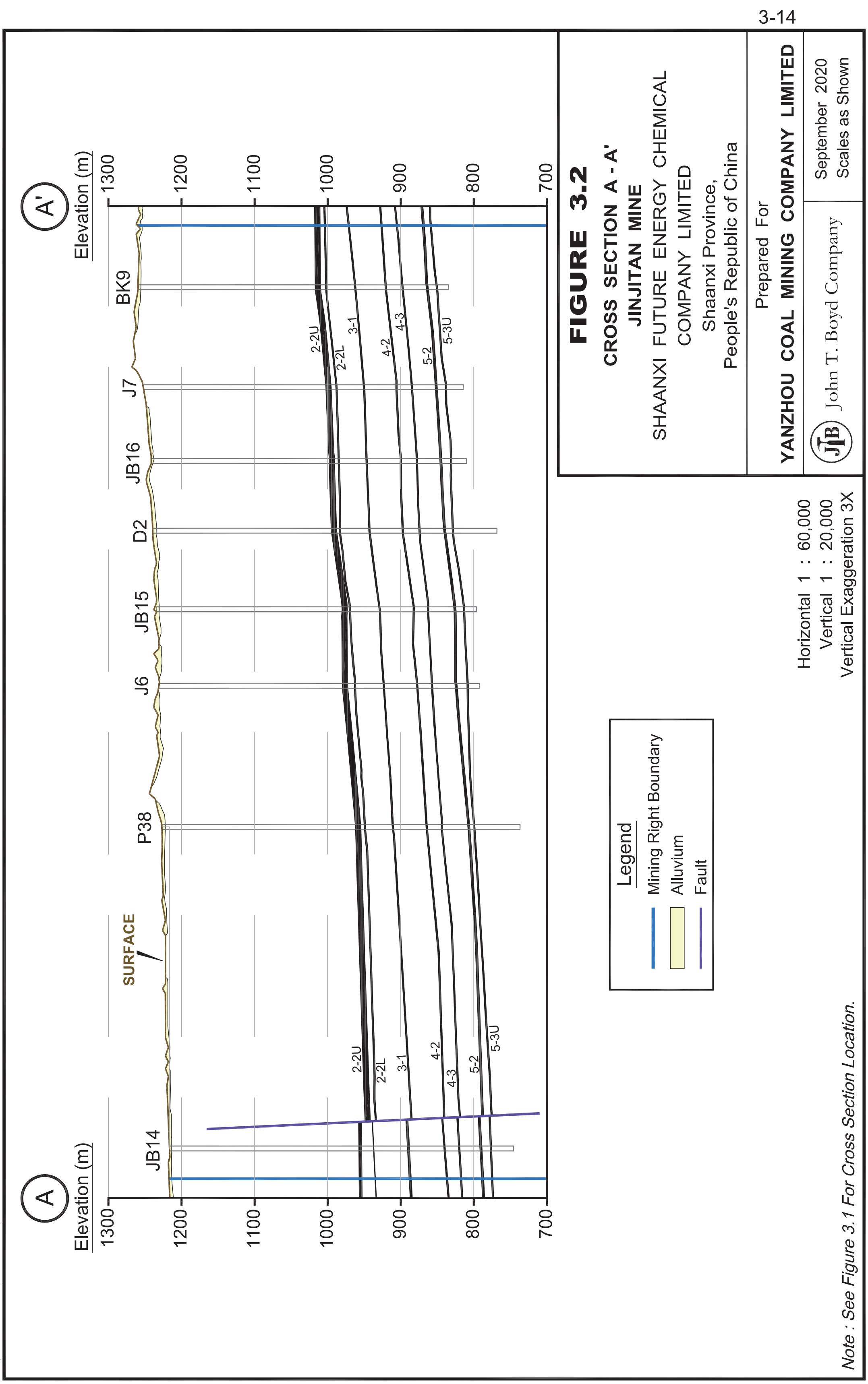
Prepared For

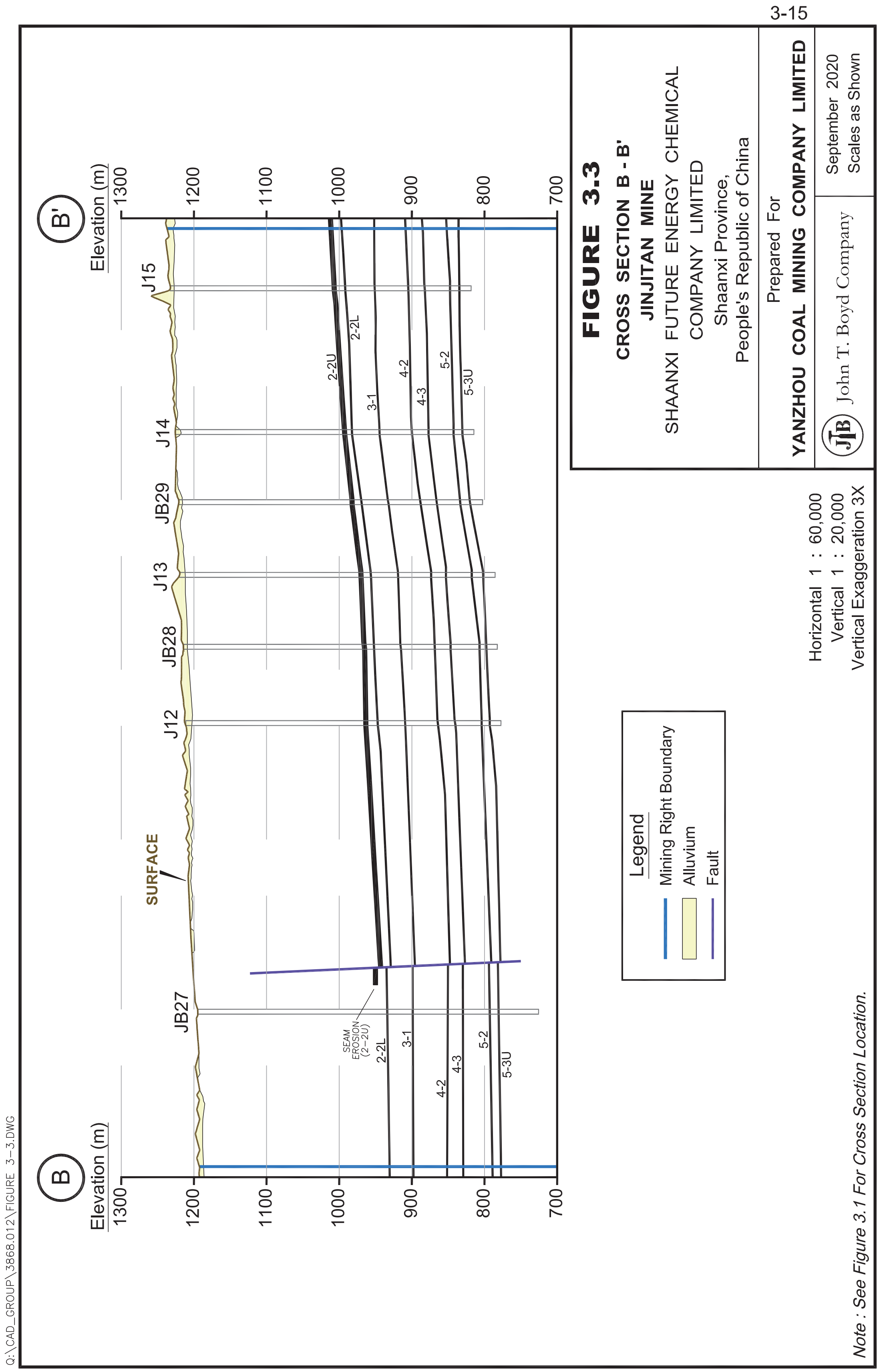
YANZHOU COAL MINING COMPANY LIMITED

John T. Boyd Company

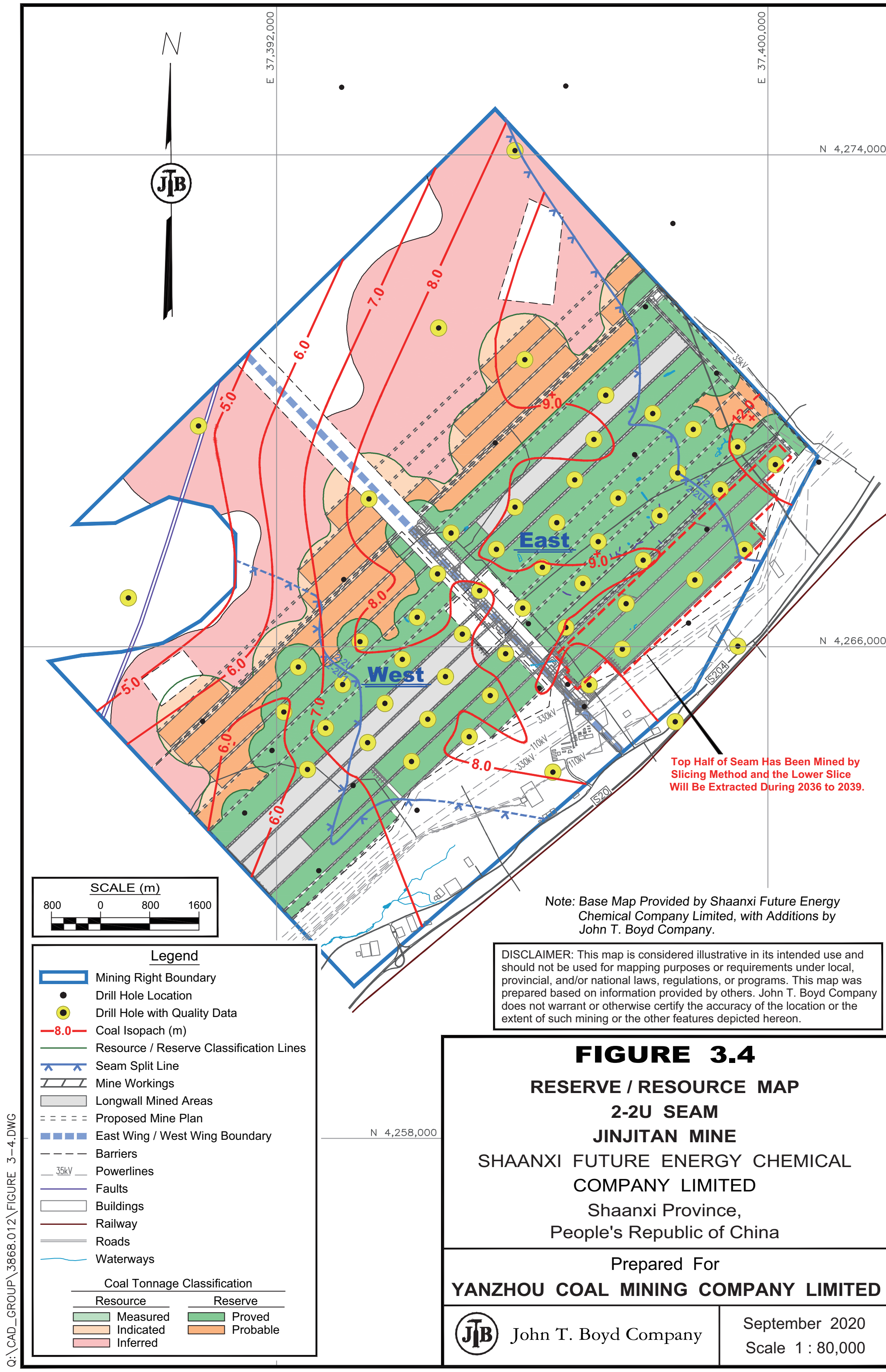
September 2020

Scale 1 : 80,000


3-14
FIGURE 3.2
CROSS SECTION A - A'
JINJITAN MINE
SHAANXI FUTURE ENERGY CHEMICAL COMPANY LIMITED
Shaanxi Province, People's Republic of China
Prepared For
YANZHOU COAL MINING COMPANY LIMITED
John T. Boyd Company
September 2020
Scales as Shown
Horizontal 1 : 60,000
Vertical 1 : 20,000
Vertical Exaggeration 3X
Legend
Mining Right Boundary
Alluvium
Fault
A
A'
Elevation (m)
1300
1200
1100
1000
900
800
700
JB14
SURFACE
P38
J6
JB15
D2
JB16
J7
BK9
2-2U
2-2L
3-1
4-2
4-3
5-2
5-3U
Q:\CAD_GROUP\3868.012\FIGURE 3-2.DWG
Note : See Figure 3.1 For Cross Section Location.

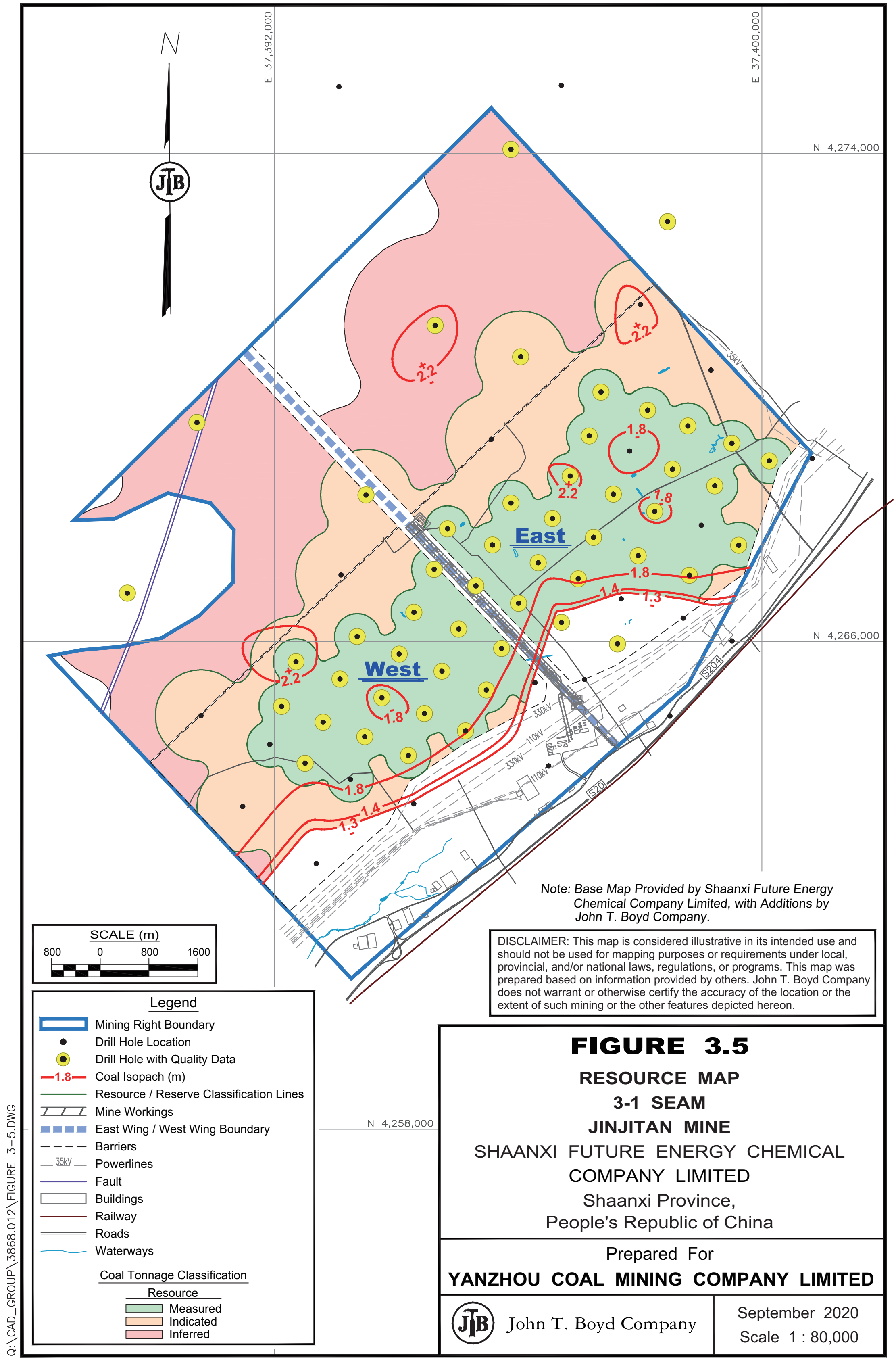

3-15
Q:\CAD_GROUP\3868.012\FIGURE 3-3.DWG
B
B'
Elevation (m)
1300
1200
1100
1000
900
800
700
SURFACE
JB27
J12
JB28
J13
JB29
J14
J15
SEAM EROSION (2-2U)
2-2U
2-2L
3-1
4-2
4-3
5-2
5-3U
Legend
Mining Right Boundary
Alluvium
Fault
Horizontal 1 : 60,000
Vertical 1 : 20,000
Vertical Exaggeration 3X
Note : See Figure 3.1 For Cross Section Location.
FIGURE 3.3
CROSS SECTION B - B'
JINJITAN MINE
SHAANXI FUTURE ENERGY CHEMICAL
COMPANY LIMITED
Shaanxi Province,
People's Republic of China
Prepared For
YANZHOU COAL MINING COMPANY LIMITED
JTB John T. Boyd Company
September 2020
Scales as Shown

3-16



N
E 37,392,000
E 37,400,000
N 4,274,000
N 4,266,000
N 4,258,000
East
West
5.0
6.0
7.0
8.0
9.0
Top Half of Seam Has Been Mined by Slicing Method and the Lower Slice Will Be Extracted During 2036 to 2039.
S204
S20
35kV
330kV
110kV
SCALE (m)
800 0 800 1600
Legend
Mining Right Boundary
Drill Hole Location
Drill Hole with Quality Data
8.0 Coal Isopach (m)
Resource / Reserve Classification Lines
Seam Split Line
Mine Workings
Longwall Mined Areas
Proposed Mine Plan
East Wing / West Wing Boundary
Barriers
35kV Powerlines
Faults
Buildings
Railway
Roads
Waterways
Coal Tonnage Classification
Resource
Reserve
Measured
Indicated
Inferred
Proved
Probable
Note: Base Map Provided by Shaanxi Future Energy Chemical Company Limited, with Additions by John T. Boyd Company.
DISCLAIMER: This map is considered illustrative in its intended use and should not be used for mapping purposes or requirements under local, provincial, and/or national laws, regulations, or programs. This map was prepared based on information provided by others. John T. Boyd Company does not warrant or otherwise certify the accuracy of the location or the extent of such mining or the other features depicted hereon.
FIGURE 3.4
RESERVE / RESOURCE MAP
2-2U SEAM
JINJITAN MINE
SHAANXI FUTURE ENERGY CHEMICAL COMPANY LIMITED
Shaanxi Province,
People's Republic of China
Prepared For
YANZHOU COAL MINING COMPANY LIMITED
JTB John T. Boyd Company
September 2020
Scale 1 : 80,000
Q:\CAD_GROUP\3868.012\FIGURE 3-4.DWG

3-17


N
E 37,392,000
E 37,400,000
N 4,274,000
N 4,266,000
N 4,258,000
East
West
2.2
1.8
1.4
1.3
35kV
330kV
110kV
S204
S201
Note: Base Map Provided by Shaanxi Future Energy Chemical Company Limited, with Additions by John T. Boyd Company.
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SCALE (m)
800 0 800 1600
Legend
Mining Right Boundary
Drill Hole Location
Drill Hole with Quality Data
1.8 Coal Isopach (m)
Resource / Reserve Classification Lines
Mine Workings
East Wing / West Wing Boundary
Barriers
Powerlines
Fault
Buildings
Railway
Roads
Waterways
Coal Tonnage Classification
Resource
Measured
Indicated
Inferred
Q:\CAD_GROUP\3868.012\FIGURE 3-5.DWG
FIGURE 3.5
RESOURCE MAP
3-1 SEAM
JINJITAN MINE
SHAANXI FUTURE ENERGY CHEMICAL COMPANY LIMITED
Shaanxi Province,
People's Republic of China
Prepared For
YANZHOU COAL MINING COMPANY LIMITED
John T. Boyd Company
September 2020
Scale 1 : 80,000

3-18

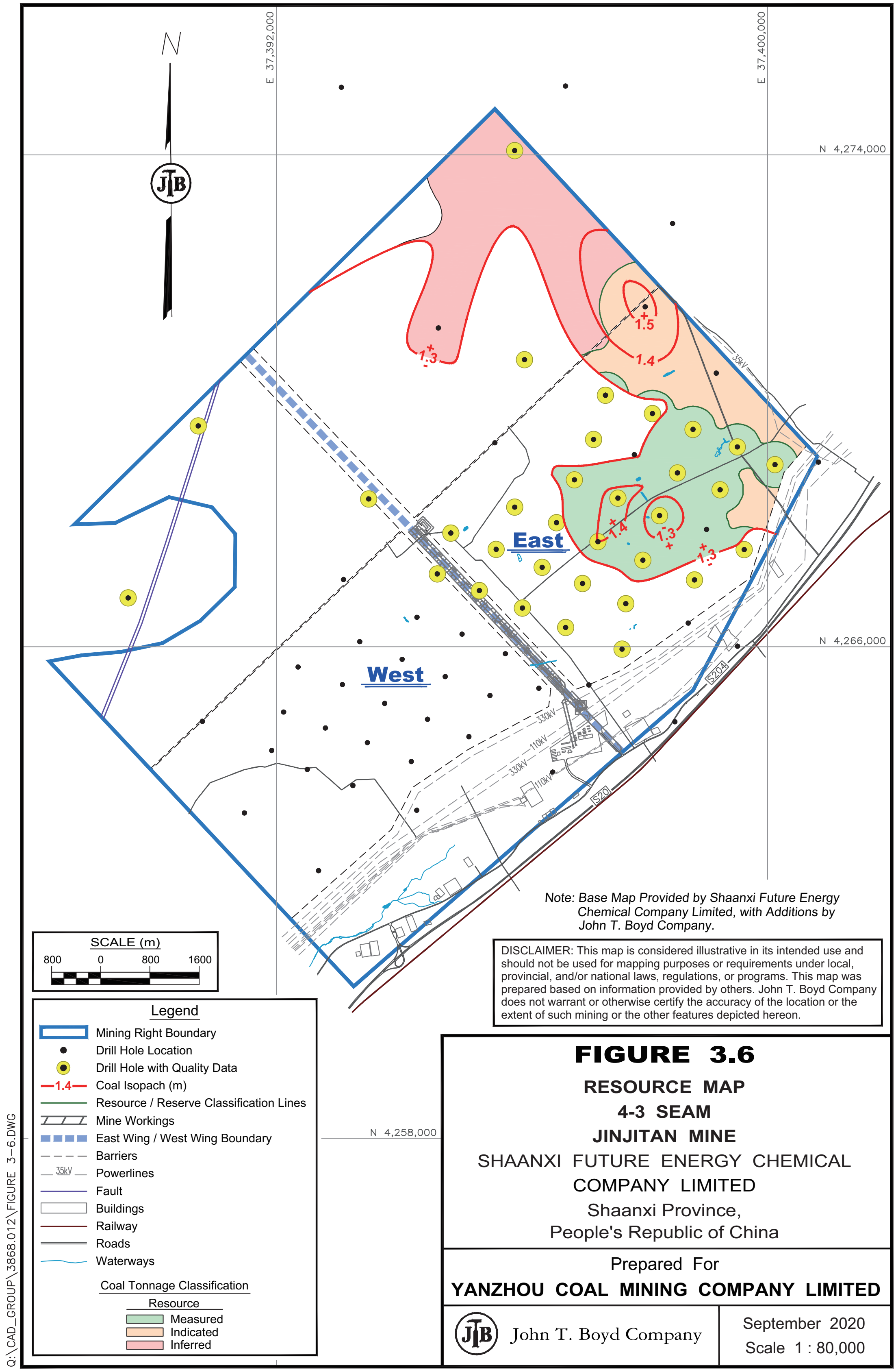
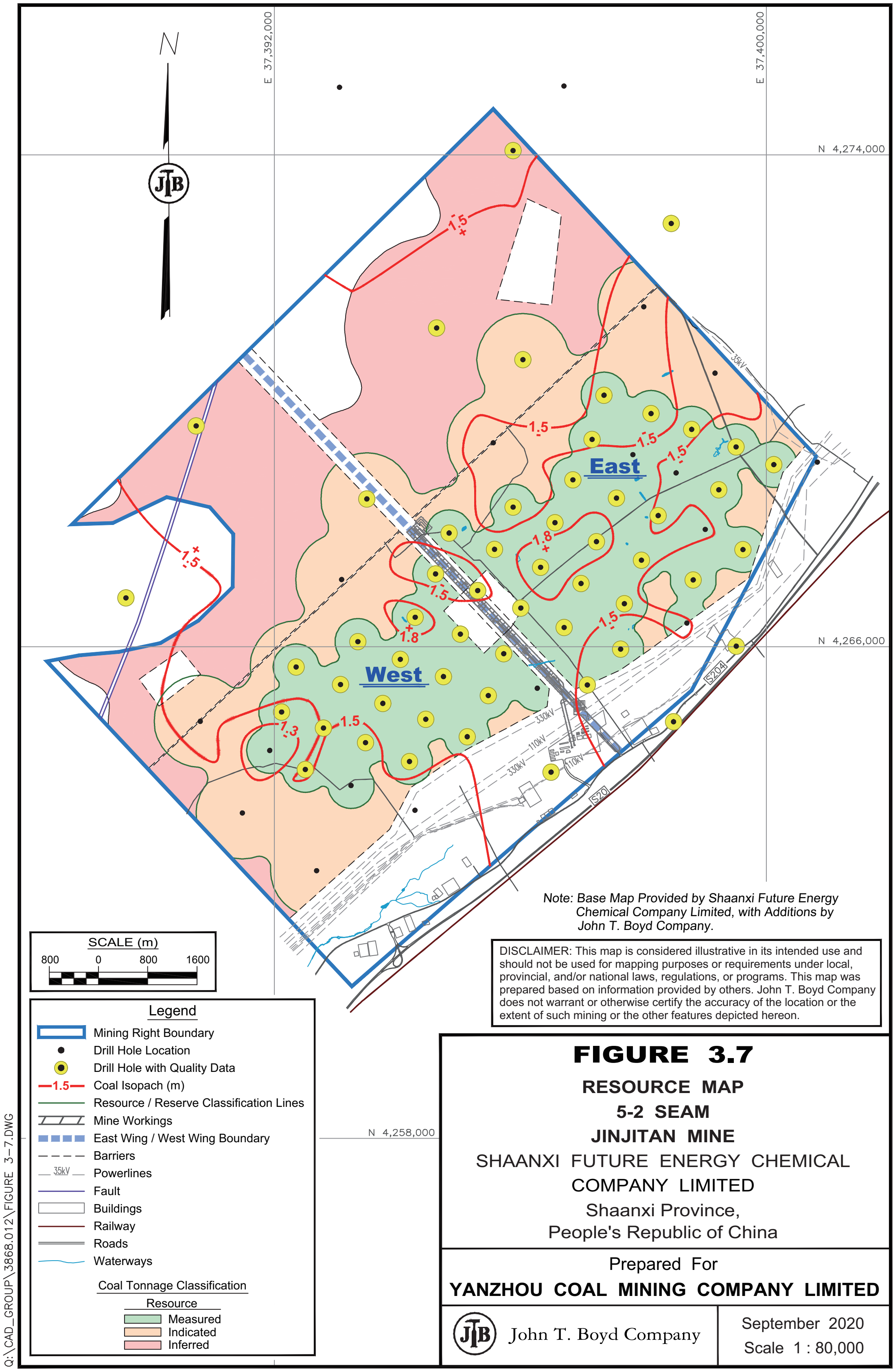


FIGURE 3.6

RESOURCE MAP
4-3 SEAM
JINJITAN MINE
SHAANXI FUTURE ENERGY CHEMICAL COMPANY LIMITED
Shaanxi Province,
People's Republic of China

Prepared For
YANZHOU COAL MINING COMPANY LIMITED

3-19



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E 37,400,000
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N 4,266,000
N 4,258,000
East
West
1.5
1.8
1.3
35kV
330kV
110kV
10kV
S204
S201
Note: Base Map Provided by Shaanxi Future Energy Chemical Company Limited, with Additions by John T. Boyd Company.
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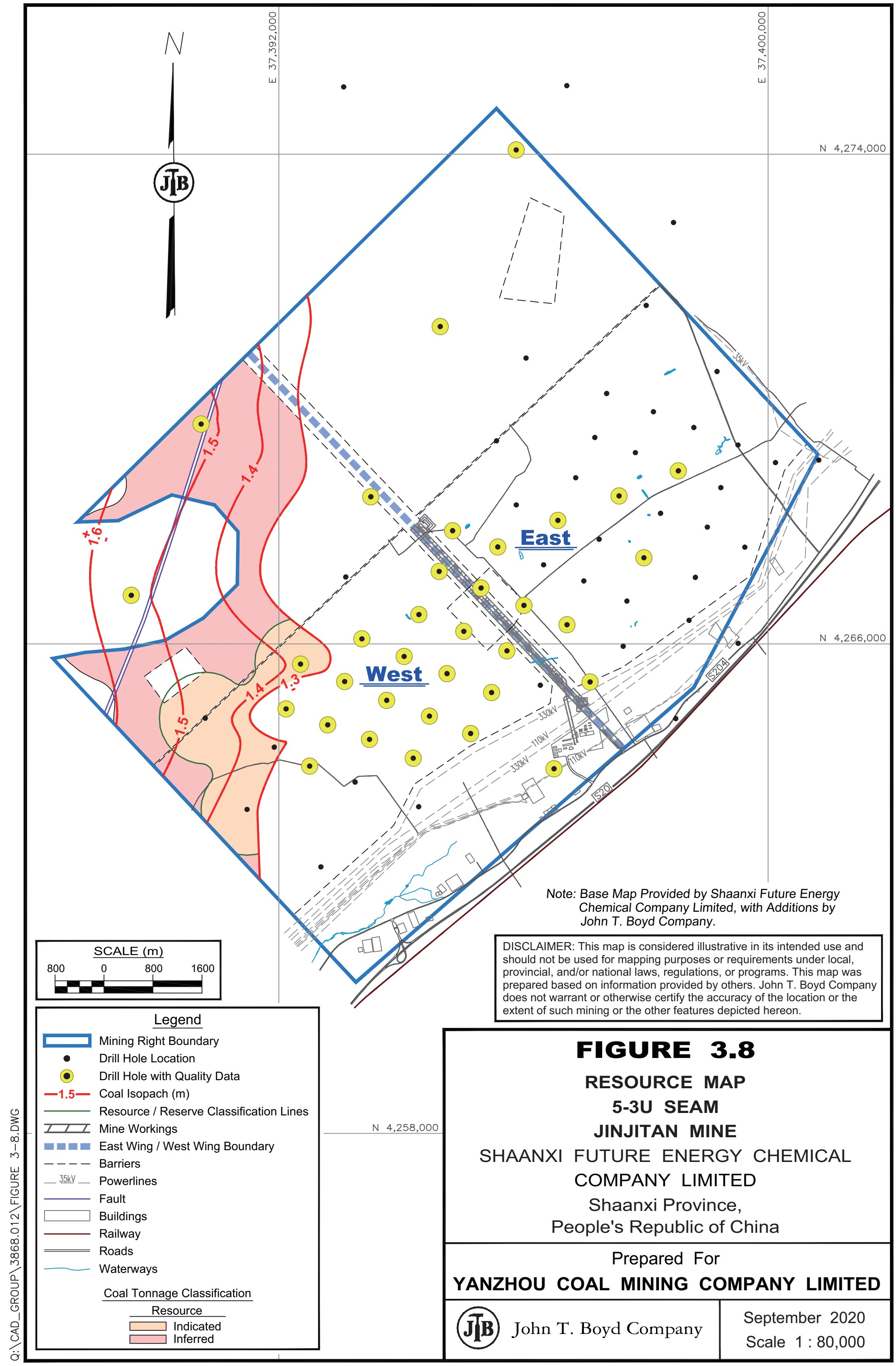
SCALE (m)
800 0 800 1600
Legend
Mining Right Boundary
Drill Hole Location
Drill Hole with Quality Data
1.5 Coal Isopach (m)
Resource / Reserve Classification Lines
Mine Workings
East Wing / West Wing Boundary
Barriers
35kV Powerlines
Fault
Buildings
Railway
Roads
Waterways
Coal Tonnage Classification
Resource
Measured
Indicated
Inferred
FIGURE 3.7
RESOURCE MAP
5-2 SEAM
JINJITAN MINE
SHAANXI FUTURE ENERGY CHEMICAL
COMPANY LIMITED
Shaanxi Province,
People's Republic of China
Prepared For
YANZHOU COAL MINING COMPANY LIMITED
JTB
John T. Boyd Company
September 2020
Scale 1 : 80,000
Q:\CAD_GROUP\3868.012\FIGURE 3-7.DWG

3-20


N
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SCALE (m)
800 0 800 1600
Legend
Mining Right Boundary
Drill Hole Location
Drill Hole with Quality Data
1.5 Coal Isopach (m)
Resource / Reserve Classification Lines
Mine Workings
East Wing / West Wing Boundary
Barriers
35kV Powerlines
Fault
Buildings
Railway
Roads
Waterways
Coal Tonnage Classification
Resource
Indicated
Inferred
FIGURE 3.8
RESOURCE MAP
5-3U SEAM
JINJITAN MINE
SHAANXI FUTURE ENERGY CHEMICAL COMPANY LIMITED
Shaanxi Province,
People's Republic of China
Prepared For
YANZHOU COAL MINING COMPANY LIMITED
JTB John T. Boyd Company
September 2020
Scale 1 : 80,000
Q:\CAD_GROUP\3868.012\FIGURE 3-8.DWG

4.0 MINE OPERATIONS

4.1 Introduction

This section discusses the mining operations of Jinjitan Mine. The mine and the on-site CPP are located in the Yushen Coalfield in Northern Shaanxi, which is a world class massive coal producing area with numerous underground coal mines. Development of coal, power and chemical industries in this region is part of the nation's development strategy for the western portion of the country. According to the Phase I general plan of Yushen Coalfield development, 23 coal mines with total output level of 55.0 Mtpa will be developed in the 925 km^2 area.

4.1.1 Geography

The physiographical setting for the mine is in a gentle sand dune region with surface elevations ranging from 1,180 m to 1,276 m (average 1,240 m). Sparse villages and farm lands are distributed across the relatively flat areas, while low trees are commonly observed in the remaining areas. The main surface water system includes the Sandaoheze River with average flow 5,090 m^3/d. Climate at the mine site is categorized as typical temperate zone semi-arid continental climate, featuring windy spring, hot summer, cool autumn and cold and long winter. The annual precipitation averages approximately 395 mm, with 70% occurring in July through September. Seismic activities are moderate and the area is ranked as lower than Category VI. In addition to the mining industry, agriculture and livestock are also well developed around the Yulin area.

4.1.2 Transportation

Transportation infrastructure within the Yulin area is well developed and includes expressway, highway, railway and aviation. The provincial highway S204, Yulin-Shenmu Expressway and Baotou-Xi'an Railway pass along its southeast boundary of the mine area, while the national highway 210 passes west of the mine. Coal produced from this area can easily be transported to northern, eastern, central and southern China through existing railways, and truck transportation is available for local and regional locations. The Yulin Airport is located 30 km southwest of the mine.

4.1.3 Power and Water Supplies and Land Recruitment

There are five major power plants distributed around the Yulin and Shenmu area and power supply is sufficient. The 110 kV dual-circuit power supply to the mine is sourced from Jinjitan Substation located 1.2 km southwest of the mine site, which is supplied by one circuit sourced from Xisha Substation and one circuit from Dabaodang Substation.

Water supply is mainly sourced from water pumped from underground during mining operations, which provided approximately 15,600 m^3/d. The mine water is processed before being reused by the mine and CPP. Additional water supply is available from the Lijialiang Reservoir, which is located 11 km away and pipelines are in place already.

The mine area is sparsely populated and with scattered farm land. The mine industrial facilities are mainly located above the barrier pillar for railway and power lines. Land can be acquired if and as needed, reportedly without problems.

4.1.4 Mine Construction History

Exploration of the mine field was conducted in the early 2000s. In 2008, a Feasibility Study Report (FSR) for Jinjitan Mine and a FSR for Jinjitan CPP, were prepared by Beijing Yuanzhihan Coal Engineering Design Co., Ltd (Yuanzhihan). A series of milestone events for the mine are listed in the following table:

Time	**Event**	**Remarks**
May 2008	FSRs completed	by Yuanzhihan
September 2010	Preparation for mine construction approved	by National Energy Administration (NEA)
2012	Revised FSRs completed	by Yuanzhihan
February 2012	Mine construction commenced	
June 2014	Most mine construction work completed LW test run conducted	
September 2014	Official Preliminary Design Report (PDR)	by Yuanzhihan
June 2015	First Mining Right Certificate issued	
December 2015	Official mine test run approved	by Shaanxi Provincial Administration of Coal Mine Safety (SPACMS)
September 2017	Safety facility inspected and accepted	by SPACMS
May 2018	The 8.0 Mtpa mine construction officially completed and accepted	by Shaanxi Provincial Development and Reform Commission
July 2018	The new 15.0 Mtpa capacity authorized	by SPACMS
March 2019	The 15.0 Mtpa capacity officially documented	by NEA
June 2019	New Mining Right Certificate (8.0 Mtpa) issued	due to boundary change

Although the authorized output level was increased from 8.0 Mtpa to 15.0 Mtpa in July 2018, a new mining right certificate with 8.0 Mtpa capacity was issued to replace the original one. The new certificate was needed due to the change of mine boundary caused by a new water resource protection plan declared by local government. The mine management confirmed that the authorized output level remains 15.0 Mtpa, and the mine was preparing a mine development plan at 15.0 Mtpa at the time of BOYD's site visit, for the use of the 15.0 Mtpa mining right certificate application.

Current and planned mining is in 2-2U Seam, which has an average thickness of 7.7 m. This seam is thicker in the East Wing (10.26 m average) and is thinner in the West Wing (7.52 m average). Depth to 2-2U Seam in mineable areas ranges from approximately 200 m to 320 m. The mine was originally designed with an output capacity 8.0 Mtpa to be produced using one FM LW face. The thick seam was mined in two slices with a 0.5 m thick coal left above the lower slice. During the process of mining the first three LW faces (101, 123 and 103), the mine management started to consider alternative mining methods to achieve higher coal recovery and efficiency, including the possible use of high-profile FM LW and FM LW with sublevel caving capability.

In June 2016, Jinjitan installed its first high-profile FM LW equipment in the 108 Face. This equipment can mine 8.2 m coal in one pass, making it the highest (LW cutting height) in the world by that time. As of 30 June 2020, this equipment has mined two LW faces (108 and 106). In January 2019, a set of FM LW equipment with sublevel caving capability was installed in LW face 117.

It is BOYD's understanding that the frequent changing of LW equipment was driven by two factors: (1) the encouragement from government for coal mines having favorable geological conditions and advanced technical and management advantages, to install higher performance equipment, and (2) the varying coal seam thickness of the 2-2U seam. Although the slicing FM LW approach requires less initial capital expenditures, its output capacity is constrained by the lower mining height. In addition, in the future when the lower slice is mined, even with a 0.5 m thick coal being maintained as the roof, the collapsed strata resulting from the mining of the upper slice, could pose potential safety risks, including face stability, flooding and spontaneous combustion problems. As for the high-profile FM LW technology, during BOYD's site visit, we were informed that when the coal seam is stable (i.e., without much rolling and absent the presence of thicker partings), the operation was very efficient with favorable productivity and high coal recovery. However, when thick partings were encountered in the lower portion of the coal seam in 106 LW Face, the mine experienced many problems, including slow advancing rate and extra efforts in maintaining safe work conditions due to the massive large size of the equipment. For comparison, the FM LW with sublevel caving approach has demonstrated promising progress in terms of advancing rate, output level, and flexibility, when adverse geological conditions were encountered. BOYD was informed that the mine intends to purchase another set of sublevel caving FM LW equipment in 2023.

It is BOYD's opinion that with the experiences accumulated in recent years, the current availability of three sets of FM LW equipment will allow the mine management to select the most suitable mining technology to recover its coal reserves in the 2-2U Seam. The output target of 15.0 Mtpa ROM coal should be easily achievable.

4.2 Mine Services

4.2.1 General Mine Design and Mine Openings

Two incline openings and one vertical shaft provide access to the underground mine. The main incline is 1,041 m long and driven at a 14-degrees decline angle. It is used for transportation of run-of-mine (ROM) coal from the mine to the surface by conveyor belt and also serves as an air intake. The main incline is equipped with the coal conveyor belt, pipelines for water, power cables, and other signal cables for telecommunication. The service incline is 3,028 m long and is driven at a 6-degree decline angle, and is used for material/personnel transport by rubber-tyre vehicles and air intake. The air-return shaft has a 7.0 m diameter and is 234 m deep. The inclines are supported by stone block lining; roof bolts and shotcrete. The floor was hardened using 300 mm concrete. The air-return shaft is lined with concrete. Details for the three openings are shown in the following table:

Opening	Depth/ Length (m)	Incline (degree)	Width/ Diam.(m)	Net Cross-Section Area (m^2)	Ventilation Type	Use
Main Incline	1,058	14	5.6	21.3	Air Intake	Coal Haulage
Service Incline	3,028	5.5	6.0	23.7	Air Intake	Service
Ventilation Shaft	234	90	7.0	38.5	Air Return	Air Return

The underground mine plan was designed to include five main roadways running from south to north, namely, one conveyor belt roadway for coal transportation, two service transportation roadways and two air return roadways. The current mining operation is in the 2-2U Seam, which is divided to two mining districts, District I (south) and District II (north). The current air-return shaft services District I only and a new shaft will be built when the District II is mined. The main roadways split each district into the West Wing and the East Wing. The longwall panels are developed in each wing along the east-west direction using continuous miner (CM) sections. Retreat mining is used to mine each panel advancing from the end of the panel towards the main roadways. It is BOYD's opinion that the general design is straight forward due to the flat strata lying and nearly rectangular mine configuration. Most of the LW panels are over 5,000 m long.

4.2.2 Underground Coal Haulage

The underground coal transportation system consists of gate road, main roadway and main incline belt conveyors. ROM coal mined from LW face operations and CM gate development faces is conveyed from the active faces via gate road belt conveyors to the main (trunk) roadways belt conveyors. These conveyors eventually transfer the ROM to the belt conveyor installed in the main incline (which transports the ROM to the surface). Jinjitan's underground coal transportation belt conveyor arrangements are summarized as follows:

Location	Width (mm)	Speed (m/s)	Capacity (tph)	Motor (kW)
Main Incline	1,800	5.0	4,500	3x1,400
Main Roadway	1,800	4.0	3,500	2x1,120
Gateroad (FM LW)	1,800	4.0	3,500	7x630
Gateroad (FM LW with Sublevel Caving)	1,800	4.0	3,500	7x855

The installed network of belt conveyors can accommodate the design output capacity of 15.0 Mtpa.

4.2.3 Underground Material and Personnel Transport

The underground material and personnel transportation system utilize rubber-tyre vehicles. The service incline has a 6-degree dip which allows loaded vehicles to drive upslope to surface. The vehicles for material transportation are of 5t capacity and equipped with 65 kW motor. Vehicles for workers transportation can hold 21 personnel. LW moves are contracted to a special service team from Yankuang Donghua Construction Company, which has the special vehicles needed for moving heavier equipment such as shields and shearer.

4.2.4 Ventilation and Coalbed Methane

Jinjitan Mine's methane emissions are classified as low. The methane emission rate is projected to be 2.65 m^3/min (0.09 m^3/tonne), and the CO_2 emission rate is projected to be 10.67 m^3/min (0.35 m^3/tonne). The actual measured emission rates as reported by the mine management, approximate these projections. Degasification (methane recovery) prior to mining is not necessary.

The mine utilizes an exhausting type ventilation system. The ventilation network utilizes the two inclines for intake air and the shaft for exhausting the return air. Two sets of fans, one in operation and one on standby, are installed at the return air shaft. The ventilation air volume was reported to be approximately 15,600 m^3/min.

The ground temperature gradient averages 2.17°C/100m, which is categorized as normal. Since most of the coal seam occurs at a depth of less than 430m, ground temperature does not appear to be hazardous.

4.2.5 Coal Dust and Spontaneous Combustion

Based on geological reports, the coal dust associated with the 2-2U Seam is explosion-prone, and the coal seam has potential for spontaneous combustion. Preventive procedures against explosion and spontaneous combustion, such as water spry at working faces, mud slurry injection in gob areas, water screen at main roadways, periodical flushing of all underground roadways, nitrogen injection into gob, etc., have been followed as the standard practices in the mine operations. Automatic monitoring system was installed to monitor the gas contents at various locations.

4.2.6 Water Management

The current Jinjitan Mine ground water inflow is typically approximately 1,000 to 1,200 m^3/hour. Maximum water inflow is 1,500 m^3/hour, which appears high. The underground central pumping chamber has a 9,000 m^3 sump capacity, and 10 pumps are installed, seven for pumping under normal conditions (max. capacity 2,160 m^3/h), while the remaining three provide an additional 1,450 m^3/h capacity to handle surge water inflow. In addition, another pumping chamber is available at the northeast corner of District I (lowest elevation). The sump capacity of the second chamber is 16,500 m^3; seven pumps with a maximum capacity of 2,880 m^3/h, are installed for handling normal water inflow, and another four pumps provide additional 2,900 m^3/h capacity for emergency water pumping. The total water storage and pumping installation appears more than adequate to meet the mine's projected water pumping requirements. Both pumping chambers pump the underground water directly to surface through pipelines installed in main roadways, ventilation shaft and boreholes.

4.2.7 Mine Surface Facilities

Mine surface facilities provide accommodations for all aspects of the mining operation, including: administration and mine manager offices, materials and parts storage, machinery shops, electrical and maintenance areas, locker rooms and bathhouse areas, conference rooms, engineering facilities, mine monitoring and communications station, etc.

4.3 Mining Operations

4.3.1 Work Schedule

LW and development faces are scheduled to operate 330 days per year on a 7-day per week basis. Major festival periods and national holidays account for 15 idle operating days annually. Mine and equipment examinations, repair periods, LW face moves, and mine site outages account for the balance of the non-production time. According to the mine design document, the LW is scheduled for three 8-hour shifts per day, with two shifts of production and one shift used for maintenance and face preparation. Development sections are also scheduled for three 8-hour shifts per day, with support and maintenance performed during each shift.

4.3.2 Mining and Development

As described in Section 4.1.4, currently the mine has three sets of FM LW equipment to mine the coal seam and to accommodate the varying thickness. The mine area for the active operation in the 2-2U Seam is divided into two mining districts, and current LW mining is in District I. As of 30 June 2020, three LW panels (101, 123 and 103) were mined out using FM LW slicing method in the East Wing, and two LW panels (108 and 106) were mined out using high-profile FM LW method. At the time of BOYD's site visit, there were two active LW faces: the 117 Face in the East Wing using FM LW with sublevel caving method, and the 104 Face in the West Wing using the FM LW method (equipment for slicing faces). Coal thickness at 104 Face will gradually become thicker towards the east. After the LW retreats for approximately 2,700 m, the high-profile FM LW equipment will be installed to mine the portion of the panel having the thicker seam which will extend to the recovery line at the end of the panel. Similar arrangement is planned for the next LW panel (102). It is BOYD's opinion that selecting the most suitable equipment could maximize the recovery of coal when the thickness changes, although the additional mid-panel LW move/ setup will incur additional cost.

Jinjitan Mine employs a four-entry gate road development design. Except for the three LW faces using the slicing method (all gates for mining the top slice are driven in the middle of the coal seam), gate development in the 2-2U Seam follows the seam floor horizon. The LW gate road layout has two tailgate roadways (also used as material transportation gate) and two headgate roadways. The four-gate design is very common in Chinese underground coal mines and provides good ventilation and sufficient space for material handling. A 20-25 m pillar is left between the gates and crosscuts are driven every 70 m. Gate roads are nominally 6.0-6.4 m in width and 4.4-4.6 m in height. Roof support systems include roof bolting, meshing, and shotcreting for main roadways, and roof bolting with plastic meshing and/or steel straps for gate roads. Development crews install cable bolts for secondary support and rib bolts to control sloughage.

LW face development is performed with continuous miners (CMs), roof bolters and shuttle cars. The mine has two CM sections to develop gate roads for the LW panels, and each CM section can achieve an advance rate as much as 1,650 m/month. It is BOYD's opinion that the development arrangement can achieve the requirements necessary to sustain LW mining.

4.3.3 LW Equipment

Currently Jinjitan maintains three sets of FM LW equipment in operation. The FM LW unit consists of shearer, shields, armored face conveyor (AFC), stage loader, crusher, belt conveyor and electrics. The equipment parameters are summarized in the tables follows:

Shearer Parameters

No.	Mining Height *(m)*	Motor *(kW)*	Drum Diam. *(m)*	Cutting Depth *(mm)*
FM LW – Slicing	2.9–5.8	2,345	2.9	865
FM LW – High Profile	4.0–7.9	2,925	4.0	865
FM LW – Sublevel Caving	5.0–7.0	2,650	3.5	865

AFC Parameters

No.	Length *(m)*	Capacity *(tph)*	Motor *(kW)*	Width *(mm)*
FM LW – Slicing	200	800	2X200	724
FM LW – High Profile	310	5,500	3X1,600	1,400
FM LW – Sublevel Caving	310	4,000	2X2,000	1,400
FM LW – Sublevel Caving – rear	310	4,500	3X1,600	1,400

Shields Parameters

No.	Support Height *(mm)*	Support Width *(mm)*	Work Resistance *(kN)*	Support Strength *(MPa)*
FM LW – Slicing	1,700–3,500	1,500	6,400	0.92–1.06
FM LW – High Profile	3,800–8,200	2,050	21,000	1.65+
FM LW – Sublevel Caving	3,550–7,000	2,100	21,000	1.66+

Stage Loader Parameters

No.	Length *(m)*	Motor *(kW)*	Capacity *(tph)*
FM LW – Slicing	34	780	4,000
FM LW – High Profile	60	1,400	6,000
FM LW – Sublevel Caving	60	1,200	7,000

No.	Crusher Parameters Feeding Size (HxW,mm)	Motor (kW)	Capacity (tph)
FM LW – Slicing	1,800x650	522	4,000
FM LW – High Profile	1,600x1,500	1,400	7,000
FM LW – Sublevel Caving	1,600x1,500	1,200	7,500

During our site visit, BOYD was informed that the mine management intends to purchase another set of FM LW sublevel caving equipment in 2023. It was indicated that the high-profile FM LW unit is less efficient, as compared with the FM LW sublevel caving equipment, when the coal seam is thicker than 8.0 m.

4.3.4 Output

Jinjitan Mine's product coal production for the period 2017 to 2020 (end of June) is summarized as follows:

	Historical Product Tonnes (Mt) 2017	2018	2019	2020 2Q
Product Coal	14.05	12.86	15.16	8.76

In 2017 most of the ROM coal material was screened to various sizes and sold on a raw coal basis since construction of the CPP had not been completed. Since 2018, the output has been increasing and the 2020 half-year production reached 8.76 Mt product. The current FM LW installation output capacity is significantly larger than the authorized 15.0 Mtpa production authorization.

4.4 Surface Coal Handling

ROM coal is crushed to 400 mm top size before being conveyed to the surface and transferred to screening facilities in the CPP. At the CPP, the ROM is crushed into 150 mm top size, and then screened to the following sizes: 13-150 mm and -13 mm. The -13 mm material is bypassed and the 13-150 mm material is washed using shallow slot heavy media circuitry. The washed product is then crushed to 80 mm top size and screened to two sizes: 30-80 mm lump clean coal, and minus 30 mm fine clean coal. There are eight silos constructed for raw coal and clean coal storage plus one silo for refuse storage. As of the time of BOYD's site visit, truck transportation was used for all the coal products and refuse. A train loading facility with spur lines connecting the mine with the national railway system, is under construction.

During the site visit, BOYD observed that an additional facility designed to wash the fine coal (-13 mm size currently bypassed) using heavy media cyclone technology was under construction. This addition is projected to be completed in the year 2023.

Further details are discussed in Chapter 5 Coal Preparation.

4.5 Staffing

Jinjitan Mine's historical workforce staffing is summarized as follows:

	Jinjitan			
	2017	**2018**	**2019**	**2020 2Q***
Product Tonnes (Mt)	14.05	12.86	15.16	8.76
No. of Personnel by Category				
Underground				
Mining	157	210	298	230
Development	94	91	111	108
Support	129	128	137	143
Subtotal	380	429	546	481
Surface Coal Handling	79	178	178	178
Surface and Support				
Management	41	41	44	50
Technical	15	18	17	14
Other Support	233	235	214	257
Subtotal	289	294	275	321
Total	748	901	999	980
Labor Productivity (Product Tonnes/Employee-Year)				
Total Employment Basis	18,780	14,280	15,180	17,880
Underground Only Basis	36,970	29,980	27,770	36,420

* Numbers for 2020 2Q were annualized.

In 2017, Jinjitan Mine's average labor productivity was high (i.e., 18,780 product tonnes per employee-year for the total mine workforce and 36,970 product tonnes per employee-year for the underground staffing). This high productivity was the result of direct selling of raw coal. The labor productivity has been increasing since 2018 due to the increase in product coal output (and reached 17,880 product tonnes per employee-year for the total mine workforce and 36,420 product tonnes per employee year for the underground staffing). Jinjitan Mine's productivity is ranked as top of the class for FM LW mines both in China and in the world. The main contributing factors for this high productivity include the favorable geological conditions, thick coal seam, highly productive FM LW installation and successful management.

4.6 Capital Expenditures

Historical capital expenditures for Jinjitan Mine for the period 2017 to June 2020 are as follows:

	Capital Expenditures (RMB Millions)			
Category	**2017**	**2018**	**2019**	**2020 2Q**
Mine	82.20	575.18	387.63	62.91
Coal Preparation Plant	226.29	61.96	15.23	46.73
Village Move	–	–	–	150.00
Total	308.49	637.13	402.86	259.63

Most of the mine construction work had been completed prior to the year 2017. The large spending for the mine in 2018 and 2019 was mainly for the addition of the new FM LW equipment. Most of the CPP spending occurred in 2017, although the actual production commenced in 2018. Jinjitan developed and provided funding for a detailed village move plan (Phase I for mining of District 1) to make sure that LW operations will not be affected.

4.7 Operating Costs

Jinjitan Mine historical operating costs for 2017 to June 2020 are as follows:

	Historical Operating Costs			
	2017	**2018**	**2019**	**2020 2Q**
Product Tonnes (Mt):	14.05	12.86	15.16	8.76

Category	RMB (million)	RMB/ Product Tonne	RMB (million)	RMB/ Product Tonne	RMB (million)	RMB/ Product Tonne	RMB (million)	RMB/ Product Tonne
Cash								
Materials	166.04	11.82	112.89	8.78	119.41	7.88	67.94	7.75
Salaries	114.33	8.14	140.81	10.95	167.75	11.06	89.12	10.17
Welfare	64.86	4.62	77.89	6.06	81.34	5.36	45.67	5.21
Power	49.65	3.53	56.84	4.42	71.79	4.74	38.75	4.42
Repairs	55.63	3.96	54.61	4.25	36.14	2.38	30.00	3.42
Heating/Water Fees		–	–	–	–	–	–	
Subsidence Compensation	38.99	2.78	52.34	4.07	85.82	5.66	56.19	6.41
Mine Administrative	(19.99)	(1.42)	10.22	0.79	11.60	0.77	1.84	0.21
Financial Expenses	55.55	3.95	103.49	8.05	52.70	3.48	32.25	3.68
Sales Expenses	25.23	1.80	20.86	1.62	21.84	1.44	10.15	1.16
Other	220.21	15.68	229.06	17.81	395.70	26.10	181.43	20.71
Subtotal – Cash	770.51	54.85	859.02	66.78	1,044.09	68.86	553.34	63.16
Non-cash								
Depreciation	156.07	11.11	185.22	14.40	231.16	15.25	128.64	14.68
Amortization of Mining Right	71.29	5.08	70.99	5.52	85.25	5.62	48.61	5.55
Simple Production Maintenance	147.65	10.51	147.02	11.43	176.56	11.64	101.48	11.58
Safety Production	210.92	15.02	210.03	16.33	252.23	16.64	143.81	16.41
Subtotal – Non-cash	585.93	41.71	613.26	47.68	745.20	49.15	422.53	48.23
Total	1,356.44	96.57	1,472.28	114.46	1,789.29	118.01	975.88	111.38

Note: Numbers may not add due to rounding.

Jinjitan Mine's operating costs since 2018 appear stable and average RMB115/product tonne. This level of cost performance is among the lowest level of all China's underground coal mines. The RMB96.57/product tonne shown for 2017 reflects the sale of raw coal (without wash). The negative Mine Administrative costs shown in 2017 was due to the refund of environment-related charges. The cost in Other category seems high, and it was reported that it includes actual environmental compensation, technical service fees, contracted development and miscellaneous engineering tasks, repairs, etc.

4.8 Future Operations

4.8.1 Output

Jinjitan Mine planned to produce 15.0 Mt ROM coal each year in the period 2020 to 2024, and thereafter. Mining operations are projected to continue in the 2-2U Seam. The mine intends to purchase another set of FM LW with sublevel caving in 2023. The mine will then maintain two sublevel caving FM LW faces to achieve the planned ROM coal output targets.

LW face performances required to attain output authorizations are reasonable and realistic considering the mine's FM LW operation practice and recent experience. The projections for ROM and product tonnages are shown in the following table:

	Projected Production (Mt)				
	2020	**2021**	**2022**	**2023**	**2024**
ROM Coal	15.00	15.00	15.00	15.00	15.00
Product Coal	13.84	14.09	14.09	13.93	13.93

4.8.2 Staffing

Staffing projections for the Jinjitan Mine operations for the period 2020 to 2024 are as follows:

	Jinjitan				
	2020	**2021**	**2022**	**2023**	**2024**
Product Coal Tonnes (Mt) No. of Personnel by Category	13.84	14.09	14.09	13.93	13.93
Underground					
Mining	230	228	230	240	240
Development	108	105	108	110	110
Support	139	136	160	160	180
Subtotal	477	469	498	510	530
Surface Coal Handling	178	178	178	263	263
Surface and Support					
Management	50	50	52	56	56
Technical	14	14	16	18	20
Other Support	254	248	255	260	300
Subtotal	318	312	323	334	376
Total	973	959	999	1,107	1,169
Labor Productivity (Product Tonnes/Employee-Year)					
Total Employment Basis	14,230	14,690	14,100	12,590	11,920
Underground Only Basis	29,020	30,030	28,280	27,320	26,290

The increase of personnel shown for surface coal handling in 2023 is due to the addition of the new fine coal washing system, which is currently under construction. Projected average labor productivity at the 15.0 Mtpa ROM coal output level in 2024 is 26,290 product tonnes per employee-year for underground workers and 11,920 tonnes per employee-year for the total employment. Labor productivity projections are comparable to historical performance. Overall staffing levels are appropriate for the projected output considering that the mine utilizes internally contracted services.

4.8.3 Capital Expenditures

Based on the provided capital expenditure projections and BOYD's site visit discussions with mine technical and management personnel, the following capital expenditures (CAPEX) projection for Jinjitan Mine for the period 2020 (second half year) to 2024 was developed:

	Capital Expenditures (RMB millions)				
Category	2020 2H	2021	2022	2023	2024
Village Relocation	150	200	–	–	–
Undergound Engineering	–	110	30	–	–
Electromechanical Equipment	15	140	40	–	–
Environment Protection	220	–	–	–	–
CPP Fine Coal Processing System	95	310	156	–	–
Continous Miner	–	46	46	–	–
Sub-Level Caving FM LW Equipment	–	–	–	446	–
Sustaining Capital	33	81	81	81	81
Total	512	887	352	527	81

Village relocation budget (Phase I), as provided by Jinjitan, totals RMB500 million. Approximately RMB150 million was spent in the first half of 2020 and the rest will be spent by 2021. The underground engineering projection includes expenditures for a dewater roadway development at the west wing boundary of the No.1 district and the new air return main roadway development. The electromechanical equipment, for mine power supply upgrade and pumping system upgrade in the No.1 district, is projected to be purchased during 2020 and 2023. The environment protection related constructions, including two sets of fluidized-bed boilers and dredged water utilization project, are projected to be completed in 2020. Construction of the fine coal washing system commenced in 2020 and is projected to be completed by 2022. Jinjitan plans to purchase additional continuous miner (CM) equipment in 2021, and it seems likely the current CM sections will need to be replaced after approximately 10 years operation. A new sublevel caving FM LW will be purchased in 2023. Based on our experience, it is reasonable to assume a general FM LW equipment life span of 8 years. In addition, BOYD assumed a RMB5/tonne unit cost for sustaining capital for the first five years, which is likely to increase thereafter to RMB10/tonne.

We understand the mining right royalty paid by Jinjitan will cover approximately another 13 years operation at the projected output level. In order to continue operation in the 2-2U Seam, the mine will need to pay additional royalty by that time.

4.8.4 Operating Costs

Jinjitan provided mine operating cost projections. However, since some capital expenditures were not included in the information provided by Jinjitan, BOYD made necessary adjustments to reflect the increase in amortization and depreciation costs resulting from the increased capital expenditures projected by BOYD. The projections for future operating costs, including BOYD's adjustments, are summarized as follows:

	Projected Operating Costs				
	2020	**2021**	**2022**	**2023**	**2024**
Product Tonnes (Mt):	13.84	14.09	14.09	13.93	13.93

Category	**RMB (million)**	**RMB/ Product tonne**	**RMB (million)**	**RMB/ Product tonne**	**RMB (million)**	**RMB/ Product tonne**	**RMB (million)**	**RMB/ Product tonne**	**RMB (million)**	**RMB/ Product tonne**
Cash										
Materials	90.00	6.50	110.00	7.81	147.85	10.50	156.27	11.22	156.27	11.22
Salaries	203.62	14.71	203.62	14.46	203.62	14.46	214.57	15.40	214.57	15.40
Welfare	76.88	5.55	76.88	5.46	76.88	5.46	83.34	5.98	83.34	5.98
Power	78.29	5.65	75.94	5.39	75.94	5.39	93.42	6.71	93.42	6.71
Repairs	71.00	5.13	66.00	4.69	60.00	4.26	67.43	4.84	67.43	4.84
Subsidence Compensation	118.17	8.54	94.53	6.71	75.63	5.37	75.63	5.43	75.63	5.43
Mine Administrative	19.40	1.40	19.40	1.38	19.40	1.38	19.40	1.39	19.40	1.39
Financial Expenses	57.39	4.15	44.21	3.14	44.21	3.14	48.71	3.50	48.71	3.50
Sales Expenses	22.28	1.61	22.28	1.58	22.28	1.58	22.28	1.60	22.28	1.60
Other	368.36	26.61	370.33	26.29	370.52	26.30	378.20	27.15	378.20	27.15
Subtotal – Cash	1,105.39	79.84	1,083.20	76.90	1,096.34	77.83	1,159.25	83.21	1,159.25	83.21
Non-cash										
Depreciation	291.13	21.03	343.65	24.40	350.83	24.91	406.61	29.19	406.61	29.19
Amortization of Mining Right	83.55	6.03	99.38	7.06	99.38	7.06	99.38	7.13	99.38	7.13
Simple Production Maintenance	157.50	11.38	169.58	12.04	169.58	12.04	169.58	12.17	169.58	12.17
Safety Production	225.00	16.25	242.25	17.20	242.25	17.20	242.25	17.39	242.25	17.39
Subtotal – Non-cash	757.18	54.69	854.86	60.69	862.04	61.20	917.82	65.88	917.82	65.88
Total	1,862.57	134.54	1,938.06	137.59	1,958.38	139.03	2,077.06	149.09	2,077.06	149.09

Note: Numbers may not add due to rounding.

Our comments regarding BOYD's adjusted Jinjitan Mine's internally prepared operating cost projections are as follows:

- The cash costs projections (no adjustment was made) is slightly higher than the operating cost in the 2018 to 2020 period. Although the details for the Other category remain similar to history, it is generally reasonable to expect the cash cost to gradually increase as the mine operation continues.

- The projections initially provided by Jinjitan did not reflect the additional operating costs incurred by the new fine coal processing facility. BOYD adjusted the operating costs beginning in 2023 accordingly.

- Depreciation costs are calculated using the straight-line method for fixed assets according to established asset depreciation lives and salvage value estimations. BOYD's adjustment of Depreciation reflects the projected capital expenditures.

- Amortization of mining right royalty is included in Non-cash costs. The projected capital needed for village relocation is amortized and added in.

- Safety Production and Simple Production Maintenance ("Keep Simple Production") fees are considered as non-cash cost accruals (according to GAAP) for income tax calculations, although the monies may be utilized for mine-related projects.

It is BOYD's opinion that the projected operating costs are generally comparable to other first-class China FM LW mines operating at similar ROM output levels and appear reasonable. Economic viability of Jinjitan Mine is discussed in Chapter 8 of this report.

5.0 COAL PREPARATION

5.1 Introduction

Future Energy owns and operates the Jinjitan CPP, which is located on the mine site and is used to process ROM coal produced from the Jinjitan underground mining operation. The Jinjitan CPP commenced operation in May 2018. Construction of a new fine coal processing facility, using heavy media cyclone technology to process fine coal, started in May 2020 and is expected to be completed in 2023. BOYD visited the Jinjitan CPP in August 2020.

5.2 Capacity

Current coal processing capacity of Jinjitan CPP is 15 Mtpa, which equals the authorized coal output level from the mine. Between 2018 and the first half of 2020, the tonnage of coal washed is much less than the Jinjitan CPP's capacity due to bypass of fine coal (-13 mm) after screening.

A typical CPP operating schedule totals 5,280 hours per year (16 operating hours per day, 330 operating days annually), with allowances for mechanical availability, utilization, and efficiency. At 15 Mtpa, the installed capacity would be 2,840 tph.

For Jinjitan CPP, Future Energy provided historical operating hours. Using these data, BOYD calculated the overall availability and utilization as follows:

	2017	2018	2019	2020 2Q
ROM Washed (Mt)	–	4.47	8.58	3.93
Operating Hours (hrs)	–	4,808	7,161	3,522
Availability (%)	–	91.1	135.6	133.4
Utilization (%)	–	54.9	81.7	80.4
Calculated ROM tonnes Processed/Operating Hour	–	930	1,198	1,116
Capacity Performance (%)	–	32.7	42.2	39.3

Notes:

1. Scheduled hours are assumed as 5,280/year (16 hrs/day x 330 days/yr).

2. Availability equals Operating Hours divided by Scheduled Hours.

3. Utilization equals Operating Hours divided by 8,760 hours (total hours in year).

4. Capacity Performance equals average ROM tonnes per operating hour divided by installed capacity of 2,840 tph.

Availability and utilization during 2019 and the first half of 2020 were extremely high, averaging 135% and 81%, respectively. However, in terms of average ROM tonnes per operating hour, the performance of the plant is substandard (average 1,081 ROM tonnes per operating hour or approximately 38% of installed capacity). This low average is the result of the low washing rate of the ROM coal fed into the CPP. While almost 52% of ROM coal (minus 13 mm fines) was bypassed, the heavy media circuitry had been operating at a low ROM feed rate, as compared to the installed capacity. In other words, assuming sufficient ROM and a uniform feed rate at or near plant capacity, Jinjitan CPP is capable of achieving a much higher processing capacity (estimated at approximately 20 Mtpa).

5.3 Production and Coal Quality

Future Energy has provided historical CPP production data for the Jinjitan CPP from May 2018 through June of 2020. Historical CPP annual input and output are summarized as follows:

	2017		2018		2019		2020 (2Q)	
Product Source	*Mt*	*%*	*Mt*	*%*	*Mt*	*%*	*Mt*	*%*
ROM Bypass (<13 mm)	14.06	100	4.49	32	7.51	47	5.26	57
Clean Coarse (30 mm – 80 mm)	–	–	1.80	13	3.35	21	2.08	23
Clean (<30 mm)	–	–	1.99	14	4.00	25	1.26	14
Slime		–	0.10	1	0.23	1	0.08	1
Total Product	14.06	100	12.86	92	15.16	94	8.76	95

Note: The CPP commenced operation in May 2018, and coal produced before that date was sold in ROM basis.

During the period of May 2018 through June of 2020, the CPP produced 31.75 Mt of commercial products, including the bypass fine coal and low ash clean coal.

The suite of coal products produced at the Jinjitan CPP includes: (1) CPP clean coarse size coal (30 mm – 80 mm), (2) clean coal (minus 30 mm), and (3) bypass (unwashed) fine coal (minus 13 mm) blended with dewatered slimes. The overall product yield is 93.9% on average, based on the historical CPP performance shown in the following table:

	Historical Production (Mt)				Eeighted Average Product Yield
Commercial Product	**2018**	**2019**	**2020 2Q**	**Total**	**(%)**
Coarse Clean	1.80	3.35	2.08	7.23	21.10
Clean	1.99	4.00	1.26	7.25	21.20
Bypass Fine	4.59	7.74	5.34	17.67	51.60
Total Product	8.38	15.09	8.68	32.15	93.90

Note:

1. The Jinjitan CPP commenced production in May 2018.

2. The Bypass Fine Coal includes coal slime.

Historical (2018 through the second quarter of 2020) shipped coal quality data show reasonably consistent commercial coal quality during the three-year period. Following is the average annual shipped coal quality by product type:

		(%)		Qnet,ar
Year/Product	**Ad**	**Mt**	**St,d**	**kcal/kg**
2018				
Bypass Fine	10.5	13.5	0.7	5,879
Clean Coarse	8.6	10.1	0.6	6,163
Clean	9.3	12.9	0.7	6,006
2019				
Bypass Fine	10.8	13.9	0.7	5,821
Clean Coarse	7.5	9.5	0.6	6,340
Clean	8.6	12.6	0.6	6,098
2020 2Qtrs				
Bypass Fine	9.2	13.0	0.6	5,994
Clean Coarse	7.6	11.3	0.5	6,276
Clean	7.8	12.7	0.6	6,142
Weighted Average				
Bypass Fine	10.2	13.5	0.7	5,888
Clean Coarse	7.8	10.2	0.6	6,278
Clean	8.7	12.7	0.6	6,080
Overall	9.3	12.6	0.6	6,019

Based on BOYD's review of the data provided, there is no significant change in the quality between the remaining reserve areas and the previously depleted areas. Discussions with Jinjitan site management indicate that there will be a technical upgrade to the Jinjitan CPP washing technology and the product structure will change beginning in 2023. A fine coal processing system using heavy media cyclone technology to process the current bypass fine coal product, is under construction and is expected to be in production in 2023. The new system will produce fine clean coal, middling and waste reject. Based on the Feasibility Study Report for the new system, following are BOYD's estimates for the production, yields and quality of different products:

	Production (Mt)	Product Yield (%)	Ash (Ad %)	Qnet.ar (kcal/kg)
Plant Feed	15.00			
Commercial Product				
Coarse Clean	3.17	21.1	7.8	6,280
Clean	3.18	21.2	8.6	6,080
Fine Clean	7.12	47.5	8.6	6,080
Fine Middling	0.46	3.1	13.2	5,780
Weighted Average	13.93	92.9	8.6	6,115

Compared with the current CPP performance, the average product yield will decrease to 92.9% from the current 93.9%. However, the average calorific value of the commercial product will be improved by 100 kcal/kg, leading to an increased margin of approximately RMB18.9/tonne from the current bypass fine product.

5.4 Circuitry

The Jinjitan CPP produces a thermal coal product utilizing heavy media technology. Following is a summary of the coal processing:

1. ROM is initially crushed to minus 150 mm, followed by screening at 13 mm to remove the finer size fractions which bypasses CPP processing and is sold raw. A fine coal processing system is under construction, and the minus 13 mm ROM material which is now bypassed, will be processed by this system after 2023.

2. Remaining coarse ROM is deslimed (rinsed to remove any fine particles that may adhere to the larger particles).

3. The 150x13 mm raw coal is washed using heavy media circuitry to remove waste rock impurities. The +80 mm clean coal is crushed to 80 mm top size, followed by screening at 30 mm into coarse clean coal (30 mm by 80 mm) and clean coal (minus 30 mm).The waste reject reports to the waste silo for disposal.

4. The coal slime is processed in the thickener, followed by pressure filtration. The slime product is then blended into the bypass fine coal for sale.

5. After the completion of the fine coal processing system, the minus 13 mm bypass fine coal will be either fully/partly/not processed after/without screening at 3 mm. The 0 (or 3) mm to 13 mm fine coal will be processed in a heavy medium cyclone, separating the fine coal into clean fine coal, middling and waste reject. The coal slime of the fine coal processing system will be processed in a hydrocyclone, separating the slimes into fine and coarse fractions. The fine slime (minus 0.25 mm) is processed in the

thickener, followed by pressure filtration. The fine slime product is then blended into the middling product. The coarse slime (0.25 mm to 1.0 mm) is processed by Telligent Coarse Slime Separator (TCS), followed by Hydroextractor. The coarse slime product is then blended into clean fine coal. The tailings of the TBS go to the waste reject after dewatering.

Clarified water from the thickener is re-circulated through the plant, resulting in a closed-loop, no-discharge water plant system.

Depending on market conditions, the coal handling and processing systems are flexible to adjust for various combinations of products.

5.5 Staffing

Future Energy provided staffing data for the Jinjitan CPP, as summarized below:

	Historical				Projected				
	2017	2018	2019	2020 2Q	2020	2021	2022	2023	2024
Admin. & Management	5	5	6	7	7	7	7	16	16
Production	42	99	99	98	98	98	98	140	140
Maintenance	26	61	60	60	60	60	60	91	91
Support & Service	2	3	3	3	3	3	3	3	3
Other	4	10	10	10	10	10	10	13	13
Total	79	178	178	178	178	178	178	263	263
Product Tonnes/Employee-Year	177,848	72,247	85,169	49,213	77,753	79,157	79,157	52,966	52,966

Based on Jinjitan Mine's product coal production between 2018 and the second quarter of 2020, which was processed in the Jinjitan CPP, the productivity was: (1) approximately 68,876 tonnes per employee year on average, and (2) experiencing a material increase (as ROM production increased, while CPP staffing kept the same). The productivity is expected to be lower in and after 2023 because of the increase staffing to operate the new fine coal processing system.

5.6 Capital Costs

Future Energy did not provide the historical capital expenditures for the Jinjitan CPP. Based on the discussion with Jinjitan Management, the CPP commenced operation in May 2018, and the fine coal processing system technical upgrade started in May 2020. The total capital costs of the fine coal processing system is RMB560.98 million.

5.7 Operating Costs

Historical and projected cash operating costs for Jinjitan CPP are as follows:

	Historical			Projected				
Category	**2018**	**2019**	**2020 2Q**	**2020**	**2021**	**2022**	**2023**	**2024**
Washed Product (Mt)	3.83	7.83	3.55	7.17	7.17	7.17	13.93	13.93
Operating Costs (RMB millions)								
Materials & Supplies	22.00	31.38	19.04	33.00	33.00	44.36	51.32	51.32
Labor – Salary	16.14	24.20	11.85	30.31	30.31	30.31	39.37	39.37
Labor – Fringe Benefits	8.27	11.23	4.90	8.81	8.81	8.81	14.15	14.15
Power	7.31	18.35	8.72	19.57	19.57	19.57	34.05	34.05
Depreciation	34.03	51.04	25.59	51.56	51.56	52.07	72.71	72.71
Other	12.17	36.95	20.21	40.00	39.00	39.00	68.02	68.02
	99.92	173.16	90.31	183.25	182.25	194.12	279.62	279.62
Operating Costs (RMB/ tonne)								
Materials & Supplies	5.7	4.0	5.4	4.6	4.6	6.2	3.7	3.7
Labor – Salary	4.2	3.1	3.3	4.2	4.2	4.2	2.8	2.8
Labor – Fringe Benefits	2.2	1.4	1.4	1.2	1.2	1.2	1.0	1.0
Power	1.9	2.3	2.5	2.7	2.7	2.7	2.4	2.4
Depreciation	8.9	6.5	7.2	7.2	7.2	7.3	5.2	5.2
Other	3.2	4.7	5.7	5.6	5.4	5.4	4.9	4.9
	26.1	22.1	25.4	25.6	25.4	27.1	20.1	20.1

The average historical operating cost for the Jinjitan CPP was approximately RMB24 per tonne of washed product. The operating cost is expected to be lower after the year of 2023 because of the addition of the fine coal processing system, which has a much lower operating cost (approximately RMB12/t) than the current system.

5.8 Coal Handling/Storage and Transportation

ROM coal from the underground mine is transported to the surface via the incline conveyor belt and is stored in two raw coal silos, each with a capacity of 20,000 tonnes. Additionally, Jinjitan has an enclosed storage yard capable of holding 170,000 tonnes.

Clean coals are also stored in different silos. Coal products are loaded using the CPP loadout and transported to railway loadouts and customers by truck. A summary of the existing coal storage and loadout facilities follows:

Raw Coal			Product Coal			Loadout	
No. of Silos	Diameter *(meters)*	Total Capacity *(tonnes)*	No. of Silos	Diameter *(meters)*	Capacity *(tonnes)*	No.	Capacity *(t/h)*
2	21	20,000	4	28	80,000	1	3,500
			3	21	30,000	2	5,000
						3	4,500
						4	4,500

The loadout is equipped with rapid railcar loaders, which will be used when rail service is available. At present, a 30t capacity truck can be loaded in approximately 45 seconds. The Jinjitan CPP is located within close proximity to rail and highway access. This facilitates delivery of its coal products. A railway sidling connecting the loadout at the Jinjitan CPP to the Jingshen (Jingbian-Shenmu) Railway is under construction, which is expected to be completed by end of 2020. The Jingbian-Shenmu Railway connects with the Shenmu-Shuozhou Railway, which runs in the east-west and connects Shenmu City to some of China's east coast exporting ports. See Figure 1.1 for a map showing regional infrastructure.

Based on our review, the current Jinjitan CPP operation is capable of processing the ROM coal produced by Jinjitan Mine at a reasonable cost. The installed processing equipment appears to have a higher capacity than historically being achieved. Once construction of the fine coal processing system is completed, Jinjitan CPP is expected to have improved flexibility to produce a variety of coal products in response to prevailing market demand.

6.0 ENVIRONMENTAL OVERVIEW

6.1 Introduction

Mining and related activities are inherently disruptive to the environment. Impacts include both environmental pollution and ecological disruption, including delayed influences on ecological environment and ground water, dynamic change of the magnitude and extent of the impact, and sustained period of impact during the whole LOM operation. Major influence factors include: fugitive dust, noise, wastewater and solid wastes pollution, as well as the sustained and cumulative impact of surface subsidence on landform, surface structures, the ecological environment and ground water.

BOYD personnel visited the Jinjitan Mine in August 2020. Ecological and environmental protection status of the mine were assessed focusing on air pollution, wastewater, noise, solid waste pollution control measures and regulation compliance, cumulative impact of surface subsidence resulting from mining activity, and ecological protection and rehabilitation measures, as well as issues regarding protection of environmentally-sensitive surface features.

The mine was in normal operation during our visit, information relative to environmental protection were provided by or at the direction of Future Energy. BOYD reviewed the source data, observed the operational status of relative facilities, and discussed environmental issues with mine management.

6.2 Guidelines of the World Bank

The World Bank's explicit standards regarding environmental protection relating to mining activities are set forth in the "Environmental, Health and Safety Guidelines for Mining" (EHSM) and "Environmental, Health and Safety General Guidelines". The World Bank guidelines and principles support the view that coal mining activities affect the environment and require that mitigation measures must be taken to protect the environment and reduce the impact of coal mining activities. Responsible environmental management on the part of the mining enterprises includes establishing the policies and practices companies must employ to protect the environment and minimize the impact of mining and related activities. While many PRC environmental regulations are also included in the EHSM, the EHSM guidelines vary in the application of specific guideline requirements. In some instances, the PRC environmental regulations specify stricter environmental measures. Based on document review and our experience, it is BOYD's view that environmental protection measures have been well documented in the various project design reports, in the environmental impact assessment report, and in the project environmental protection survey report provided to us for the subject mine.

6.3 Environmental Protection Regulations

The primary domestic environmental protection laws and regulations of the PRC applicable to Jijitan Mine include:

1. National Laws

- Environmental Protection Law (2014 Amendment, effective on 1 January 2015).
- Environmental Impact Assessment Law (2018 Amendment, effective on 29 December 2018).
- Law on Prevention and Control of Water (2016 Amendment, effective on 1 January 2017).
- Law on the Prevention and Control of Atmospheric Pollution (2018 Amendment, effective 26 October 2018).

- Law on Prevention of Solid Waste Environmental Pollution (2016 Amendment, effective on 7 November 2016).

- Law on Prevention and Control of Noise Pollution (2018 Amendment, effective on 29 December 2019).

- Law on Prevention and Control of Soil Pollution (2018 Amendment, effective on 1 January 2019).

- Law on Prevention and Control of Desertification (2018 Amendment, effective on 26 October 2018).

- Law on Protection of Wildlife (2018 Amendment, effective on 26 October 2018).

- Law on Water and Soil Conservation (2010 Amendment, effective on 1 March 2011).

2. ***Administrative Laws and Regulations promulgated by State Council***

- Regulations on the Administration of Project Construction Environmental Protection (State Council Decree No.682, effective on 1 October 2017).

- Regulations on the Protection of Basic Farmland (State Council Decree No.257, effective on 1 January 1999).

- Regulations on Grain for Green (State Council Decree No.367, effective on 20 January 2003).

- Regulations on Land Reclamation (State Council Decree No.592, effective on 5 March 2011).

- Regulations on the Implementation of Law on Water and Soil Conservation (State Council Decree No.120, revised and effective on 8 January 2011).

3. ***Rules and Regulations promulgated by various Ministries under the State Council***

- Administrative Measures for Comprehensive Utilization of Coal Refuse (Joint Decree No.18 by 10 Ministries including NDRC and Ministry of Environmental Protection, effective on 22 December 2014).

- Administrative Measures for Quality Control of Commercial Coal (Tentative) (Joint Decree No.16 by 6 Ministries including NDRC and Ministry of Environmental Protection, effective on 1 January 2015).

- Opinions on the Delineation and Strict Implementation of Ecological Protection Red Lines (issued by General Office of the CPC Central Committee and General Office of the State Council on 7 February 2017).

- Implementing Advice on Expediting the Construction of Green Mines (issued by 6 Ministries including Ministry of Land and Resources, GTZG[2017] No.4).

- Catalogue for Guiding Industrial Restructuring (2019 Version) (issued by NDRC on 30 October 2019, FGDQG[2019] No.1683).

- Directory for Classified Administration of Environmental Impact Assessment of Construction Project (Ministry of Ecology and Environment Decree No.1, revised on 28 April 2018).

- Tentative Measures for Public Involvement in Environmental Impact Assessment (Ministry of Ecology and Environment Decree No.4, issued on 16 July 2018).

- Circular on the Distribution of Policies regarding Mine Ecological Protection and Pollution Prevention and Control Technology (issued by former State Environmental Protection Administration on 7 September 2005, HF[2205] No.109).

- Circular on Further Enhancing Environmental Risk Management with Environmental Impact Assessment (issued by former Ministry of Environmental Protection in July 2012, HF[2012] No.77).

- Circular on Practically Enhancing Environmental Risk Prevention and Strict Management of Environmental Impact Assessment (issued by former Ministry of Environmental Protection in August 2012, HF[2012] No.98).

- Circular on the Implementation of Action Plan on Prevention and Control of Air Pollution and Strict Management of Entry Criteria for Environmental Impact Assessment (issued by the General Office of former Ministry of Environmental Protection on 25 March 2014, HB[2014] No.30).

- Guidance on Further Strengthening the Management of Environmental Impact Assessment in the Development of Coal Resources (Exposure Draft) (issued by the General Office of Ministry of Ecology and Environment, HBBH[2020] No.182).

4. Local Rules and Regulations

- Regulations of Shaanxi Province on Environmental Protection of Urban Drinking Water Source Conservation Area (Announcement No.47 issued by the Standing Committee of Shaanxi Provincial People's Congress, 28 March 2002).

- Regulations of Shaanxi Province on Protection of Wild Plants (Announcement No.33 issued by the Standing Committee of Shaanxi Provincial People's Congress [11th], effective on 1 October 2010).

- Regulations of Shaanxi Province on Groundwater Protection (Announcement No.31 issued by the Standing Committee of Shaanxi Provincial People's Congress [12th], effective on 1 April 2016).

- Regulations of Shaanxi Province on Prevention and Treatment of Solid Waste Pollution (Announcement No.29 issued by the Standing Committee of Shaanxi Provincial People's Congress [12th], effective on 1 April 2016).

- Regulations of Shaanxi Province on Prevention and Treatment of Air Pollution (Amended in the 36th meeting of the Standing Committee of Shaanxi Provincial People's Congress [12th], 27 July 2017).

- Measures of Shaanxi Province on Water Conservation (Provincial Government Decree No.91, effective on 1 November 2003).

- The approval of Shaanxi Provincial Government on "The Regionalization and Readjustment Plan of Surface Drinking Water Source Conservation Area of Shaanxi" (issued by Shaanxi Provincial Government on 11 September 2007, SZH[2007] No.1235).

- Notice on Further Enhancing the Practices of Relocation of Residents in Subsidence Areas Caused by Coal Mining Activity (issued by Shaanxi Provincial Development and Reform Committee, SFGMD[2010]1636, 12 October 2010).

- Tentative Implementation Plan of Shaanxi Province for Compensated Utilization and Trading of Nitric Oxide Pollution Emission Right (issued by Shaanxi Provincial Environmental Protection Department, SHF[2011] No.103, 15 November 2011)

5. Environmental Protection Plan and Regionalization

- National Ecological Function Regionalization (Amendment) (Announcement [2005] No.61 of Ministry of Environmental Protection, 13 November 2015).

- National Principal Functional Regionalization (issued by State Council, GF[2010] No.46, 21 December 2010).
- National Prevention and Control Plan for Groundwater Pollution (2011-2020) (State Council, GH[2011] No.119, 10 October 2011).
- Outline of the National 13th Five-Year Plan for Ecological Protection (Ministry of Environmental Protection, HST[2016] No.151, 27 October 2016).
- Circular of the State Council on Distribution of the Implementation Plan for Prevention and Control of Atmospheric Pollution (State Council, GF[2013] No.37, 10 September 2013).
- Circular of the State Council on Distribution of the Implementation Plan for Prevention and Control of Water Pollution (State Council, GF[2015]No.17, 2 April 2015).
- Circular of the State Council on Distribution of the Implementation Plan for Prevention and Control of Soil Pollution (State Council, GF[2016]No.31, 28 May 2016).
- Circular on Strengthening the Management of Environmental Impact Assessment System with the Core Target of Improving Environmental Quality (HHP[2016] No.150, 3 November 2016).
- Shaanxi Province Water Resource Functional Regionalization (Shaanxi Provincial Government, SZBF[2004] No.100, 22 September 2004).
- Shaanxi Province Ecological Functional Regionalization (Shaanxi Provincial Government, SZBF[2004] No.115, 17 November 2004).
- Shaanxi Province Principal Functional Regionalization (SZF[2013] No.15, 13 March 2013).
- Shaanxi Province Work Program of Water Pollution Prevention and Control (Shaanxi Provincial Government, SZF[2015] No.60, 30 December 2015).
- Yulin City Work Program of Water Pollution Prevention and Control (Yulin Municipal Government, YZF[2016] No.21, 5 July 2016).
- Negative List for Industry Entry for National Key Ecological Functional Region of Shaanxi Province (Shaanxi NDRC, SFGGH[2018] No.213, 9 February 2018).

- Shaanxi Province Three-Year Action Plan on Control of Haze for Blue Sky (2018 – 2020) (Amendment) (Shaanxi Provincial Government, SZF[2018] No.29, 22 September 2018).

6. ***Standard and Technical Code***

- Ambient Air Quality Standard (GB3095-2012).
- Environmental Quality Standard for Surface Water (GB3838-2002).
- Quality Standard for Underground Water (GB/T14848-2017).
- Environmental Quality Standard for Noise (GB3096-2008).
- Soil Quality Standard – Risk Control Standard for Soil Contamination of Agricultural Land (Tentative) (GB15618-2018).
- Soil Quality Standard – Risk Control Standard for Soil Contamination of Construction Land (Tentative) (GB36600-2018).
- Emission Standard for Air Pollutants for Boiler (GB13271-2014).
- Emission Standard for Pollutants from Coal Industry (GB20426-2006).
- Emission Standard for Industrial Enterprises Noise at Boundary (GB12348-2008).
- Standard for Pollution Control on the Storage and Disposal Site for General Industrial Solid Wastes (GB18599-2001).
- The Reuse of Urban Recycling Water – Water Quality Standard for Urban Miscellaneous Water Consumption (GB/T18920-2002).
- Code for Design of Coal Cleaning Engineering (GB50359-2005).
- Assessment Index System for Coal Mining and Preparation Industry Cleaner Production (issued in August 2019).
- Design Criteria for Barrier Pillars under Buildings, Water Body, Railway and Main Roadways and Regulations on Mining Operations under Such Conditions (2017 Amendment).
- Technical Specifications of Eco-Environmental Protection and Reclamation for Mining (Tentative) (HJ651-2013).
- Green Mine Construction Specification of Coal Industry (DZ/T0315-2018).

- Technical Guidelines for Environmental Impact Post-Assessment – Construction Project of Coal Development (Exposure Draft).

- Standard of Soil Erosion Control for Production and Construction Project (GB/T50434-2018).

6.4 Environmental Management

The objectives of environmental management are to proactively manage any human activities negatively impacting environmental quality and to coordinate the relationship between the economy and the environment. An established environmental management system can improve employees' environmental protection awareness, regulate the enterprises' management, and conduct production using methods and practices that minimize any adverse environmental impacts. Therefore, pollution is controlled, and environmental quality is protected. Finally, a balance between environmental, social, and economic profit is achieved.

The environmental management system at Jinjitan Mine includes the mine manager supervising environmental protection and assigning specific responsibilities to each functional department. There is an established environmental protection management team. The mechanical and electrical department is assigned the lead role for environmental protection and is responsible for environmental management, supervision, and implementing environmental protection policies. Jinjitan Mine establishes an environmental protection system, enacts the operation procedure for environmental protection at all facilities, and prepares the routine monitoring plan. Emergency Response to Environmental Accidents of Jinjitan Coal Mine of Shaanxi Future Energy Chemical Co., Ltd is prepared and filed in Yuyang Branch of Yulin Municipal Environmental Protection Bureau.

Primary responsibilities of the environmental protection management are as follows:

- Implementing the laws and regulations relating to environmental protection, as well as environmental standards.

- Establishing an environmental protection system, including inspecting and supervising responsibilities.

- Establishing and carrying out the environmental protection plan, working with the enterprise leader to fulfill environmental protection obligations.

- Leading and organizing environmental protection monitor, inspecting environmental protection facilities operation, and preparing monitor files;

- Coordinating regional environmental management;

- Organizing environmental protection education and training to improve employees' behavior with regard to environmental protection;

- Organizing environmental protection study and academic exchange to identify and utilize the advanced technology;

- Be responsible for greening in the mine site and daily environmental protection management;

- Accepting inspection and supervision from different level of environmental protection authorities, submitting environmental protection files, and reporting performance regularly to administrative authorities.

During our site visit, BOYD observed that environmental management responsibilities are established at the Jinjitan Mine and well organized, and relevant regulations and policies are well implemented.

6.5 Surface Land Subsidence

LW mining is the principal method of underground coal extraction used throughout the Chinese coal industry. Impacts to the overlying surface resulting from underground mining activities are primarily manifested by the following: surface subsidence and landscape changes (which impact scenery and surface water body flowing condition); crack, collapse and caving (which influence underground water level, water quality, vegetation growth to the ecological and underground water environment). Accumulated impact of past and ongoing coal mining may result in permanent damage to the regional ecologic and underground environment. Therefore, China employs an administrative licensing system to control the environmental impact related to mining, and to regulate and monitor mine operator activities to protect the mine ecology and recover the environment, including environmental impact assessment, water and soil conservation plan, geological environment protection and land reclamation plan. The mine should strive to establish an environment-friendly operation based on sustainable and scientific development. The mine development should ensure and create a balance between environmental, social, and economic benefit.

The Jinjitan Mine prepared environmental impact assessment report and geological environment protection and land reclamation plan conform to the regulations of national laws and statutes. As mining continues and subsidence occurs, ecological environment remediation and land reclamation are conducted. Jinjitan Mine relocates villagers endangered by subsidence. The mine also protects and maintains roads, power lines, and water bodies impacted by mining. The mine cooperates with the daily supervision and inspection from administrative authorities responsible for ecology and land and resource. BOYD's review concludes that Jinjitan Mine management fulfills its obligation of ecological environmental protection.

While the Jinjitan Mine is in its early stage of mining, surface subsidence has already occurred, and mine management has taken proactive steps. As shown in village moving plan Phase 1 in Panel 1, six villages overlying and subject to surface subsidence will be relocated with 868 residents involved. Per capita moving cost is estimated to be RMB0.39 million. In the general plan for the region, new village will be located beyond the influence of mining. Some villages have already been relocated without any interruption to face layout, installation and mining.

6.6 Soil and Water Conservation

In accordance with the PRC Soil and Water Conservation Law and the administrative licensing system, a soil and water conservation plan is prepared. The mine accepts administrative review and conducts soil and water conservation policies and practices, which is done simultaneously with the ongoing mining operation.

Based on the features of water and soil loss and industrial layout, seven prevention and control districts are established, such as industrial site, offsite road, dedicated railway, refuse disposal site, water pipes, power lines, and subsidence area. Appropriate measures, such as engineering, vegetation, and temporary prevention, are established to address corresponding requirements and standards. Measures taken in each district are as follows:

- Industrial site: mortar rubble masonry ditches and retaining walls are constructed. Trees are planted and landscaping projects are conducted. Temporary measures include striped tarpaulin fence, color plate, and temporary ditch.

- Offsite road: concrete curb is constructed. Trees and shrubs are planted. Grass seeds are sowed. Temporary measures include striped tarpaulin coverage and placement of soil bags.

- Dedicated railway: mortar rubble masonry ditch and pitching is constructed. Trees and shrubs are planted. Grass seeds are sowed. Temporary measures include grid guard, temporary ditch, striped tarpaulin coverage, and soil bags.

- Refuse disposal site: earthwork and rolling earth, surface soil stripping, soil preparation with soil coverage, and straw checkerboard barrier. Shrubs are planted. Grass seeds are sowed. Temporary measures include grid guard, striped tarpaulin coverage, and soil bags.

- Water pipes: Grass seeds are sowed. Temporary measures include striped tarpaulin coverage.

- Power lines: Grass seeds are sowed. Temporary measure includes striped tarpaulin coverage.

- Subsidence area: simple reclamation, such as fissure (surface crack) filling and land management is conducted.

6.7 Refuse and Waste Rock Disposal

Based on the waste rock disposal contract between Future Energy and Shaanxi Xinbaiyi Environmental Protection Technology Co., Ltd. (Xinbaiyi), waste rock generated in the Jinjitan Mine's CPP operation is transported by Xinbaiyi to the designated disposal site at the cost of RMB29.5/tonne. There is not any waste storage done in the mine site.

It's our opinion that Jinjitan Mine should supervise and inspect Xinbaiyi's waste rock disposal site to ensure its operation is being done in accordance with the Law on Prevention of Solid Waste Environmental Pollution and Administrative Measures for Comprehensive Utilization of Coal Refuse (amendment, 2014). BOYD also suggests Jinjitan Mine evaluate the feasibility of underground waste disposal.

6.8 Water Source Protection

The protection and conservation of water sources is strictly regulated by existing environmental protection laws and statutes. The original Jinjitan Mine mining area was reduced to exclude 6.9 km^2 of water conservation area. Monitoring data from the mine show that there are minor changes in the ground water level in the mined area. Supplemental or secondary water aquifers have not been impacted by mining activity to date.

Underground mine water is collected and processed, then reused in underground and surface operations. Water processing and pollution control measures meet the requirements of environmental protection regulations. At the time of our site visit in August 2020, water processing facilities were properly operating.

6.9 Air Pollution Control

Emissions from the coal-fired boilers and fugitive dust generated during normal mining and related activities, such as loading and handling of coal, coal waste, and ash from boiler operation, constitute the main sources of air pollution. Appropriate measures are taken to mitigate all pollution and emissions meet the requirements of the environmental impact assessment and air pollution control laws and statutes.

At present, the Jinjitan Mine surface facilities include two 65 t/h coal-fired boilers, which are equipped with de-dusting, de-sulfurization and denitration devices to reduce the pollutants discharged.

During the recent site visit, air pollution control and on-line monitor devices were properly operating and in compliance with regulations.

6.10 Noise Pollution Control

Typically, the primary sources of noise at underground coal mines are such as ventilation fans, air compressor, pumps, etc., and from the CPP and other surface based operations. According to requirements of the approved environmental impact assessment, measures such as noise insulation, noise absorption, and vibration reduction are taken.

The following abatement measures have been instituted:

- Functional layouts are utilized to maintain adequate distances between high noise generating equipment and buildings with low noise requirements, such as office buildings, dormitories, etc. Distance abatement, vegetation and shrubs are often employed for noise reduction.

- Equipment with relatively high noise levels, such as ventilation fans and air compressors, are equipped with noise insulation and reduction devices and diffusers with sound absorbing materials.

- Pumps and fans are mounted on shock-absorbing foundations; inlet and outlet pipes are equipped with flexible joints. Sound insulation is also installed.

There are not much inhabitants in the Mine's neighboring area, therefore, above measures can meet the environmental protection requirements. The mine's impact on surrounding living environment is minor.

6.11 "Cleaner Production"

As stated in the PRC Law on Promotion of Cleaner Production, "cleaner production" refers to the practice of making continuous design improvements, employing cleaner energy and materials, adopting advanced techniques and equipment, improving management and implementing a comprehensive program in order to: reduce source pollution, enhance comprehensive utilization of resources, reduce or avoid generation and emission of pollutants during production, service, and product usage so that hazards to human health and the environment can be alleviated or even eliminated. The Mine is designed and constructed in accordance with cleaner production Standard I and II to control pollution and to increase the resource application rate.

6.12 Implementing "Three-Simultaneous System"

The Mine made diligent efforts to implement environmental protection measures the period of construction and commencement of operation. The mine should prepare its environmental impact assessment and establish and implement measures of environmental protection in a timely manner. Environmental protection facilities must be inspected and put into operation simultaneously with mining operations in accordance with requirements of "Three-Simultaneous System" of environmental protection.

The designed capacity of Jinjitan Mine was increased from 8 Mtpa to 15 Mtpa in July 2018. According to the environmental protection laws and statutes, the environmental impact assessment and examination procedure of completion and commencement, should be done according to the new capacity. Jinjitan Mine has begun this process, but it is BOYD's opinion that the job should be accelerated by communicating with environmental protection authorities and initiating operation preparation.

6.13 Environmental Reclamation after Mine Closure

The Jinjitan Mine operation is required to pay various fees related to soil and water compensation, water resources, surface subsidence compensation, reclamation deposit and sewage discharge, etc., in accordance with regulations.

While Jinjitan Mine is a new mine, and the environmental protection related to mine closure is not a concern now, advance planning should be done to ensure that a relevant plan is prepared and submitted years before projected closure.

For mine closure, the company should undertake mine closure procedures and meet the requirements of mineral resource laws, etc. Mine reclamation should attain the following standards upon operational shut-down or closure of the mine:

1. Backfilling, leveling, and other work necessary to restore surface lands impacted by mining to a useable condition suitable for farming or sustaining vegetation.

2. Sealing and backfilling of exploratory trenches, shafts, inclines, and drill holes, etc. resulting from mining activities that cannot be used for other purposes.

3. Proper closure and reclamation of storage sites for tailings, waste rock, waste residue, and the placement of surface soil to ensure these sites are stable and safe, and to avoid impacting farming land and causing environmental pollution.

4. Plant trees and grasses at mining sites and waste storage yards.

6.14 Capital Expenditures for Environmental Protection

Jinjitan Mine takes active measures to protect the ecological environment. Estimated investment in environmental protection during mine construction is 34.9861 million RMB, accounting for 1.09% in total investment in engineering. Based on available documents, the planned capital expenditures after production commenced, i.e., in 2014 to 2019, was as follows:

Years	Capital expenditures *(Million RMB)*
2014	0.81
2015	9.73
2016	6.77
2017	7.61
2018	18.09
2019	89.50

We assume this level of spending was made by the company.

6.15 Environmental Protection Laws and Statutes Compliance

Available data show that the Jinjitan Mine operation follows the regulations of environmental protection laws and statutes, and were not reported as being subject to administrative penalties related to environmental protection, significant environmental pollutions, nor any other noncompliance with environmental protection regulations. However, there are some compensation claims due to surface subsidence. The company is discussing the compensation plan with the administrative department and relevant residents. In general, it's BOYD's opinion that environmental protection procedures established and in use at the Jinjitan Mine follow the national and local requirements, and the corresponding capital expenditures can support the mine operation.

7.0 RISK ASSESSMENT

7.1 Introduction

Coal mining operations are unlike other industrial facilities in that mines can be engineered or planned to a precise design capacity or cost structure, but there are inherent uncontrollable natural and external factors that can prevent the attainment of specific production, cost, and revenue targets. Mining operations are conducted in the earth's strata rather than within a homogeneous and controlled work environment.

There is inherent geologic risk, and mine operators must therefore contend with periodic adverse or variable geological conditions that cannot be fully anticipated in advance of actual mining activity. While the occurrences of these physical conditions are beyond the control of site management, it should not be interpreted that coal mining is inherently risky. On the contrary, there are established measures that mine operators utilize to minimize the operational and financial impacts associated with such encounters. Coal mining operations in the region have a demonstrated track record in sustaining consistent and predictable levels of performance.

Assessment of risk associated with any enterprise is largely subjective in nature and relies on the relevant experience of the professional completing the study in the specific industry and operating venue applicable to the subject enterprise. There are three general categories of business risk inherent in a mining operation, namely: geological, operational, and market. For purposes of this study and in accordance with SEHK guidelines, we define risk in three broad categories of severity, as follows:

- Major Risk: A factor that would have a materially adverse effect (15% to 20% or higher) on project cash flow for the risk assessment period, possibly leading to project failure, if the specific risk occurred and was not corrected.

- Moderate Risk: A factor that would have significant adverse effect (10% to 15%) on project cash flow for the risk assessment period, if the specific risk occurred and was not corrected.

- Minor Risk: A factor that would have minimal or no adverse effect (less than 10%) on project cash flow for the risk assessment period, if the specific risk occurred and was not corrected.

However, equally, or perhaps more, important, is the probability or likelihood that the specific risk will occur. For this study, a risk assessment period is considered with the following probability of occurrence ratings:

- Likely: Event is likely to occur.

- Possible: Event may occur.

- Unlikely: Event is unlikely to occur.

The overall risk assessment combines these two components, severity and probability, to determine the final overall risk assessment, as shown below:

Probability of Risk Occurring (within 7 years)	**Severity (Consequence) of Risk**		
	Minor	**Moderate**	**Major**
	Overall Risk Assessment		
Likely	Medium	High	High
Possible	Low	Medium	High
Unlikely	Low	Low	Medium

The risk assessment period for this study is 2020 to 2026 and our risk assessment is based on PRC coal industry conditions as of the end of June 2020 and does not reflect subsequent industry developments.

7.2 General Assessment

Based on our independent assessment of the mining operations, BOYD concludes the subject Jinjitan Mine is low in overall risk for the following reasons:

- Supportive of Low Risk:

- The subject mine has several years of operational experience and is located in an established coalfields where general mining conditions are known and necessary infrastructure to support mining and coal marketing are in place.

- Overall ranking of the geologic setting of the defined reserves within the subject Jinjitan mining right area is simple (i.e., not complex).

- Reserves to be mined during the risk assessment period are generally well-explored by drilling and mining experience to date. Future mining projected in Jinjitan will remain in the current coal seam with little noticeable geological risk and other anomalies.

- Jinjitan Mine has enough reserve tonnage to support its operation for over 20 years, at the projected output level of 15.0 Mtpa. In case the mine management decides and receives the necessary authorization to increase output (the current LW installation and planned addition of new equipment in the near future would support a higher output level), the current estimated reserves will not be depleted before the end of the assessment period, and the risk of reserve depletion during the assessment period is low.

- While not anticipated, naturally occurring events, such as flooding due to excessive rainfall or an earthquake, could occur, but their impact would be regional in extent (i.e., not unique to the subject mines).

- Future Energy has recruited and developed the management and technical staff necessary to operate the mines.

- The company has established markets for its sales.

- On a commercial basis, Jinjitan future output projections generally do not exceed regulatory output authorizations.

● Supportive of Medium Risk:

  - Typical of all coal mines, production may be temporarily interrupted, which, depending on the duration and magnitude of the interruption, could significantly impact total company performance.

  - Except for routine production risks that all coal mine operators experience, BOYD has not identified any extraordinary risks related to the future operation of the subject mines over the assessment period. The subject underground mine is at general industry risk for fires, explosions, and flooding.

● Supportive of High Risk:

– Risk of external regulation is not exceptional for the subject Jinjitan Mine from the standpoint of the Chinese coal industry; however, there is medium to high risk for coal industry-wide regulation that may limit output of individual mines.

– Owing to the potentially declining coal market in PRC, it is possible that markets for the subject mines may decline. Factors such as the campaign to close smaller mines would tend to support market conditions. It is BOYD's opinion that new competitors are unlikely to generate surplus production capacity. There are high barriers to entry, as new mine development requires significant capital investment and government approvals.

The following text provides an expanded discussion of mining-related risks and BOYD's assessment of the risk profile for the subject Jinjitan mine.

7.3 Geologic Risk

7.3.1 General Geologic Risk

On a global basis, the geologic settings for the subject mine areas are judged to be simple in complexity. While the strata have very gentle dips, splitting and thinning of the coal seams are complicating factors for specific seams and faulting is present in the subject mine areas. The reserve areas are well-explored. Future mining projected in subject mine in the remaining areas of the main coal seam has reduced geological risk in that faulting and other anomalies, if any, that may impact the unmined areas will have been identified by mining in previous mining and development activities.

Risk Assessment

Severity:	Minor
Probability:	Possible
Overall:	Low

7.3.2 Unforeseen Geologic Anomalies

The risk from unforeseen geologic anomalies is considered as low for Jinjitan mines. The mine operation can mine through some minor to moderate disruptions and displacements of the coal seam. However, historical mining also indicates that unexpected thickening of partings has resulted in lower efficiency of several LW faces.

Unforeseen geological anomalies that extend over large areas could disrupt underground mine operations and require alterations of mining plans. Such an event can result in the cessation of production activities for an undefined, but extended period (measured in weeks, and perhaps months or years in extreme cases). The subject mining right area, particularly the 2-2U Seam to be mined within the risk assessment period, are reasonably defined by drilling, minimizing the risk of unforeseen geologic anomalies. Faulting occurrences are rare and have been well-mapped.

Routine exploration and reconnaissance using drilling, geophysical logging, and seismic surveying methods are successful in identifying larger displacement faults, but only partially successful in defining minor displacement faults in advance of mining. It is reasonable to expect that minor displacement faults may be encountered in future mining, but impact on overall performance is not likely to be material over an extended period. Undetected faulting would result in reserve loss, the magnitude of which would be determined by the extent and degree of faulting.

Risk Assessment

Severity:	Minor to Moderate
Probability:	Possible
Overall:	Low

7.4 Reserves

Jinjitan Mine has little risk of depleting its reserves before the end of the assessment period. The mine has a large reserve tonnage and the risk of depletion during the assessment period is low.

Risk Assessment

Severity:	Minor
Probability:	Unlikely
Overall:	Low

7.5 Operational Risks – Naturally Occurring Events

7.5.1 Weather

Extraordinary weather occurrences (e.g., excessive rainfall) can result in disruption to the mining operations caused by power outages and loss of access into the mine site (movement of mine personnel, receipt of necessary operating supplies, etc.) and from the mine site (inability to load trucks or trains to dispatch coal to market, etc.).

7.5.2 Earthquakes

Available geologic background data report that while the general location of the Jinjitan Mine in Northern Shaanxi is known to be seismically active, large scale destructive events are rare.

Risk Assessment

Any naturally occurring events would affect the broader region where the Jinjitan Mine operates and the impacts would be felt industry-wide.

Severity:	Minor to Major
Probability:	Possible
Overall:	Low

7.6 Operational Production Risks

There are two primary types of operational risks associated with coal mining: production and event. The first category of risk includes those variations in physical mining conditions, mechanical failures, and operational activities that can temporarily disrupt production activities.

7.6.1 Routine Operational Risks

The most common routine operational risks for underground mines are as follows:

- Roof control issues and roof falls.
- Poor mining conditions (poor roof, floor, ribs).
- Water accumulations/soft floor conditions.
- Ventilation disruptions and concentrations of methane gas.
- Variations in seam consistency, thickness, and structure.
- Failures or breakdowns of operating equipment and supporting infrastructure.

The preceding conditions and circumstances can adversely affect production in the short term but are not regarded as significant to the long-term mining operations. Mine-level management is experienced and capable in dealing with these risks. BOYD does not regard the issues listed above as being material to

Jinjitan's underground mining operations or otherwise significantly compromising projected financial performance over the long term, although some short-term variance to projected output and financial performance should be anticipated.

Risk Assessment

Severity:	Minor to Moderate
Probability:	Possible
Overall:	Low to Medium

7.6.2 LW Subsidence

Jinjitan's mining operations utilize LW mining practices, which by design cause subsidence of the overlying strata. The damage caused by LW subsidence is an issue in many countries and regions where LW mining techniques are utilized, and mining companies are sometimes restricted as to where LW mining operations can be performed.

In PRC, typical practice is to relocate affected surface structure owners depending on the value of the underlying coal and the physical extent of the surface structures. The mining company has the option to require surface structure owners to be moved, but must provide appropriate compensation to affected owners.

The surface lands above the planned Jinjitan LW mining areas have less populated residential areas (villages), and there are not any large commercial or industrial structures. Plans are in place to move the affected residential areas in a timely manner and include compensation to the structure owners and related inhabitants. Subsidence-related costs are well-identified in future mine plans with little uncertainty as to the extent of structure relocations. Consequently, undermining of structures is not a significant issue for the subject mine, and the company is in the position of remediating damages. Depending on the physical extent and population density, villages and larger populated areas are generally relocated unless the costs are prohibitive relative to the coal recovered. Minor surface drainages are likewise undermined after measures are taken to either relocate the course of the drainage or lining for the stream floor.

Structures considered as not suitable for undermining include national highways, mine physical plants, CPP, coal chemical production plants, railways, railway loading stations, pipelines, transformers and major power lines and towers. These surface structures are explicitly excluded from future mine plans and reserve estimates.

Proper mine design and planning can either avoid or minimize the damages from subsidence in protected surface areas. While subsidence is a by-product of LW mining, mitigation actions taken by the mine operator can remediate surface damages.

Risk Assessment

Severity:	Minor to Moderate
Probability:	Possible
Overall:	Low

7.7 Event Risks

The second type of major risk is categorized as event risk. Items in this category are rare, but significant occurrences confined to an individual mine and ultimately have a pronounced impact on production activities and corresponding financial outcomes for that mine. Following such events, mines are subject to increased inspection/ examinations and subsequent penalties and/or actions imposed by the PRC regulatory authorities. Examples of production-related event risks for underground mines are:

- Major underground fires.
- Explosions.
- Flooding of the underground workings.

Operations Risks – Naturally Occurring Events (Section 7.5) also fall into the "event risk" category.

7.7.1 Major Underground Fires

The potential for major underground fires is significant in any underground coal mining operation due to the combustible nature of the material being mined and the industrial setting with machinery using combustible diesel fuel and lubrications. Fires generally occur from explosions (see below), equipment fires, belt conveyor system fires, or spontaneous combustion. Equipment fires rarely result in major mine fires due to on-board extinguisher systems and in-mine firefighting gear. A major event due to an out-of-control equipment fire is a potential but small risk.

Belt conveyor fires pose a higher order risk due to their extended and generally untended expanse. Belt conveyors have moving parts that can be prone to friction. Monitoring systems and effective belt patrol and maintenance programs are critical to avoiding major events. These practices also result in improved belt availability and performance. Because of the potential for fires, belt conveyors are monitored for products of combustion, and potential event-prone areas such as transfer points have water spray installations designed to engage if an elevated temperature is detected. Generally, these measures are adequate to avoid belt fires, but the potential is always present if the systems are not managed properly.

A major source of mine fires is spontaneous combustion, which is a common occurrence throughout the world mining industry. Spontaneous combustion typically occurs in areas that are not well-ventilated, where the combination of self-heating and oxygen is adequate to support a sustained heating until a fire breaks out. In well-ventilated areas, the heat is carried away; in tightly sealed areas, the oxygen supply does not support sustained combustion. LW gob areas are especially susceptible to spontaneous combustion incidents. If not controlled, the combustion can inflame the surrounding workings and ignite methane if present.

The coal seams in the subject mine are rated as having high probability of spontaneous combustion. This propensity is well-recognized by the company and mine plans take this into account. Proper sealing of gob areas and appropriate ventilation designs may reduce the oxidation process and prevent spontaneous combustion. Alternately, measures for rendering sealed areas inert, such as nitrogen injection and mud injection, are planned by the mine. Eliminating gob ventilation also serves to minimize the potential for gob fires due to spontaneous combustion. The potential for spontaneous combustion incidents will remain a significant risk issue for the subject mine, but one that can be minimized with proper planning and good mine management practices.

Risk Assessment

Severity:	Minor to Major
Probability:	Possible
Overall:	Low to Medium

7.7.2 Explosions

Coal mine explosions typically are initiated by methane ignitions followed by coal dust explosions. Coal dust itself does not typically ignite, although under certain conditions it is possible. The coal resources in the subject mine are generally rated as explosive in dust form as is the case for nearly all coals in the world. The key to preventing explosions is the prevention of methane ignitions. In this regard, the subject mine is projected to have relatively low in situ methane content. Methane content typically increases with depth; however, in Jinjitan's case, mining operation in the current seam will continue beyond the assessment period and thus significant increase of methane emission level is not likely.

The mine staff is trained and experienced in taking state-mandated precautions for avoiding methane ignitions, including:

- Monitoring of airways for potential buildup of methane levels.
- Use of flame-proof enclosures for electrical controls and power-related components.
- Use of methane monitors and automatic de-energizing circuits on LW face equipment.
- Ban of personal smoking materials.
- Routine sealing of areas where mining has been completed.
- Installation of water curtains in the event an ignition occurs.

Ventilation systems are designed to effectively remove methane from the mines at concentrations that are intrinsically safe (less than 1% of atmosphere). If diligent practices are pursued, the risk of explosion can be minimized. The occasions of explosions have been relatively rare (although not eliminated) in the advanced international underground coal mining industries. Given present practices, the risk of an explosion is low in our view.

Risk Assessment

Severity:	Minor to Major
Probability:	Unlikely
Overall:	Low

7.7.3 Floods

Risk from floods occurring in the underground mine workings can take two forms. One possibility is intercepting unmapped flooded workings. These incidents have periodically occurred in every major coal mining country.

In the planned mining areas for the subject mine, there was no reported mining activity prior to the commencement of the Jinjitan operation and will not be a threat to planned mining. An accidental flooding from uncharted works is unlikely in this case.

A second risk arises from the potential inflow of ground water contained in faults and fissures and from surface and ground water entering the mine because of LW subsidence. Historically, water inflows from LW subsidence appeared high but have not been significant issues due to the propriate arrangement of sufficient pumping capability.

Based on discussions with engineering and geologic personnel, we would rate the potential for disruption to mining operations from inrushes of water as minor. Water inflows at the subject mine are generally typical of the region and are within the capabilities of the water-handling systems. Effective pumping systems include redundant primary sump pumps that control water inflows from the coal seam and overlying/underlying strata.

Risk Assessment

Severity:	Minor to Major
Probability:	Possible
Overall:	Low

7.8 External Risk – Regulations

Various levels of government are involved in the promulgation and enforcement of regulations under which Jinjitan must operate. These include operating standards and requirements, and the payment of fees and taxes. While governmental regulation policies are industry-wide, and beyond the control of Jinjitan or Future Energy, the company is responsible for operating the mine and facilities in compliance with all governmental regulations now in effect (or any future regulations).

Based on BOYD's review, we opine that with regard to mining operations, Jinjitan has implemented appropriate environmental protection measures in response to national and local environmental protection laws. Generally, the company's environmental protection work is comparable to similar mining enterprises elsewhere in the PRC. While current environmental plans and practices need to be upgraded due to the increase of authorized coal output limit, and such efforts are underway, there do not appear to be environmental constraints to future coal mining operations. In our opinion, in meeting the relevant requirements as required by natural laws, the environmental protection practices of Jinjitan comply with the PRC and World Bank's requirements for environmental protection related to coal mining activities.

To our knowledge, Jinjitan has paid required resource fees/royalty to obtain mining rights, and governmental taxes and fees. Further payments covering future resource royalty are expected to be paid before the resources within the paid area being depleted.

The ability of Jinjitan to sustain projected output level over time is subject to government approval and permitting. Mining assets will continue to be subjected to economic, political, and legal developments within the PRC. Furthermore, domestic coal prices are largely impacted by the government through regulation, taxes, tariffs, and the national rail system. Passage of more restrictive or onerous government regulations could have adverse effects on future Jinjitan operations, but such a risk would be industry-wide and is unquantifiable at this time. An example of regulatory risk is the recent April 2016 circular issued by the State Administration of Coal Mine

Safety requiring that all mines reduce their legal production capacity by 16% (reducing standard operating days from 330 to 276 or 276/330 [0.84 factor]) regardless of individual mine economic circumstances. This policy directive was abated in March 2017 as coal shortages were evident and coal prices were increasing.

Chinese mine operators are subject to similar regulations that can be arbitrarily put into effect. Thus, regulatory risks are significant and in some instances these risks are tied directly to controlling Chinese coal market developments such as excess coal supplies discussed in the Market Risk section. On the other hand, major high-production mines using advanced mining technologies and good operating records such as Jinjitan are generally less impacted by some limiting regulations, especially safety related ones.

Risk Assessment

Severity:	Moderate to Major
Probability:	Possible
Overall:	Medium

7.9 Market Risk

A substantial reduction in market prices would have a material adverse impact on financial performance of the subject Jinjitan mine. Such an event would occur if there were surplus alternative coals from other suppliers, or a reduction in demand from Jinjitan's customer base.

In the period 2013 to 2016, PRC coal demand on a composite industry basis appeared to have ceased growing supporting a basis for considering that Chinese coal demand had peaked. The demand for coal for industrial uses declined during the period, which offset increases in demand for coal for power generation. Coal prices reacting to lower overall demand decreased in the period. The central government imposed the 276-working day rule in March 2016 in part to support coal prices. The rule was abated in November 2016 as coal prices began to recover. Coal prices rebounded sharply in 2017 from the low-price coal market environment experienced in 2013 to 2016 period and leveled off in early 2018. After some decline of thermal coal prices in later 2018, the prices reached another high point in the first quarter of 2019 and followed a moderate declining trend for the rest of the year. The early 2020 COVID-19 outbreak brought down the market significantly, which however recovered to the mid-2019 level as of June 2020.

During the 2013 to 2016 period of declining coal demand and till present, the central government continued its campaign to close small mines in favor of strengthening support for larger mining operations. The small mine closure campaign with other market factors (such as the 276-working day rule) may have been the impetus for the rebound in coal prices experienced in 2017. The ongoing economy recovery from the pandemic supported the recent coal market recovery.

It is unclear if overall PRC coal demand will experience growth during the assessment period. Despite the rationalization of small coal mines, new mine development in recent years has resulted in the prospect of potentially excessive coal supplies especially for thermal industrial coal and coal-fired generation as well as coal chemical industries, which are the markets served by the subject mine. On the other hand, the central government appears to have improved strategic planning for domestic and regional coal and downstream industries development in recent years, which has a positive effect in stabilizing the coal market.

Owing to the recent significant declining (and potentially continue in the near future) economy and market world widely, it is possible that domestic market for the subject Jinjitan mine may decline. Factors such as the campaign to close smaller mines barriers to new mine development would tend to support market conditions. It is BOYD's opinion that new competitors are unlikely to generate surplus production capacity. There are high barriers to entry, as new mine development requires significant capital investment and government approvals (see External Risk – Regulation).

Risk Assessment

Severity:	Moderate to Major
Probability:	Likely
Overall:	Medium to High

7.10 Summary of BOYD's Risk Assessment (2020–2026)

Hazard/Risk Issue	Risk Assessment Severity	Probability	Overall
Geologic			
Overall (General)	Minor	Possible	Low
Unforeseen Anomalies	Minor to Moderate	Possible	Low
Reserve Availability	Minor	Unlikely	Low
Naturally Occurring Events			
Weather	Minor to Major	Possible	Low
Earthquakes	Minor to Major	Possible	Low
Routine Operational Risks (Adverse mining conditions, equipment outages, etc.)	Minor to Moderate	Possible	Low to Medium
LW Subsidence	Minor to Moderate	Possible	Low Major Events
Major Underground Fire	Minor to Major	Possible	Low to Medium
Explosions	Minor to Major	Unlikely	Low
Underground Flooding	Minor to Major	Possible	Low
External Risk – Regulation	Moderate to Major	Possible	Medium
Marketing (Commercial)	Moderate to Major	Likely	Medium to High

8.0 ECONOMIC ANALYSIS

8.1 Background

The 2012 Edition of JORC Code requires that the Competent Person to demonstrate that the reserves reported in the CPR be "economically mineable". The JORC Code specifies that *"Economically mineable" implies that extraction of the Ore Reserves has been demonstrated to be viable under reasonable financial assumptions.* Accordingly, BOYD has performed an economic analysis of the Jinjitan Mine.

Our economic analysis for the Jinjitan Mine incorporates a NPV approach as specified by the JORC Code based on the geological, technical, and operational data presented in this report. The analysis is based on a specific analysis of projected income (net after tax cash flow) until the year of 2042 when the estimated remaining reserves are projected to be depleted. Additional reserves areas for the Jinjitan Mine are contemplated by Future Energy, and if confirmed, could further extend the mine life. However, these areas have not been well explored by drill hole and are in Inferred Resource classification at this time. The purpose of the analysis is to demonstrate the economic viability of the stated reserves. The analysis does not necessarily reflect optimized mine plans nor total value of all coal resources, and is not considered a formal valuation of the operation.

BOYD's economic analysis reflects Chinese coal industry circumstances as of 30 June of 2020 and do not reflect subsequent pricing trends or regulatory developments.

8.2 Discount Rate

To determine a Weighted Average Cost of Capital (WACC) for company, several factors must be evaluated, including the selection of a model. We used the build-up method to determine the required rate of return for Jinjitan Mine.

Based on our industry experience, a coal mining operation with ample resources, a proven market, and a consistent financial history would typically have a WACC in the 8% to 12% range on a pre-tax, constant dollar basis.

8.2.1 Peer Group

Our analysis is based on specific analysis of a peer group of eight companies that primarily operate mining and coal preparation businesses and supply coal-related products to domestic and international markets. Select companies within our peer group would be included in the SIC Code 12 Bituminous Coal and Lignite Mining. General company characteristics and most recent available financial information were evaluated to develop a range of discount rates. Our approach to selecting the discount rate is outlined below.

The peer group comprises the following companies:

- China Coal Energy Company Ltd.
- China Shenhua Energy Company Ltd.
- Datong Coal Mining Company Ltd. (Datong)
- Inner Mongolia Yitai Coal Company Ltd.
- Shaanxi Coal Mining Company Ltd. (Shaanxi Coal)
- Shanxi Coal International Energy Group Co., Ltd. (Shanxi Coal)
- Shougang Fushan Resources Group Ltd.
- Yanzhou.

Except for Datong, Shaanxi Coal and Shanxi Coal, the peer companies are listed on the Stock Exchange of Hong Kong (SEHK); Datong, Shaanxi Coal and Shanxi Coal are listed on the Shanghai Stock Exchange. Company financial characteristics are summarized as follows:

		US Dollars in millions				
Company	**Beta Levered**	**Total Debt (a)**	**Equity Value (b)**	**Debt Ratio**	**Tax Rate**	**Beta (c) Unlevered**
China Coal Energy Company Ltd.	1.18	12,995	3,244	0.80	25%	0.29
China Shenhua Energy Company Ltd.	1.06	5,157	38,419	0.12	25%	0.96
DaTong Coal Industry Company Ltd.	1.31	743	945	0.44	25%	0.82
Inner Mongolia Yitai Coal Company Ltd.	0.67	5,328	2,143	0.71	25%	0.23
Shaanxi Coal Industry Company Ltd.	1.29	2,227	9,391	0.19	25%	1.09
Shanxi Coal International Energy Group Ltd.	1.42	2,061	3,207	0.39	25%	0.96
Shougang Fushan Resources Group Ltd.	1.19	4	1,102	0.00	25%	1.18
Yanzhou Coal Mining Company Ltd.	1.42	8,607	3,900	0.69	25%	0.54
Mean	1.19	4,640	7,794	0.42	25%	0.76
High Debt Ratio				0.80		
Selected Beta – Low						0.23
Selected Beta – Median						0.89
Selected Beta – High						1.18

a. Total Debt represents short-term and long-term loans on balance sheet for most recent reported quarter on Bloomberg. Conversion based on exchange rate on 6.30.2020.

b. Equity Value based on closing stock prices on 6.30.2020, or last trading day prior. Equity values listed on The Stock Exchange of Hong Kong w ere converted at a rate of 0.129024468 HKD – USD or on the Shanghai Stock Exchange converted at a rate of 0.141541564 RMB – USD. Stated in millions.

c. $\beta U = \beta L / (1 + (1 - \text{tax rate}) \times \text{Debt/Equity})$.

Sources: Company Financial Statements, Bloomberg, NYU's Damodaran, Yahoo Finance, Trading Economics, and Global Rates.

8.2.2 Methodology

- Company financial statements and public company trading data points were reviewed to determine debt levels, market capitalizations, levered betas and effective tax rates to compute the debt and equity weightings for the WACC.

- Total long-term debt (current + non-current portions) as of most recent balance sheet on March 2020 or December 2019, depending on company.

- Market capitalizations used for equity weighting were determined as of 30 June 2020.

- Debt and equity figures were converted to US dollars using RMB:US$ at 0.141541564 and HKD:US$ at 0.129024468.

● A 25% tax rate was used to determine the unlevered beta, according to the law of the People's Republic of China on Enterprise Income Tax (New EIT Law) and Implementation Regulation of the New EIT Law, thereby unified to 25% from 1 January 2008 onwards.

● Levered betas were used where available from Yahoo Finance or Bloomberg LP. A levered beta was calculated using daily closing prices of the equity on the stock exchanges where the stock traded for the trailing 10 years to 30 June 2020. The results of the covariance of the two population sets (equity and the exchange) were divided by the variance of the relevant exchange and error-checked against the slope of the population sets.

● Cost of debt is determined from the following:

  - Nominal Risk-Free Rate is the yield on 10-year PRC government bonds.

  - Borrowing Spread is based on China's three-month interbank offered rate, which is the interest rate at which banks offer to lend funds to one another in the international interbank market.

  - Country Risk Premium is based upon excess 10-year Credit Default Swap (CDS) spreads of US CDSs.

  - Pre-tax Cost of Debt is calculated by adding the Nominal Risk-Free Rate + the Borrowing Spread + the Country Risk Premium.

  - Tax Rate is 25%, based on PRC New EIT Law (see above).

● Cost of equity is determined from the following:

  - Nominal Risk-Free Rate is the yield on 10-year PRC government bonds.

- Equity Risk Premium (ERP) is defined as the expected return on a fully diversified portfolio of equity securities less the expected rate of return on a risk-free security. The figure we used is based on the market studies of A. Damodaran, Stern School of Business at New York University. Simply stated, ERP is the level of risk-reward that equity investors in the stock market would require compensating them for the level of risk undertaken versus a risk-free rate.

- Country Risk Premium is based upon excess 10-year CDS spreads of US CDSs.

- Size Premium is based on research from the Center for Research in Security Prices that groups companies into deciles based upon market capitalization. We based this information on a range of data published by Duff & Phelps Global Industry Classification Standard (GICS) for Duff & Phelps International Industry Cost of Capital GICS 151040 Metals and Mining. The Size Premium is an additive factor to the cost of equity and refers to the excess return that an investor would require compensating them for the risk taken for a smaller sized or start-up company.

- Unlevered Beta high and low range is calculated from Peer Group empirical study.

- Optimal Debt in Capital Structure was derived from the weighted average debt percentage of the Peer Group.

- Levered Beta calculation is the tax-effected Unlevered Beta multiplied by the Optimal Equity percentage.

- Cost of Equity is the Nominal Risk-Free Rate + the Equity Risk Premium adjusted for the Levered Beta. + Country Risk Premium + Size Premium.

- Implied WACC is nominal before considering the effects of inflation.

- Real WACC adjusts the Implied WACC by PRC inflation rate published in June 2020.

8.2.3 Discount Rate

Based on the results of the foregoing analysis and summarized in the following table of this report, we have calculated the nominal after-tax WACC rate to be 13% and the real after-tax WACC rate to be 10.2%.

Our coal industry economic analysis experience developed over several decades confirms that a 10% to 12% after-tax discount factor is appropriate for operating companies comparable to Jinjitan Mine.

8.3 Major Assumptions

BOYD's Jinjitan Mine NPV analysis is based upon the following major assumptions:

- Material changes in government policies and regulation do not occur during the mine projection period.
- Jinjitan will be approved to renew and continue its mining rights in the 2-2U Seam after paying the mining right fees for the rest of the resources in this seam. The estimation of the amount of the mining right fees follows the same approach as that when Jinjitan acquired the current mining rights.
- Geological conditions over the mine projection period are consistent with recent experience.
- Mining operations are not interrupted by external factors, such as mine accidents that result in extended idle mine periods.
- Operating costs do not experience material fluctuations other than because of variations in output and seam conditions.
- Imposition of government taxes, fees, and other charges does not materially increase over the mine projection periods.
- Company management operating performance remains competent and responsible.
- Force majeure events such as natural disasters do not occur during the mine projection period.

8.4 Pricing

Jinjitan Mine utilizes its mine site CPP to produce various clean coal and blended coal products. The CPP product is medium grade steam coal utilized primarily for fuel power generation and as feedstock to the chemical industry. Future Energy has indicated that all of the Jinjitan product output will be shipped by truck to local customers or to the railway loadout that connects to Chinese coastal ports for ocean transshipment to customers.

Typical commercial product coal quality at Jinjitan Mine is as follows:

Product	Product Yield (%)	Moisture (Mt %)	Ash (Ad %)	Sulfer (t,d %)	Qnet.ar (kcal/kg)
Coarse Clean	21.1	10.2	7.8	0.6	6,280
Clean	21.2	12.7	8.7	0.6	6,080
Fine Bypass ROM	51.6	13.5	10.2	0.7	5,890
Weighted Average	93.9	12.6	9.3	0.6	6,020

Jinjitan provided historical coal pricing for ROM (Raw) sales and for clean coal products for the 12-month period, July 2019 to June 2020. Pricing assumes that the VAT is included for each of the products sales realization in accordance with HKEx 18.33(4). The following shows a summary of the Jinjitan washed products and fine bypass fine coal product:

	Price RMB/Tonne					
	Commercial Products			Weighted	Shenmu Region	
12 Months	Coarse Clean	Clean	Bypass Fine	Average (6020Kcal)	(6000Kcal)	(6020Kcal)
July 2019	445	440	385	411	418	419
August 2019	440	420	365	394	413	414
September 2019	425	410	350	380	423	424
October 2019	410	400	325	361	387	388
November 2019	420	400	355	380	382	383
December 2019	410	420	355	382	386	387
January 2020	415	410	385	397	387	388
February 2020	460	460	425	441	463	465
March 2020	420	415	365	389	382	383
April 2020	420	400	355	380	345	346
May 2020	365	360	315	336	344	345
June 2020	385	385	370	377	395	396
12-Month – Composite	418	410	363	386	394	395

Notes:

1. Pricing shown is FOB CPP, VAT inclusive.

2. Fine bypass ROM coal includes slimes.

3. Average CV for Coarse Clean Coal: 6,280 kcal/kg, Clean Coal: 6,080 kcal/kg, Bypass Fine Coal: 5,890 kcal/kg, Shenmu: 6,000 kcal/kg.

4. The weighted average price was calculated with the same historical production: 7.23 mt coarse clean coal, 7.25 mt clean coal and 17.67 fine bypass Fine coal.

5. The Shenmu Region (6,000 ccal/kg) price is from the market price databased provided by a third independent consulting firm Fenwei Digital Information Technology Co., Ltd. (Feiwei).

The corresponding coal price history for thermal coals with 6,000 kcal/kg CV content for the Shenmu Region in Shaanxi Province (as provided by Fenwei) is shown for comparison. The average price for the historical 12-month period for the Shenmu Region was RMB394/tonne (VAT included) for 6,000 kcal/kg heat content coal. During the period of July 2019 to June 2020, the average price of Jinjitan Mine product coal was RMB386/commercial tonne (VAT included), which was approximately 2% lower than the corresponding Shenmu regional pricing on a heat adjusted basis. Based on this comparison, the Jinjitan Mine historical 12-month pricing stream appears to be consistent with general market pricing data.

However, the RMB386/tonne (VAT included) pricing will only be applicable through the year 2022, following which the fine coal washing addition to the Jinjitan CPP will be completed (see detailed description in Section 5.3 of Chapter 5). The average coal quality will be improved after the technical upgrade and the overall calorific value will be increased to 6,115 kcal/kg from the current 6,020 kcal/kg. Based on the historical composite price RMB386/commercial tonne at calorific value of 6,020 kcal/kg, BOYD estimated a composite price RMB392/ commercial tonne at calorific value of 6,115 kcal/kg.

Accordingly, in our economic evaluation of the Jinjitan Mine, we have utilized a composite coal price of RMB386 per commercial tonne for the period before 2023 and RMB392 per commercial tonne beginning in 2023.

8.5 Economic Analysis

8.5.1 General

The following economic parameters and assumptions are used to develop our base case NPV models for the underground mines:

1. Coal production, staffing, operating cost, and capital expenditures projections are based on the 2019 to 2024 plans provided by Jinjitan Mine, adjusted and extended by BOYD to 2042.

2. Jinjitan output projections appear to be reasonable and the reserve would be depleted by 2042 if future output follows the projections by Jinjitan Mine.

3. Jinjitan CPP FOB sales prices are expressed in constant RMB including VAT. The VAT is 13% of revenue with credit adjustment of 35% of raw materials + power + repairs/maintenance + capital.

4. Annual cash flow projections are calculated on an after-tax basis, with capital expenditures deducted in the year incurred. Based on the *Notice of the State Administration of Taxation on The Issue of Enterprise Income Tax concerning the In-depth Implementation of the Strategy for*

the Large-scale Development of the Western Region, a PRC income tax rate of 15% is utilized during the period of 2020 to 2030 and 25% is utilized after 2030.

5. Mid-year discounting is utilized with the 10.2% discount rate.

6. Mine level general and administrative costs are included; corporate general and administrative charges are not included.

7. Sustaining capital spending (including CPPs) are projected to be RMB5/ROM tonne for the period of July 2020 to 2024 and RMB10/ROM tonne of the remaining years of the mine life, based on CAPEX projection and BOYD's experience on underground mines at the similar scale. Mining operations are assumed to follow historical performance.

8. As part of the properties controlled by Future Energy, Jinjitan operation is not an independent legal entity and the separate working capital of Jinjitan operation is not available. We assume a current working capital amount of RMB1,500 million, and additional working capital is not considered since the projected output and operation remains the same. It is assumed that Jinjitan will recover the RMB1,500 million working capital during the last year of operation in 2042.

9. Based on the provided capital expenditure projections and the information from the site discussions with mine technical and management personnel, BOYD developed a capital expenditures (CAPEX) projection for Jinjitan Mine until the year of 2042 when the remaining LOM reserves exhausts. The major CAPEX projections include:

   – Village relocation: RMB150 million and RMB200 million for the second half of 2020 and 2021, respectively, according to Jinjitan's Phase I village relocation plan.

   – Underground engineering: RMB110 million for 2021 and RMB 30 million for 2022, based on the projection by Future Energy.

   – Electromechanical equipment: RMB15 million, RMB140 million and RMB40 million are projected by Future Energy to purchase electromechanical equipment for the second half of 2020, 2021 and 2022, respectively.

   – Environment protection: RMB15 million is projected by Future Energy to complete environment protection related constructions of two sets of fluidized-bed boilers and dredged water utilization project in 2020.

– CPP fine coal processing system: RMB95 million, RMB310 million and RMB156 million for the second half of 2020, 2021 and 2022, respectively. The system is projected to start operation in 2023.

– RMB46 million in both 2021 and 2020, for replacement of continuous miners, which will be replaced every 10 years in the future till the end of the LOM.

– RMB446 million in 2023, for addition of a new set of sub-level caving FM LW equipment, and another RMB 446 million in 2025, for replacement of the current using sub-level caving FM LW equipment. Both equipment will be replaced every 8 years in the future till the end of the LOM.

– RMB5/t of sustaining capital is assumed in period of the second half of 2020 to 2024, considering the above CAPEX projection. RMB10/t of sustaining capital is assumed considering less CAPEX projection after the year of 2024.

– The mining right fee paid by Future Energy covers the No.1 Mining District and BOYD estimates that RBM14,345 million of mining right Fee (RMB10/tonne in-situ Chinese standard resources, based on the *Measures of Shaanxi Province for the Implementation of the collection and administration of the proceeds from the Transfer of mining rights*) needs to be paid begining in 2032 to guarantee mining rights for the remaining reserves in 2-2U Seam. It is assumed that the fee will be paid off in 30 years, and the first payment of RMB2,869 million (20% of the total) will be paid in 2032 and the annual payment of RMB395.7 million will be paid in the remaining 29 years.

– During the last year of the LOM operation, RMB1,000 million is assumed for mine decommissioning.

10. Depreciation and amortization are standard pro-forma non-cash charges. Production maintenance fee ("keep simple production"), safety fund fee, and financial expense charges are unique to Chinese coal industry accounting. These charges are generally considered to be non-cash deductions to determine taxable income. Production maintenance fee and safety fund fee projections are RMB15.0/tonne and RMB10.5/tonne, respectively.

11. Operating costs for the Jinjitan CPP were included in the overall operating cost.

8.5.2 Base Case NPV

As shown in Table 8.2, Discounted Cash Flow Analysis (DCF), following this text, our Base Case NPV results as of 30 June 2020 is RMB19,917 million.

8.5.3 Sensitivity Analysis

To provide guidance on the probable range in value and sensitivity to various analysis inputs and discount rates, we completed the following series of DCF-NPV analyses:

Sensitivity Case	**DCF** *(RMB Millions)*
Base Case (10.2% Discount Rate)	19,917
Sensitivity Case Base Case at 12% Discount Rate	17,439
At 10.2% Discount Rate: Sales Price (-15%)	15,200
Sales Price (-10%)	16,707
Sales Price (-5%)	18,214
Sales Price (+5%)	21,229
Sales Price (+10%)	22,734
Sales Price (+20%)	25,748
Cash Cost of Sales (-10%)	20,944
Cash Cost of Sales (-5%)	20,332
Cash Cost of Sales (+10%)	18,494
Cash Cost of Sales (+20%)	17,269
Capital (-5%)	19,941
Capital (+10%)	19,278
Capital (+20%)	18,838
Capital (+30%)	18,397

In all cases, Jinjitan NPV sensitivity runs are positive, strongly supporting the mine's economic viability.

8.6 Conclusion

Based on our NPV analysis and regional pricing for most of the mine's output, the Jinjitan Mine meets the NPV hurdle requirement. BOYD concludes there is reasonable expectation that the reported reserve tonnages are economically mineable, as of 30 June 2020 (i.e., effective date of the reserve estimate).

Following this page are:

Tables:

8.1: Operating Summary.

8.2: Discounted Cash Flow.

TABLE 8.1

OPERATING SUMMARY JINJITAN MINE
SHAANXI FUTURE ENERGY COMPANY LTD
Shaanxi Province People's Republic of China
Prepared For
YANZHOU COAL MINING COMPANY LIMITED
By
John T. Boyd Company Mining and Geological Consultants
September 2020

	2020 2H	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
ROM (Tonnes-millions)	5.41	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00
Product (Tonnes-millions)	5.08	14.09	14.09	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93
Longwall Faces	2	2	2	2	2	2	2	2	2	2	2	2
Longwall Face Retreat (m)	1,758	4,840	4,900	5,756	4,233	3,615	4,057	4,115	4,080	4,086	4,362	4,900
Longwall Moves	1	1	1	1	1	–	1	1	–	1	2	–
Seam Thickness (m)	7.0	7.3	7.2	7.5	8.6	8.4	8.5	8.5	8.6	8.6	8.4	8.5

	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042
ROM (Tonnes-millions)	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	12.96
Product (Tonnes-millions)	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	12.03
Longwall Faces	2	2	2	2	2	2	2	2	2	2	2
Longwall Face Retreat (m)	5,304	4,820	4,566	4,610	6,110	6,915	6,970	6,803	4,650	4,386	3,759
Longwall Moves	1	2	1	–	2	1	1	2	–	3	2
Seam Thickness (m)	8.7	8.3	8.1	8.0	6.0	5.2	5.3	5.6	7.9	8.4	8.8

TABLE 8.2
DISCOUNTED CASH FLOW
JINJITAN MINE
Prepared For
YANZHOU COAL MINING COMPANY LIMITED
By
John T. Boyd Company Mining and Geological Consultants
September 2020

	2020 2H	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042
Product Tonnes (millions)	5.083	14.086	14.086	13.932	13.932	13.932	13.932	13.932	13.932	13.932	13.932	13.932	13.932	13.932	13.932	13.932	13.932	13.932	13.932	13.932	13.932	13.932	12.034
Sales price (RMB/tonne) including VAT	386	386	386	392	392	392	392	392	392	392	392	392	392	392	392	392	392	392	392	392	392	392	392
Revenue RMB (millions)	1,960	5,433	5,433	5,462	5,462	5,462	5,462	5,462	5,462	5,462	5,462	5,462	5,462	5,462	5,462	5,462	5,462	5,462	5,462	5,462	5,462	5,462	4,718
Total Cash Operating Cost(Mine + CPP RMB/ Product Tonne)	80	77	78	83	83	83	83	83	83	83	83	83	83	83	83	83	96	96	96	96	83	83	83
										RMB (millions)													
Mine Operating Costs	406	1,083	1,096	1,159	1,159	1,159	1,159	1,159	1,159	1,159	1,159	1,159	1,159	1,159	1,159	1,159	1,333	1,333	1,333	1,333	1,159	1,159	1,001
CPP Operating Costs	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Value Added Tax with credit	170	542	611	589	647	580	638	638	638	638	638	574	259	528	586	586	579	579	579	520	586	586	500
Total Cash Cost of Sales	576	1,625	1,707	1,748	1,806	1,739	1,797	1,797	1,797	1,797	1,797	1,733	1,418	1,687	1,745	1,745	1,912	1,912	1,912	1,853	1,745	1,745	1,501
Depreciation (including CPP)	107	344	351	407	407	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	459
Amortization of Mining Right	31	99	99	99	99	99	99	99	99	99	99	99	99	99	99	99	99	99	99	99	92	92	79
Safety Fund Fee	83	242	242	242	242	242	242	242	242	242	242	242	242	242	242	242	242	242	242	242	242	242	209
Production Maintenance Fee	58	170	170	170	170	170	170	170	170	170	170	170	170	170	170	170	170	170	170	170	170	170	146
Total Non-Cash Costs	278	855	862	918	918	1,043	1,043	1,043	1,043	1,043	1,043	1,043	1,043	1,043	1,043	1,043	1,043	1,043	1,043	1,043	1,035	1,035	894
Resource Tax	148	405	399	404	399	404	399	399	399	399	399	405	431	409	404	404	404	404	404	409	404	404	349
Construction & Education Supplementary Tax	17	54	61	59	65	58	64	64	64	64	64	57	26	53	59	59	58	58	58	52	59	59	50
Sales Taxes	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total Production Costs	1,019	2,939	3,029	3,129	3,188	3,244	3,303	3,303	3,303	3,303	3,303	3,238	2,918	3,192	3,251	3,251	3,417	3,417	3,417	3,357	3,243	3,243	2,795
Taxable Income	942	2,493	2,403	2,333	2,275	2,218	2,159	2,159	2,159	2,159	2,159	2,224	2,544	2,270	2,212	2,212	2,046	2,046	2,046	2,105	2,219	2,219	1,924
Income Tax	141	374	360	350	341	333	324	324	324	324	324	556	636	568	553	553	511	511	511	526	555	555	481
Gross After-Tax Cash Flow	1,078	2,974	2,905	2,901	2,851	2,928	2,878	2,878	2,878	2,878	2,878	2,711	2,951	2,746	2,702	2,702	2,577	2,577	2,577	2,622	2,700	2,700	2,337
Working Capital/Parts/Inventory	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,500)
Capital Expenditures (including CPP)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,704)
Decommissioning	512	887	352	527	81	596	150	150	150	150	150	642	3,065	992	546	546	546	546	546	992	546	546	525
Deductions to Cash Flow	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1,000
	512	887	352	527	81	596	150	150	150	150	150	642	3,065	992	546	546	546	546	546	992	546	546	(1,678)
Net After-Tax Cash Flow	566	2,087	2,552	2,374	2,770	2,332	2,728	2,728	2,728	2,728	2,728	2,069	(114)	1,754	2,156	2,156	2,031	2,031	2,031	1,630	2,154	2,154	4,016
Discounted Cash Flow at 10.2%																							
Cumulative Discounted Cash Flow	539	1,804	2,002	1,690	1,790	1,367	1,451	1,317	1,195	1,084	984	677	(34)	473	527	478	409	371	337	245	294	267	451
	539	2,343	4,345	6,035	7,825	9,192	10,643	11,960	13,155	14,239	15,223	15,900	15,866	16,339	16,866	17,345	17,754	18,125	18,462	18,707	19,001	19,268	19,719

Note: CPP operating costs are included with the mine operating costs.

APPENDIXA

JORC CODE
2012 EDITION
TABLE 1

JORC CODE, 2012 EDITION – TABLE 1 REPORT TEMPLATE

Section 1 Sampling Techniques and Data

(Criteria in this section apply to all succeeding sections.)

Criteria	JORC Code explanation	Commentary
Sampling techniques	• Nature and quality of sampling (eg cut channels, random chips, or specific specialised industry standard measurement tools appropriate to the minerals under investigation, such as down hole gamma sondes, or handheld XRF instruments, etc). These examples should not be taken as limiting the broad meaning of sampling.	• See Section 3.2
	• Include reference to measures taken to ensure sample representivity and the appropriate calibration of any measurement tools or systems used.	• See Section 3.2
	• Aspects of the determination of mineralisation that are Material to the Public Report.	• See Section 3.1
	• In cases where 'industry standard' work has been done this would be relatively simple (eg 'reverse circulation drilling was used to obtain 1 m samples from which 3 kg was pulverised to produce a 30 g charge for fire assay'). In other cases more explanation may be required, such as where there is coarse gold that has inherent sampling problems. Unusual commodities or mineralisation types (eg submarine nodules) may warrant disclosure of detailed information.	• See Section 3.2
Drilling techniques	• Drill type (eg core, reverse circulation, open-hole hammer, rotary air blast, auger, Bangka, sonic, etc) and details (eg core diameter, triple or standard tube, depth of diamond tails, face-sampling bit or other type, whether core is oriented and if so, by what method, etc).	• See Section 3.2
Drill sample recovery	• Method of recording and assessing core and chip sample recoveries and results assessed.	• See Section 3.2
	• Measures taken to maximise sample recovery and ensure representative nature of the samples.	• See Section 3.2
	• Whether a relationship exists between sample recovery and grade and whether sample bias may have occurred due to preferential loss/gain of fine/coarse material.	• See Section 3.2
Logging	• Whether core and chip samples have been geologically and geotechnically logged to a level of detail to support appropriate Mineral Resource estimation, mining studies and metallurgical studies.	• See Section 3.2

Criteria	JORC Code explanation	Commentary
	• Whether logging is qualitative or quantitative in nature. Core (or costean, channel, etc) photography.	• See Section 3.2
	• The total length and percentage of the relevant intersections logged.	• See Section 3.2
Sub-sampling techniques and sample preparation	• If core, whether cut or sawn and whether quarter, half or all core taken.	• See Section 3.2
	• If non-core, whether riffled, tube sampled, rotary split, etc and whether sampled wet or dry.	• No non-core.
	• For all sample types, the nature, quality and appropriateness of the sample preparation technique.	• See Section 3.2
	• Quality control procedures adopted for all sub-sampling stages to maximise representivity of samples.	• See Section 3.2
	• Measures taken to ensure that the sampling is representative of the in situ material collected, including for instance results for field duplicate/second-half sampling.	• See Section 3.2
	• Whether sample sizes are appropriate to the grain size of the material being sampled.	• Not applicable for coal.
Quality of assay data and laboratory tests	• The nature, quality and appropriateness of the assaying and laboratory procedures used and whether the technique is considered partial or total.	• See Section 3.2
	• For geophysical tools, spectrometers, handheld XRF instruments, etc, the parameters used in determining the analysis including instrument make and model, reading times, calibrations factors applied and their derivation, etc.	• Not applicable for coal.
	• Nature of quality control procedures adopted (eg standards, blanks, duplicates, external laboratory checks) and whether acceptable levels of accuracy (ie lack of bias) and precision have been established.	• See Section 3.2

Criteria	JORC Code explanation	Commentary
Verification of sampling and assaying	• The verification of significant intersections by either independent or alternative company personnel.	• See Section 3.2
	• The use of twinned holes.	• There are no twinned holes.
	• Documentation of primary data, data entry procedures, data verification, data storage (physical and electronic) protocols.	• Laboratories use electronic data entry system at each testing station.
	• Discuss any adjustment to assay data.	• See Section 3.2
Location of data points	• Accuracy and quality of surveys used to locate drill holes (collar and down-hole surveys), trenches, mine workings and other locations used in Mineral Resource estimation.	• See Section 3.2
	• Specification of the grid system used.	• See Section 3.2
	• Quality and adequacy of topographic control.	• See Section 3.2
Data spacing and distribution	• Data spacing for reporting of Exploration Results.	• See Section 3.3
	• Whether the data spacing and distribution is sufficient to establish the degree of geological and grade continuity appropriate for the Mineral Resource and Ore Reserve estimation procedure(s) and classifications applied.	• See Section 3.3
	• Whether sample compositing has been applied.	• See Section 3.2
Orientation of data in relation to geological structure	• Whether the orientation of sampling achieves unbiased sampling of possible structures and the extent to which this is known, considering the deposit type.	• See Section 3.2
	• If the relationship between the drilling orientation and the orientation of key mineralised structures is considered to have introduced a sampling bias, this should be assessed and reported if material.	• There is no bias.
Sample security	• The measures taken to ensure sample security.	• See Section 3.2
Audits or reviews	• The results of any audits or reviews of sampling techniques and data.	• See Section 3.2

Section 2 Reporting of Exploration Results

(Criteria listed in the preceding section also apply to this section.)

Criteria	JORC Code explanation	Commentary
Mineral tenement and land tenure status	• Type, reference name/number, location and ownership including agreements or material issues with third parties such as joint ventures, partnerships, overriding royalties, native title interests, historical sites, wilderness or national park and environmental settings.	• See Section 1.2
	• The security of the tenure held at the time of reporting along with any known impediments to obtaining a licence to operate in the area.	• See Section 1.2
Exploration done by other parties	• Acknowledgment and appraisal of exploration by other parties.	• See Section 3.2
Geology	• Deposit type, geological setting and style of mineralisation.	• See Section 3.1
Drill hole information	• A summary of all information material to the understanding of the exploration results including a tabulation of the following information for all Material drill holes: – easting and northing of the drill hole collar – elevation or RL (Reduced Level – elevation above sea level in metres) of the drill hole collar – dip and azimuth of the hole – down hole length and interception depth – hole length.	• The data are too voluminous to include in this report. Summary data are included with discussion of all material factors.
	• If the exclusion of this information is justified on the basis that the information is not Material and this exclusion does not detract from the understanding of the report, the Competent Person should clearly explain why this is the case.	• The data are too voluminous to include in this report. Summary data are included with discussion of all material factors.
Data aggregation methods	• In reporting Exploration Results, weighting averaging techniques, maximum and/or minimum grade truncations (eg cutting of high grades) and cut-off grades are usually Material and should be stated.	• No cut grades were used.
	• Where aggregate intercepts incorporate short lengths of high grade results and longer lengths of low grade results, the procedure used for such aggregation should be stated and some typical examples of such aggregations should be shown in detail.	• Not applicable for coal.

Criteria	JORC Code explanation	Commentary
	• The assumptions used for any reporting of metal equivalent values should be clearly stated.	• Not applicable for coal.
Relationship between mineralisation widths and intercept lengths	• These relationships are particularly important in the reporting of Exploration Results.	• See Sections 3.1 and 3.2
	• If the geometry of the mineralisation with respect to the drill hole angle is known, its nature should be reported.	
	• If it is not known and only the down hole lengths are reported, there should be a clear statement to this effect (eg 'down hole length, true width not known').	• Not applicable.
Diagrams	• Appropriate maps and sections (with scales) and tabulations of intercepts should be included for any significant discovery being reported These should include, but not be limited to a plan view of drill hole collar locations and appropriate sectional views.	• See Figures in Chapter 3
Balanced reporting	• Where comprehensive reporting of all Exploration Results is not practicable, representative reporting of both low and high grades and/or widths should be practiced to avoid misleading reporting of Exploration Results.	• See Section 3.6
Other substantive exploration data	• Other exploration data, if meaningful and material, should be reported including (but not limited to): geological observations; geophysical exploration survey results; geochemical survey results; bulk samples – size and method of treatment; metallurgical test results; bulk density, groundwater, geotechnical and rock characteristics; potential deleterious or contaminating substances.	• See Section 3.2
Further work	• The nature and scale of planned further work (eg tests for lateral extensions or depth extensions or large-scale step-out drilling).	• There is currently no detailed exploration plan available.
	• Diagrams clearly highlighting the areas of possible extensions, including the main geological interpretations and future drilling areas, provided this information is not commercially sensitive.	• See Figures in Chapter 3

Section 3 Estimation and Reporting of Mineral Resources

(Criteria listed in section 1, and where relevant in section 2, also apply to this section.)

Criteria	JORC Code explanation	Commentary
Database integrity	• Measures taken to ensure that data has not been corrupted by, for example, transcription or keying errors, between its initial collection and its use for Mineral Resource estimation purposes.	• See Section 3.4
	• Data validation procedures used.	• See Section 3.4
Site visits	• Comment on any site visits undertaken by the Competent Person and the outcome of those visits.	• See Section 1.1
	• If no site visits have been undertaken indicate why this is the case.	• Not applicable.
Geological interpretation	• Confidence in (or conversely, the uncertainty of) the geological interpretation of the mineral deposit.	• See Section 3.7
	• Nature of the data used and of any assumptions made.	• See Section 3.1
	• The effect, if any, of alternative interpretations on Mineral Resourceestimation.	• See Section 3.1
	• The use of geology in guiding and controlling Mineral Resourceestimation.	• See Sections 3.1 and 3.4
	• The factors affecting continuity both of grade and geology.	• See Section 3.4
Dimensions	• The extent and variability of the Mineral Resource expressed aslength (along strike or otherwise), plan width, and depth below surface to the upper and lower limits of the Mineral Resource.	• See Figures in Chapter 3 and Section 3.1
Estimationand modelling	• The nature and appropriateness of the estimation technique(s) applied and key assumptions, including treatment of extreme grade techniques values, domaining, interpolation parameters and maximum distance of extrapolation from data points. If a computer assisted estimation method was chosen include a description of computer software and parameters used.	• See Section 3.4
	• The availability of check estimates, previous estimates and/or mine production records and whether the Mineral Resource estimate takes appropriate account of such data.	• See Section 3.5
	• The assumptions made regarding recovery of by-products.	• There are no by-products.
	• Estimation of deleterious elements or other non-grade variables of economic significance (eg sulphur for acid mine drainage characterisation).	• There are no deleterious elements.

Criteria	JORC Code explanation	Commentary
	• In the case of block model interpolation, the block size in relation to the average sample spacing and the search employed.	• Not applicable.
	• Any assumptions behind modelling of selective mining units.	• See Section 3.4
	• Any assumptions about correlation between variables.	• Not applicable.
	• Description of how the geological interpretation was used to control the resource estimates.	• See Section 3.4
	• Discussion of basis for using or not using grade cutting or capping.	• Not applicable.
	• The process of validation, the checking process used, the comparison of model data to drill hole data, and use of reconciliation data if available.	• Not applicable.
Moisture	• Whether the tonnages are estimated on a dry basis or with natural moisture, and the method of determination of the moisture content.	• See Section 3.5
Cut-off parameters	• The basis of the adopted cut-off grade(s) or quality parameters applied.	• No cut-off grades used.
Mining factors	• Assumptions made regarding possible mining methods, minimum mining dimensions and internal (or, if applicable, external) mining dilution. It is always necessary as part of the process of determining reasonable prospects for eventual economic extraction to consider potential mining methods, but the assumptions made regarding mining methods and parameters when estimating Mineral Resources may not always be rigorous. Where this is the case, this should be reported with an explanation of the basis of the mining assumptions made.	• See Section 3.2 and 3.4
Metallurgical factors or assumptions	• The basis for assumptions or predictions regarding metallurgical amenability. It is always necessary as part of the process of determining reasonable prospects for eventual economic extraction to consider potential metallurgical methods, but the assumptions regarding metallurgical treatment processes and parameters made when reporting Mineral Resources may not always be rigorous. Where this is the case, this should be reported with an explanation of the basis of the metallurgical assumptions made.	• See Chapter 8

Criteria	JORC Code explanation	Commentary
Environmental factors or assumptions	• Assumptions made regarding possible waste and process residue disposal options. It is always necessary as part of the process of determining reasonable prospects for eventual economic extraction to consider the potential environmental impacts of the mining and processing operation. While at this stage the determination of potential environmental impacts, particularly for a greenfields project, may not always be well advanced, the status of early consideration of these potential environmental impacts should be reported. Where these aspects have not been considered this should be reported with an explanation of the environmental assumptions made.	• See Chapter 6
Bulk density	• Whether assumed or determined. If assumed, the basis for the assumptions. If determined, the method used, whether wet or dry, the frequency of the measurements, the nature, size and representativeness of the samples.	• See Sections 3.2 and 3.5
	• The bulk density for bulk material must have been measured by methods that adequately account for void spaces (vugs, porosity, etc), moisture and differences between rock and alteration zones within the deposit.	• Not applicable for coal.
	• Discuss assumptions for bulk density estimates used in the evaluation process of the different materials.	• See Section 3.5
Classification	• The basis for the classification of the Mineral Resources into varying confidence categories.	• See Section 3.3
	• Whether appropriate account has been taken of all relevant factors (ie relative confidence in tonnage/ grade estimations, reliability of input data, confidence in continuity of geology and metal values, quality, quantity and distribution of the data).	• See Section 3.3
	• Whether the result appropriately reflects the Competent Person's view of the deposit.	• The results reflect the competent persons view.
Audits or reviews	• The results of any audits or reviews of Mineral Resource estimates.	• See Section 3.5
Discussion ofrelativeaccuracy/ confidence	• Where appropriate a statement of the relative accuracy and confidence level in the Mineral Resource estimate using an approach or procedure deemed appropriate by the Competent Person. For example, the application of statistical or geostatistical procedures to quantify the relative accuracy of the resource within stated confidence limits, or, if such an approach is not deemed appropriate, a qualitative discussion of the factors that could affect the relative accuracy and confidence of the estimate.	• See Section 3.7

Criteria	JORC Code explanation	Commentary
	• The statement should specify whether it relates to global or local estimates, and, if local, state the relevant tonnages, which should be relevant to technical and economic evaluation. Documentation should include assumptions made and the procedures used.	• See Sections 3.4, 3.5 and 3.7
	• These statements of relative accuracy and confidence of the estimate should be compared with production data, where available.	• See Sections 1.1 and 3.7

Section 4 Estimation and Reporting of Ore Reserves

(Criteria listed in section 1, and where relevant in sections 2 and 3, also apply to this section.)

Criteria	JORC Code explanation	Commentary
Mineral Resource estimate for conversion to Ore Reserves	• Description of the Mineral Resource estimate used as a basis for the conversion to an Ore Reserve.	• See Sections 3.4 and 3.5
	• Clear statement as to whether the Mineral Resources are reportedadditional to, or inclusive of, the Ore Reserves.	• See Section 3.5
Site visits	• Comment on any site visits undertaken by the Competent Person and the outcome of those visits.	• See Sections 1.3 and 3.2
	• If no site visits have been undertaken indicate why this is the case.	• Not applicable.
Study status	• The type and level of study undertaken to enable Mineral Resources to be converted to Ore Reserves.	• See Sections 3.2 and 8
	• The Code requires that a study to at least Pre-Feasibility Study level has been undertaken to convert Mineral Resources to Ore Reserves. Such studies will have been carried out and will have determined a mine plan that is technically achievable and economically viable, and that material Modifying Factors have been considered.	• See Sections 3.2 and 8
Cut-off parameters	• The basis of the cut-off grade(s) or quality parameters applied.	• No cut-off grades used.
Mining factors or assumptions	• The method and assumptions used as reported in the Pre-Feasibility or Feasibility Study to convert the Mineral Resource to an Ore Reserve (i.e. either by application of appropriate factors by optimisation or by preliminary or detailed design).	• See Section 4
	• The choice, nature and appropriateness of the selected mining method(s) and other mining parameters including associated design issues such as pre-strip, access, etc.	• See Section 4
	• The assumptions made regarding geotechnical parameters (eg pit slopes, stope sizes, etc), grade control and pre-production drilling.	• See Section 4
	• The major assumptions made and Mineral Resource model used for pit and stope optimisation (if appropriate).	• Not applicable.
	• The mining dilution factors used.	• See Section 3.5
	• The mining recovery factors used.	• See Section 3.5
	• Any minimum mining widths used.	• See Section 3.4 and 4

Criteria	JORC Code explanation	Commentary
	• The manner in which Inferred Mineral Resources are utilised in mining studies and the sensitivity of the outcome to their inclusion.	• See Section 3.5
	• The infrastructure requirements of the selected mining methods.	• See Section 4
Metallurgical factors or assumptions	• The metallurgical process proposed and the appropriateness of that process to the style of mineralisation.	• See Section 5
	• Whether the metallurgical process is well-tested technology or novel in nature.	• See Section 5
	• The nature, amount and representativeness of metallurgical test work undertaken, the nature of the metallurgical domaining applied and the corresponding metallurgical recovery factors applied.	• See Section 5
	• Any assumptions or allowances made for deleterious elements.	• No deleterious elements.
	• The existence of any bulk sample or pilot scale test work and the degree to which such samples are considered representative of the orebody as a whole.	• See Section 5
	• For minerals that are defined by a specification, has the ore reserve estimation been based on the appropriate mineralogy to meet the specifications?	• See Sections 3.6 and 5
Environmental	• The status of studies of potential environmental impacts of the mining and processing operation. Details of waste rock characterisation and the consideration of potential sites, status of design options considered and, where applicable, the status of approvals for process residue storage and waste dumps should be reported.	• See Section 6
Infrastructure	• The existence of appropriate infrastructure: availability of land forplant development, power, water, transportation (particularly for bulk commodities), labour, accommodation; or the ease with which the infrastructure can be provided, or accessed.	• See Section 5
Costs	• The derivation of, or assumptions made, regarding projected capital costs in the study.	• See Section 4
	• The methodology used to estimate operating costs.	• See Section 4
	• Allowances made for the content of deleterious elements.	• No deleterious elements.
	• The derivation of assumptions made of metal or commodity price(s), for the principal minerals and co- products.	• See Section 8

Criteria	JORC Code explanation	Commentary
	• The source of exchange rates used in the study.	• See Section 8
	• Derivation of transportation charges.	• See Sections 4 and 8
	• The basis for forecasting or source of treatment and refining charges, penalties for failure to meet specification, etc.	• See Section 7
	• The allowances made for royalties payable, both Government and private.	• See Section 4
Revenue factors	• The derivation of, or assumptions made regarding revenue factors including head grade, metal or commodity price(s) exchange rates, transportation and treatment charges, penalties, net smelter returns, etc.	• See Section 8
	• he derivation of assumptions made of metal or commodity price(s), for the principal metals, minerals and co-products.	• See Section 8
Market assessment	• The demand, supply and stock situation for the particular commodity, consumption trends and factors likely to affect supply and demand into the future.	• See Section 8
	• A customer and competitor analysis along with the identification of likely market windows for the product.	• See Section 8
	• Price and volume forecasts and the basis for these forecasts.	• See Section 8
	• For industrial minerals the customer specification, testing and acceptance requirements prior to a supply contract.	• See Section 8
Economic	• The inputs to the economic analysis to produce the net present value (NPV) in the study, the source and confidence of these economic inputs including estimated inflation, discount rate, etc.	• See Section 8
	• NPV ranges and sensitivity to variations in the significant assumptions and inputs.	• See Section 8
Social	• The status of agreements with key stakeholders and matters leading to social licence to operate.	• See Section 7
Other	• To the extent relevant, the impact of the following on the project and/or on the estimation and classification of the Ore Reserves:	• See Section 7
	• Any identified material naturally occurring risks.	• See Section 7
	• The status of material legal agreements and marketing arrangements.	• See Section 7

Criteria	JORC Code explanation	Commentary
	● The status of governmental agreements and approvals critical to the viability of the project, such as mineral tenement status, andgovernment and statutory approvals. There must be reasonable grounds to expect that all necessary Government approvals will be received within the timeframes anticipated in the Pre-Feasibility or Feasibility study. Highlight and discuss the materiality of any unresolved matter that is dependent on a third party on which extraction of the reserve is contingent.	● See Section 7
Classification	● The basis for the classification of the Ore Reserves into varying confidence categories.	● See Section 3.3
	● Whether the result appropriately reflects the Competent Person's view of the deposit.	● They do.
	● The proportion of Probable Ore Reserves that have been derived from Measured Mineral Resources (if any).	● None.
Audits or reviews	● The results of any audits or reviews of Ore Reserve estimates.	● See Section 3.5
Discussion of relative accuracy/ confidence	● Where appropriate a statent of the relative accuracy and confidence relative level in the Ore Reserve estimate using an approach or procedure accuracy/ deemed appropriate by the Competent Person. For example, the confidence application of statistical or geostatistical procedures to quantify the relative accuracy of the reserve within stated confidence limits, or, if such an approach is not deemed appropriate, a qualitative discussion of the factors which could affect the relative accuracy and confidence of the estimate.	● See Section 3.7
	● The statement should specify whether it relates to global or local estimates, and, if local, state the relevant tonnages, which should be relevant to technical and economic evaluation. Documentation should include assumptions made and the procedures used.	● See Section 3
	● Accuracy and confidence discussions should extend to specific discussions of any applied Modifying Factors that may have a material impact on Ore Reserve viability, or for which there are remaining areas of uncertainty at the current study stage.	● See Section 3
	● It is recognised that this may not be possible or appropriate in all circumstances. These statements of relative accuracy and confidence of the estimate should be compared with production data, where available.	● See Sections 1.1 and 3.7

APPENDIX B
STATEMENT OF JORC COMPLIANCE

The estimates of Coal Resources and Reserves for Jinjitan Mine presented in this report have been carried out in accordance with the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" prepared by the Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australasian Institute of Geoscientists and Mineral Council of Australia, 2012.

The information in this report to which this statement is attached that relates to the Coal Resources is based on information reviewed by Messrs. Paul D. Anderson, Rongjie (Jeff) Li, and Jisheng (Jason) Han, who are registered members of the Society of Mining, Metallurgy, and Exploration, Inc., and full-time or associate employees of John T. Boyd Company.

Messrs. Anderson, Li, and Han have sufficient experience, which is relevant to the style of mineralization and type of deposit under consideration and to the activity which they are undertaking, to qualify as Competent Persons as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves."

(Signed)

Paul D. Anderson
Associate Senior Consultant

Rongjie (Jeff) Li
Deputy General Manager – China

Jisheng (Jason) Han
Managing Director – China

B. VALUATION REPORT
JINJITAN COAL MINE
SHAANXI FUTURE ENERGY CHEMICAL COMPANY LIMITED
Shaanxi Province, People's Republic of China

Prepared For
YANZHOU COAL MINING COMPANY LIMITED

By John T. Boyd Company
Mining and Geological Consultants Pittsburgh,
Pennsylvania, USA

Report No. 3868.013
SEPTEMBER 2020

John T. Boyd Company

Mining and Geological Consultants

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30 September 2020
File: 3868.013

Yanzhou Coal Mining Company Limited
298 Fushan South Road
Zoucheng City, Shandong Province
People's Republic of China

Attention: Mr. Jin Qingbin
Board Secretary
Subject: Valuation Report Jinjitan Coal Mine
Shaanxi Future Energy Chemical Company Limited
Shaanxi Province,
People's Republic of China

Ladies and Gentlemen: John T. Boyd Company (BOYD) was engaged in August 2020 by Yanzhou Coal Mining Company Limited (Yanzhou) to complete an independent valuation of the Jinjitan Coal Mine (Jinjitan) operations which are currently owned by Shaanxi Future Energy Chemical Company Limited (Future Energy). The subject mining and coal processing operation is located in Yulin, Shaanxi Province, People's Republic of China (PRC). This Valuation Report is prepared in accordance with the VALMIN Code.

The reader is referred to a companion Competent Person's Report (CPR) prepared by BOYD in September 2020, which provides the basis of the estimated coal resources and reserves, mine plans, and related economics used as the primary source of information in preparing this Valuation Report.

Respectfully submitted,

JOHN T. BOYD COMPANY By:

Ronald L. Lewis
Managing Director and COO
Competent Evaluator

TABLE OF CONTENTS

GLOSSARY AND DEFINITIONS

Competent Evaluator	A Competent Person undertaking mineral valuations that satisfy HKEx RULE 18.23.
Competent Person	A person that satisfies HKEx rules 18.21&.22.
CPR	Competent Person' Report.
DCF	Discounted cash flow.
Expert (VALMIN)	May be either: (a) an "Independent individual" who prepares and accepts responsibility for a Report, or (b) a "Representative Expert" who is the nominated representative of a legally constituted body. He or she supervises the preparation of a Report and accepts responsibility for it on behalf of that body. Independent Individual Expert: (a) must be Competent in and have had at least ten years of relevant and recent general mining experience in the mining industry, as may be appropriate; (b) have had at least five years of relevant and recent experience in the assessment and/or valuation of mineral assets or securities, as may be appropriate; (c) hold appropriate licenses; (d) be a member of an appropriate professional association having an enforceable code of ethics.

	Representative Expert: should preferably have the same length of experience and degree of competence as is required of an Independent Individual Expert. If this is not the case, he or she must engage a "Senior Specialist" who: (a) is competent and has had at least ten years of relevant and recent experience in the mining industry, as may be appropriate; (b) has had at least five years of relevant and recent experience in the assessment and/or valuation of mineral assets and securities, as may be appropriate; (c) holds the appropriate licenses; (d) is a member of an appropriate professional association having an enforceable code of ethics.
Feasibility Study	A comprehensive design and costing study of the selected option for the development of a mineral project in which appropriate assessments have been made of realistically assumed geological, mining, metallurgical, economic, marketing, legal, environmental, social, governmental, engineering, operational, and all other relevant factors, which are considered in enough detail to demonstrate at the timeof reporting that extraction is reasonably justified and the factors reasonably serve as the basis for a final decision by a financial institution to finance the development of the project.
Gross Cash Flow	Revenue less operating cash cost; can be determined on a pre-tax (income tax) or a post-tax basis.
Indicated Resource	That part of a mineral Resource for which tonnage, densities, shape, physical characteristics, grade, and mineral content can be estimated with a reasonable level of confidence.
Inferred Resource	That part of a mineral Resource for which tonnage, grade, and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence, sampling, and assumed but not verified geological and/or grade continuity.

JORC Code	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2012 edition), as published by the Joint Ore Reserves Committee, as amended from time to time.
Life-of-Mine (LOM) Plan	A design and costing study of an existing or proposed mining operation where all Modifying Factors have been considered in sufficient detail to demonstrate at the time of reporting that extraction is reasonably justified. Such a study should be inclusive of all development and mining activities proposed through to the effective closure of the existing or proposed mining operation.
LOM	Life-of-Mine.
Market Value	The estimated amount of money (or the cash equivalent of some other consideration) for which the Mineral Asset should exchange on the date of Valuation between a willing buyer and a willing seller in an arm's length transaction after appropriate marketing wherein the parties each acted knowledgeably, prudently, and without compulsion.
Measured Resource	That part of a mineral Resource for which tonnage, densities, shape, physical characteristics, grade, and mineral content can be estimated with a high level of confidence.
Mine Planning	Includes production planning, scheduling and economic studies within the Mine Design taking into account geological structures and mineralization, associated infrastructure and constraints, and other relevant aspects that span commissioning, operation and closure.
Mineral	Any naturally occurring material found in or on the earth's crust that is useful to and/or has a value placed on it by humankind, excluding crude oil, natural gas, coal-based methane, tar sands, and oil-shale, which are classified as Petroleum as defined in D35 of VALMIN Code.

Mineral Asset	All property, including but not limited to real property, intellectual property, mining, and exploration tenements held or acquired in connection with the exploration of, the development of, and the production from those tenements together with all plant, equipment, and infrastructure owned or acquired for the development, extraction, and processing of minerals in connection with those tenements. Most Mineral Assets can be classified as either: Exploration Areas – properties where mineralization may or may not have been identified, but where a Mineral or Petroleum Resource has not been identified. Advanced Exploration Areas – properties where considerable exploration has been undertaken and specific targets have been identified that warrant further detailed evaluation, usually by drill testing, trenching or some other form of detailed geological sampling. A resource estimate may or may not have been made but sufficient work will have been undertaken on at least one prospect to provide both a good understanding of the type of mineralization present and encouragement that further work will elevate one or more of the prospects to the resource category. Pre-Development Projects – properties where Mineral Resources have been identified and their extent estimated (possibly incompletely) but where a decision to proceed with development has not been made. Properties at the early assessment stage, properties for which a decision has been made not to proceed with development, properties on care and maintenance, and properties held on retention titles are included in this category if Mineral Resources have been identified, even if no further Valuation, Technical Assessment, delineation, or advanced exploration is being undertaken. Development Projects – properties for which a decision has been made to proceed with construction and/or production, but which are not yet commissioned or are not yet operating at design levels. Operating Mines – mineral properties, particularly mines and processing plants, that have been commissioned and are in production.

MV	Market Value
Net Cash Flow	Gross Cash Flow less Capital Cost; can be expressed on either a pre-tax (income tax) or post-tax basis.
NPVs	Net present values.
Prefeasibility Study	A comprehensive study of the viability of a mineral project that has advanced to a stage where the mining method, for underground mining, or the pit configuration, for an open pit, has been established and an effective method of mineral processing has been determined. It includes a financial analysis based on realistically assumed or reasonable assumptions of technical, engineering, legal, operating, economic, social, and environmental factors and the evaluation of other relevant factors which are enough for a Competent Person, acting reasonably, to determine if all or part of the mineral Resource may be classified as a mineral Reserve.
Preliminary Feasibility Study	A comprehensive study of a range of options for the technical and economic viability of a mineral project that has advanced to a stage where a preferred mining method, in the case of underground mining, or the pit configuration, in the case of an open pit, is established and an effective method of mineral processing is determined. It includes a financial analysis based on reasonable assumptions on the Modifying Factors and the evaluation of any other relevant factors that are sufficient for a Competent Person, acting reasonably, to determine if all or part of the Mineral Resources may be converted to an Ore Reserve at the time of reporting. A Pre-Feasibility Study is at a lower confidence level than a Feasibility Study.
Probable Reserve	With regard to minerals, the economically mineable part of an Indicated, and in some circumstances a Measured, Resource.

Professional Association	A self-regulating body such as one of engineers or geoscientists or both that: (a) has been given authority or recognition by statute; (b) admits members primarily on the basis of their academic qualifications and professional experience; (c) requires compliance with professional standards of expertise and behavior according to a code of ethics established by the association; and (d) has enforceable disciplinary powers, including that of suspension or expulsion of a member, should its code of ethics be breached.
Proved Reserve	With regard to minerals, the economically mineable part of a Measured Resource.
Reasonableness	Implies that an assessment which is impartial, rational, realistic and logical in its treatment of the inputs to a Valuation or Technical Assessment has been used, to the extent that another Practitioner with the same information would make a similar Technical Assessment or Valuation.
Recognized	A self-regulatory organization of professional
Professional Organization	individuals in the mining or petroleum industry which admits individuals on the basis of their academic qualifications and experience, requires compliance with professional standards of competence and ethics established by the organization, and has disciplinary powers, including the power to suspend or expel a member.

Reserve	With regard to minerals, the economically mineable part of a Measured, and/or Indicated Resource, taking into account diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments to a minimum of a Prefeasibility Study must have been carried out. Mineral Reserves are subdivided in order of increasing confidence into Probable Reserves and Proved Reserves. Note: although the term Mineral Reserve is used throughout this Chapter, it is recognized that the term Ore Reserve is used in the JORC Code.
Resources	With regard to minerals, a concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form, quality, and quantity that there are reasonable prospects for their eventual economic extraction. The location, quantity, grade, geological characteristics, and continuity of a mineral Resource are known, estimated, or interpreted from specific geological evidence and knowledge. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated, and Measured Resources, as defined in the JORC Code.
Risk	The chance of an event occurring that will have an impact on objectives. A risk may be quantifiable in terms of the likelihood of loss, less than expected returns, or an undesirable outcome.
Scoping Study	A preliminary evaluation of a mineral project, including an assessment of the economic viability of mineral Resources. Scoping Studies should include forecasts production schedules and cost estimates based on data under which the Resources are identified.
Specialist	A person whose profession, reputation or relevant industry experience in a technical discipline (such as geology, mine engineering, or metallurgy) provides them with the authority to assess or value Mineral Assets.

Technical Assessment	An evaluation prepared by a Specialist of the technical aspects of a Mineral Asset. Depending on the development status of the Mineral Asset, a Technical Assessment may include the review of geology, mining methods, metallurgical processes and recoveries, provision of infrastructure and environmental aspects.
Technical Assessment Report	(a.k.a. CPR) Involves the Technical Assessment of elements that may affect the economic benefit of a Mineral Asset.
Technical Value	An assessment of a Mineral Asset's future net economic benefit at the Valuation Date under a set of assumptions deemed most appropriate by an Expert or Specialist, excluding any premium or discount to account for such factors as market or strategic considerations.
Tenure	Any form of title, right, license, permit or lease granted by the responsible government in accordance with its mining legislation that confers on the holder certain rights to explore for and/or extract agreed minerals that may be (or is known to be) contained. Tenure can include third-party ownership of the Minerals (for example, a royalty stream). Tenure and Title have the same connotation as Tenement.
VALMIN Code	The Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (2005 edition), as prepared by the VALMIN Committee, a joint committee of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists, and the Mineral Industry Consultants Association as amended from time to time.
Valuation	The process of determining the monetary Value of a Mineral Asset at a set Valuation Date.
Valuation Approach	A grouping of valuation methods for which there is common underlying rationale or basis.
Valuation Date	The reference date on which the monetary amount of a Valuation in "dollars of that day" terms is current. This date could be different from the dates of completion or signing of the Report or the cut-off date of available data.

Valuation Methods	A subset of Valuation Approaches and may represent variations on a common rationale or basis.
Valuation Report	The public valuation report prepared by a Competent Evaluator on Mineral or Petroleum Assets in compliance with HKEx rule 18.34 and the applicable Reporting Standard, as modified by this Chapter. It may form part of a Competent Person's Report.
VR	Valuation Report

1.0 INTRODUCTION

1.1 Scope of Work/Purpose

This independent valuation of the Jinjitan mining operation was prepared for Yanzhou Coal Mining Company Limited (Yanzhou) for use in a public filing on the Stock Exchange of Hong Kong (HKEx). In preparing this report, we have relied on a companion report: Competent Person's Report (CPR), prepared by BOYD in September 2020. The Valuation Date for this study is 30 June 2020. This report is prepared in accordance with HKEx Listing Rules Chapter 18 and the Australasian Code for Public Reporting of Technical Assessments and Valuations of Mineral Assets, 2015 Edition (VALMIN Code 2015).

1.2 Assets Summary

As of the date of valuation, the Jinjitan Mine operation and related assets are fully controlled by Shaanxi Future Energy Chemical Company Limited (Future Energy). The mine and related facilities are fully developed. The operation started in 2015 with a design capacity of 8.0 Mtpa, which was increased to an authorized capacity of 15.0 Mtpa in July 2018. A coal preparation plant (CPP) with matching capacity commenced operation in 2018. In 2019, the mine produced 15.16 Mt of product coal.

1.3 Source Data

The reader is referred to the BOYD CPR for a listing of source data used to prepare this document. For purposes of this Valuation Report (VR), BOYD requested and received the following additional source data:

- Details for forward 2020-2024 mining and business plans (projections):
  - Projected product type.
  - General and administrative cost.
  - Selling costs and taxes.
  - Financial costs.
  - Fully Mechanized longwall (FM LW) and development equipment replacement plan.
- Coal sales:
  - Existing coal sales commitments (or contracts) for forward sales.
  - Summary of historical coal sales contracts, showing the name of customer, name of mine, coal quality requirement, FOB price, tonnage, and other additional pricing agreement.

  - FOB mine coal sales prices for the mine on the close of the first day of each month for the past 12 months.

- Existing assets:

  - Fixed asset summary listing for Jinjitan Mine and facilities, as of 30 June 2020, showing original and net asset values.

  - Annual depreciation rates by asset classes.

  - Depreciation schedule for all the assets from 1 July 2020 until the end of the year when the estimated reserves are depleted.

- Mineral and land costs:

  - Mineral resource compensation fees.

  - Outstanding mining right fees to be paid as of 1 July 2020.

  - Mining right fees paid in and future payment schedules as of 1 July 2020.

  - Land usage fees and future payment schedules as of 1 July 2020.

- Other forward planning considerations:

  - Production fee projections by year with detailed breakdowns for the period 2020 to 2024 and beyond.

  - Expected coal processing requirements for CPP.

  - Rate and calculation method for all the fees/taxes levied by the tax department or administrative organizations

  - Expected VAT obligation as percent of selling price and expected deductions to VAT for purchase of goods and services.

1.4 BOYD Background and Qualifications

BOYD is one of the largest independent consulting firms exclusively serving the coal, financial, utility, power and mineral related industries. Consultancy services have been provided on a continuous basis since 1943 in over 60 countries. Our full-time staff includes specialists in the analysis of geology, reserves, mine planning and costs, material handling and processing, markets, business planning, transport, environmental assessments, and coal/mineral valuation. Our full range of professional services includes:

- Independent technical reports (ITR,QPR,CPR)

- Geologic, reserve and mine plan modeling
- Exploration design and supervision
- Reserve and geotechnical studies
- Economic feasibility studies and valuations
- Due diligence of mining operations
- Assessment of existing operations
- Permitting and environmental analysis
- Market and transport analyses
- Material handling and processing
- Strategic business planning
- Financial analysis
- Asset appraisals
- Monitoring of operating companies
- Minerals industry restructuring
- Privatization studies

BOYD possesses extensive computer and software systems to estimate reserves, and complete mine plans including Mincom Minescape, MAPTEK Vulcan, Carlson SurvCADD, Runge XPAC, Mintec Mine Sight and GEMCOM Whittle.

The company is privately owned and managed by the Boyd family, with James W. Boyd serving as Chairman and John T. Boyd II serving as President and CEO. Currently, a full-time staff of more than 65 is maintained in six offices (Canonsburg, Pennsylvania, USA; Denver, Colorado, USA; Brisbane, Australia; Beijing, China; Dhaka, Bangladesh; and Bogota, Colombia). Our staff is supplemented by associates and executive consultants in various areas of specialized expertise in the mining industry.

We have extensive experience with international mining operations and in preparing Competent Person's Reports (CPR), Qualified Person's Reports (QPR), and Independent Technical Reports (ITR) for international financing purposes and for stock exchange filings. We are fully knowledgeable of the listing requirements of the Hong Kong Stock Exchange (HKEx), London Stock Exchange (and AIM), Australian Stock Exchange (ASX), Toronto Stock Exchange (TSX), and Singapore Stock Exchange

(SGX). These exchanges generally require technical reports to comply with internationally recognized reporting guidelines such as NI 43-101 (Canadian Requirements), JORC Code, and US Securities and Exchange Commission (SEC) Guide 7 Rules, etc., with regard to mining operations.

Shenhua Group Corporation, a key state-owned enterprise in China and the largest coal company in the world, retained BOYD as their technical advisor for their successful 2005 IPO on the HKEx. Our work included an analysis of reserves (JORC Standards), coal quality, mine operations, processing, material handling and rail and ocean transport facilities, and economics. Our report was accepted by the HKEx. Subsequently, we completed the resource and reserve reviews for China Shenhua Energy Company Limited's (1088.HK) asset acquisitions filed with the HKEx in 2007, 2010, 2011, and 2012, and prepared coal resource and reserve updates for HKEx annual auditing in 2009.

Inner Mongolia Yitai Coal Company, the largest private coal company in China, successfully listed their IPO on the HKEx in July 2012. BOYD completed the CPR and VR according to international (JORC and VALMIN Codes) standards and Chapter 18 rules.

Yanzhou Coal Mining Company Limited, a wholly-owned subsidiary of Yankuang Group, is a company listed on four stock markets including HKEx, NYSE, SSE and ASX. BOYD was engaged by Yanzhou to complete the CPR according to International (JORC 2012) standards for its 12 coal mine assets in 2017 as well as the update of CPR for annual reporting during 2018 and 2020.

BOYD is a recognized consultancy having worldwide stature. Her Majesty's Government, Department of Trade and Industry retained us regarding the privatization of British Coal Corporation, and we were actively involved with N M Rothschild, the lead financial advisor, during the course of this project. Our work assisted in the successful restructuring of the UK coal industry.

Over 2,000 reserve audits have been completed, and many of the largest US and international coal producers have entrusted BOYD to review their reserve holdings. BOYD's reserve statements have been used by client companies for stock exchange filings. Staff representatives of BOYD have appeared before stock exchange technical staff to support our estimates. As an example, Peabody Energy, one of the largest international coal-producing companies, has utilized BOYD to develop information for SEC filing purposes.

BOYD has worked with and/or for virtually all of the major international banks. Numerous financial agencies have used our services to opine on major property/mine operations and prepare bankable documents accepted and used with confidence by major financial institutions and other investors around the world.

Our commitment to the China/Asia mining industry is exemplified by the presence of our office in Beijing, China. Our clients receive the services of an international company with expertise in the People's Republic of China (PRC) and knowledge of international financial community requirements.

1.5 Competent Evaluator and Specialists

Competent Evaluator for this Valuation Report is Mr. Ronald L. Lewis, who is serving as Representative Expert as defined by VALMIN Code. Mr. Lewis clearly meets all HKEx Rule 18.23 requirements:

- Employed by BOYD for approximately 49 years, currently serving as Chief Operating Officer (COO) and overall Managing Director (MD).

- Relevant experience includes: oversight of all BOYD consulting activities and senior management approval of BOYD work products, direct participation in mining and mineral resource/reserve and valuation assignments.

- Independently recognized expert in mineral valuation serving as an expert witness in over 50 legal proceedings.

- Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc. (SME, a Recognized Professional Organization under the JORC Code), a registered Professional Engineer in the United States, and a Certified Member of the International Institute of Minerals Appraisers.

Mr. Lewis has directed and participated in the preparation of this Report, and accepts responsibility for the Report on behalf of BOYD. Key Senior Specialists who assisted Mr. Lewis are:

Mr. Jisheng (Jason) Han – Managing Director – China, MS (Mining Engineering)

Mr. Han has 24 years of mining engineering experience focused on ground control, geomechanics, general mining engineering, and assessment of mining operations. Experienced in roof bolting and other support design, underground structure stability analysis, remedy reinforcement design, ground control problems associated with multi-seam coal mining and ground subsidence study, feasibility study of mine projects, evaluation of underground mine plans, mining operations, operating costs, mine staffing, capital requirements, mining technique upgrade, and productivity. Expertise has been developed in mine feasibility, economic analysis of mining operations and operational assessments. Additional mine engineering expertise in ventilation analysis, evaluation of coal quality, geological impacts on mine operations and valuation of mining operations. Mr. Han is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is qualified as a Competent Person as defined in the JORC Code and HKEx Chapter 18 requirements. Mr. Han has independent status as required by Rule 18.22.

Mr. Rongjie (Jeff) Li – Deputy General Manager – China, MS (Geochemistry), BE (Geology)

Mr. Li has 14 years of consulting geological based experience in coal and sedimentary deposits on design and management of exploration programs, and interpretation of exploration data, evaluation of depositional features impacting mineability and utilization, and preparation of resource/reserve estimate. Mr. Li is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is qualified as a Competent Person as defined in the in the JORC Code and HKEx Chapter 18 requirements. Mr. Li has independent status as required by Rule 18.22.

1.6 Certification of Competent Evaluator

As evidenced by Mr. Lewis's signature to this report, he certifies that, to the best of his knowledge and belief:

- The statements of fact contained in this Report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, and BOYD's impartial, and unbiased professional analyses, opinions, conclusions, and recommendations.
- I (Mr. Lewis), nor BOYD, have no present or prospective interest in the Jinjitan assets that are the subject of this Report, and I, nor BOYD, have no personal interest with respect to the parties involved.
- I, nor BOYD, have no bias with respect to any property that is the subject of this report or to the parties involved with this assignment.
- BOYD's engagement in this assignment was not contingent upon developing or reporting predetermined results.
- BOYD's compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- My analyses, opinions, and conclusions were developed and this report has been prepared in conformity with the VALMIN Code.

- I have not made a personal inspection of the property that is the subject of the report, but representatives of BOYD have visited the Jinjitan Mine site in conjunction with the preparation of the companion Competent Person's Report.

1.7 Reporting Considerations

BOYD is a privately owned consultancy firm with headquarters in the United States. Our company was selected for this assignment on the basis of our internationally recognized expertise in exploration, resource/reserve studies, mine development, and valuation.

Estimates of resources and reserves, as well as projections of mine and processing plant output, and financial results, are inherently forward-looking statements. Actual performance may differ from projections of future performance due to various reasons beyond the control of BOYD, including, but not limited to: inherent uncertainties in geologic data interpretation, occurrence of unforeseen geological conditions, change or lack of development in key domestic and international markets, material changes in market prices, variances in the execution of construction and mine plans, and significant changes in projected materials, supplies, parts and equipment, operating costs, and expenditures. Imposition of different central, regional, and/or local government policies could affect future coal production. For example, increased environmental compliance and changes in regulatory oversight for health and safety could result in reduced output and increased costs. Possible variations of future performance from the projections presented in this report are addressed in more detail in specific sections of this report.

We believe the Jinjitan mining operation is appropriately equipped and operated, and except for normal geologic, operational, and other risks associated with underground coal mining in the PRC, BOYD has not identified any material concerns and/or risks that we consider extraordinary. Management of the mine is a critical element in achieving both production plans and a high degree of safety. Jinjitan's output plans are based on operating the mine and production facilities consistent with the operation's production capacity. In the event that any unforeseeable events result in temporary decreased production, BOYD is of the opinion that Jinjitan has additional capacity potential to make up for minor loss of production volumes.

The primary source of information (written and verbal) relied upon by BOYD in preparing this VR was provided by Jinjitan and Future Energy. We have exercised reasonable care in reviewing the information provided and received written confirmation from Future Energy that all historical data have been accurately reported and all forward projections are prepared and/or approved by competent professionals and Future Energy management. Information regarding historical coal sales were provided in summary form and used by BOYD as provided. We have no reason to believe that any material facts have been withheld. We are not responsible for any material errors or omissions in the information provided.

The valuation opinion presented in this report represents the independent professional opinion of the Competent Evaluator and BOYD based on our review of available project information. Our expertise is in technical and valuation issues, and BOYD is not qualified to offer, nor do we represent that any of our findings include, matters of a legal or accounting nature. We have not independently researched land and/or coal certificate rights, nor have we reviewed or verified the ownership or structure of the various entities with interests in Jinjitan and Future Energy. BOYD is not qualified and does not purport to offer a legal opinion on the status of ownership/ control and/or the right to mine.

Although we believe all findings and conclusions to be reasonable, we rely on information developed by others and reflect mining and marketing conditions, and our interpretation of regulations, as of the date of the VR.

Following this page are:

Figures: 1.1: General Location Map

Respectfully submitted,
JOHN T. BOYD COMPANY By:

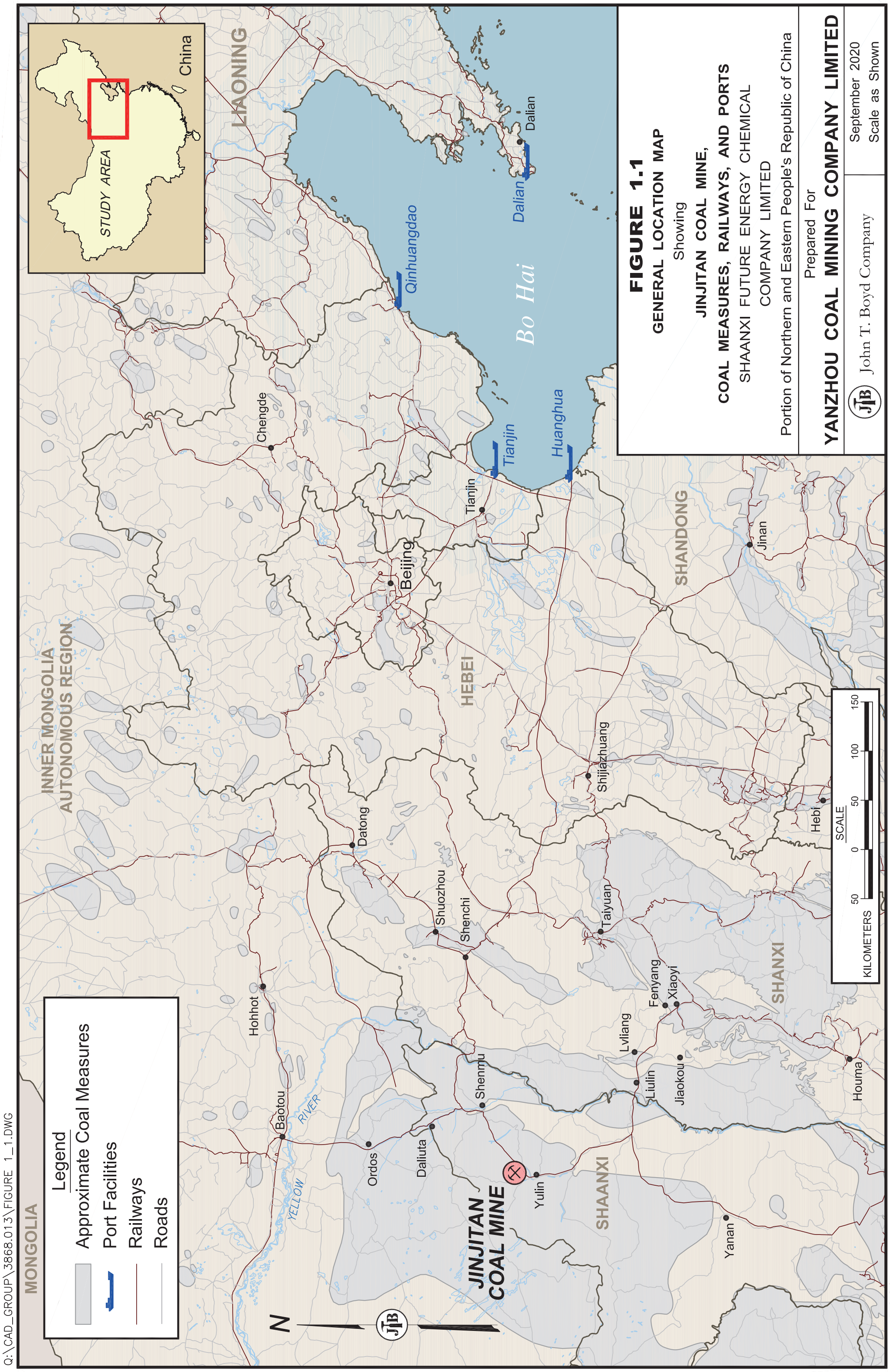
Contributing Project Team Members (Specialists)

Ronnie (Jeff) Li, CP
Managing Director – China

Jisheng (Jason) Han, CP
Deputy General Manager – China

Competent Evaluator

Ronald L. Lewis, CP
Competent Evaluator
Managing Director and COO


1-9
FIGURE 1.1
GENERAL LOCATION MAP
Showing
JINJITAN COAL MINE,
COAL MEASURES, RAILWAYS, AND PORTS
SHAANXI FUTURE ENERGY CHEMICAL
COMPANY LIMITED
Portion of Northern and Eastern People's Republic of China
Prepared For
YANZHOU COAL MINING COMPANY LIMITED
John T. Boyd Company
September 2020
Scale as Shown
Q:\CAD_GROUP\3868.013\FIGURE 1_1.DWG
Legend
Approximate Coal Measures
Port Facilities
Railways
Roads
KILOMETERS
SCALE
50 0 50 100 150
STUDY AREA
China
MONGOLIA
INNER MONGOLIA AUTONOMOUS REGION
LIAONING
HEBEI
SHANDONG
SHANXI
SHAANXI
Bo Hai
JINJITAN COAL MINE
Qinhuangdao
Dalian
Tianjin
Huanghua
Chengde
Beijing
Jinan
Shijiazhuang
Hebi
Datong
Shuozhou
Shenchi
Taiyuan
Fenyang
Xiaoyi
Lvliang
Liulin
Jiaokou
Houma
Hohhot
Baotou
YELLOW RIVER
Ordos
Daliuta
Shenmu
Yulin
Yanan
N

2.0 VALUATION OPINION

2.1 Valuation and Sensitivity

The assignment of this report is to opine on the Market Value (MV) of the Jinjitan Mine holdings, as of 30 June 2020. Based on the production sales, cost, and other data provided to BOYD for the purposes of this assignment and our LOM plan and DCF analysis, we developed an independent opinion of the Technical Value of the existing and projected Jinjitan operation.

According to our discounted cash flow analysis, the Base MV of the Jinjitan operation is RMB19,719 million.

To provide guidance on the probable range in values, we have completed a series of sensitivity DCF-NPV analyses. The probable range in Technical Value using the variables below applied to the specified Base Case DCF-NPV parameters are as follows:

Sensitivity Case	**Valuation MV (DCF-NPV)** *(RMB Millions)*
Base Case (10.2% Discount Rate)	19,719
Sensitivity Case	
Prodution (-20%)	14,341
Prodution (-10%)	17,007
Prodution (+10%)	22,012
Prodution (+20%)	24,158
Prodution (+30%)	26,387
Sales Price (-15%)	15,200
Sales Price (-10%)	16,707
Sales Price (-5%)	18,214
Sales Price (+5%)	21,229
Sales Price (+10%)	22,734
Sales Price (+20%)	25,748
Cash Cost of Sales (-10%)	20,944
Cash Cost of Sales (-5%)	20,332
Cash Cost of Sales (+10%)	18,494
Cash Cost of Sales (+20%)	17,269
Capital (-5%)	19,941
Capital (+10%)	19,278
Capital (+20%)	18,838
Capital (+30%)	18,397

The probable range in value using discount factors raning from 8% to 12% are as follows:

Discount Factor *(%)*	**Valuation MV (DCF-NPV)** *(RMB Million)*
8	23,254
9	21,529
10	20,003
11	18,648
12	17,439

Although BOYD has used a 10.2% discount factor to arrive at our Base MV for the Jinjitan operation, the sensitivity of 8% to 12% encompasses the typical range of discount rates applied to this type of asset. While we believe the 10.2% discount factor is appropriate and reasonable, an alternate factor in the range of 8% to 12% would also be appropriate.

We developed life-of-mine (LOM) plan for the subject mine that provides the foundation of the cash flow projections. Level of study of the LOM plans is considered to be Prefeasibility. The plan is limited to defined JORC Code qualified Proven and Probable Reserves (as developed by BOYD in the Competent Person's Report (CPR)).

2.2 DCF-NPV Analysis Parameters and Assumptions

The major valuation parameters and assumptions used to develop our base case DCF-NPV analysis are as follows:

1. Annual Coal production, operating cost and capital expenditures are derived from the LOM plan (developed by BOYD) for the subject mine. Two LW faces operation is projected through depletion of the 2-2U Seam at Jinjitan Mine.

2. Jinjitan CPP FOB sales prices are expressed in constant RMB including VAT.

3. Annual cash flow projections are calculated on an after-tax basis, with capital expenditures deducted in the year incurred.

4. Mid-year discounting is utilized with the 10.2% discount rate.

5. Mine level general and administrative costs are included; corporate general and administrative charges are not included.

6. The mining right Fee, Construction Tax, and Education Supplementary Tax are included in our cost estimate.

7. Working capital/parts/inventory in June 2020 was assumed RMB1,500 million, and is considered adequate for the LOM Plan. It is assumed that Jinjitan will recover the RMB1,500 million working capital during the last operation year in 2042.

8. Based on the provided capital expenditure projections and the information from the site discussions with mine technical and management personnel, BOYD developed a capital expenditures (CAPEX) projection for Jinjitan Mine until the year of 2042 when the identified remaining LOM reserves exhausts. The major CAPEX projections include funding for:

   – Phase 1 Village relocation.

   – Underground engineering expenditure in 2021 and 2022.

   – Electromechanical equipment expenditure during the second half of 2020 and 2022.

   – Environment protection related expenditure in the second half of 2020.

   – Completion of the CPP fine coal processing system. The system is projected to start operation in 2023.

   – Replacement of continuous miners on a 10-year schedule.

   – Addition of a new set of sub-level caving FM LW equipment in 2023, and replacement of the current using sub-level caving FM LW equipment in 2025. Both LW faces will be replaced every eight years in the future till the end of the LOM.

   – Sustaining capital allowance.

   – Mining right fee payment in 2032 and the years after to guarantee successful mining rights renewal for the remaining reserves in 2-2U Seam.

   – Mine decommissioning in 2042.

9. Depreciation and amortization are standard pro-forma non-cash charges. Production maintenance fee ("keep simple production"), safety fund fee, and financial expense charges are unique to Chinese coal industry accounting. These charges are generally considered to be non-cash deductions to determine taxable income. Production maintenance fee and safety fund fee projections are RMB10.5/ROM tonne and RMB15.0/ROM tonne, respectively.

10. Operating costs for the Jinjitan CPP were included in the overall operating cost.

11. LOM terminal values of fixed assets and intangible assets of the mine/CPP were estimated by straight-line depreciation method.

2.3 Conclusion

Based on our DCF-NPV analysis and the methodology BOYD used to assess Jinjitan's existing and projected operation Technical Value, which were supplemented by interactions with Future Energy personnel, we have a high degree of confidence that the MV shown in this report are a reasonable representation of the subject assets as of 30 June 2020. Jinjitan also controls substantial tonnages of additional resources in the 2-2U and underlying coal seams, which have future mining potential. The assigned MV for these additional resources reflect their high percentage of inferred coal and the extended deferment before mining would be considered.

	Market Value RMB – millions, as of 30 June 2020	
	Base Case	**Probable Range**
Existing Operation	19,719	17,439-23,254
Additional Resources	2,353	1,200-2,800
Total MV	22,072	18,639-26,054

3.0 SUMMARY OF ASSETS

3.1 Introduction

A detailed description of the Jinjitan Mining operation is contained in the companion report: Competent Person's Report, Shaanxi Future Energy Chemical Company Limited, September 2020, as prepared by BOYD. This Chapter provides a summary of the Jinjitan Coal Mine included in this independent Valuation Report.

Jinjitan Mine is located in Yushen Coalfield, one of the largest coalfields in the world, which is approximately 30 km Northeast of Yulin City, Shaanxi Province. The Future Energy 100% controls Jinjitan's Mining rights, the information of which is summarized as follows:

					Current Mining Right Term		Capacity Verification	
Mining Right Certificate Number	Authorized Output Capacity (Mtpa)	Authorized Mining Elevation (m)	Mining Method	Area (km^2)	Grant Date	Expiration	Verified Date (month/ yr)	Verified Capacity (Mtpa)
C6100002015061110138703	8.0	1,013 – 760*	UG**	91.6206	06/10/2019	06/10/2023	07/2018	15.0

* Note shown on the Certificate: mining elevation range for the first 30 years: 1,013 – 960 m, for coal seams 2-2 and 2-2U.

** UG=underground

BOYD has reviewed the mining rights documentation presented by Future Energy with regard to the Jinjitan Mine. To the extent supported by the documentation and from BOYD's standing as a technical expert, we have accepted that Future Energy holds the Jinjitan mining right certificate for the areas evaluated in this report. We assume the current term of the Jinjitan mining rights will be extended through depletion of remaining reserves during the normal course of business.

3.2 Geology Resources

3.2.1 Geologic Setting

On a global basis, the geologic setting of the coal bearing strata underlying the Jinjitan mining rights area is judged to be simple. The strata are flat lying with few faulting. Though splitting of the thick 2-2 Seam occurs, the depositional setting is still simple, and the correlation is straightforward. The mine produces coal by underground LW methods.

Coal seams underlying the Jinjitan mining rights area are located in the Yan'an Formation of the Jurassic Age. These coals are bituminous in rank and thermal in quality. The Jinjitan Mine is located in the western part of the Yushen Coalfield and the associated coal resources include five coal seams, 2-2U, 3-1, 4-3, 5-2 and 5-3U, as follows:

	Thickness (m)			Seam Interval (m)	Depth to Seam Range (m)	Seam Dip (deg.)	Seam Occurrence
Seam	Coal	Parting	Seam				
2-2U*	7.69	0.05	7.74		200 – 320	1 – NW	Uniform
				30 – 50			
3-1	1.99	0.02	2.01		250 – 370	1 – NW	Uniform
				60 – 80			
4-3	1.35	0.00	1.35		330 – 430	1 – NW	Erratic*
				20 – 40			
5-2	1.61	0.14	1.75		350 – 470	1 – NW	Uniform
				15 – 20			
5-3U	1.44	0.00	1.44		370 – 490	1 – NW	Erratic*

Note:

* 2-2U seam includes the area where 2-2U and 2-2L merged in east part of the

* The erratic seam occurrence of the thinner Seams 4-3 and 5-3U is not becaus geological setting, but resulted by the seleted cutoff thickness of 1.3 m.

Based on our review of the coal resource data and methodology used to define the resources, our visits to the active mining operations, and interaction with Jinjitan personnel, we have a high degree of confidence that the resource estimates shown in this report are professionally prepared and representative of the specified properties.

3.2.2 Resources and Reserves

Using Source data provided by Future Energy, BOYD has independently assessed this information and prepared resource and reserve estimates in accordance with JORC Code 2012. Our resource and reserve tonnage estimates for the Jinjitan Mine as of 30 June 2020, are as follows:

	Average Thickness (m)			In-Place Resource (Mt)				Recoverable Reserves (Mt)			Processing	Marketable Reserves (Mt)		
Seam	Coal	Parting	Seam	Measured	Indicated	Inferred	Total	Proved	Probable	Total	Yield %	Proved	Probable	Total
2-2U	7.69	0.05	7.74	271.34	126.82	211.89	610.05	243.62	89.76	333.37	92.9	226.32	83.38	309.71
3-1	1.99	0.02	2.01	61.64	54.57	66.77	182.98	–	–	–		–	–	–
4-3	1.35	0.00	1.35	11.51	8.01	12.10	31.61	–	–	–		–	–	–
5-2	1.61	0.14	1.75	51.53	15.36	65.53	132.41	–	–	–		–	–	–
5-3U	1.44	–	1.44	–	7.93	17.35	25.28	–	–	–		–	–	–
Total				396.02	212.68	373.63	982.33	243.62	89.76	333.37	92.9	226.32	83.38	309.71

Total Marketable Reserves are 309.71 Mt, all in the thicker 2-2U Seam (excluding inferred coal). Approximately 73% of the marketable reserves are in the Proved classification, and the balance classified Probable. Based upon projected coal output levels and the current BOYD reserve estimate, projected FM LW mine life is 22 years.

3.2.3 Coal Quality

Coal quality in the Yushen coalfield is well known since the Yushen Coalfield is a major coal deposit in PRC. The coal is high volatile bituminous in rank. Coal quality is generally uniform, with a low sulfur content.

The primary market for the coal is fuel for thermal power generation plants and material for coal chemical industry. Typical quality is a low sulfur content coal having a calorific value of approximately 6,500 kcal/kg (net, ad). The ROM coals are expected to have higher contents of moisture and ash, and lower calorific value due to the moisture gain and increased ash content resulting from OSD added during mining. The predicted ROM coal quality for the active 2-2U Seam is shown as follows:

Typical ROM Coal Quality

	%				CV
Seam	**Moist (ad)**	**Ash (d)**	**Vol (daf)**	**Sulfur (d)**	**(net,ar) kcal/kg**
2-2U	9.8	10.0	35.5	0.6	6,030

Future Energy utilizes heavy media technology to increase product quality. Coal from underground is initially crushed to 150 mm top size, followed by screening at 13 mm to remove the finer size fractions as bypass fine coal. After desliming, the remaining coarse ROM is washed using heavy media circuitry to remove waste rock impurities. The +80 mm clean coal is crushed to 80 mm top size, followed by screening at 30 mm into coarse clean coal (30 mm x 80 mm) and clean coal (minus 30 mm). The coal slime is processed by thickener, followed by pressure filtration. The slime product is then blended into the bypass fine coal for sale. A fine coal processing system addition to the CPP is under construction, and the minus 13 mm bypass fine coal will be processed by this system beginning in 2023. Based on the Feasibility Study Report for the new system and BOYD's estimate, the utilization of the fine coal processing system will lead to an increased margin of approximately RMB18.9/tonne as compared to the current bypass fine product.

3.3 Mine Operations

3.3.1 Mine Introduction

Upon formation of Future Energy in 2011, Jinjitan was designated to supply coal to Future Energy for use as feedstock in its coal liquefaction facilities. Construction of the mine with an authorized 8.0 Mtpa capacity commenced in February 2012, and coal production started in 2014. After reassessment by the provincial administration, a higher capacity of 15.0 Mtpa was authorized in July 2018.

The mine was originally designed with output capacity of 8.0 Mtpa. One FM LW face was installed and the thick seam was mined in two slices with a 0.5 m thick coal left above the lower slice. However, only three LW faces were mined using this approach. In June 2016, Jinjitan installed its first high-profile FM LW equipment at the 108 face, which can mine 8.2 m coal in one pass. This LW face had the highest cutting height in the world at that time. As of June 30, 2020, this equipment has mined two LW faces (108 and 106). In January 2019, a set of FM LW equipment with sublevel caving capability was installed at the LW Face 117.

Currently, Jinjitan Mine maintains all these three sets of FM LW equipment, but only two will be in production at the same time. Selection of appropriate mining equipment is mainly driven by coal thickness. In addition, two imported continuous miner (CM) sections are used for roadway development and appear to be adequate to achieve necessary roadway (gateway) requirements of LW mining.

Based on our experience and review, we are of the opinion that Jinjitan is one of the most productive modern underground FM LW mines currently operating both domestically and globally.

3.3.2 Historical Output

The Jinjitan Mine's product coal production for the period 2017 through the second quarter of 2020 is summarized as follows:

	Historical Product Tonnes (Mt)			
	2017	**2018**	**2019**	**2020 2Q**
Product Coal	14.05	12.86	15.16	8.76

Jinjitan Mine employs modern LW mining techniques. Physical mining conditions are generally considered among the most favorable as observed by BOYD in the PRC coal mining industry. In 2017, most of the ROM coal was screened to various sizes and sold directly as product since construction of the CPP had not been completed. Since 2018 the output has been increasing and the 2020 half-year production reached 8.76 Mt product. The current FM LW installation has a much larger output capacity than the authorized 15.0 Mtpa and the mine has been managed successfully.

3.3.3 Staffing

Jinjitan Mine's historical workforce staffing is summarized as follows:

	Jinjitan			
	2017	**2018**	**2019**	**2020 2Q**
Product Tonnes (Mt)	14.05	12.86	15.16	8.76
No of Personnel by Category				
Underground				
Mining	157	210	298	230
Development	94	91	111	108
Support	129	128	137	143
Subtotal	380	429	546	481

	Jinjitan			
	2017	**2018**	**2019**	**2020 2Q**
Surface Coal Handling	79	178	178	178
Surface and Support				
Management	41	41	44	50
Technical	15	18	17	14
Other Support	233	235	214	257
Subtotal	289	294	275	321
Total	748	901	999	980
Labor Productivity (Product Tonnes/ Employee-Year)				
Total Employment Basis	18,780	14,280	15,180	17,880
Underground Only Basis	36,970	29,980	27,770	36,420

In 2017, Jinjitan Mine's average labor productivity was 18,780 product tonnes per employee-year for the total mine workforce and 36,970 product tonnes per employee-year for the underground staffing, which appears high and was due to the direct selling of raw coal. The labor productivity has been increasing since 2018 due to the increase in product output, and reached 17,880 product tonnes per employee– year for the total mine workforce and 36,420 product tonnes per employee year for the underground staffing. Jinjitan Mine's productivity is ranked as top of the class for FM LW mines both in China and in the world. The main contributing factors for this high productivity are: the favorable geological conditions, thick coal seam, highly productive FM LW installation, and successful management.

3.3.4 Capital Expenditures

Historical capital expenditures for Jinjitan Mine for the period 2017 to June 2020 are as follows:

	Capital Expenditures (RMB Millions)			
Category	**2017**	**2018**	**2019**	**2020 2Q**
Mine	82.20	575.18	387.63	62.91
Coal Preparation Plant	226.29	61.96	15.23	46.73
Village Move	–	–	–	150.00
Total	308.49	637.13	402.86	259.63

Most of the mine construction work had been completed prior to the year 2017. The large spending for the mine in 2018 and 2019 was mainly for the addition of the new FM LW equipment. Most of the CPP spending occurred in 2017, although the actual production commenced in 2018. Jinjitan developed a detailed village move plan (Phase I for mining of District 1) with capital arrangement to make sure that LW operations will not be affected.

3.3.5 Operating Costs

Jinjitan Mine historical operating costs for 2017 to June 2020 are as follows:

	Historical Operating Costs			
	2017	**2018**	**2019**	**2020 2Q**
Product Tonnes (Mt):	14.05	12.86	15.16	8.76

	Historical Operating Costs			
	2017	2018	2019	2020 2Q
Category	**RMB/Product tonne**			
Cash				
Materials	11.82	8.78	7.88	7.75
Salaries	8.14	10.95	11.06	10.17
Welfare	4.62	6.06	5.36	5.21
Power	3.53	4.42	4.74	4.42
Repairs	3.96	4.25	2.38	3.42
Subsidence Compensation	2.78	4.07	5.66	6.41
Mine Administrative	(1.42)	0.79	0.77	0.21
Financial Expenses	3.95	8.05	3.48	3.68
Sales Expenses	1.80	1.62	1.44	1.16
Other	15.68	17.81	26.10	20.71
Subtotal - Cash	54.85	66.78	68.86	63.16
Non-cash				
Depreciation	11.11	14.40	15.25	14.68
Amortization of Mining Right	5.08	5.52	5.62	5.55
Simple Production Maintenanc	10.51	11.43	11.64	11.58
Safety Production	15.02	16.33	16.64	16.41
Subtotal – Non-cash	41.71	47.68	49.15	48.23
Total	96.57	114.46	118.01	111.38

Note: Numbers may not add due to rounding.

Jinjitan Mine's operating costs since 2018 appear stable and average RMB115/product tonne, which falls in the lowest level among all China's underground coal mines. The cost in Other category seems high, which includes actual environmental compensation, technical service fees, contracted development and miscellaneous engineering tasks, repairs, etc.

3.4 Life-of-Mine Planning

In order to have a reliable basis to project future revenue, operating and capital costs, and cash flow for the Jinjitan Mine, BOYD has extended the available five-year projections to a life-of-mine (LOM) plan for the mine (here LOM is for the period during which the current Reserves defined in the CPR are exhausted). This is a necessary step in the valuation of mining operations using the income method (of valuation). We have restricted all future mine plans to defined Marketable Reserve areas in accordance with VALMIN, JORC, and HKEx Chapter 18 requirements. The level of mine planning is considered Prefeasibility.

BOYD's LOM projections and operating performance, shown in Table 3.2, include annual ROM output, LW face retreat distance (meters), LW face moves, and average seam thickness. The LOM period extends from the second half of 2020 to 2042.

Using the LOM LW face layouts developed for the CPR reserve analysis, we sequenced the Jinjitan Mine through the planned LW faces at LW face retreat rates consistent with recent operating history and our experience with similar Chinese coal mines.

LW face retreat rate may vary in certain years due to fluctuation of coal seam thickness, based on BOYD estimates. We assume that Jinjitan will maintain sufficient LW face equipment redundancy to support the projected face retreat meterage. BOYD's LOM sequencing is shown in Figures 3.1. Output projections also include tonnage from LW development estimated at 3.5% of total ROM output. We have assumed that LW development is adequate to avoid LW face relocation delays. Detailed development timing has not been performed, but recognizing the mines' recent LW and CM performance, we are confident that Jinjitan has the resources to avoid LW face delays due to insufficient gate development.

3.5 Future Operations

3.5.1 Coal Output

Jinjitan Mine planned to produce 15.0 Mt ROMcoal each year in the period 2020 to 2024 and thereafter. Mining operations are projected to continue in the 2-2U Seam. The mine management intends to introduce another set of FM LW equipment equipped with sublevel caving, in 2023. The mine will then maintain two sublevel caving FM LW faces to achieve the planned ROM coal output targets. The five-year projections for ROM and product tonnages are shown in the table follows:

	Projected Production (Mt)				
	2020	**2021**	**2022**	**2023**	**2024**
ROM Coal	15.00	15.00	15.00	15.00	15.00
Product Coal	13.84	14.09	14.09	13.93	13.93

LW face performances required to attain output authorizations are reasonable and realistic considering that the mine's FM LW operation practice is well established and has been successful.

3.5.2 Staffing

Staffing projections for Jinjitan Mine operations for the period 2020 to 2024 are as follows:

			Jinjitan		
	2020	**2021**	**2022**	**2023**	**2024**
Product Coal Tonnes (Mt)	13.84	14.09	14.09	13.93	13.93
No. of Personnel by Category					
Underground					
Mining	230	228	230	240	240
Development	108	105	108	110	110
Support	139	136	160	160	180
Subtotal	477	469	498	510	530
Surface Coal Handling	178	178	178	263	263
Surface and Support					
Management	50	50	52	56	56
Technical	14	14	16	18	20
Other Support	254	248	255	260	300
Subtotal	318	312	323	334	376
Total	973	959	999	1,107	1,169
Labor Productivity (Product Tonnes/ Employee-Year)					
Total Employment Basis	14,230	14,690	14,100	12,590	11,920
Underground Only Basis	29,020	30,030	28,280	27,320	26,290

The increase of personnel shown for surface coal handling in 2023 is due to the addition of the new fine coal washing system, which is currently under construction. Projected average labor productivity at the 15.0 Mtpa ROM coal output level in 2024 is 26,290 product tonnes per employee-year for underground workers and 11,920 tonnes per employee-year for the total employment. Labor productivity projections are comparable to historical performance. Overall staffing levels are appropriate for the projected output considering that the mine utilizes internally contracted services.

3.5.3 Capital Expenditures

Based on the provided capital expenditure projections and BOYD's site visit discussions with mine technical and management personnel, a capital expenditures (CAPEX) projection for Jinjitan Mine for the period 2020 (second half year) to 2024 was developed as follows:

	Capital Expenditures (RMB millions)				
Category	**2020 2H**	**2021**	**2022**	**2023**	**2024**
Village Relocation	150	200	–	–	–
Undergound Engineering	–	110	30	–	–
Electromechanical Equipment	15	140	40	–	–
Environment Protection	220	–	–	–	–
CPP Fine Coal Processing System	95	310	156	–	–
Continous Miner	–	46	46	–	–
Sub-Level Caving FM LW Equipment	–	–	–	446	–
Sustaining Capital	33	81	81	81	81
Total	512	887	352	527	81

Village relocation budget (Phase I) as provided by Jinjitan totals RMB500 million, in which approximately RMB150 million was spent in the first half of 2020 and the rest will be spent by 2021. The underground engineering projection include expenditure for a dewater roadway development at the west wing boundary of the No.1 district and the new air return main roadway development. The electromechanical equipment, for mine power supply upgrade and pumping system upgrade in the No.1 district, is projected to be purchased during 2020 and 2023. The environment protection related constructions, including two sets of fluidized-bed boilers and dredged water utilization project, are projected to be completed in 2020. Construction of the fine coal washing system commenced in 2020 and is projected to be completed by 2022. Jinjitan plans to purchase additional continuous miner (CM) equipment in 2021, and it seems likely the current CM sections need to be replaced after approximately 10 years operation. A new sublevel caving FM LW will be purchased in 2023. Based on our experience, it is reasonable to assume a general FM LW equipment life span of 8 years. In addition, BOYD assumed a RMB5/tonne capacity sustaining capital for the future five years, which is likely to increase thereafter to RMB10/tonne capacity. Operating mines generally have adequate equipment and infrastructure (including shafts, inclines, belt conveyor systems, electrical systems, pumping systems, etc.) necessary to support projected output levels. Additional openings (shafts, inclines) or extensions of openings may be periodically required for ventilation or to access deeper occurring coal seams and/or more remote areas of the reserve.

3.5.4 Operating Costs

Jinjitan provided mine operating cost projections. However, since some capital expenditures were not included in the information provided by Jinjitan, BOYD made necessary adjustment to reflect the amortization and depreciation for the projected capital spending. The projections for future operating costs, including BOYD's adjustment, are summarized as follows:

	Projected Operating Costs				
	2020	**2021**	**2022**	**2023**	**2024**
Product Tonnes (Mt):	13.84	14.09	14.09	13.93	13.93
Category	**RMB/Product tonne**				
Cash					
Materials	6.50	7.81	10.50	11.22	11.22
Salaries	14.71	14.46	14.46	15.40	15.40
Welfare	5.55	5.46	5.46	5.98	5.98
Power	5.65	5.39	5.39	6.71	6.71
Repairs	5.13	4.69	4.26	4.84	4.84
Subsidence Compensation	8.54	6.71	5.37	5.43	5.43
Mine Administrative	1.40	1.38	1.38	1.39	1.39
Financial Expenses	4.15	3.14	3.14	3.50	3.50
Sales Expenses	1.61	1.58	1.58	1.60	1.60
Other	26.61	26.29	26.30	27.15	27.15
Subtotal – Cash	79.84	76.90	77.83	83.21	83.21

	Projected Operating Costs				
	2020	2021	2022	2023	2024
Non-cash					
Depreciation	21.03	24.40	24.91	29.19	29.19
Amortization of Mining Right	6.03	7.06	7.06	7.13	7.13
Simple Production Maintenance	11.38	12.04	12.04	12.17	12.17
Safety Production	16.25	17.20	17.20	17.39	17.39
Subtotal – Non-cash	54.69	60.69	61.20	65.88	65.88
Total	134.54	137.59	139.03	149.09	149.09

Note: Numbers may not add due to rounding.

It is BOYD's opinion that the projected operating costs are both reasonable and generally comparable to other first-class China FM LW mines operating at similar ROM output levels. We further extended the operating cost projections through the projected LOM plan based on assumed production level, staffing, cash and non-cash cost assumptions, etc. Detailed operating cost projections can be found in Table 3.1, following this text.

Operating cost projection items are summarized from the data provided by Future Energy. Our comments regarding certain items are:

- The operating costs reflect the mine's underground and surface operations, including the CPP.

- The cash costs projections (no adjustment was made) is slightly higher than the operating cost in the 2018 to 2020 period. Although the details for the Other category remain similar to history, it is generally reasonable to expect the cash cost will increase gradually as the mine operation continues.

- The projections initially provided by Jinjitan did not reflect the additional operating costs incurred by the new fine coal processing facility. BOYD adjusted the operating costs beginning in 2023 accordingly.

- Depreciation costs are calculated using the straight-line method for fixed assets according to established asset depreciation lives and salvage value estimations. BOYD's adjustment of depreciation reflects the projected capital expenditures which was not considered in the data provided.

- Amortization of mining right royalty is included in non-cash costs. The projected capital needed for village relocation is amortized and added in.

- Safety Production and Simple Production Maintenance ("Keep Simple Production") fees are considered as non-cash cost accruals (according to GAAP) for income tax calculations, although the monies may be utilized for mine-related projects.

3.6 Environmental Overview

BOYD has completed an overview of Jinjitan's environmental practices and policies and opines that environmental protection plans of the Jinjitan operation are in compliance with relevant PRC and Shaanxi Province laws and regulations. Jinjitan Mine has made diligent efforts to incorporate responsible environmental protection policies and practices into the mine designs. The mine is in the process of updating the environmental protection report to reflect the environmental impact due to the output level increase from 8.0 Mtpa to 15.0 Mtpa.

Following this page are:

Figure:

3.1: Map Showing LOM Plan of Jinjitan Mine.

Tables:

3.1: Estimated Operating Costs.
3.2: Operating Summary.

3-12

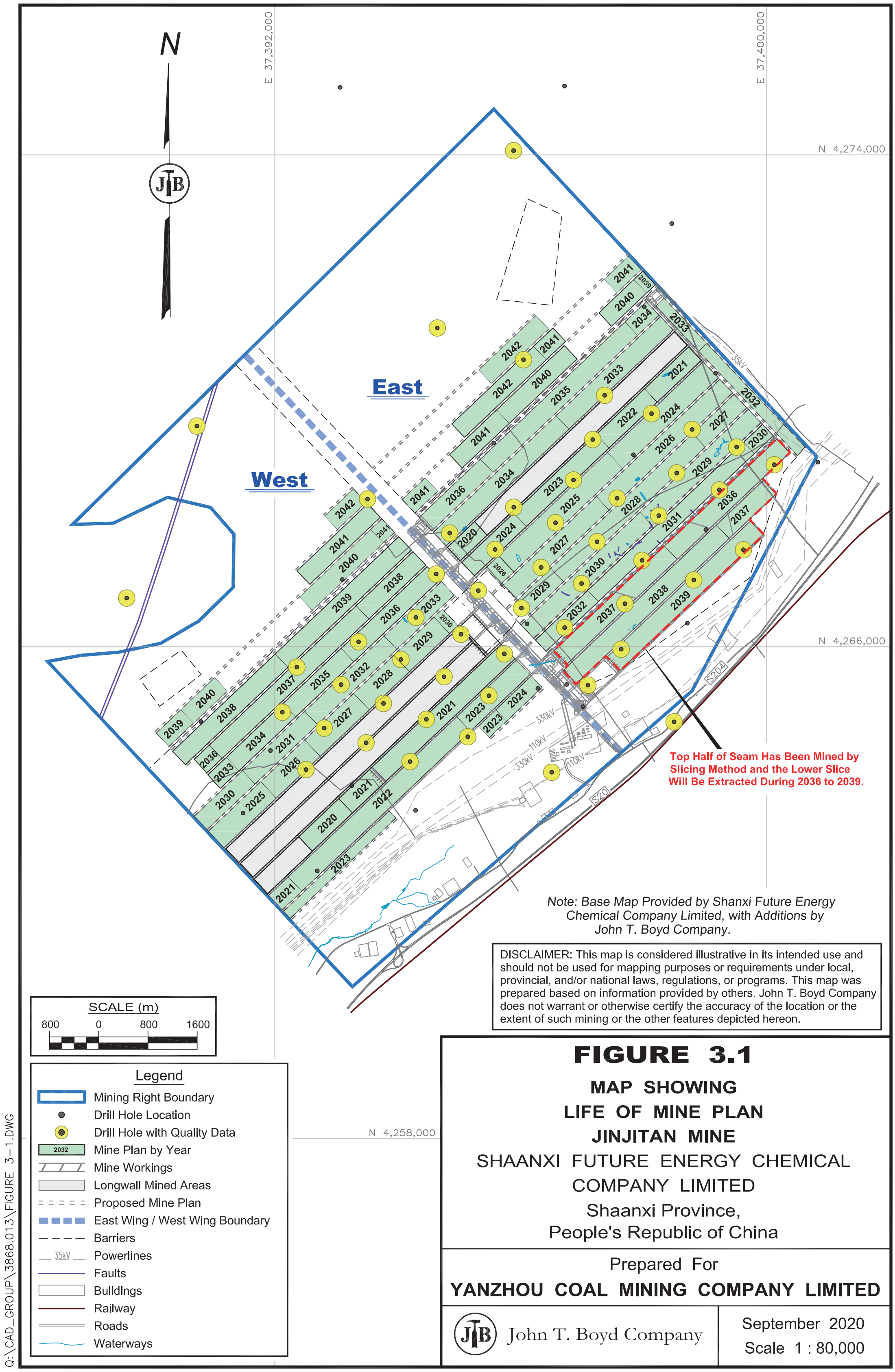

N
East
West
E 37,392,000
E 37,400,000
N 4,274,000
N 4,266,000
N 4,258,000
Top Half of Seam Has Been Mined by Slicing Method and the Lower Slice Will Be Extracted During 2036 to 2039.
Note: Base Map Provided by Shanxi Future Energy Chemical Company Limited, with Additions by John T. Boyd Company.
DISCLAIMER: This map is considered illustrative in its intended use and should not be used for mapping purposes or requirements under local, provincial, and/or national laws, regulations, or programs. This map was prepared based on information provided by others. John T. Boyd Company does not warrant or otherwise certify the accuracy of the location or the extent of such mining or the other features depicted hereon.
SCALE (m)
800 0 800 1600
Legend
Mining Right Boundary
Drill Hole Location
Drill Hole with Quality Data
Mine Plan by Year
Mine Workings
Longwall Mined Areas
Proposed Mine Plan
East Wing / West Wing Boundary
Barriers
Powerlines
Faults
Buildings
Railway
Roads
Waterways
Q:\CAD_GROUP\3868.013\FIGURE 3-1.DWG
FIGURE 3.1
MAP SHOWING
LIFE OF MINE PLAN
JINJITAN MINE
SHAANXI FUTURE ENERGY CHEMICAL COMPANY LIMITED
Shaanxi Province,
People's Republic of China
Prepared For
YANZHOU COAL MINING COMPANY LIMITED
John T. Boyd Company
September 2020
Scale 1 : 80,000

TABLE 3.1

ESTIMATED OPERATING COSTS JINJITAN MINE
SHAANXI FUTURE ENERGY COMPANY LTD
Shaanxi Province People's Republic of China
Prepared For
YANZHOU COAL MINING COMPANY LIMITED
By
John T. Boyd Company Mining and Geological Consultants
September 2020

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042
Product (Tonnes-millions)	13.84	14.09	14.09	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	12.03
Category	**Constant (RMB – millions)**																						
Cash																							
Materials	90.0	110.0	147.9	156.3	156.3	156.3	156.3	156.3	156.3	156.3	156.3	156.3	156.3	156.3	156.3	156.3	179.7	179.7	179.7	179.7	156.3	156.3	135.0
Salaries	203.6	203.6	203.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6	214.6	246.8	246.8	246.8	246.8	214.6	214.6	185.3
Welfare	76.9	76.9	76.9	83.3	83.3	83.3	83.3	83.3	83.3	83.3	83.3	83.3	83.3	83.3	83.3	83.3	95.8	95.8	95.8	95.8	83.3	83.3	72.0
Power	78.3	75.9	75.9	93.4	93.4	93.4	93.4	93.4	93.4	93.4	93.4	93.4	93.4	93.4	93.4	93.4	107.4	107.4	107.4	107.4	93.4	93.4	80.7
Repairs	71.0	66.0	60.0	67.4	67.4	67.4	67.4	67.4	67.4	67.4	67.4	67.4	67.4	67.4	67.4	67.4	77.5	77.5	77.5	77.5	67.4	67.4	58.2
Subsidence Compensation	118.2	94.5	75.6	75.6	75.6	75.6	75.6	75.6	75.6	75.6	75.6	75.6	75.6	75.6	75.6	75.6	87.0	87.0	87.0	87.0	75.6	75.6	65.3
Mine Administrative	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	22.3	22.3	22.3	22.3	19.4	19.4	16.8
Financial Expenses	57.4	44.2	44.2	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7	48.7	56.0	56.0	56.0	56.0	48.7	48.7	42.1
Sales Expenses	22.3	22.3	22.3	22.3	22.3	22.3	22.3	22.3	22.3	22.3	22.3	22.3	22.3	22.3	22.3	22.3	25.6	25.6	25.6	25.6	22.3	22.3	19.2
Other	368.4	370.3	370.5	378.2	378.2	378.2	378.2	378.2	378.2	378.2	378.2	378.2	378.2	378.2	378.2	378.2	434.9	434.9	434.9	434.9	378.2	378.2	326.7
Subtotal – Cash	1,105.4	1,083.2	1,096.3	1,159.2	1,159.2	1,159.2	1,159.2	1,159.2	1,159.2	1,159.2	1,159.2	1,159.2	1,159.2	1,159.2	1,159.2	1,159.2	1,333.1	1,333.1	1,333.1	1,333.1	1,159.2	1,159.2	1,001.4
Non-cash Depreciation	291.1	343.7	350.8	406.6	406.6	531.6	531.6	531.6	531.6	531.6	531.6	531.6	531.6	531.6	531.6	531.6	531.6	531.6	531.6	531.6	531.6	531.6	459.2
Amortization of Mining Right	83.6	99.4	99.4	99.4	99.4	99.4	99.4	99.4	99.4	99.4	99.4	99.4	99.4	99.4	99.4	99.4	99.4	99.4	99.4	99.4	91.9	91.9	79.4
Simple Production Maintenan	157.5	169.6	169.6	169.6	169.6	169.6	169.6	169.6	169.6	169.6	169.6	169.6	169.6	169.6	169.6	169.6	169.6	169.6	169.6	169.6	169.6	169.6	146.5
Safety Production	225.0	242.3	242.3	242.3	242.3	242.3	242.3	242.3	242.3	242.3	242.3	242.3	242.3	242.3	242.3	242.3	242.3	242.3	242.3	242.3	242.3	242.3	209.3
Subtotal – Non-cash	757.2	854.9	862.0	917.8	917.8	1,042.8	1,042.8	1,042.8	1,042.8	1,042.8	1,042.8	1,042.8	1,042.8	1,042.8	1,042.8	1,042.8	1,042.8	1,042.8	1,042.8	1,042.8	1,035.3	1,035.3	894.3
Total	1,862.6	1,938.1	1,958.4	2,077.1	2,077.1	2,202.1	2,202.1	2,202.1	2,202.1	2,202.1	2,202.1	2,202.1	2,202.1	2,202.1	2,202.1	2,202.1	2,376.0	2,376.0	2,376.0	2,376.0	2,194.6	2,194.6	1,895.7
Category	**Constant (RMB/tonne)**																						
Cash																							
Materials	6.5	7.8	10.5	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	12.9	12.9	12.9	12.9	11.2	11.2	11.2
Salaries	14.7	14.5	14.5	15.4	15.4	15.4	15.4	15.4	15.4	15.4	15.4	15.4	15.4	15.4	15.4	15.4	17.7	17.7	17.7	17.7	15.4	15.4	15.4
Welfare	5.6	5.5	5.5	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.9	6.9	6.9	6.9	6.0	6.0	6.0
Power	5.7	5.4	5.4	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	7.7	7.7	7.7	7.7	6.7	6.7	6.7
Repairs	5.1	4.7	4.3	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	5.6	5.6	5.6	5.6	4.8	4.8	4.8
Subsidence Compensation	8.5	6.7	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	6.2	6.2	6.2	6.2	5.4	5.4	5.4
Mine Administrative	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.6	1.6	1.6	1.6	1.4	1.4	1.4
Financial Expenses	4.1	3.1	3.1	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	4.0	4.0	4.0	4.0	3.5	3.5	3.5
Sales Expenses	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.8	1.8	1.8	1.8	1.6	1.6	1.6
Other	26.6	26.3	26.3	27.1	27.1	27.1	27.1	27.1	27.1	27.1	27.1	27.1	27.1	27.1	27.1	27.1	31.2	31.2	31.2	31.2	27.1	27.1	27.1
Subtotal – Cash	79.8	76.9	77.8	83.2	83.2	83.2	83.2	83.2	83.2	83.2	83.2	83.2	83.2	83.2	83.2	83.2	95.7	95.7	95.7	95.7	83.2	83.2	83.2
Non-cash																							
Depreciation	21.0	24.4	24.9	29.2	29.2	38.2	38.2	38.2	38.2	38.2	38.2	38.2	38.2	38.2	38.2	38.2	38.2	38.2	38.2	38.2	38.2	38.2	38.2
Amortization of Mining Right	6.0	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	6.6	6.6	6.6
Simple Production Maintenan	11.4	12.0	12.0	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2
Safety Production	16.3	17.2	17.2	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4
Subtotal – Non-cash	54.7	60.7	61.2	65.9	65.9	74.9	74.9	74.9	74.9	74.9	74.9	74.9	74.9	74.9	74.9	74.9	74.9	74.9	74.9	74.9	74.3	74.3	74.3
Total	134.5	137.6	139.0	149.1	149.1	158.1	158.1	158.1	158.1	158.1	158.1	158.1	158.1	158.1	158.1	158.1	170.5	170.5	170.5	170.5	157.5	157.5	157.5

Note: Numbers may not add due to rounding.

TABLE 3.2

OPERATING SUMMARY JINJITAN MINE
SHAANXI FUTURE ENERGY COMPANY LTD
Shaanxi Province People's Republic of China
Prepared For
YANZHOU COAL MINING COMPANY LIMITED
By
John T. Boyd Company Mining and Geological Consultants
September 2020

	2020 2H	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042
ROM (Tonnes-millions)	5.41	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	12.96
Product (Tonnes-millions)	5.08	14.09	14.09	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	13.93	12.03
Longwall Faces	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Longwall Face Retreat (m)	1,758	4,840	4,900	5,756	4,233	3,615	4,057	4,115	4,080	4,086	4,362	4,900	5,304	4,820	4,566	4,610	6,110	6,915	6,970	6,803	4,650	4,386	3,759
Longwall Moves	1	1	1	1	1	–	1	1	–	1	2	–	1	2	1	–	2	1	1	2	–	3	2
Seam Thickness (m)	7.0	7.3	7.2	7.5	8.6	8.4	8.5	8.5	8.6	8.6	8.4	8.5	8.7	8.3	8.1	8.0	6.0	5.2	5.3	5.6	7.9	8.4	8.8

4.0 VALUATION

4.1 Introduction

The assignment of this report is to opine on the MV of the Jinjitan operation, as of 30 June 2020.

Given the unique nature of coal (mineral) resources, and the mining and processing operations used to recover the in situ mineral in order to produce the saleable product, coal (mineral) valuation requires the services of an evaluator knowledgeable or specialized in coal (mineral) resource assessment, mining, processing, marketing, and related disciplines. Following are the three generally accepted methods for valuing mineral and mineral-producing assets.

Replacement Cost determines the value of the mineral asset by first calculating the new cost to replicate the asset to its condition on the Valuation Date, then adjusting plant and equipment to a depreciated replacement value basis. In the case of undeveloped mineral holdings, the new cost would include exploration and mining right fees, exploration, technical studies, and other site development work. Although the replacement Cost method has application in some situations (i.e., normally when valuing fixed assets and/or undeveloped mineral holdings), it seldom is appropriate when valuing developed or operating mineral properties.

Market Transaction/Comparable Sales method involves a comparison of the coal or mineral lands under study with transactions involving similar property interests that were sold in the open market. The known comparable sale(s) are, ideally, contemporaneous and include reserves having similar geologic and quality characteristics and are located in the general vicinity of the property being valued. The comparable sales approach, where comparisons are reasonably direct, is an acceptable method of appraisal. If direct comparable sales are not available, data from other mineral property sales can still be valuable to the appraiser. A general review, even though direct comparisons may not be possible, still provides insight into market activity, the number and nature of potential buyers and sellers, the level of market activity, range of prices paid, etc. this information is important in considering how a potential buyer would evaluate a property. The ability to use the Market Transaction method relies on both the availability of recent comparable transactions and an in-depth knowledge of the details of each transaction (e.g., assets conveyed, associated debt and liabilities, structure of payment, etc.).

Income method uses a discounted cash flow (DCF) operational analysis to estimate the net present value (NPV) of projected cash flow of the existing or planned mining operation. It is important to identify what asset is being valued. In the case of an operating mining business, the annual revenues and expenses (capital and operating costs) are estimated for the mine over its remaining operating life. It is critical that realistic assumptions regarding mining plans, markets, etc. are used. For a fully developed mining operation, the calculated NPV represents the enterprise value (Technical Value) of the business, including reserves, equipment and facilities, sales agreements, and other assets incorporated into the cash flow model.

4.2 Risk Assessment

4.2.1 Introduction

Coal mining operations are unlike other industrial facilities in that mines can be engineered or planned to a precise design capacity or cost structure, but there are inherent uncontrollable natural and external factors that can prevent the attainment of precise production, cost and revenue targets. Mining operations are conducted in the earth's strata rather than within a homogeneous and controlled work environment.

There is inherent geologic risk, and mine operators must therefore contend with periodic adverse or variable geological conditions that cannot be fully anticipated in advance of actual mining activity. While the occurrences of these physical conditions are beyond the control of site management, it should not be interpreted that coal mining is inherently risky. On the contrary, there are established measures that mine operators utilize to minimize the operational and financial impacts associated with such encounters. Coal mining operations in the region have a demonstrated track record in sustaining consistent and predictable levels of performance.

Assessment of risk associated with any enterprise is largely subjective in nature and relies on the relevant experience of the professional completing the study in the specific industry and operating venue applicable to the subject enterprise. There are three general categories of business risk inherent in a mining operation, namely: geological, operational, and market. For purposes of this study and in accordance with SEHK guidelines, we define risk in three broad categories of severity, as follows:

- Major Risk: A factor that would have a materially adverse effect (15% to 20% or higher) on project cash flow for the risk assessment period, possibly leading to project failure, if the specific risk occurred and was not corrected.

- Moderate Risk: A factor that would have significant adverse effect (10% to 15%) on project cash flow for the risk assessment period, if the specific risk occurred and was not corrected.

- Minor Risk: A factor that would have minimal or no adverse effect (less than 10%) on project cash flow for the risk assessment period, if the specific risk occurred and was not corrected.

However, equally, or perhaps more, important, is the probability or likelihood that the specific risk will occur. For this study, a risk assessment period is considered with the following probability of occurrence ratings:

- Likely: Event is likely to occur.
- Possible: Event may occur.
- Unlikely: Event is unlikely to occur.

The overall risk assessment combines these two components, severity and probability, to determine the final overall risk assessment, as shown below:

	Severity (Consequence) of Risk		
Probability of Risk Occurring	**Minor**	**Moderate**	**Major**
	Overall Risk Assessment		
Likely	Medium	High	High
Possible	Low	Medium	High
Unlikely	Low	Low	Medium

The risk assessment period for this study is 2020 to 2026 and our risk assessment is based on PRC coal industry conditions as of the end of June 2020 and does not reflect subsequent industry developments.

As discussed in detail in the companion CPR, BOYD completed an independent risk assessment and concluded the Jinjitan mining operation was low in overall risk.

4.2.2 Market Risk

We judge market volatility and uncertainty as the primary risk for the PRC coal industry. A substantial reduction in market prices would have a material adverse impact on financial performance of the subject Jinjitan Mine. Such an event would occur if there were surplus alternative coals from other suppliers, or a reduction in demand from Jinjitan's customer base.

In the period 2013 to 2016, PRC coal demand on a composite industry basis appeared to have ceased growing supporting a basis for considering that Chinese coal demand had peaked. The demand for coal for industrial uses declined during the period, which offset increases in demand for coal for power generation. Coal prices reacting to lower overall demand decreased in the period. The central government imposed the 276-working day rule in March 2016 in part to support coal prices. The rule was abated in November 2016 as coal prices began to recover. Coal prices rebounded sharply in 2017 from the low-price coal market environment experienced in 2013 to 2016 period and leveled off in early 2018. After some decline of thermal coal prices in later 2018, the prices reached another high point in the first quarter of 2019 and followed a moderate declining trend for the rest of the year. The early 2020 COVID-19 outbreak brought down the market significantly, which however recovered to the mid-2019 level as of June 2020.

During the 2013 to 2016 period of declining coal demand and till present, the central government continued its campaign to close small mines in favor of strengthening support for larger mining operations. The small mine closure campaign with other market factors (such as the 276-working day rule) may have been the impetus for the rebound in coal prices experienced in 2017. The ongoing economic recovery from the Covid 19 pandemic has supported the recent coal market recovery.

It is unclear if overall PRC coal demand will experience growth during the five-year risk assessment period. Despite the rationalization of small coal mines, new mine development in recent years has resulted in the prospect of potentially excessive coal supplies especially for thermal quality coals used in the industrial and coal-fired generation markets, as well as in coal chemical industries, which are the markets served by the subject mine. On the other hand, the central government appears to have improved strategic planning for domestic and regional coal and downstream industries development in recent years. This will have a positive effect in stabilizing the coal market.

Owing to the recent significant declining PRC and world economies (which may potentially continue in the near future), it is possible that domestic markets for the subject Jinjitan Mine could decline. Factors such as the campaign to close smaller mines, and barriers to new mine development, would tend to support market conditions. It is BOYD's opinion that new competitors are unlikely to generate surplus production capacity. There are high barriers to entry, as new mine development requires significant capital investment and government approval.

Market Risk Assessment
Severity: Moderate to Major
Probability: Likely
Overall: Medium to High

4.3 Valuation Method Selected

Based on the established (fully developed) and active producing status of the Jinjitan mining operation, BOYD selected the Income Method of mineral valuation as the preferred and appropriate method.

It is BOYD's understanding that Future Energy has entered into an Assets Transfer Agreement with Yanzhou under which Future Energy agrees to transfer the subject mineral assets to Yanzhou. This VR provides our independent opinion of the MV of the Jinjitan mining operation on a debt-free basis. We initially assessed the likely financial performance of the existing mine (and identified reserves) using the DCF-NPV analysis of the life-of-mine (LOM) plan. In completing the forward mining projections used as the foundation of the cash flow, BOYD reviewed all primary components for reasonableness and adjusted projected output, capital costs, operating costs and coal prices were warranted in our expert opinion. The resulting cash flow projection is intended to be reasonable and achievable, and further adjustments (i.e., changes to the Technical Value for "market strategic or other considerations" (VALMIN Code D43) are therefore not considered appropriate in the judgment of the Competent Evaluator for determining the market value of the enterprise (business) incorporated into the LOM plan.

As required by HKEx Chapter 18 rules, all reported reserves are sufficiently explored to be classified as either Proved Reserve or Probable Reserve. In addition, Jinjitan Mine has an established production record. Reliability of forward mine plans (production and economics) is considered low risk.

4.4 Discount Rate

To determine a Weighted Average Cost of Capital (WACC) for company, several factors must be evaluated, including the selection of a model. We used the build-up method to determine the required rate of return for Jinjitan Mine.

Based on our industry experience, a coal mining operation with ample resources, a proven market, and a consistent financial history would typically have a WACC in the 8% to 12% range on a pre-tax, constant dollar basis.

4.4.1 Peer Group

Our analysis is based on specific analysis of a peer group of eight companies that primarily operate mining and coal preparation businesses and supply coal-related products to domestic and international markets. Select companies within our peer group would be included in the SIC Code 12 Bituminous Coal and Lignite Mining. General company characteristics and most recent available financial information were evaluated to develop a range of discount rates. Our approach to selecting the discount rate is outlined below.

The peer group comprises the following companies:

- China Coal Energy Company Ltd.
- China Shenhua Energy Company Ltd.
- Datong Coal Mining Company Ltd. (Datong)
- Inner Mongolia Yitai Coal Company Ltd.
- Shaanxi Coal Mining Company Ltd. (Shaanxi Coal)
- Shanxi Coal International Energy Group Ltd. (Shanxi Coal)

- Shougang Fushan Resources Group Ltd.
- Yanzhou.

Except for Datong, Shaanxi Coal and Shanxi Coal, the peer companies are listed on the Stock Exchange of Hong Kong (SEHK); Datong, Shaanxi Coal and Shanxi Coal are listed on the Shanghai Stock Exchange. Company financial characteristics are summarized as follows:

		US Dollars in millions				
Company	**Beta Levered**	**Total Debt (a)**	**Equity Value (b)**	**Debt Ratio**	**Tax Rate**	**Beta (c) Unlevered**
China Coal Energy Company Ltd.	1.18	12,995	3,244	0.80	25%	0.29
China Shenhua Energy Company Ltd.	1.06	5,157	38,419	0.12	25%	0.96
DaTong Coal Industry Company Ltd.	1.31	743	945	0.44	25%	0.82
Inner Mongolia Yitai Coal Company Ltd.	0.67	5,328	2,143	0.71	25%	0.23
Shaanxi Coal Industry Company Ltd.	1.29	2,227	9,391	0.19	25%	1.09
Shanxi Coal International Energy Group Ltd.	1.42	2,061	3,207	0.39	25%	0.96
Shougang Fushan Resources Group Ltd.	1.19	4	1,102	0.00	25%	1.18
Yanzhou Coal Mining Company Ltd.	1.42	8,607	3,900	0.69	25%	0.54
Mean	1.19	4,640	7,794	0.42	25%	0.76
High Debt Ratio				0.80		
Selected Beta – Low						0.23
Selected Beta – Median						0.89
Selected Beta – High						1.18

a. Total Debt represents short-term and long-term loans on balance sheet for most recent reported quarter on Bloomberg. Conversion based on exchange rate on 6.30.2020.

b. Equity Value based on closing stock prices on 6.30.2020, or last trading day prior. Equity values listed on The Stock Exchange of Hong Kong w ere converted at a rate of 0.129024468 HKD – USD or on the Shanghai Stock Exchange converted at a rate of 0.141541564 RMB – USD. Stated in millions.

c. $\beta U = \beta L / (1 + (1 - \text{tax rate}) \times \text{Debt/Equity})$.

Sources: Company Financial Statements, Bloomberg, NYU's Damodaran, Y ahoo Finance, TradingEconomics, and Global Rates.

4.4.2 Methodology

- Company financial statements and public company trading data points were reviewed to determine debt levels, market capitalizations, levered betas and effective tax rates to compute the debt and equity weightings for the WACC.
  - Total long-term debt (current + non-current portions) as of most recent balance sheet on March 2020 or December 2019, depending on company.
  - Market capitalizations used for equity weighting were determined as of 30 June 2020.
  - Debt and equity figures were converted to US dollars using RMB:US$ at 0.141541564 and HKD:US$ at 0.129024468.
- A 25% tax rate was used to determine the unlevered beta, according to the law of the People's Republic of China on Enterprise Income Tax (New EIT Law) and Implementation Regulation of the New EIT Law, thereby unified to 25% from 1 January 2008 onwards.
- Levered betas were used where available from Yahoo Finance or Bloomberg LP. A levered beta was calculated using daily closing prices of the equity on the stock exchanges where the stock traded for the trailing 10 years to 30 June 2020. The results of the covariance of the two population sets (equity and the exchange) were divided by the variance of the relevant exchange and error-checked against the slope of the population sets.
- Cost of debt is determined from the following:
  - Nominal Risk-Free Rate is the yield on 10-year PRC government bonds.
  - Borrowing Spread is based on China's three-month interbank offered rate, which is the interest rate at which banks offer to lend funds to one another in the international interbank market.
  - Country Risk Premium is based upon excess 10-year Credit Default Swap (CDS) spreads of US CDSs.
  - Pre-tax Cost of Debt is calculated by adding the Nominal Risk-Free Rate + the Borrowing Spread + the Country Risk Premium.
  - Tax Rate is 25%, based on PRC New EIT Law (see above).

- Cost of equity is determined from the following:

  – Nominal Risk-Free Rate is the yield on 10-year PRC government bonds.

  – Equity Risk Premium (ERP) is defined as the expected return on a fully diversified portfolio of equity securities less the expected rate of return on a risk-free security. The figure we used is based on the market studies of A. Damodaran, Stern School of Business at New York University. Simply stated, ERP is the level of risk-reward that equity investors in the stock market would require compensating them for the level of risk undertaken versus a risk-free rate.

  – Country Risk Premium is based upon excess 10-year CDS spreads of US CDSs.

  – Size Premium is based on research from the Center for Research in Security Prices that groups companies into deciles based upon market capitalization. We based this information on a range of data published by Duff & Phelps Global Industry Classification Standard (GICS) for Duff & Phelps International Industry Cost of Capital GICS 151040 Metals and Mining. The Size Premium is an additive factor to the cost of equity and refers to the excess return that an investor would require compensating them for the risk taken for a smaller sized or start-up company.

  – Unlevered Beta high and low range is calculated from Peer Group empirical study.

  – Optimal Debt in Capital Structure was derived from the weighted average debt percentage of the Peer Group.

  – Levered Beta calculation is the tax-effected Unlevered Beta multiplied by the Optimal Equity percentage.

  – Cost of Equity is the Nominal Risk-Free Rate + the Equity Risk Premium adjusted for the Levered Beta. + Country Risk Premium + Size Premium.

  – Implied WACC is nominal before considering the effects of inflation.

  – Real WACC adjusts the Implied WACC by PRC inflation rate published in June 2020.

4.4.3 Discount Rate

Based on the results of the foregoing analysis and summarized in the following table of this report, we have calculated the nominal after-tax WACC rate to be 13% and the real after-tax WACC rate to be 10.2%.

Our coal industry economic analysis experience developed over several decades confirms that a 10% to 12% after-tax discount factor is appropriate for operating companies comparable to Jinjitan Mine.

4.5 Major Assumptions

BOYD's DCF-NPV analysis is based upon the following major assumptions:

- Material changes in government policies and regulation do not occur during the LOM mine projection period.
- Jinjitan will receive necessary approvals to renew and continue its mining rights in the 2-2U Seam after paying the mining right fees for the rest of the resources in this seam. The estimation of the amount of the mining right fees follows the same approach as that used when Jinjitan acquired the current mining rights.
- Geological conditions over the mine projection period are consistent with recent experience.
- Mining operations do not experience any major interruptions, such as major roof falls mine accidents that result in extended idle mine periods.
- Operating costs do not experience material fluctuations other than because of variations in output and seam conditions.
- Imposition of government taxes, fees, and other charges does not materially increase over the mine projection periods.
- Company management are competent, responsible and capable to execute work plans as demonstrated by their recent performance.
- Force majeure events such as war, natural disasters, etc. do not occur during the mine projection period.

4.6 Valuation Procedure

As shown in Chapter 3 of this report (and detailed in the separate Competent Person's Report also prepared by BOYD), we have developed a LOM plan for Jinjitan Mine that provides the foundation of the cash flow projection. Level of study of the LOM plan is considered to be Prefeasibility. The plan is limited to defined JORC Code qualified Proved and Probable Reserves (as developed by BOYD in the Competent Person's Report), which are limited to the 2-2U Seam.

The following Valuation parameters and assumptions are used to develop our base Technical Value:

1. Annual Coal production, operating cost and capital expenditures are derived from the LOM plan (developed by BOYD) for the subject mine. A summary of BOYD's LOM plan is shown in Table 3.2. Two LW faces are projected to operate through depletion of the 2-2U Seam at Jinjitan Mine.

2. Jinjitan CPP FOB sales prices are expressed in constant RMB including VAT. The VAT is calculated using 13% of revenue with a credit adjustment of 35% of raw materials + power + repairs/maintenance + capital.

3. Annual cash flow projections are calculated on an after-tax basis, with capital expenditures deducted in the year incurred. Based on the Notice of the State Administration of Taxation on The Issue of Enterprise Income Tax concerning the In-depth Implementation of the Strategy for the Large-scale Development of the Western Region, a PRC income tax rate of 15% is utilized during the period of 2020 to 2030 and 25% is utilized after 2030.

4. Mid-year discounting is utilized with the 10.2% discount rate.

5. Mine level general and administrative costs are included; corporate general and administrative charges are not included.

6. Both Construction Tax and Education Supplementary Tax are 5% of the VAT.

7. As part of the properties controlled by Future Energy, Jinjitan operation is not an independent legal entity and the separate working capital of Jinjitan operation is not available. We assume a current working capital amount of RMB1,500 million. The existing working capital/parts/inventory amount is assumed to be sufficient to support operations throughout the LOM plan (i.e., additional working capital is not considered necessary since the projected output and operation remains the same). It is assumed that Jinjitan will recover the RMB1,500 million working capital during the last operation year in 2042.

8. Based on the provided capital expenditure projections and the information from site discussions with mine technical and management personnel, BOYD developed a capital expenditures (CAPEX) projection for Jinjitan Mine until the year of 2042 when the remaining LOM reserves exhaust. The major CAPEX projections include:

   – Village relocation: RMB150 million and RMB200 million for the second half of 2020 and 2021, respectively, according to Jinjitan's Phase I village relocation plan.

   – Underground engineering: RMB110 million for 2021 and RMB30 million for 2022, based on the projection by Future Energy

   – Electromechanical equipment: RMB15 million, RMB140 million and RMB40 million are projected by Future Energy to purchase electromechanical equipment for the second half of 2020, 2021 and 2022, respectively.

   – Environment protection: RMB15 million is projected by Future Energy to complete environment protection related constructions of two sets of fluidized-bed boilers and dredged water utilization project in 2020.

   – CPP fine coal processing system: RMB9 million, RMB310 million and RMB156 million for the second half of 2020, 2021 and 2022, respectively. The system is projected to start operation in 2023.

   – RMB46 million in both 2021 and 2020, for replacement of continuous miners, which will be replaced every 10 years in the future till the end of the LOM.

   – RMB446 million in 2023, for addition of a new set of sub-level caving FM LW equipment, and another RMB446 million in 2025, for replacement of the current using sub-level caving FM LW equipment. Both equipment will be replaced every 8 years in the future till the end of the LOM.

   – RMB5/t of sustaining capital is assumed in period of the second half of 2020 to 2024, considering the above CAPEX projection. RMB10/t of sustaining capital is assumed considering less CAPEX projection after the year of 2024.

   – The mining right fee paid by Future Energy covers the No.1 Mining District and BOYD estimates that RBM14,345 million of mining right Fee (RMB10/tonne of Chinese Standard Resource, based on the *Measures of Shaanxi Province for the Implementation of the collection and administration of the proceeds from the Transfer of mining rights)* needs to be paid beginning in 2032 to guarantee successful mining rights renewal for the remaining reserves in 2-2U Seam. It is assumed that the fee will be paid off in 30 years, and the first payment of RMB2,869 million (20% of the total) will be paid in 2032 and the annual payment of RMB395.7 million will be paid in the remaining 29 years.

– During the last year of the LOM operation, RMB1,000 million is assumed for mine decommissioning.

9. Depreciation and amortization are standard pro-forma non-cash charges. Production maintenance fee ("keep simple production"), safety fund fee, and financial expense charges are unique to Chinese coal industry accounting. These charges are generally considered to be non-cash deductions to determine taxable income. Production maintenance fee and safety fund fee projections are RMB10.5/ROM tonne and RMB15.0/ROM tonne, respectively.

10. Operating costs for the Jinjitan CPP were included in the overall operating cost.

11. The terminal value of fixed assets and intangible assets of the mine/CPP at the end of the LOM were estimated by using straight-line depreciation method. This assumes these assets will continue to be used post-2042 based on the likely relocation of future underground mining to the current Inferred Resource areas of 2-2U Seam and one or more of the underlying (below 2-2U) seams (which are now considered resources).

4.7 Pricing

Jinjitan Mine provides ROM coal to its CPP, which continued to produce medium grade steam coal utilized primarily for fuel power generation and as feedstock to the chemical industry. Future Energy has indicated that all of the Jinjitan product output will be shipped by truck to local customers or to their railway loadout that connects to Chinese coastal ports for ocean transshipment to customers.

Typical commercial product coal quality at Jinjitan Mine is as follows:

Product	Product Yield (%)	Moisture (Mt %)	Ash (Ad %)	Sulfer (t,d %)	Qnet.ar (kcal/kg)
Coarse Clean	21.1	10.2	7.8	0.6	6,280
Clean	21.2	12.7	8.7	0.6	6,080
Fine Bypass ROM	51.6	13.5	10.2	0.7	5,890
Weighted Average	93.9	12.6	9.3	0.6	6,020

Jinjitan provided historical coal pricing for commercial products for the 12-month period, July 2019 to June 2020. VAT is included for each of the products sales realization in accordance with HKEx 18.33(4). The following shows a summary of the Jinjitan washed products and fine bypass fine coal product:

	Price RMB/Tonne					
	Commercial Products			Weighted	Shenmu Region	
12 Months	Coarse Clean	Clean	Bypass Fine	Average (6,020Kcal)	(6,000Kcal)	(6,020Kcal)
July 2019	445	440	385	411	418	419
August 2019	440	420	365	394	413	414
September 2019	425	410	350	380	423	424
October 2019	410	400	325	361	387	388
November 2019	420	400	355	380	382	383
December 2019	410	420	355	382	386	387
January 2020	415	410	385	397	387	388
February 2020	460	460	425	441	463	465
March 2020	420	415	365	389	382	383
April 2020	420	400	355	380	345	346
May 2020	365	360	315	336	344	345
June 2020	385	385	370	377	395	396
12-Month – Composite	418	410	363	386	394	395

Notes:

1. Pricing shown is FOB CPP, VAT inclusive.

2. Fine bypass ROM coal includes slimes.

3. Average CV for Coarse Clean Coal: 6,280 kcal/kg, Clean Coal: 6,080 kcal/kg, Bypass Fine Coal: 5,890 kcal/kg, Shenmu: 6,000 kcal/kg.

4. The weighted average price was calculated with the same historical production: 7.23 mt coarse clean coal, 7.25 mt clean coal and 17.67 fine bypass Fine coal.

5. The Shenmu Region (6,000 ccal/kg) price is from the market price databased provided by a third independent consulting firm Shanxi Fenwei Energy Consulting Company Ltd. (Feiwei).

The corresponding coal price history for thermal coals with 6,000 kcal/kg CV content for the Shenmu Region in Shaanxi Province (as provided by Fenwei) is shown for comparison. The average price for the historical 12-month period for the Shenmu Region was RMB394/tonne (VAT included) for 6,000 kcal/kg heat content coal. During the period of July 2019 to June 2020, the average price of Jinjitan Mine product coal was RMB386/commercial tonne (VAT included), which was approximately 2% lower than the corresponding Shenmu regional pricing on a heat adjusted basis. Based on this comparison, the Jinjitan Mine historical 12-month pricing stream appears to be consistence with general market pricing data.

However, the RMB386/ tonne (VAT included) pricing will only be applicable through the year 2022, because of the ongoing technical upgrade at the Jinjitan CPP (i.e., the addition of fine coal processing, as discussed in the CPR). The average coal quality will be improved after the technical upgrade and the overall calorific value will be increased to 6,115 kcal/kg from the current 6,020 kcal/kg. Based on the historical composite price RMB386/commercial tonne at calorific value of 6,020 kcal/kg, BOYD estimated a composite price of RMB392/ commercial tonne at a calorific value of 6,115 kcal/kg.

Accordingly, in our economic evaluation of the Jinjitan Mine, we have utilized a composite coal price of RMB386 per commercial tonne for the period through 2022, and RMB392 per commercial tonne after 2023.

4.8 Base Case DCF-NPV Analysis

As shown in Table 4.1, Discounted Cash Flow Analysis (DCF), following this text, our Base Case Technical Value result, as of 30 June 2020, is RMB19,719 million.

To provide guidance on the probable range in value and sensitivity to various analysis inputs and discount rates, we completed the following series of DCF-NPV analyses:

Sensitivity Case	**Valuation MV (DCF-NPV)** *(RMB Millions)*
Base Case (10.2% Discount Rate)	19,719
Sensitivity Case	
Prodution (-20%)	14,341
Prodution (-10%)	17,007
Prodution (+10%)	22,012
Prodution (+20%)	24,158
Prodution (+30%)	26,387
Sales Price (-15%)	15,200
Sales Price (-10%)	16,707
Sales Price (-5%)	18,214
Sales Price (+5%)	21,229
Sales Price (+10%)	22,734
Sales Price (+20%)	25,748
Cash Cost of Sales (-10%)	20,944
Cash Cost of Sales (-5%)	20,332
Cash Cost of Sales (+10%)	18,494
Cash Cost of Sales (+20%)	17,269
Capital (-5%)	19,941
Capital (+10%)	19,278
Capital (+20%)	18,838
Capital (+30%)	18,397

The probable range in value using discount factors ranging from 8% to 12% are as follows:

Discount Factor (%)	**Valuation MV (DCF-NPV)** *(RMB Million)*
8	23,254
9	21,529
10	20,003
11	18,648
12	17,439

Although BOYD has used a 10.2% discount factor to arrive at our Base MV for the Jinjitan operation, the sensitivity of 8% to 12% encompasses the typical range of discount rates applied to this type of asset. While we believe the 10.2% discount factor is supportable and reasonable, an alternate factor in the range of 8% to 12% would also be appropriate.

4.9 Additional Coal Resources

Excluding the identified coal reserves in the 2-2U Seam (which are valued in the LOM plan cash flow analysis), Jinjitan Mine also controls substantial additional coal resources in the 2-2U (inferred) and underlying coal seams.

Seam	Avg. Seam Thk. (m)	Additional Resource (In-Place Mt)			
		Measured	Indicated	Inferred	Total
2-2U	7.74	–	–	211.89	211.89
3-1	2.01	61.64	54.57	66.77	182.98
4-3	1.35	11.51	8.01	12.10	31.61
5-2	1.75	51.53	15.36	65.53	132.41
5-3U	1.44	–	7.93	17.35	25.28
Total		124.68	85.87	373.63	584.18

While the projected thickness of inferred resources in the 2-2U Seam is thinner than the portion of the seam included in our reserve designation, the thickness of the seam remains very thick (normally 5 m or greater). BOYD also considers that the 3-1 and 5-2 seams, while substantially thinner than the 2-2U Seam, has future underground mining potential after the 2-2U Seam is depleted.

BOYD opines that these coal resources (2-2U inferred and the 3-1 and 5-2 seams) add supplemental MV to the Jinjitan Mine holdings. To reflect the more speculative nature of these coal resources, we have only included one-half (50%) of the estimated equivalent saleable product tonnes attributable to these resources in our valuation.

Seam	Addition Resources (Mt)		
	In-Place	Approx. Saleable Coal Product 100%*	50%
2-2U	211.89	133.5	66.7
3-1	182.89	98.8	49.4
5-2	132.41	71.5	35.8

* Assumes:
Seams 2-2U @70% mining recovery and 90% processing yield.
Seams 3-1 and 5-2 @60% mining recovery and 90% processing yield.

The following value was assigned to the estimated additional resource tonnes based on the assumptions: (1) resources in the 2-2U Seam will be mined following depletion of the identified reserves, and (2) mining in the lower seams would be deferred until the 2-2U Seam is fully depleted.

Seam	Nominal Product Coal Tonnes (M)	Value (as of 30 June 2020) RMB/ Product tonne	RMB-millions
2-2U	66.7	22.5	1,501
3-1	49.4	10.0	494
5-2	35.8	10.0	358
Total	151.9	2,353	

4.10 Conclusion

Based on the fully developed status of the Jinjitan Mine and related operations, and rating of the operation as among the best in terms of productivity and operating cost, in China, BOYD concludes the derived Technical Value of the existing operation is the same as Market Value (i.e., no further adjustments are warranted). In addition to the value assigned to the existing operation, we opine it is appropriate to recognize and assign Market Value to the large tonnage of additional resources which are not considered in the DCF-NPV analysis (Technical Value). We have a high degree of confidence that the MV shown in this report is a reasonable representation of the subject assets, as of 30 June 2020.

Following this page are:

Tables:
4.1: Discounted Cash Flow.

TABLE 4.1

DISCOUNTED CASH FLOW
JINJITAN MINE
Prepared For
YANZHOU COAL MINING COMPANY LIMITED
By
John T. Boyd Company Mining and Geological Consultants
September 2020

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042
Product Tonnes (millions)	5.083	14.086	14.086	13.932	13.932	13.932	13.932	13.932	13.932	13.932	13.932	13.932	13.932	13.932	13.932	13.932	13.932	13.932	13.932	13.932	13.932	13.932	12.034
Sales price (RMB/tonne) including VAT	386	386	386	392	392	392	392	392	392	392	392	392	392	392	392	392	392	392	392	392	392	392	392
Revenue RMB (millions)	1,960	5,433	5,433	5,462	5,462	5,462	5,462	5,462	5,462	5,462	5,462	5,462	5,462	5,462	5,462	5,462	5,462	5,462	5,462	5,462	5,462	5,462	4,718
Total Cash Operating Cost (Mine + CPP RMB/ Product Tonne)	80	77	78	83	83	83	83	83	83	83	83	83	83	83	83	83	96	96	96	96	83	83	83
									RMB (millions)														
Mine Operating Costs	406	1,083	1,096	1,159	1,159	1,159	1,159	1,159	1,159	1,159	1,159	1,159	1,159	1,159	1,159	1,159	1,333	1,333	1,333	1,333	1,159	1,159	1,001
CPP Operating Costs	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Value Added Tax with credit	170	542	611	589	647	580	638	638	638	638	638	574	259	528	586	586	579	579	579	520	586	586	500
Total Cash Cost of Sales	576	1,625	1,707	1,748	1,806	1,739	1,797	1,797	1,797	1,797	1,797	1,733	1,418	1,687	1,745	1,745	1,912	1,912	1,912	1,853	1,745	1,745	1,501
Depreciation (including CPP)	107	344	351	407	407	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	532	459
Amortization of Mining Right	31	99	99	99	99	99	99	99	99	99	99	99	99	99	99	99	99	99	99	99	92	92	79
Safety Fund Fee	83	242	242	242	242	242	242	242	242	242	242	242	242	242	242	242	242	242	242	242	242	242	209
Production Maintenance Fee	58	170	170	170	170	170	170	170	170	170	170	170	170	170	170	170	170	170	170	170	170	170	146
Total Non-Cash Costs	278	855	862	918	918	1,043	1,043	1,043	1,043	1,043	1,043	1,043	1,043	1,043	1,043	1,043	1,043	1,043	1,043	1,043	1,035	1,035	894
Resource Tax	148	405	399	404	399	404	399	399	399	399	399	405	431	409	404	404	404	404	404	409	404	404	349
Construction & Education Supplementary	17	54	61	59	65	58	64	64	64	64	64	57	26	53	59	59	58	58	58	52	59	59	50
Sales Taxes	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total Production Costs	1,019	2,939	3,029	3,129	3,188	3,244	3,303	3,303	3,303	3,303	3,303	3,238	2,918	3,192	3,251	3,251	3,417	3,417	3,417	3,357	3,243	3,243	2,795
Taxable Income	942	2,493	2,403	2,333	2,275	2,218	2,159	2,159	2,159	2,159	2,159	2,224	2,544	2,270	2,212	2,212	2,046	2,046	2,046	2,105	2,219	2,219	1,924
Income Tax	141	374	360	350	341	333	324	324	324	324	324	556	636	568	553	553	511	511	511	526	555	555	481
Gross After-Tax Cash Flow	1,078	2,974	2,905	2,901	2,851	2,928	2,878	2,878	2,878	2,878	2,878	2,711	2,951	2,746	2,702	2,702	2,577	2,577	2,577	2,622	2,700	2,700	2,337
Working Capital/Parts/Inventory	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,500)
Salvage Value of Assets	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(1,704)
Capital Expenditures (including CPP)	512	887	352	527	81	596	150	150	150	150	150	642	3,065	992	546	546	546	546	546	992	546	546	525
Decommissioning	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1,000
Deductions to Cash Flow	512	887	352	527	81	596	150	150	150	150	150	642	3,065	992	546	546	546	546	546	992	546	546	(1,678)
Net After-Tax Cash Flow	566	2,087	2,552	2,374	2,770	2,332	2,728	2,728	2,728	2,728	2,728	2,069	(114)	1,754	2,156	2,156	2,031	2,031	2,031	1,630	2,154	2,154	4,016
Discounted Cash Flow at 10.2%	539	1,804	2,002	1,690	1,790	1,367	1,451	1,317	1,195	1,084	984	677	(34)	473	527	478	409	371	337	245	294	267	451
Cumulative Discounted Cash Flow	539	2,343	4,345	6,035	7,825	9,192	10,643	11,960	13,155	14,239	15,223	15,900	15,866	16,339	16,866	17,345	17,754	18,125	18,462	18,707	19,001	19,268	19,719

Note: CPP operating costs are included with the mine operating costs.

A. SUMMARY OF THE ASSET VALUATION REPORT ON SHAANXI FUTURE ENERGY GROUP

(Summary of the Report)
ASSET VALUATION REPORT ON THE VALUE OF THE TOTAL SHAREHOLDERS' EQUITY OF SHAANXI FUTURE ENERGY & CHEMICALS CO., LTD. INVOLVED IN THE PROPOSED ACQUISITION OF EQUITY INTEREST IN SHAANXI FUTURE ENERGY & CHEMICALS CO., LTD. BY YANZHOU COAL MINING COMPANY LIMITED

Tian Xing Ping Bao Zi (2020) No. 1242

To Yanzhou Coal Mining Company Limited

Pan-China Appraisal Co., Ltd is engaged by the Company to appraise the market value of the total shareholders' equity of Shaanxi Future Energy & Chemicals Co., Ltd. involved in the proposed acquisition of equity interest in Shaanxi Future Energy & Chemicals Co., Ltd. by Yanzhou Coal Mining Company Limited as at 30 June 2020 following necessary valuation procedures and using asset-based approach and income approach with principles of independence, objectivity and fairness in accordance with the requirements of relevant laws, administrative regulations and asset valuation standards. The asset valuation is reported as follows.

I. THE CLIENT, APPRAISED ENTITY AND OTHER VALUATION REPORT USERS AS AGREED IN THE ASSET VALUATION ENTRUSTMENT CONTRACT

(I) Overview of the Client

Company name:	Yanzhou Coal Mining Company Limited
Unified Social Credit Code:	91370000166122374N
Registered address:	No. 298, Fushan South Road, Zoucheng City
Legal representative:	Li Xiyong
Registered capital:	RMB4,912,016,000
Type of company:	Limited liability company (Taiwan, Hong Kong, Macao and domestic joint ventures, listed)
Date of Establishment:	25 September 1997

Scope of business: selection and sale of coal (among others, the export of coal should be made through companies with coal export right according to the existing state regulations); outbound investment using the company's own fund and investment consulting; commission business; transportation of goods through self-owned railway within the mining area; transportation of goods through highway; operation of ports; manufacture, sale, lease, repair, installation and dismantlement of machinery and equipment in the mining area; production and sale of other mining materials; sale and lease of electronic equipment and sale of parts; leasing of construction mechanical equipment; sale of metallic materials, electronic products, construction materials, timber and rubber products; production and sale of cold patch, soap, anchoring agent and coat; composition of mining, science and technological services; mining rescue technology services; property development within the mining areas, property leasing and provision of services such as dining and accommodation; production and sale of coal residual stones as construction materials; sale of coke, iron ore and nonferrous metals; import and export of goods and technology; warehousing (excluding hazardous chemicals); automobile repairs; labour dispatch; property management service, landscaping; sewage treatment; heat supply; industrial tourism; corporate internal staff training (skills training for first aid team members, manufacturing technology training, safety training); measurement examination, physical and chemical inspection, non-destructive testing, analytical testing, manufacturing safety testing and inspection; corporate management; corporate management consulting; corporate planning and design; market investigation; economic and trade consulting; technology promotion, technology services; sale of lubricating oil, lubricating grease, chemical raw material and chemical engineering products (excluding dangerous chemical products), coat, labour protection products, spinning products, cultural and educational products, plastic products, instruments and apparatuses, cement and fire-resistant materials and products. General contracting of mining engineering and construction; contracting of mechanical and electrical engineering construction; sales of coal-water slurry. (Items which need approvals according to the laws shall be subject to the approvals of relevant authorities before operation activities can be carried out.)

Yanzhou Coal Mining Company Limited held the 2018 Annual General Meeting, the second class meeting of the holders of A shares for the year 2019 and the second class meeting of the holders of H shares for the year 2019 on 24 May 2019, considering and approving "The Proposal regarding the grant of general mandate to the Board to repurchase H shares of the Company". Yanzhou Coal started to exercise the general mandate on repurchase of H shares on 4 May 2020, with a total of 14 times of repurchases of H shares and an aggregate of 52,016,000 H shares repurchased. The registered capital of the Company changed from RMB 4,912.0160 million to RMB4,860.0000 million, and corresponding change of business registration has not been made yet.

(II) Overview of the Appraised Entity

1. General information

Company name:	Shaanxi Future Energy & Chemicals Co., Ltd.
Registered address:	North Area, Yuheng Coal Chemical Industrial Park, Qinhe Town, Yuyang District, Yulin City, Shaanxi Province
Legal representative:	Zhu Qingrui
Registered capital:	RMB 5.4 billion
Paid-in capital:	RMB 5.4 billion
Type of company:	Other limited liability company
Date of establishment:	25 February 2011
Operating period:	25 February 2011 to long-term
Business license registration number:	9161000056714796XP

Scope of business: research and development of chemical products and oil products; production and sales of medium paraffin, light paraffin, stable light hydrocarbon, diesel, naphtha, liquefied petroleum gas and sulfur; production and sales of electricity; mining of coal; and sales of coal, paraffin, ammonium sulfate and chemical products (excluding precursors, surveillance, and hazardous chemicals). (Items which need approvals according to the laws shall be subject to the approvals of relevant authorities before operation activities can be carried out.)

2. History and changes in the enterprise's shareholding structure

Shaanxi Future Energy & Chemicals Co., Ltd. was established on 25 February 2011, with a registered capital of RMB5.4 billion contributed by Yankuang Group Company Limited, Yanzhou Coal Mining Company Limited and Shaanxi Yanchang Petroleum (Group) Co., Ltd. in cash. Such capital was verified by Shaanxi Qinyue Certified Public Accountants Co., Ltd.（陝西秦約會計師事務所有限責任公司）with Capital Verification Report (Shaan Qin Kuai Yan Zi [2011] No. 009). The shareholding structure when the enterprise was established is set out as follows:

Unit: RMB0'000

No.	Name of shareholder	Contributed registered capital	Percentage of shareholding	Paid-up capital	Percentage of paid-up capital
1	Yankuang Group Company Limited	270,000.00	50%	108,000.00	20%
2	Yanzhou Coal Mining Company Limited	135,000.00	25%	54,000.00	10%
3	Shaanxi Yanchang Petroleum (Group) Co., Ltd.	135,000.00	25%	54,000.00	10%
Total		540,000.00	100%	216,000.00	40%

On 29 February 2012, the shareholders made the second capital contribution, among which, RMB 810 million, RMB 405 million and RMB 405 million were contributed by Yankuang Group Company Limited, Yanzhou Coal Mining Company Limited and Shaanxi Yanchang Petroleum (Group) Co., Ltd. in cash, respectively. Such contribution was verified by Shaanxi Jindian United Certified Public Accountants（陝西今典聯合會計師事務）with Capital Verification Report

(Shaan Jin Dian Kuai Yan Zi [2012] No. 041). Upon the completion of this capital contribution, the shareholding structure of Shaanxi Future Energy & Chemicals Co., Ltd. is as follows:

Unit: RMB0'000

No.	Name of shareholder	Contributed registered capital	Percentage of shareholding	Paid-up capital	Percentage of paid-up capital
1	Yankuang Group Company Limited	270,000.00	50%	189,000.00	35.00%
2	Yanzhou Coal Mining Company Limited	135,000.00	25%	94,500.00	17.50%
3	Shaanxi Yanchang Petroleum (Group) Co., Ltd.	135,000.00	25%	94,500.00	17.50%
Total		540,000.00	100%	378,000.00	70.00%

On 29 August 2012, the shareholders made the third capital contribution, among which, RMB 810 million, RMB 405 million and RMB 405 million were contributed by Yankuang Group Company Limited, Yanzhou Coal Mining Company Limited and Shaanxi Yanchang Petroleum (Group) Co., Ltd. in cash, respectively. Such contribution was verified by Shaanxi Jindian United Certified Public Accountants with Capital Verification Report (Shaan Jin Dian Kuai Yan Zi [2012] No. 179). Upon the completion of this capital contribution, the shareholding structure of Shaanxi Future Energy & Chemicals Co., Ltd. is as follows:

Unit: RMB0'000

No.	Name of shareholder	Contributed registered capital	Percentage of shareholding	Paid-up capital	Percentage of paid-up capital
1	Yankuang Group Company Limited	270,000.00	50%	270,000.00	50%
2	Yanzhou Coal Mining Company Limited	135,000.00	25%	135,000.00	25%
3	Shaanxi Yanchang Petroleum (Group) Co., Ltd.	135,000.00	25%	135,000.00	25%
Total		540,000.00	100%	540,000.00	100%

On 21 April 2017, the enterprise's general meeting resolved to approve the equity transfer matter and agreed Shaanxi Yanchang Petroleum (Group) Co., Ltd. to transfer its 5.20% equity interest in the appraised entity to Jiaxing Dejian Investment Partnership L.P. (嘉興德健投資合夥企業(有限合夥)). Upon the completion of this equity transfer, the shareholding structure of the enterprise is as follows:

Unit: RMB0'000

No.	Name of shareholder	Contributed registered capital	Percentage of shareholding	Paid-up capital	Percentage of paid-up capital
1	Yankuang Group Company Limited	270,000.00	50.00%	270,000.00	50.00%
2	Yanzhou Coal Mining Company Limited	135,000.00	25.00%	135,000.00	25.00%
3	Shaanxi Yanchang Petroleum (Group) Co., Ltd.	106,920.00	19.80%	106,920.00	19.80%
4	Jiaxing Dejian Investment Partnership L.P.	28,080.00	5.20%	28,080.00	5.20%
Total		540,000.00	100.00%	540,000.00	100%

On 9 June 2020, the People's Court of Yuyang District, Yulin City, Shaanxi Province issued a civil judgment (2020) Shaan 0802 Min Chu No. 2267), that the cooperation agreement signed by the People's Government of Yuyang District of Yulin City and the appraised entity on 28 April 2011 is valid and Yulin Yuyang State-owned Assets Operation Co., Ltd. is the legal shareholder of the appraised entity. Within 20 days after the judgment became effective, the appraised entity assisted in registration of the possession of 1.37% equity interest of the appraised entity by Yulin Yuyang State-owned Assets Operation Co., Ltd. (榆林市榆陽區國有資產運營有限公司). On 24 July 2020, Yulin Yuyang State-owned Assets Operation Co., Ltd. was registered as a shareholder holding 1.37% of the appraised entity. The shareholding structure of the enterprise after the change is as follows:

Unit: RMB0'000

No.	Name of shareholder	Contributed amount	Percentage of shareholding	Paid-up capital	Percentage of paid-up capital
1	Yankuang Group Company Limited	266,301.00	49.3150%	266,301.00	49.3150%
2	Yanzhou Coal Mining Company Limited	133,150.50	24.6575%	133,150.50	24.6575%
3	Shaanxi Yanchang Petroleum (Group) Co., Ltd.	105,070.50	19.4575%	105,070.50	19.4575%
4	Jiaxing Dejian Investment Partnership L.P.	28,080.00	5.2000%	28,080.00	5.2000%
5	Yulin Yuyang State-owned Assets Operation Co., Ltd.	7,398.00	1.3700%	7,398.00	1.3700%
Total		540,000.00	100.00%	540,000.00	100.00%

3. *Overview of the enterprise 's major assets*

The major assets of Shaanxi Future Energy & Chemicals Co., Ltd. are current assets and non-current assets. Current assets mainly include monetary funds, accounts receivable, prepaid accounts, other receivables, inventories and other current assets. Non-current assets mainly include other non-current financial assets, fixed assets, construction in progress, intangible assets and other non-current assets, among which fixed assets include buildings, structures, shaft and roadway engineering, machinery and equipment, vehicles, electronic and office equipment, and construction in progress includes civil engineering, mine construction projects, equipment installation projects, deferred investments, and intangible assets include land use rights, mining rights and other intangible assets.

4. *Overview of the enterprise's major businesses*

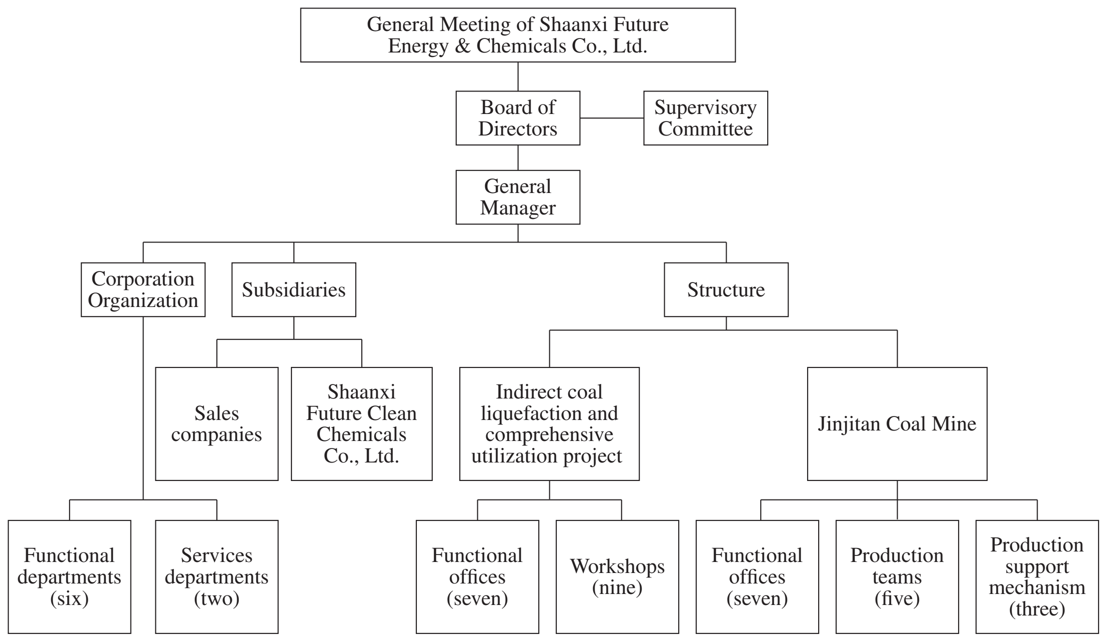
The enterprise 's major businesses include mining, preparation, processing of coal, coal chemicals and coal trading, etc. It is a diversified new energy company.

The indirect coal liquefaction and comprehensive utilization project device uses coal as raw material and mixes it with coal-grinding water in proportion, to produce coal-water slurry after being ground by a coal mill. After being boosted by a high-pressure coal slurry pump, the coal-water slurry is atomised with high-pressure oxygen from the air separation unit through the burner of gasifier to generate water gas in the multi-nozzle opposed coal-water slurry gasifier. The water gas undergoes carbon monoxide sulfur-tolerant conversion to adjust the hydrogen-carbon ratio, and low-temperature methanol washing process for desulfurization and decarbonization to obtain purified gas that meets the requirements of Fischer-Tropsch synthesis feed gas. The purified gas undergoes a Fischer-Tropsch synthesis reaction in a low-temperature slurry-bed Fischer-Tropsch synthesis reactor to generate hydrocarbons with different components, which are filtered by paraffin, chilled by high-temperature condensate, separated oil form water by low-temperature condensate, with recovery of low-carbon hydrocarbons to obtain products of different components. The products then undergo stable hydrogenation and isomerization cracking to produce heavy liquid paraffin, stable light hydrocarbons, liquefied petroleum gas, etc. The device also produces by-products including sulfur and ammonium sulfate.

As of the valuation benchmark date, the enterprise's main products are heavy liquid paraffin (crude liquid wax No. 2), stable light hydrocarbons, and liquefied petroleum gas. The main by-products are sulfur, ammonium sulfur and waste heat power generation.

Jinjitan Coal Mine currently has three types of coal: mixed coal, clean coal and block coal. The main products of Jinjitan Coal Mine are long flame coal and non-caking coal, featuring low ash, low sulfur and high calorific value and mainly used for high-quality gasification coal and power coal blending, and supplying chemical, electric power and building materials industries. Except for the supply of the indirect coal liquefaction and comprehensive utilization project, the remaining are all sold through local sales to areas including Shaanxi, Inner Mongolia, Shandong, Shanxi, Henan, Hebei, Jiangsu and Hubei. Jinjitan Coal Mine has good coal quality, a wide range of sales channels and applications. It can achieve a balance between production and sales and has a certain price advantage. Meanwhile, it adopts mechanization and large-scale coal mining, advanced production technology and high equipment utilization, thus controlling the bottom price. It presents a greater price advantage with low cost input and high sales margin since it is located in the coal-producing hinterland of Yulin, Shaanxi and the surrounding transportation is convenient. According to the "Approval of the Results of the Production Capacity Assessment of Jinjitan Coal Mine" issued by the Shaanxi Coal Production Safety Supervision Administration in July 2018 (Shaan Mei Ju Fu [2018] No. 71) and the announcement on the national coal mine production capacity issued by the National Energy Administration((2019) No. 2), the production capacity is 15 million tons/year.

5. Organizational structure of the enterprise



6. *Statements of Financial Position and Operating Results*

Statement of Financial Position

Unit: RMB0'000

Item	30 June 2020	31 December 2019	31 December 2018	31 December 2017
Current assets	303,135.20	215,264.96	147,537.18	357,257.56
Non-current assets	1,765,001.35	1,771,193.80	1,889,902.75	1,839,945.04
Of which: Available-for-sale financial assets	–	–	–	8,000.00
Held-to-maturity investments	–	–	–	136,000.00
Long-term equity investments	6,530.00	6,530.00	5,000.00	5,000.00
Investment properties	2,253.02	2,277.61	1,758.33	1,796.01
Fixed assets	1,299,004.14	1,343,945.77	1,384,625.75	1,377,630.69
Construction in progress	104,857.87	87,605.36	29,782.93	17,323.93
Intangible assets	265,805.74	268,178.70	285,439.60	288,009.75
Others	86,550.58	62,656.37	183,296.14	6,184.66
Total assets	2,068,136.55	1,986,458.76	2,037,439.93	2,197,202.60
Current liabilities	342,774.99	376,703.47	385,528.71	582,072.99
Non-current liabilities	515,456.69	506,337.80	615,408.46	712,344.60
Total liabilities	858,231.68	883,041.27	1,000,937.17	1,294,417.58
Net assets	1,209,904.87	1,103,417.49	1,036,502.76	902,785.02

Statement of Operating Results

Unit: RMB0'000

Item	January to June 2020	2019	2018	2017
I. Operating income	385,524.32	867,870.72	650,236.23	632,229.66
Less: Operating costs	214,243.73	473,860.92	396,219.66	352,547.12
Business tax and surcharges	36,164.62	67,452.82	39,802.33	42,701.09
Selling expenses	1,155.46	2,844.85	3,129.83	2,522.99
Administrative expenses	7,223.59	15,447.56	14,511.83	12,834.94
Research and development expenses	340.48	8,015.31	1,204.91	818.59
Finance costs	15,258.85	33,196.76	38,667.71	38,929.50
Add: Other gains	127.30	369.14	165.50	15.00
Loss on impairment of credit			-161.43	
Loss on impairment of assets	-171.11	-157.53	-1,442.75	-10,126.17
Gains from disposal of assets	-11.73			
II. Operating profit	111,082.06	267,264.12	155,261.27	171,764.25
Add: Non-operating income	159.83	1,798.85	334.01	692.67
Less: Non-operating expenses	65.00	1,424.86	207.56	609.27
III. Total profit	111,176.90	267,638.11	155,387.72	171,847.64
Less: Income tax expenses	16,850.31	43,618.44	24,283.00	29,882.71
IV. Net profit	94,326.59	224,019.68	131,104.72	141,964.93

The financial data of 2017, 2018, 2019 and January to June 2020 as set out in the tables above have been audited by Zhongxingcai Guanghua Certified Public Accountants LLP which has issued an unqualified audit report (Zhongxingcai Guanghua Shen Kuai Zi (2020) No. 316050).

(III) Other Valuation Report Users as Agreed in the Asset Valuation Entrustment Contract

According to the asset valuation entrustment contract, there is no other user of the valuation report.

(IV) Relationship between the Client and the Appraised Entity

The client, Yanzhou Coal Mining Company Limited is a shareholder of Shaanxi Future Energy & Chemicals Co., Ltd., the appraised entity, and proposed to acquire the equity interests of the appraised entity, Shaanxi Future Energy & Chemicals Co., Ltd.

II. VALUATION PURPOSE

According to "Summary of General Manager Work Meeting of Yanzhou Coal Mining Company Limited (Issue 27)", Yanzhou Coal Mining Company Limited proposed to acquire the equity interests of Shaanxi Future Energy & Chemicals Co., Ltd., it is required to conduct evaluation on the involved total shareholders' equity of Shaanxi Future Energy & Chemicals Co., Ltd. in order to provide a value reference for the proposed acquisition.

III. VALUATION SUBJECT AND VALUATION SCOPE

(I) Valuation Subject

The valuation subject is the total value of shareholders' equity of Shaanxi Future Energy & Chemicals Co., Ltd. as at the Valuation benchmark date.

(II) Valuation Scope

The valuation scope is the entire assets and liabilities of Shaanxi Future Energy & Chemicals Co., Ltd. reported on the valuation benchmark date including total assets with a carrying amount of RMB20,681.3655 million, liabilities with a carrying amount of RMB8,582.3168 million and net assets with a carrying amount of RMB12,099.0487 million. The carrying amounts have been audited by Zhongxingcai Guanghua Certified Public Accountants LLP which has issued an unqualified audit report (Zhongxingcai Guanghua Shen Kuai Zi (2020) No. 316050). The carrying amounts of various assets and liabilities are shown in the table below:

Summary of Assets Valuation Reporting Form

Unit: RMB0'000

Item	Carrying amount
Current assets	303,135.20
Non-current assets	1,765,001.35
Including: Long-term equity investments	6,530.00
Investment properties	2,253.02
Fixed assets	1,299,004.14
Construction in progress	104,857.87
Intangible assets	265,805.74
Including: Land use rights	41,975.92
Others	86,550.58
Total assets	2,068,136.55
Current liabilities	342,774.99
Non-current liabilities	515,456.69
Total liabilities	858,231.68
Net assets	1,209,904.87

1. The scope of asset valuation is subject to the appraisal declaration form provided by the appraised entity. The client has undertaken that the subject and scope of the valuation entrusted are consistent with those involved in the proposed acquisition without any overlapping and omission.

2. The off-balance sheet assets reported by the enterprise

The off-balance sheet assets included in the scope of this valuation are 4 trademarks held by the enterprise. As the cost has been expensed during the acquisition period rather than capitalized, it has no carrying amount. In this regard, Shaanxi Future Energy & Chemicals Co., Ltd. has issued a relevant property right commitment letter, certifying that its property rights belong to the enterprise, without dispute over property rights, and all are included in the scope of this valuation. The specific intangible assets are as follows:

No.	Name of trademark	Application No.	International classification	Right holder	Date of registration announcement
1	SFEC	21999963	42 types of design research	Shaanxi Future Energy & Chemicals Co., Ltd.	14 January 2018
2	SFEC	22003465	1 type of chemical raw materials		14 January 2018
3	SFEC	22003688	4 types of fuel grease		14 January 2018
4	SFEC	22004710	37 types of construction and repair		14 January 2018

3. Reference to the reports issued by other institutions

(1) The financial data source of 2017 to June 2020 have been audited by Zhongxingcai Guanghua Certified Public Accountants LLP which has issued an unqualified audit report (Zhongxingcai Guanghua Shen Kuai Zi (2020) No. 316050).

(2) The "Research Report on Stable Light Hydrocarbon, Liquid Wax, and LPG Industry" issued by Jinlianchuang Network Technology Co., Ltd. (金聯創網絡科技有限公司) in August 2020.

IV. ASSESSED VALUE TYPE

Assessed value types include market value and value types other than market value. Value types other than market value generally include (but not limited to) investment value, in-use value, liquidation value, residual value, etc. The purpose of this valuation is to provide a value reference for equity acquisitions, and there are no special restrictions on market conditions. Therefore, market value is selected as the value type of this valuation.

The market value mentioned in this asset valuation report refers to the estimated amount of the value of normal and fair transactions of the valuation target on the valuation benchmark date when the voluntary buyer and the voluntary seller act rationally without any coercion.

V. VALUATION BENCHMARK DATE

The valuation benchmark date for the valuation is 30 June 2020.

This valuation benchmark date is determined by the client and is consistent with the valuation base date agreed in the asset valuation entrustment contract.

VI. BASIS OF VALUATION

The basis of valuation on which this asset valuation was conducted includes the basis of economic activity, the basis of laws and regulations, the basis of valuation criteria, the basis of asset ownership as well as the pricing basis, as follows:

(I) Basis of Economic Activity

Summary of General Manager Work Meeting of Yanzhou Coal Mining Company Limited (Issue 27)

(II) Basis of Laws and Regulations

1. Asset Valuation Law of the People's Republic of China (Decree No. 46 of the President of the People's Republic of China);

2. The State-owned Assets of Companies Law of the People's Republic of China (Decree No. 5 of the President of the People's Republic of China);

3. Company Law of the People's Republic of China (adopted at the 5th Meeting of the Standing Committee of the 8th National People's Congress on 29 December 1993 and amended in 1999, 2004, 2005, 2013 and 2018);

4. Securities Law of the People's Republic of China (adopted at the 6th Meeting of the Standing Committee of the Ninth National People's Congress of the People's Republic of China on 29 December 1998 and amended for the second time at the 15th Meeting of the Standing Committee of the 13th National People's Congress on 28 December 2019);

5. Property law of the People's Republic of China (Decree No. 62 of the President of the People's Republic of China);

6. Trademark Law of the People's Republic of China (adopted at the 24th meeting of the Standing Committee of the Fifth National People's Congress on 23 August 1982, amended for the first time on 22 February 1993, amended for the second time on 27 October 2001, amended for the third time on 30 August 2013, and amended for the fourth time on 23 April 2019);

7. Enterprise Income Tax Law of the People's Republic of China (adopted at the fifth meeting of the Tenth National People's Congress on 16 March 2007, revised for the first time according to the "Decision on Amending the Enterprise Income Tax Law of the People's Republic of China" adopted on the 26th meeting of the Standing Committee of the 12th National People's Congress on 24 February 2017) and revised for the second time according to the "Decision on Amending Four Laws including the Electric Power Law of the People's Republic of China" adopted at the seventh meeting of the Standing Committee of the 13th National People's Congress on 29 December 2018);

8. Law of the People's Republic of China on Urban Real Estate Management (adopted at the eighth meeting of the Standing Committee of the Eighth National People's Congress on 5 July 1994, amended at the 29th of the Standing Committee of the Tenth National People's Congress on 30 August 2007, revised for the second time according to the 10th meeting of the Standing Committee of the 11th National People's Congress on 27 August 2009, and revised for the third time according to the 12th meeting of the Standing Committee of the 13th National People's Congress on 26 August 2019;

9. Administrative Measures for State-Owned Assets Assessment (State Council Order 1991 No. 91);

10. Detailed Rules for the Implementation of the Administrative Measures for State-Owned Assets Assessment (Guo Zi Ban Fa [1992] No. 36) issued by the former State Administration of State-owned Assets;

11. Opinions on Reforming the Administration and Management of Appraisal of State-owned Assets and Strengthening the Supervision and Management of Asset Appraisal (Guo Ban Fa [2001] No. 102);

12. Rules on Certain Issues Relating to the Appraisal of State-owned Assets (Ministry of Finance No.14 Order);

13. Notice of the Ministry of Finance on Issuance of Administrative Measures for Filing of State-owned Assets Valuation Project (Qi [2001] No. 802);

14. Interim Regulation on the Supervision and Administration of State-owned Assets of Enterprises (State Council 2003 No. 378 Order);

15. Administration Measures for Supervision over Trading of State-owned Assets by Enterprises (SASAC and MOF No. 32 Order);

16. Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises (SASAC of the State Council 2005 No.12 Order);

17. Interim Regulations of the People's Republic of China Concerning the Assignment and Transfer of the Right of the State Owned Land in the Urban Areas (State Council No.55 Order in 19 May 1990);

18. Notice on Strengthening Management of Appraisal of State-Owned Assets in Enterprises (SASAC Property [2006] No. 274);

19. Notice on the Audit of Valuation Report for State-owned Assets of Enterprises (SASAC Property [2009] No. 941);

20. Guidelines for the Filing for Recordation of the Valuation Projects of State-owned Assets of Enterprises (SASAC Property [2013] No. 64);

21. Notice on Promoting the Circulation of State-owned Property Rights of Enterprises (SASAC Property [2014] No. 95);

22. Notice of the State-owned Assets Supervision and Administration Commission of Shandong Province on Issuance of the Guidelines for the Asset Evaluation and Management Work of Provincial Enterprises (Lu Guo Zi Chan Quan [2018] No. 1);

23. Land Administration Law of the People's Republic of China" (revised for the third time according to the "Decision on Amending the Land Administration Law of the People's Republic of China and the Law of the People's Republic of China on Urban Real Estate Management" adopted at the 12th meeting of the Standing Committee of the 13th National People's Congress on 26 August 2019);

24. Regulations for the Implementation of the Land Administration Law of the People's Republic of China (the second amendment of the Decision of the State Council on Amending Some Administrative Regulations on 29 July 2014);

25. Interim Regulations of the People's Republic of China on Urban Land Use Tax (State Council of the People's Republic of China 2013 No.645 Order);

26. Law of the People's Republic of China on Urban and Rural Planning (adopted at the 30th meeting of the Standing Committee of the Tenth National People's Congress on 28 October 2007, amended for the first time on 24 April 2015, and amended for the second time on 23April 2019);

27. Provisional Regulations on Value-added Tax of the People's Republic of China (State Council of the People's Republic of China No. 538 Order, Value-added Tax of the People's Republic of China was revised and adopted at the 34th executive meeting of the State Council on 5 November 2008, with effective on 1 January 2009, amended for the second time according to the Decision of the State Council on Abolishing the "Provisional Regulations of the People's Republic of China on Business Tax" and the "Provisional Regulations on Value-added Tax of the People's Republic of China" on 19 November 2017);

28. Regulations for the Implementation of the Provisional Regulations on Value-added Tax of the People's Republic of China (the "Implementation Rules" were promulgated by Order No. 50 of the Ministry of Finance and the State Administration of Taxation on 18 December 2008; amended according to the "Decision on Amending the "Regulations for the Implementation of the Provisional Regulations on Value-added Tax of the People's Republic of China" and the " Regulations for the Implementation of the Provisional Regulations on Business Tax of the People's Republic of China" promulgated by Order No. 65 of the State Administration of Taxation issued by the Ministry of Finance and the State Administration of Taxation on 28 October 2011);

29. Public Notice on Relevant Polices for Deepening VAT Reform (Announcement 2019 No. 39 by the Ministry of Finance, the State Administration of Taxation, and the General Administration of Customs);

30. Mineral Resources Law of the People's Republic of China (adopted at the 15th meeting of the Standing Committee of the Sixth National People's Congress on 19 March 1986; promulgated by Decree No. 36 of the President of the People's Republic of China on 19 March 1986; revised for the first time according to the "Decision on Amending the Mineral Resources Law of the People's Republic of China" adopted at the 21st meeting of the Standing Committee of the Eighth National People's Congress on 29 August 1996; revised for the second time according to the "Decision on Amending Some Laws" adopted at the 10th meeting of the Standing Committee of the 11th National People's Congress on 27 August 2009);

31. Vehicle Purchase Tax Law of the People's Republic of China" (Decree No. 19 of the President of the People's Republic of China).

(III) Basis of Valuation Criteria

1. Asset Valuation Standards (Cai Zi [2017] No. 43);

2. Code of Ethics for Assets Assessment (Zhong Ping Xie [2017] No. 30);

3. Asset Valuation Practicing Standards – Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);

4. Asset Valuation Practicing Standards – Asset Valuation Report (Zhong Ping Xie [2018] No. 35);

5. Asset Valuation Practicing Standards – Contract on Asset Valuation Entrustment (Zhong Ping Xie [2017] No. 33);

6. Asset Valuation Practicing Standards – Asset Valuation Files (Zhong Ping Xie [2018] No. 37);

7. Practicing Standards for Asset Valuation – Engagement of Experts and Relevant Reports (Zhong Ping Xie [2017] No. 35);

8. Asset Valuation Expert Guide No. 8 – Check and Verification in Asset Valuation (Zhong Ping Xie [2019] No. 39);

9. Asset Appraisal Expert Guidelines No. 10-Reasonable Performance of Asset Appraisal Procedures During the COVID-19 Epidemic Period (Zhong Ping Xie [2020] No. 6);

10. Asset Valuation Practicing Standards – Asset Valuation Methods (Zhong Ping Xie [2019] No. 35);

11. Asset Appraisal Practice Guidelines-Enterprise Value (Zhong Ping Xie [2018] No. 38);

12. Practicing Rules Standards for the Appraisal of Assets – Intangible Assets (Zhong Ping Xie [2017] No. 37);

13. Practice Standards for Asset Evaluation – Real Estate (Zhong Ping Xie [2017] No. 38);

14. Practice Guidelines for Asset Appraisal – Machinery and Equipment (Zhong Ping Xie [2017] No. 39);

15. Guidelines to Evaluation Report of State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);

16. Guidelines for Business Quality Control of Asset Valuation Institutions (Zhong Ping Xie [2017] No. 46);

17. Guiding Opinions on Types of Value for the Appraisal of Assets (Zhong Ping Xie [2017] No. 47)

18. Guidance on Legal Ownership of Asset Valuation Object (Zhong Ping Xie [2017] No. 48);

19. Guiding Opinions on Patent Asset Evaluation (Zhong Ping Xie [2017] No. 49);

20. Guiding Opinions on the Appraisal of Trademark Assets (Zhong Ping Xie [2017] No. 51);

21. Guidelines for the Appraisal of Intellectual Property Rights Assets (Zhong Ping Xie [2017] No. 44);

22. Guiding Opinions on Investment Real Estate Evaluation (Zhong Ping Xie [2017] No. 53);

23. Guidelines for Internal Governance of Evaluation Institutions (Zhong Ping Xie [2010] No. 121);

24. Evaluation Standard of Mining Rights of China (I) (implemented since 1 September 2008);

25. Evaluation Standard of Mining Rights of China (II) (implemented since 1 January 2011).

(IV) Basis of Asset Ownership

1. Land use right certificate;

2. Land use right assignment contract;

3. Construction land planning permit, construction planning permit, construction permit;

4. Motor vehicle driving permit and registration certificate;

5. Major equipment purchase contracts, invoices, and relevant agreements, contracts;

6. Patent certificate;

7. Trademark registration certificate;

8. Mining license;

9. Other ownership documents.

(V) Pricing Basis for the Valuation

1. The main building (structure) construction contract and related agreements, project construction drawings, financial statement report, project settlement, original receipt vouchers provided by the appraised entity;

2. Announcement of the State Railway Administration on Lowering the Standard Value-Added Tax Rate of Railway Engineering Costs (Guo Tie Ke Fa [2019] No. 12);

3. Shaanxi Construction Engineering Consumption Quota (2006), Shaanxi Installation Engineering Consumption Quota (2006) and Shaanxi Construction Decoration Engineering Price List (2009), Shaanxi Installation Engineering Price List (2009) and Shaanxi Province Construction Engineering Quantity List Valuation Rate (2019);

4. Railway Project Budget Quota (2017), Railway Capital Construction Engineering Design Estimate (Estimated) Cost Quota (2017);

5. Notice on Adjusting the Comprehensive Manpower Unit Price in the Bill of Quantities of Housing Construction and Municipal Infrastructure Projects issued by Shaanxi Provincial Department of Housing and Urban-Rural Development (Shaan Jian Fa [2018] No. 2019);

6. Rating Standard for Condition of Houses issued by the former Ministry of Urban and Rural Construction and Environmental Protection;

7. Shaanxi Project Cost Information (Issue 6 2020);

8. National Interbank Funding Center is authorized to issue the loan prime rate (LPR) announcement on 22 June 2020;

9. Coal Construction Shaft and Roadway Engineering Consumption Quota (2015 Base Price), Fundamental Quota of Auxiliary Costs for Coal Construction Shaft Engineering (2015 Base Price), Comprehensive Quota of Auxiliary Cost for Coal Construction Shaft and Roadway Engineering (2015 Base Price), Rate of Costs of Construction Machinery for Coal Construction Engineering (2015 Base Price), Rate of Costs of Coal Construction Engineering (NB/T 51063-2016) and Regulations on Other Costs of Coal Construction (NB/T 51064-2016);

10. Equipment purchase contract and invoice;

11. 2020 Mechanical and Electrical Products Price Information Query System from Machinery Industry Press;

12. The Ministry of Commerce, the Development and Reform Commission, the Ministry of Public Security, and the Ministry of Environmental Protection 2012 Order No. 12 "Regulations on Compulsory Scrapping Standards for Motor Vehicles";

13. Notice of the National Development and Reform Commission on Further Liberalizing the Price of Professional Services for Construction Projects (Fa Gai Price [2015] No. 299);

14. Notice on Issues Concerning the Charging Standards of Engineering Cost Consultancy Services in Our Province issued by Shaanxi Provincial Price Bureau, Shaanxi Provincial Department of Housing and Urban-Rural Development (Shaan Jia Hang Fa [2014] No. 88);

15. Evaluate the price information collected by professional market inquiries and inquiries from equipment manufacturers;

16. Notice of the Ministry of Finance on the Issuance of the "Regulations on the Management of Capital Construction Project Construction Costs" (Cai Jian [2016] No. 504) and the "Regulations on Other Costs of Coal Construction" (NB/T 51064-2016);

17. Rules for the Implementation of the Mineral Resources Law of the People's Republic of China;

18. Administrative Measures for the Mineral Resources Mining Registration (Order No. 241 of the State Council on 12 February 1998) amended by Order No. 653 of the State Council on 29 July 2014;

19. Administrative Measures for the Transfer of Prospecting Rights and Mining Rights (Order No. 242 of the State Council on 12 February 1998) amended by Order No. 653 of the State Council on 29 July 2014;

20. Interim Provisions on the Administration of the Assignment of Mining Rights issued by the Ministry of Land and Resources (Guo Tu Zi [2000] No. 309);

21. Mining Rights Evaluation Management Measures (Trial) issued by the Ministry of Land and Resources (Guo Tu Zi Fa [2008] No. 174);

22. Measures for Evaluation and Confirmation of Mineral Resources Reserves issued by the Ministry of Land and Resources (Guo Tu Zi Fa [1999] No. 205);

23. Administrative Measures for the Registration and Statistics of Mineral Reserves (Order No. 23 of the Ministry of Land and Resources on 1 March 2004);

24. Notice of the Ministry of Land and Resources on Further Improving the Registration and Management of Mining Rights (Guo Tu Zi Fa [2011] No. 14);

25. Notice of the Ministry of Finance on the Cancellation and Adjustment of Some Governmental Funds Related Policies (Cai Shui [2017] No. 18);

26. Notice of the Ministry of Finance and the State Administration of Taxation on the Value-Added Tax Rates of Metal Mines and Non-metallic Minerals Mining and Processing Products" (Cai Shui [2008] No. 171);

27. Guiding Opinions on Determination of Mining Rights Evaluation Parameters (CMVS3080-2008);

28. Mining Rights Evaluation Guide (revised in 2006);

29. National Bureau of Quality and Technical Supervision 1999 "Classification of Solid Mineral Resources/Reserves" (GB/T17766-1999);

30. Methods and Parameters of Economic Appraisal of Construction Projects (Third Edition);

31. General Rules for Geological Prospecting of Solid Minerals (GB/T 13908-2002);

32. Specifications for Geological Prospecting of Coal and Peat (DZ/T0215-2002);

33. Shaanxi Keneng Mine Engineering Technology Co., Ltd.（陝西科能礦山工程技術有限公司）compiled the "Jinjitan Coal Mine Mineral Resources Development and Utilization Plan in Yuyang District of Shaanxi Future Energy & Chemicals Co., Ltd. (Changed)" in August 2020;

34. Report on the Verification of Resources and Reserves of Jinjitan Coal Mine in Yushen Mining Area of Jurassic Coalfield in Northern Shaanxi Province (issued by Shaanxi Province 185 Coalfield Geology Co., Ltd.（陝西省一八五煤田地質有限公司）dated August 2019);

35. Filing certification of the mineral resources and reserves review of the "Report on the Verification of Resources and Reserves of Jinjitan Coal Mine in the Yushen Mining Area of Jurassic Coalfield in Northern Shaanxi Province" issued by the Department of Natural Resources of Shaanxi Province in June 2020 (Shaanxi Natural Resources Reserve [2020] No. 24);

36. Verification opinion on the "Report on the Verification of Resources and Reserves of Jinjitan Coal Mine in the Yushen Mining Area of Jurassic Coalfield in Northern Shaanxi Province" issued by Shaanxi Provincial Mineral Resources Survey and Evaluation Guidance Center in April 2020 (Shaan Kuang Chan Zhi Chu Ping Fa [2020] No. 10);

37. Notice of the State Council on Strengthening the Management of State-owned Land Assets (Guo Fa [2001] No. 15);

38. Notice of the General Office of the Ministry of Land and Resources on Issues Concerning the Implementation of the "Urban Land Classification and Grading Regulations" and "Urban Land Appraisal Regulations" (Guo Tu Zi Ting Fa [2015] No. 12);

39. Measures for the Implementation of the "Land Administration Law of the People's Republic of China" in Shaanxi Province" (adopted at the 12th meeting of the Standing Committee of the Ninth People's Congress of Shaanxi Province on 30 November 1999, amended according to the decision of the 13th meeting of the Standing Committee of the Eleventh People's Congress of Shaanxi Province on 26 March 2010);

40. The National Standard of the People's Republic of China "Urban Land Appraisal Regulations" (GB/T 18508-2014);

41. The National Standard of the People's Republic of China "Urban Land Classification and Grading Regulations" (GB/T 18507-2014);

42. The National Standard of the People's Republic of China "Category of the Status of the Utilization of Land" (GB/T 21010-2017);

43. The payment progress statistics and related payment vouchers of construction in progress provided by the appraised entity;

44. The information including historical annual audit report, future annual business plan, profit forecast provided by the appraised entity;

45. The financial data from 2017 to June 2020 have been audited by Zhongxingcai Guanghua Certified Public Accountants LLP which has issued an unqualified audit report (Zhongxingcai Guanghua Shen Kuai Zi (2020) No. 316050).

46. The "Research Report on Stable Light Hydrocarbon, Liquid Wax, and LPG Industry" issued by Jinlianchuang Network Technology Co., Ltd.（金聯創網路科技有限公司）in August 2020.

47. The raw material purchase contract signed between the appraised entity and the relevant unit;

48. Other information related to this asset valuation;

49. Financial information including accounting statements, financial and accounting information, as well as relevant agreements, contracts, invoices provided by the appraised entity;

50. Statistical data, technical standard data and price information data released by relevant state departments, as well as relevant inquiry data and price parameter data collected by our company.

VII. VALUATION METHODS

(I) Introduction to Valuation Methods

Basic asset valuation methods for enterprise value appraisal include asset-based approach, income approach and market approach.

The asset-based method for enterprise value appraisal, also known as the cost approach, refers to the valuation method that determines the value of a valuation subject by valuating the value of on-balance sheet and identifiable off-balance-sheet assets and liabilities based on the balance sheet of the appraised entity as at the valuation base date.

The income approach for enterprise value appraisal refers to the valuation method that determines the value of a valuation subject by capitalising or discounting the expected revenue. The specific methods commonly involved when using the income approach include the dividend discount method and the discounted cashflows method. The income approach is the assessment of the value of an enterprise by its profitability, which is based on the economics theory of expected utility.

The market approach for enterprise value appraisal refers to the valuation method that determines the value of a valuation subject by comparing the valuation subject with comparable listed companies or comparable transaction cases. There are two commonly used specific methods under the market approach, which are listed-company comparison and transaction-case comparison.

(II) Selection of Valuation Methods

The asset-based approach refers to the method of valuation, in which the value of the valuation target is determined by reasonable appraisal of the value of all on-and-off balance sheet assets and liabilities on the basis of the balance sheet. For the purpose of this valuation, the necessary information for adopting the asset-based approach could be provided by the appraised entity or collected by the appraisers externally, which allowed a comprehensive review and valuation on the assets and liabilities of the appraised entity. Therefore, the asset-based approach was adopted for this valuation.

The income approach is based on the expected utility theory of economics. In other words, from the perspective of the investors, the enterprise value lies in the future income expected to be generated for the enterprise. Despite the absence of the direct use of comparable in the actual market for stating the prevailing fair market value of the appraised entity, the income approach assesses the value of an asset by its expected profitability, which is the essential basis for determining the prevailing fair market value of the asset. As such, it can completely reflect the overall value of an enterprise and its valuation conclusion is more reliable and convincing. From the perspective of applicable conditions of the income approach, since the enterprise is profitable in its own right and the management of the appraised entity has provided the profit forecast for the future years, according to the historical operating data of the enterprise and the internal and external operating environment, the future level of profit of the enterprise can be reasonably forecasted. In addition, the risk of future income can be reasonably quantified. Hence, the income approach is applicable to this valuation.

The market approach determines the prevailing fair market value of the appraised entity by referring to comparables in the market. This approach is direct in terms of valuation perspective and valuation methods, and the valuation process is intuitive. The data for the valuation is from market, making the result convincing. Since this valuation has fewer units than listed companies, it is difficult to collect transaction cases, and it is impossible to obtain transaction cases of companies with similar production scales and business types. Therefore, the market approach is not adopted for this assessment.

(III) Introduction to Assessment Approaches

i) Assets-based method

The asset-based approach used for assessing the value of an enterprise refers to the valuation method where the value of the valuation subject is determined on the basis of a reasonable valuation of various assets and liabilities of the enterprise based on its balance sheet as at the valuation benchmark date. The valuation process of various assets and liabilities is stated as follows:

1. Valuation of current assets and liabilities

Current assets of the appraised entity include monetary funds, notes receivable, accounts receivable, prepayments, other receivables, inventories, and other current assets; while current liabilities include short-term borrowings, notes payable, accounts payable, contract liabilities, staff remuneration payable, tax payable, other payables and non-current liabilities due within one year, and non-current liabilities include long-term borrowings, deferred income tax liabilities and long-term staff remuneration payable.

(1) Monetary funds include, bank deposits and other cash equivalent monetary funds, assessed value of which was determined as the verified book value which was arrived at after checking cash inventory and the verification of bank reconciliation statements, bank confirmations, and other proofs of monetary funds.

(2) Notes receivable: Notes receivable are commercial notes received by enterprises from sale of goods or rendering of services. All notes receivable examined in the appraisal are banker's acceptance bills. The appraisers checked accounting records, reviewed the register of notes receivable, and carried out notes stocktaking. For some significant notes receivable, they examined original records including relevant sales contracts and delivery orders (shipping orders). After all of these are confirmed to be error-free, the carrying value is assessed value.

(3) Accounts receivable and other receivables: For valuation of accounts receivable, conformity among the sub-ledger, general ledger, balance in the statements and the valuation schedule will be verified, and account records such as the account balance, occurrence time and business content will be reviewed to analyze the aging. For payment with a large amount or abnormal amount, confirmation was made; for fund without a reply letter, replacement procedures (obtaining the relevant vouchers for the amounts recovered after the period or the relevant vouchers when the business occurs) were conducted, receivables for related units were checked mutually to verify the truth, completeness of receivables. The amount of receivables was verified to be consistent with the amount in the statement. On basis of an inerrable verification of the receivables, by means of historical data as well as on-site investigation and understanding of the situation, the appraisers will conduct a concrete analysis of the amount of sums, arrears of time and causes in connection thereof, amount recovery status, as well as the funds, creditability and operation and management status of the debtors, etc. if there was no evidence found that the amounts could not be recovered, so the risk of loss was not recognized this time, and the carrying value after verification was used as the appraisal value.

(4) Prepayments: The value is determined based on the value of the assets or rights that can be recovered from the corresponding goods. For the goods or rights that can be recovered, the carrying value after verification was used as assessed value.

(5) Inventories: include raw materials and finished products. Due to the short inventory time, strong liquidity and little change in market prices of the raw materials to be assessed this time, the

carrying value after verification is used to determine assessed value; for the finished products used by the enterprise, the assessment value is confirmed according to the carrying value after verification; for the finished products sold externally, the appraiser shall determine assessed value by the market method according to the verified quantity and sales price of the finished product. That is, on the basis of the tax-free sales price of the finished product, the sales tax, sales expenses, income tax and an appropriate proportion of after-tax profit are deducted to determine its assessed value.

(6) Other current assets: For the principal of loans of the enterprise, the appraisers checked the loan contract on case-to-case basis, and reviewed the original accounting vouchers, to understand the loan amount, interest rate, repayment method and repayment period, which were all correct. After verification, the amount of such loan is consistent with the declared amount, and the carrying value after verification is used as assessed value. For the input VAT to be deducted, the appraisers shall verify its tax return by understanding the applicable tax, tax rate, tax amount and payment rate after it is verified to be correct, and confirm the declaration by consulting the correctness and authenticity of the numbers of tax payment voucher declared. After verification, the amount of corporate tax is consistent with the declared amount. Therefore, the carrying value after verification was used as assessed value.

(7) Liabilities: On the basis of inspection and verification, the assessment value is determined according to the actual liabilities and amount of liabilities that the assessed enterprise needs to bear after the assessment purpose is achieved.

2. *Valuation of non-current assets*

(1) Long-term equity investment

For long-term equity investment in the wholly-owned and controlled subsidiaries, the enterprise value evaluation method is adopted to evaluate the invested enterprise as a whole, and then the evaluation value of the long-term equity investment is calculated according to the equity proportion of the appraised entity.

The asset-based approach is based on the balance sheet to assess all assets and liabilities on the balance sheet and off the balance sheet, if identifiable, so as to arrive at the value of the assessed subject. Since the enterprise is able to provide and the appraisers are able to obtain from external sources all materials needed under the asset-based approach, it is possible to carry out a thorough stock-taking and appraisal of the assets and liabilities of the investee. Therefore, the asset-based approach is applicable to this valuation.

The market approach determines the prevailing fair market value of the appraised entity by referring to comparables in the market. Since there are fewer comparable companies as Shaanxi Future Clean Chemicals Co., Ltd. and Shaanxi Future Clean Chemicals Sales Co., Ltd., it is difficult to collect transaction cases, and it is impossible to obtain transaction cases of companies with similar production scales and business types for this valuation. Therefore, the market approach is not adopted for this assessment.

The income approach is built on the theory of expected utility in economics, which means to investors the value of a business lies in the income the business is expected to generate in the future. The income approach does not directly use references available in the market to demonstrate the present fair market value of the assessed subject, but it assesses assets by expected profitability of assets, which determines the present fair market value of assets. It can reflect the value overall and the conclusion is reliable and convincing.

From the perspective of the applicable conditions of the income method, Shaanxi Future Clean Oil and Chemicals Sales Co., Ltd. has the conditions for continuous operation. The enterprise's future operating income, matching costs, and other income and expenditure can be measured in currency, and future income can be reasonably predicted. The risk corresponding to the expected return can be reasonably quantified. At present, the domestic capital market has made considerable progress. The relevant beta coefficient, risk-free rate of return, market risk rate of return can be readily available. The external conditions for the use of income method are relatively mature, and the use of income method for valuation is also in line with international practices. Therefore, the income approach is adopted for this valuation.

Shaanxi Future Clean Chemicals Co., Ltd. was established on 12 April 2019. As of the valuation benchmark date, the enterprise has not yet completed its construction. According to the Feasibility Study Report on Fischer-Tropsch Wax Finishing Project with 100,000 tons/year of Shaanxi Future Energy & Chemicals Co., Ltd. issued by Shandong Hongyun Engineering Design Co., Ltd.（山東鴻運工程設計有限公司）in December 2018, it needs 1 month to initiate trial operation after the completion of construction of the enterprise. According to the enterprise's management, the future sales of the enterprise are divided into domestic sales and foreign sales. Regarding the impact of the recent COVID-19 epidemic and changes in the international situation on future sales, the enterprise has not yet formulated active countermeasures, and the specific sales situation remains uncertain. Therefore, after the completion of the project development of the enterprise, the future sales situation cannot be assured, and the future revenue status and future risks assumed are difficult to predict. In view of this, the income method is not used for this valuation.

(2) Other non-current financial assets

Other non-current financial assets are the shareholdings in Shaanxi Jingshen Railway Co., Ltd. (陝西靖神鐵路有限責任公司) and Yulin Yuyang District Coal Mine Drainage Environmental Treatment Co., Ltd. (榆林市榆陽區煤礦疏幹水環境治理有限公司) held by the enterprise. Shaanxi Future Energy & Chemicals Co., Ltd. does not substantially control the above two companies and only provided the business license, articles of association and financial statements. The appraisers were unable to assess the overall corporate value of the two companies.

After understanding with the personnel of the investee, the shareholders who have not made capital contribution, will receive dividends and other forms of benefit distribution during the period of non-capital contribution based on the contribution ratio. This time, the paid-in capital of the appraised entity and the operating income of the investee that should be allocated to the appraised entity during the operating period are used as assessed value of other non-current financial assets. The calculation formula is:

Valuation of other non-current financial assets = paid-in capital + shareholding ratio × (net assets of the investee on the valuation benchmark date -paid-in capital of the investee on the valuation benchmark date)

(3) Buildings (structures)

The replacement cost method is mainly used for valuation. The replacement cost method refers to the idea of replacing the evaluated subject, taking the replacement cost as the basis for determining the value of the evaluated subject and deducting the relevant depreciation, to determine the evaluation method for evaluating the value of the subject. The calculation formula is:

Appraisal value = replacement cost (excluding tax)-substantial, functional, economic depreciation

or:

Appraisal value = replacement cost (excluding tax) × integrated depreciation rate

Replacement cost (excluding tax) = construction and installation project cost (including tax) + upfront expenses and other expenses (including tax) + capital cost-deductible input VAT

1) Determination of replacement cost

① Determination of the cost of construction and installation engineering

During the evaluation work, the appraisers use different evaluation methods to determine the cost of construction and installation engineering of the buildings (structures) to be valued by investigating the physical conditions of the buildings (structures) to be valued and investigating the completeness of the construction contract, completion drawings, and project settlement materials. The general project cost is determined according to the actual situation of the buildings (structures) to be evaluated by using one of the methods of re-budgeting method, final accounts adjustment method, analog coefficient adjustment method, unilateral cost estimation index method or using several methods at the same time.

This assessment uses the following 3 methods to determine the construction and installation project cost of a building (structure):

Re-budgeting method: based on the construction contract, completion drawings, project settlement and other materials of the buildings (structures) to be evaluated, combined with the results of the on-site survey, to compile a list of engineering quantities, and calculate the cost of construction and installation engineering of the representative building (structure) on the valuation benchmark date of the assessment based on the prevailing budget quota and expenses quota of local construction, decoration and installation project.

Analogy coefficient adjustment method: through comparing the typical engineering cases with the buildings (structures) to be evaluated in the gross floor area, structure type, storey height, number of storeys, span, material, interior and exterior decoration, construction quality, application of repair and maintenance, refer to the labor cost, material expenses, and mechanical cost growth rate of a typical engineering case calculated by using the re-budgeting method, to obtain the cost of the construction and installation engineering of this type of building (structure) after adjusting the cost of construction and installation engineering of a typical engineering case.

Unilateral cost index estimation method: For some simple buildings (structures), the evaluator adopts unilateral cost indicators after comprehensive analysis, combined with previous experience in similar projects, to obtain the cost of construction and installation engineering of such buildings (structures).

② Determination of upfront expenses and other expenses

The upfront expenses and other expenses mainly include survey and design fees and upfront consulting fees, bidding agency service fees, management fees of construction unit, project cost consulting service fees, project supervision fees, environmental impact consulting fees, safety evaluation fees, etc. The calculated rates are as follows:

No.	Project or cost name	Calculation formula	Rate	Basis for charging
1	Survey and design fees and preliminary consultation fees	Project cost × rate	1.50%	With reference to Fa Gai Jia Ge [2015] No. 299 to implement the adjusted market prices
2	Bidding agency service fee	Project cost × rate	0.02%	
3	Construction supervision fee	Project cost × rate	0.70%	
4	Environmental impact consulting fees	Project cost × rate	0.005%	
5	Management fees of construction unit	Project cost × rate	1.25%	With reference to "Regulations on Other Costs of Coal Construction" Cai Jian [2016] No.504
6	Project cost consulting service fees	Project cost × rate	0.03%	With reference to Shaan Jia Xing Fa [2014] No. 88 to implement the adjusted market prices
7	Safety evaluation fees	Project cost × rate	0.005%	With reference to the "Guiding Opinions on Safety Evaluation Fees in Shaanxi Province" to implement the adjusted market prices
Total		Cost of construction and installation engineering × 3.51%		

③ Capital cost

The capital cost is the financing cost of the funds occupied during the normal construction period of the building, and is the loan interest on the funds invested in the construction during the construction period. The capital cost is determined based on the reasonable construction period of this project, and the loan interest rate of the corresponding period on the valuation benchmark date based on the sum of the cost of construction and installation project and the previous period and other expenses. The calculation formula is as follows:

Capital cost = (cost of construction and installation project + upfront expenses and other expenses) × normal construction period × loan interest rate during normal construction period × 1/2

Note: On 22 June 2020, the National Interbank Lending Center is authorized to publish the loan market quoted prime rate (LPR): "The loan prime rate (LPR) on 22 June 2020 is: LPR for 1 year is 3.85%, LPR for over 5 years is 4.65%. The above LPRs are effective until the next LPR is issued." The reasonable construction period of this construction project is 4 years, so the selected loan interest rate for the construction period is based on the average of 4.25% of the LPR for 1 year of 3.85% and the LPR for over 5 years of 4.65%.

④ Determination of deductible input VAT

According to the "Notice on Comprehensively Launching the Pilot Program for the Reform of Business Tax to VAT" (Cai Shui [2016] No. 36) and the "Announcement on Deepening the Relevant Policies of VAT Reform" (Announcement No. 39 of 2019 by the Ministry of Finance, State Administration of Taxation, and General Administration of Customs), the general tax calculation method shall be applicable to the taxable activities of general taxpayers. The deductible input VAT is calculated as follows:

Deductible input VAT on the cost of construction and installation project = cost of construction and installation project (including tax) ÷ (1+9%) × 9%

Input VAT that can be deducted for upfront expenses and other expenses = upfront expenses and other expenses (including tax) ÷ (1+6%) × 6%

The management fee of the construction unit belongs to the expenses incurred by the enterprise itself and is not taxable. The input tax amount of the interest paid by the taxpayer for purchasing loan services (occupying and borrowing other person's funds in various forms) and the interest nature expenditure shall not be deducted from the output tax amount.

2) Determination of integrated depreciation rate

① For high-value important buildings and structures, site survey depreciation rate and useful life-based depreciation rate are combined to determine integrated depreciation rate. The formula is as follows:

Integrated depreciation rate = survey depreciation × 60% + life-time depreciation rate × 40%

Of which:

Life depreciation rate (%) = (economic durability life – life used) / economic durability life) × 100%

or:

Life depreciation rate = remaining useful life / (life used + remaining useful life) × 100%

The on-site survey depreciation rate refers to, after on-site survey, scoring the three parts of its structure, decoration, and equipment, respectively, filling in the on-site survey depreciation table, and calculating the survey depreciation rate one by one checking the completion information of the main buildings (structures) item by item to understand their maintenance, renovation, and management over the years.

② For buildings (structures) with low unilateral cost and relatively simple structure, the depreciation rate shall be determined after being modified by using the life method based on the actual situation of the subject. The calculation formula is:

Depreciation rate (%) = (economic durability life – life used) / economic durability life × 100%

3) Calculation of Appraisal value

Assessed value = replacement cost × integrated depreciation rate

Note: The waste residue storage and disposal area in the indirect coal liquefaction and comprehensive utilization project is similar to the tailings pond of a mine. When the industrial waste residue is full, it can no longer be used and needs to be covered with soil and green. According to the information provided by the enterprise, the designed storage capacity of the slag yard is 2,832,000 cubic meters. As of the valuation benchmark date, approximately 1,935,000 cubic meters of waste slag has been stored. The remaining storage capacity is used in this assessment to determine its depreciation rate. In the building assets of Jinjitan Coal Mine, for ground structures (structures) that are not directly related to production or can be used for other purposes after the mining resources are completed, the depreciation rate is calculated by the observation method and the life method, and their integrated depreciation rate is calculated according to the weighted average ratio of 6:4; for the buildings (structures) that are directly related to production or that cannot be used for other purposes after the mining resources are completed, their integrated depreciation rate is determined based on the lower of depreciation rate calculated on the basis of service life of the mine and the above integrated depreciation rate.

(4) Shaft and roadway engineering

The replacement cost method is mainly used for the appraisal of the shaft and roadway engineering. The replacement cost method refers to the idea of replacing the evaluated subject, taking the replacement cost as the basis for determining the value of the evaluated subject and deducting the relevant depreciation, to determine the evaluation method for evaluating the value of the subject. The calculation formula is:

Appraisal value = replacement cost (excluding tax) × depreciation rate

Replacement cost (excluding tax) = construction and installation project cost (including tax) + upfront expenses and other expenses (including tax) + capital cost-deductible input VAT

Depreciation rate (%) = remaining service life of the mine ÷ (service life + remaining service life) × 100%

1) Determination of replacement cost

① Determination of the cost of construction and installation engineering

In this assessment, based on the project settlement, physical engineering volume, and the current coal industry quota and fee collection standards, the re-budgeting method was used to determine the cost of the construction and installation project of the shaft and roadway engineering:

Re-budgeting method: based on the engineering technical data and completion drawings of the shaft and roadway engineering to be evaluated, combined with the site conditions, recompile the project quantity list, and calculate the cost of construction and installation engineering of the shaft and roadway engineering according to the current consumption quota for the coal construction shaft and roadway engineering and the cost quota of coal construction project.

② Determination of upfront expenses and other expenses

The upfront expenses and other expenses mainly include survey and design fees and upfront consulting fees, bidding agency service fees, management fees of construction unit, project cost consulting service fees, project supervision fees, environmental impact consulting fees, safety evaluation fees, etc. The calculated rates are as follows:

No.	Project or cost name	Calculation formula	Rate	Basis for charging
1	Survey and design fees and preliminary consultation fees	Project cost × rate	1.50%	With reference to Fa Gai Jia Ge [2015] No. 299 to implement the adjusted market prices
2	Bidding agency service fee	Project cost × rate	0.02%	
3	Project supervision fee	Project cost × rate	0.70%	
4	Environmental impact consulting fees	Project cost × rate	0.005%	
5	Management fees of construction unit	Project cost × rate	1.25%	With reference to "Regulations on Other Costs of Coal Construction" Cai Jian [2016] No.504
6	Project cost consulting service fees	Project cost × rate	0.03%	With reference to Shaan Jia Xing Fa [2014] No. 88 to implement the adjusted market prices
7	Safety evaluation fees	Project cost × rate	0.005%	With reference to the "Guiding Opinions on Safety Evaluation Fees in Shaanxi Province" to implement the adjusted market prices
Total		Cost of construction and installation engineering × 3.51%		

③ Capital cost

The capital cost is the financing cost of the funds occupied during the normal construction period of the building, and is the loan interest on the funds invested in the construction during the construction period. The capital cost is determined based on the reasonable construction period of this project, and the loan interest rate of the corresponding period on the valuation benchmark date based on the sum of the cost of construction and installation project and the previous period and other expenses. The calculation formula is as follows:

Capital cost = (cost of construction and installation project + upfront expenses and other expenses) × normal construction period × loan interest rate during normal construction period × 1/2

Note: On 22 June 2020, the National Interbank Lending Center is authorized to publish the loan prime rate (LPR): "The loan prime rate (LPR) on 22 June 2020 is: LPR for 1 year is 3.85%, LPR for over 5 years is 4.65%. The above LPRs are effective until the next LPR is issued." The reasonable construction period of this construction project is 4 years, so the selected loan interest rate for the construction period is based on the average of 4.25% of the LPR for 1 year of 3.85% and the LPR for over 5 years of 4.65%.

④ Determination of deductible input VAT

According to the "Notice on Comprehensively Launching the Pilot Program for the Reform of Business Tax to VAT" (Cai Shui [2016] No. 36) and the "Announcement on Deepening the Relevant Policies of VAT Reform" (Announcement No. 39 of 2019 by the Ministry of Finance, State Administration of Taxation, and General Administration of Customs), the general tax calculation method shall be applicable to the taxable activities of general taxpayers. The deductible input VAT is calculated as follows:

Deductible input VAT on the cost of construction and installation project = cost of construction and installation project (including tax) ÷ (1+9%) × 9%

Input VAT that can be deducted for upfront expenses and other expenses = upfront expenses and other expenses (including tax) ÷ (1+6%) × 6%

The management fee of the construction unit belongs to the expenses incurred by the enterprise itself and is not taxable. The input tax amount of the interest paid by the taxpayer for purchasing loan services (occupying and borrowing other person's funds in various forms) and the interest nature expenditure shall not be deducted from the output tax amount.

2) Determination of depreciation rate

Different from the buildings (structures) on the ground, mine shaft and roadway engineering is a special asset attached to mine resources. As the mining resources decrease, its economic life is shortened accordingly, and it is closely related to the coal reserves exploited in the mine. When the mining of coal resources is completed, its economic life ends.

Before the depreciation rate was determined, the appraisers reviewed the mine geological report, mine design data, and development and utilization plan to understand the layout of various underground roadways, rock properties, support methods, and the influence of geological structures on the mine shaft and roadway engineering; secondly, learn about the support status and maintenance of each roadway from the engineering geological technicians, and check the maintenance records; thirdly, according to the remaining service life of the mine as set out in the "Jinjitan Coal Mine Mineral Resources Development and Utilization Planning Yuyang District of Shaanxi Future Energy & Chemicals Co., Ltd. (Changed) "; finally, combine with on-site investigation to comprehensively determine the depreciation rate of various shaft assets.

In this assessment, the geological structure of the area where the mine is located is of a simple structural type, and the roadway support method can meet the needs of the enterprise's normal safe production. The daily maintenance of the shaft and roadway engineering is good, and there is no major damage and safety hazards. Therefore, in this assessment, the depreciation rate determined by the life method was not revised.

The formula for calculating the new rate of this assessment is as follows:

Depreciation rate (%) = remaining service life of the mine ÷ (service life + remaining service life) × 100%

According to the "Jinjitan Coal Mine Mineral Resources Development and Utilization Plan in Yuyang District of Shaanxi Future Energy & Chemicals Co., Ltd. (Changed) " compiled by Shaanxi Keneng Mine Engineering Technology Co., Ltd.in August 2020, the Jinjitan Coal Mine can still serve for a period of time 56.94 years. The remaining service life of the shaft and roadway engineering is calculated based on the remaining service life of the mine.

3) Determination of evaluated value

Appraisal value = replacement cost (excluding tax) × depreciation rate

(5) Equipment assets

Such equipment assets are mainly evaluated using the replacement cost method.

The replacement cost method of equipment evaluation is a method to determine the evaluated value of the equipment through estimating the replacement cost of new equipment, and then deducting physical depreciation, functional depreciation and economic depreciation, or based on the integrated depreciation rate. The replacement cost of equipment generally includes all reasonable direct and indirect costs for repurchasing or constructing a new asset with the same function as the evaluated subject, such as the purchase price of the equipment, transportation costs, basic equipment costs, installation and commissioning costs, upfront and other expenses, capital costs, etc. The calculation formula used in this assessment is:

Assessed value= replacement value × integrated depreciation rate

1) Appraisal of machinery and equipment

① Determination of replacement cost of machinery and equipment

Replacement cost = equipment purchase price + transportation and miscellaneous expenses + installation and commissioning fee + basic fee + other expenses + capital cost-deductible VAT

A. Equipment purchase price

For equipment that is still in circulation in the current market, the purchase price of the equipment is directly determined according to the current market price; for equipment that has been eliminated, no longer produced by the manufacturer, and no longer circulated in the market, the purchase price is determined by comparing similar equipment with the evaluated equipment and comprehensively considering the differences in performance, technical parameters, use functions of the equipment.

B. Transportation and miscellaneous expenses

According to the price conditions selected at the time of equipment inquiry, if the purchase price of the equipment includes transportation and miscellaneous charges, it will no longer be calculated, otherwise, refer to the following table to determine the transportation and miscellaneous charges:

Transport mileage	Fee basis	Rate (%)	Transport mileage	Fee basis	Rate (%)
Within 100km	Equipment purchase price	1.0	Within 1000km	Equipment purchase price	2.8
Within 200km	Equipment purchase price	1.2	Within 1250km	Equipment purchase price	3.3
Within 300km	Equipment purchase price	1.4	Within 1500km	Equipment purchase price	3.8
Within 400km	Equipment purchase price	1.6	Within 1750km	Equipment purchase price	4.3
Within 500km	Equipment purchase price	1.8	Within 2000km	Equipment purchase price	4.8
Within 750km	Equipment purchase price	2.3	The rate will increase for every 250km over 2,000km	Equipment purchase price	0.5

C. Installation and commissioning fee

The installation and commissioning fee is determined mainly based on the reference rate of the installation and commissioning fee provided in the "Manual of Common Methods and Parameters for Asset Valuation", while considering the complexity of installation of the equipment and the previous analysis of installation costs of such equipment. According to the price conditions selected in the equipment inquiry, if the equipment purchase price does not include the installation and commissioning costs, refer to the settlement data to calculate the actual installation costs, and after excluding the unreasonable costs, refer to the relevant regulations to comprehensively determine the proportion of the equipment purchase price; if the purchase price already includes the installation and commissioning fee while enquiring the price of the equipment, the calculation will not be repeated.

D. Determination of basic costs

The foundation of most of the machinery and equipment has been reserved during the construction of the project, the basic costs has been reflected in the appraisal of the building, and only a small part of the equipment considers the basic costs.

E. Upfront expenses and other expenses of project construction

It refers to, in addition to the construction and installation engineering costs and the equipment installation engineering costs, the various expenses incurred during the entire construction period from the preparation to the completion of the project and the acceptance and delivery of the project, to ensure the smooth completion of the project construction and normal function after delivery. Details are set out in the table below:

No.	Project or cost name	Calculation formula	Rate	Basis for charging
1	Survey and design fees	Equipment purchase price + installation cost + basic costs) × rate	1.20%	With reference to Fa Gai Jia Ge [2015] No. 299 to implement the adjusted market prices
2	Management fees of construction unit	Equipment purchase price + installation cost + basic costs) × rate	1.25%	Cai Jian [2016] No.504
3	Construction supervision fees	Equipment purchase price + installation cost + basic costs) × rate	0.70%	With reference to Fa Gai Jia Ge [2015] No. 299 to implement the adjusted market prices
4	Environmental impact consulting fees	Equipment purchase price + installation cost + basic costs) × rate	0.005%	With reference to Fa Gai Jia Ge [2015] No. 299 to implement the adjusted market prices
5	Consulting fee for the upfront work of the project	Equipment purchase price + installation cost + basic costs) × rate	0.30%	With reference to Fa Gai Jia Ge [2015] No. 299 to implement the adjusted market prices
6	Bidding agency service fees	Equipment purchase price + installation cost + basic costs) × rate	0.02%	With reference to Fa Gai Jia Ge [2015] No. 299 to implement the adjusted market prices
7	Project cost consulting service fees	Equipment purchase price + installation cost + basic costs) × rate	0.03%	With reference to Shaan Jia Xing Fa [2014] No. 88 to implement the adjusted market prices
8	Safety evaluation fees	Equipment purchase price + installation cost + basic costs) × rate	0.005%	With reference to the "Guiding Opinions on Safety Evaluation Fees in Shaanxi Province" to implement the adjusted market prices

No.	Project or cost name	Calculation formula	Rate	Basis for charging
9	Trial operation fees	Equipment purchase price + installation cost + basic costs) × rate	1.00%	Based on the actual situation of the enterprise and the "Manual of Common Methods and Parameters for Asset Valuation"
Total		4.51%		

F. Capital cost

As at the valuation benchmark date, the National Interbank Lending Center is authorized by the People's Bank of China to publish the loan prime rate (LPR) of 20 June 2020: LPR for 1 year is 4.15%, LPR for over 5 years is 4.8%. The above LPRs are effective until the next LPR is issued. The calculation formula is as follows:

Capital cost = (equipment purchase price + transportation and miscellaneous costs + installation and commissioning costs + basic costs + trial operation fees+ other costs) × loan interest rate × (reasonable construction period ÷ 2)

According to the project category, overall construction scale and construction company level, with reference to the actual construction period of the enterprise, it is determined that the normal and reasonable construction period is 4 years. Assuming that the project funds are evenly invested during the construction period, the construction investment loan interest rate is calculated by the average of 4.25% of LPR 3.85% for 1 year and LPR4.65% for over 5 years.

G. Deductible VAT

Pursuant to relevant regulations, the value-added tax is calculated at 13% for machinery and equipment, 9% for freight, basic costs and installation fees, and 6% for other expenses less deductible VAT, in which the trial operation fees, management fees of the construction unit and capital costs do not are not included in VAT calculation and are not deductible.

② Determination of integrated depreciation rate

For large-scale and key equipment, the survey depreciation rate and theoretical depreciation rate are determined by weight:

Integrated depreciation rate = survey depreciation rate × 0.6 + theoretical depreciation rate × 0.4

A. Survey depreciation rate

The determination of survey depreciation rate is mainly based on the actual status of the enterprise's equipment. According to the technical status, working environment, and maintenance conditions, the equipment is scored item by item according to the actual on-site survey situation to determine the survey depreciation rate.

B. Theoretical depreciation rate

The theoretical depreciation rate is determined according to the economic life of the equipment (or the remaining useful life) and the life used.

Theoretical depreciation rate = (economic life -life used) / economic life × 100%

For equipment whose service life exceeds the economic life, the following calculation formula is applicable:

Theoretical depreciation rate = remaining useful life / (life used + remaining useful life) × 100%

For ordinary equipment with small value, the depreciation rate is determined by the life method based on the service time, combined with the maintenance situation.

③ Calculation of Appraisal value

Appraisal value = replacement cost × integrated depreciation rate

2) Appraisal of the vehicles

According to the characteristics of the assets declared to be assessed, the replacement cost method is mainly used for this assessment.

① Price of replacement of vehicles: consists of three parts: purchase price, vehicle purchase tax and other appropriate expenses (such as vehicle examination fee, plate license fee and handling charges). The purchase price is mainly determined with reference to latest trade prices of comparable models.

② Determination of integrated depreciation rate

For transportation vehicles, the depreciation rate is determined based on the lower of the vehicle mileage and useful life, and then adjusted according to the on-site survey.

Mileage depreciation rate = (specified vehicle mileage-accumulated mileage)/specified vehicle mileage × 100%

Life depreciation rate = (economic durability life of vehicles -life used) / economic durability life × 100%

Integrated depreciation rate = theoretical depreciation rate × 0.4 + survey depreciation rate × 0.6

③ Determination of assessed value of vehicles

Appraisal value = price of replacement of vehicles × integrated depreciation rate

3) Appraisal of electronic and office equipment

① Determination of the replacement cost of electronic equipment: The electronic equipment mainly includes corporate office computers, printers, air conditioners, kitchen appliances, washing machines, which are delivered by distributors. The replacement cost is directly determined by the market purchase price.

② Determination of depreciation rate

The depreciation rate of electronic and office equipment is mainly based on its integrated depreciation rate calculated by its economic life. For large-scale electronic equipment, the integrated depreciation rate is also determining with reference to its working environment and equipment operating conditions.

③ Determination of appraisal value

Appraisal value= replacement value of vehicles × integrated depreciation rate

For electronic equipment that has been purchased at an earlier time and has been discontinued and has no comparable prices, assessed value is determined using the market method by inquiring about the second-hand transaction price.

(6) Construction in progress

Construction in progress is evaluated using the replacement cost method. In order to avoid repeated valuation of assets and omission of asset value, combined with the characteristics of the construction in progress, the following evaluation methods are adopted based on the types and specific conditions of the construction in progress:

1) Transferred assets

Although the main equipment assets have been carried forward, funds of the construction in progress of some of the equipment installation project have not been carried forward. If the value of such construction in progress is included in the fixed asset valuation, the evaluated value of this type of construction in progress is zero.

The assets evaluated using this evaluation method include: items 399 and 400 of the equipment installations projects under construction.

2) Appraisal of electronic equipment without potential liabilities

For the electronic office equipment purchased for the second phase of the indirect coal liquefaction and comprehensive utilization project in the construction in progress, the payment has been settled and there is no potential liability. Assessed value is determined using the fixed asset-electronic equipment evaluation method (because the second phase of the indirect coal liquefaction and comprehensive utilization project is still under construction as a whole, and its amortized investment is in progress; amortized investment subject is under evaluation and does not participate in asset amortization).

The assets evaluated using this evaluation method include: items 1-23 of the equipment installation project under construction.

3) Appraisal of unfinished projects under construction

For normal unfinished projects under construction, if the asset purchase and construction time is closer to the Valuation benchmark date, the declared value of the construction in progress will be deducted the remaining amount of unreasonable expenditure as the evaluation value after verification of accounts. Otherwise, the price index method is used to determine the construction and installation cost on the valuation benchmark date.

The assets evaluated using such evaluation method include: all civil engineering under construction; all mining engineering under construction; items 24-398, 401, and 402 of equipment installation engineering.

4) Appraisal of the amortized investment under construction

① Appraisal of the upfront and other expenses of each project under construction (excluding the management fee and capital costs of the construction unit)

For the upfront and other expenses incurred by each normal project under construction, if the payment incurred by verification is necessary for the construction project or has actual value to the future owner, the carrying amount after verification is used as assessed value after confirming that there is no repeated valuation with the related asset project.

② Appraisal of the replacement costs of coal capacity

Since the production capacity index has a relatively open trading market, the market method is used for this evaluation. The amount of Assessed value calculated using market method less the outstanding capacity replacement amount.

As of the Valuation benchmark date, the appraised entity still needs to make the capacity replacement payments of RMB990,000.00 and RMB3,900,000.00 to Hebei Environmental Energy Exchange Co., Ltd. and Shenyang Coal Co., Ltd. (瀋陽煤焦股份有限公司), respectively.

③ Appraisal of construction unit management fee and capital cost

According to the "Review Opinions on the Social Stability Risk Assessment of the Follow-up Project Phase I of Indirect Coal Liquefaction of Shaanxi Future Yulin" issued by the Office of the Leading Group for the Maintenance and Stability of the Yulin Municipal Committee of the Communist Party of China (Yu Wei Wen Ban Han [2018] No. 18), the total investment of the project amounts to RMB77,758,091,400, representing a new project. The indirect coal liquefaction and comprehensive utilization project phase II is the follow-up project of the indirect coal liquefaction phase I, and the Xihongdun Coal Mine is the supporting coal mine for the second phase of the indirect coal liquefaction and comprehensive utilization project. The total investment of the indirect coal liquefaction and comprehensive utilization project phase II and Xihongdun Coal Mine reaches RMB82.538 billion, representing a huge investment and is still in the early stage of the project. The appraisers verified the composition of the management fee of the construction unit, mainly including the salary, welfare, social security, travel expenses, accommodation and transportation expenses of the project personnel with no unreasonable expenditure found. The appraisal recognizes the verified carrying amount as the appraisal value.

With reference to the notice issued by the Ministry of Finance on the issuance of the "Provisions on the Construction Cost Management of Basic Construction Projects" (Cai Jian [2016] No. 504) and "Provisions on Other Expenses for Coal Construction (NB/T 51064-2016), the management fees of construction unit for other construction projects and capital costs of all projects under construction has been recalculated to determine its appraisal value, while considering the total project investment, project construction location, project construction content, reasonable project construction period, assessed value of construction in progress, bank loan interest rate, etc.

(7) Investment properties, intangible assets-land use rights

Pursuant to the "Urban Land Appraisal Regulations", the basic appraisal methods that can be used in land appraisal include capitalisation method, market comparison method, cost approach method, hypothetical development method and benchmark land price coefficient correction method.

1) Unsuitable evaluation methods

As the production land of industrial and mining enterprises, the evaluated subject is difficult to separate the income and expenses corresponding to the evaluated subject from the operating income of the entire enterprise, and cannot obtain objective land income. According to the basic principles of the capitalisation method, it cannot be used when objective income cannot be predicted;

The hypothetical development method is applicable to land evaluation with investment development or redevelopment potential. As the parcels to be assessed have all been developed, it is not appropriate to use the hypothetical development method for assessment.

The cost approach method represents a method to determine the price of the land based on the sum of various objective expenses incurred in the development of the land, plus a certain amount of profit, interest, taxes payable and land appreciation income. This evaluation fails to collect the technical report of the land survey and demarcation, and the land use status before the development of the evaluated subject is not available, so it is not appropriate to use the cost approach method for assessment.

The parcels $1^{\#}$-$2^{\#}$ to be evaluated are located outside the planned area of Jinjitan Town, Yuyang District, Yulin City, and are far from Jinjitan Town (the straight-line distance is 3 kilometers), therefore it is not appropriate to use the benchmark land price coefficient correction method for evaluation; the parcels $3^{\#}$-$7^{\#}$ are located outside the planning area of Qinhe Town, Yuyang District, Yulin City, and are far from Qinhe Town (the straight-line distance is 8 kilometers), therefore it is not appropriate to use the benchmark land price coefficient correction method for evaluation.

2) Appropriate evaluation methods

There are many recent transactions of similar land around the parcels to be assessed, and enough transaction cases can be collected in the same supply and demand circle, so it is appropriate to use the market comparison method for evaluation.

In view of this, the market comparison method is choosing for this evaluation.

Special note: considering that the local land authority has a precedent for returning the cost of the preliminary land acquisition cost after the legal procedures of the corresponding land have been completed, the land transfer fee has been paid and the land certificate has been handled, the carrying amounts of the preliminary and off-site land acquisition costs of the indirect coal liquefaction and comprehensive utilization project within the scope of the assessment and the preliminary land acquisition costs of Jinjitan Coal Mine have been retained for this evaluation.

(8) Intangible assets-mining rights

The discounted cash flow method is appropriate for evaluation of the mining rights of producing mines and the appraisers have collected the "Report on the Verification of Resources and Reserves of Jinjitan Coal Mine in Yushen Mining Area of Jurassic Coalfield in Northern Shaanxi Province" (the report set out the issuer as the Shaanxi Province 185 Coalfield Geology Co., Ltd. and issue date as August 2019), the verification opinion on the "Report on the Verification of Resources and Reserves of Jinjitan Coal Mine in Yushen Mining Area of Jurassic Coalfield in Northern Shaanxi Province" (Shaan Kuang Chan Zhi Chu Ping Fa [2020] No. 10), filing certification of the mineral resources and reserves review of the "Report on the Verification of Resources and Reserves of Jinjitan Coal Mine in Yushen Mining Area of Jurassic Coalfield in Northern Shaanxi Province" (Shaan Zi Ran Kuang Bao Bei [2020] No. 24); "Jinjitan Coal Mine Mineral Resources Development and Utilization Plan in Yuyang District of Shaanxi Future Energy & Chemicals Co., Ltd. (Changed)", letter of review opinion in respect of the "Jinjitan Coal Mine Mineral Resources Development and Utilization Plan in Yuyang District of Shaanxi Future Energy & Chemicals Co., Ltd. (Changed)" (Shaan Kuang Chan Ping Li Yong Han [2002] No. 8) of the Shaanxi Provincial Mineral Resources Survey and Evaluation Guidance Center and examination opinion. Materials related to development and utilization plan design are complete, and various mining and selection indicators are relatively stable. In combination with the purpose of this evaluation, as the mining right entrusted to evaluate is of a certain scale, has independent profitability in the future that can be measured, and its future profits and risks can be measured in currency, the appraisers believe that the degree of geological research for this mining right is relatively high, the information is complete and reliable, and the professional report and relevant information can meet the requirements of the discounted cashflows method for assessment. According to the relevant provisions of the "Mining Rights Evaluation Management Measures (Trial)" and the "China Mining Rights Evaluation Guidelines", it is determined that the project evaluation method adopts the discounted cashflows method, and the calculation formula is:

$$P = \sum_{t=1}^{n} (CI - CO)_t \cdot \frac{1}{(1+i)^t}$$

In which: P: Assessed value of mining rights

CI: Annual cash inflow

CO: Annual cash outflow

i: Discount rate

t: year No. (t=1, 2, 3, ···, n)

n: calculated years

(9) Intangible assets-other intangible assets

1) Patent rights and the right to use purchased patented technology

We can make reasonable predictions for the proprietary technologies and patent rights that are normally used in the production of the enterprise included in the scope of this assessment, due to the economic life of the patent and proprietary technology entrusted to evaluate and the expected income level, therefore, this valuation uses the income method to evaluate the above patents on the basis of income of the products corresponding to the patents and proprietary technologies.

The technical idea of the income method is to predict the future income of the enterprise by using the above patent rights and patented technologies, analyze its contribution to income, determine the appropriate share rate, calculate its future income status, and analyze the future earnings years of the patent right and the patented technologies, and then discount it with an appropriate discount rate to calculate the Appraisal value. The basic calculation formula is as follows:

$$P=\sum_{t=1}^{n}\frac{kRt}{(1+i)^t}$$

In which: P: Assessed value of patent rights and patent licenses

Rt: Expected income in year t

t: Calculated year

k: Share rate of patent rights and patent licenses in revenue

i: Discount rate

n: Economic yield period

2) Trademark rights

The trademarks included in the scope of this evaluation are used in the sales of the appraised entity. As the registration cost of trademarks is low and cannot reflect the true market value of well-known trademarks, it is not appropriate to use the cost method to evaluate trademarks; meanwhile, since it is not easy to obtain a sufficient amount of reference assets and comparable information due to market trading conditions, it is also not appropriate to use the current market price method for evaluation. However, through the analysis of the enterprises that are currently using the trademarks entrusted to evaluate and use of products, the economic life and the expected income level of the trademarks entrusted to evaluate, reasonable predictions can be made. Therefore, this evaluation adopts the income sharing method. The specific methods are:

$$P=\sum_{t=1}^{n}\frac{kRt}{(1+i)^t}$$

In which: P: Assessed value of trademark rights

Rt: Expected income in year t

t: Calculated year

k: Share rate of trademark rights asset in revenue

i: Discount rate

n: Economic yield period

3) Coal production capacity replacement index

Since the production capacity index has a relatively open market, the market method is adopted for this evaluation.

(10) Long-term deferred expenses: compensation for demolition and resettlement of residents and herders within the sanitary protection distance outside the factory for indirect coal liquefaction and comprehensive utilization project. The appraisers checked relevant relocation agreement, documents and payment vouchers. The compensation fee for the demolition and resettlement of the enterprise was evenly apportioned for 10 years. After the appraisers verified that the amount incurred and the original amortization value were correct, the carrying amount of assessed value would be confirmed.

(11) Deferred income tax assets

After checking books and original vouchers, the assets and rights that the appraised entity still enjoys after the valuation benchmark date is used as the appraisal value.

It has been verified that the accounting content of this subject is composed of 4 items, the reason for which is that other non-current assets are provided for bad debts, inventory is provided for depreciation, and provisions have been made for restoration and land reclamation fund of the mine geological environment and differences between the accounting policy for the wages of internal retired personnel and the tax deduction policy. This evaluation has reconfirmed the risk loss provision for other non-current assets, the depreciation provision for inventories, the provisions for restoration and land reclamation fund of the mine geological environment and differences between the accounting policy for the wages of internal retired personnel and the tax deduction policy. Assessed value is determined through calculating the amount that can be deducted for the temporary difference.

(12) Other non-current assets

The appraisers have firstly checked the general ledger, subsidiary ledgers, accounting statements and inventory assessment schedule. On the date of on-site verification by the appraisers, the other non-current assets have not yet been delivered. The appraisers conducted aging analysis procedures through checking the original vouchers, inquiring about the operating status and credit status of debtors.

On basis of an inerrable verification of the abovementioned other non-current assets, by means of historical data as well as on-site investigation and understanding of the situation, the appraisers will conduct a concrete analysis of the amount of sums, arrears of time and causes in connection thereof, amount recovery status, as well as the funds, creditability and operation and management status of the debtors, etc. With analysing business contents on a case-by-case basis, the appraisers, with reference to the method of calculating bad debt reserves of the enterprise, would use the individual identification method to estimate the risk of loss, and fully recognise risk of loss for the geological survey payment incurred by Shaanxi 185 Coalfield Geology Co., Ltd. and the coal slurry feed pump payment of Shandong Haisheng Energy Chemical Import and Export Co., Ltd. (山東海升能源化工進出口有限公司).

II) Income Approach

The cashflow discounting approach of the income approach is adopted this time. The cashflows measured are free cashflows. The value of total shareholders' equity is obtained indirectly from an estimation of overall value of the business.

Net free cashflows over certain years in the future are discounted at an appropriate discount rate and summarized to arrive at the overall value of operating assets of the business, which, plus surplus assets and non-operating assets and minus interest-bearing debts, produces the value of total shareholders' equity.

1. Evaluation model: This evaluation uses the discounted cashflows method, applying the free cashflows of the enterprise as a quantitative indicator of the expected income of the enterprise, and using the matching weighted average cost of capital model (WACC) to calculate the discount rate.

2. *Calculation formula*

E = V – D Formula 1

$V = P + C_1 + C_2 + E'$ Formula 2

Of which:

E: Value of total shareholders' equity;

V : Corporate value;

D: Assessed value of interest-bearing debt;

P : Assessed value of operating assets;

C_1: Assessed value of surplus assets;

C_2: Assessed value of non-operating assets;

E': Appraisal value of long-term equity investment.

P, assessed value of operating assets, in Formula 2 is obtained by the following formula:

$$P = \sum_{t=1}^{n}\left[R_t \times (1 + r)^{-t}\right] + \frac{R_{n+1}}{(r - g)} \times (1 + r)^{-n}$$

Formula 3

The first part is the value over the explicit forecast horizon, and the latter part is the value over the infinite horizon (final value)

In Formula 3:

R_t: Make clear the free cash flow of enterprises in the T phase of the forecast period

t: Number of installments over the explicit forecast horizon: 1, 2, 3, ···, n;

r: Discount rate;

R_{n+1}: Free cashflows over the infinite horizon;

g: Growth rate over the infinite horizon, g = 0 for the purpose of the appraisal;

n: The last year of the explicit forecast horizon.

3. Determination of the profit period

For the purpose of appraisal of business value, the profit period is the length of time during which the business is expected to make profit. To predict future profit of the business appropriately, the profit period is divided into finite and infinite periods depending on the nature of business and relevant laws and regulations, treaties and contracts.

4. Determination of expected revenue

For this evaluation, the enterprise's free cashflows is used as a quantitative indicator of its expected earnings.

The free cashflows of an enterprise is the total cashflows after paying operating expenses and income tax and before paying cash to its rights claimants. The calculation formula is:

Free cashflows of the enterprise = net profit after tax + depreciation and amortization + interest expense × (1 – tax rate T) – capital expenditure – changes in working capital

5. Determination of discount rate

Discount rate can be determined by various approaches and ways. For the sake of consistency between the measurement of profit and discount rate, free cashflows are used to measure profit and discount rate is determined by Weighted Average Cost of Capital (WACC).

6. Determination of the value of interest-bearing debts

Interest-bearing debts include long-term and short-term loans of enterprises, determined according to their market value.

7. Determination of the value of surplus assets and non-operating assets

Surplus assets are excess assets that are not directly related to profit and are more than necessary in everyday activities, usually being excess monetary assets and financial assets held for trading. Non-operating assets refer to those assets that are not directly related to business activities and not included in the scope of this earnings forecast. Such assets are evaluated separately.

VIII. APPRAISAL PROCESS AND FINDINGS

Pan-China Assets Appraisal Co., Ltd. validated and reviewed the legal documents, accounting records and other relevant materials provided by the client, validated the property titles, inspected relevant assets on site and checked against the inventory of assets provided by the appraised entity, carried out necessary market research and transaction price comparisons, as well as financial analysis and forecast, among other necessary asset appraisal procedures, in accordance with asset appraisal standards, generally accepted accounting principles, relevant laws, regulations and requirements of the authorities, and by following the matters specified in the asset appraisal engagement contract concluded with the client. The asset appraisal process is detailed as follows:

1. Acceptance of engagement and preparations

(1) Pan-China Assets Appraisal Co., Ltd accepted the entrustment of the client in June 2020 and engaged in this asset appraisal project. Upon taking the job, Pan-China Assets Appraisal Co., Ltd. held talks with the client over the purpose, subject and scope, valuation benchmark date of the appraisal, the nature of the assets to be assessed and other matters that are of significance to the asset appraisal proposal.

(2) An asset declaration breakdown form was tailored to the assets to be assessed. Main assets investigation form and profit and loss investigation form of main activities were designed. Some staff members of the client supporting the appraisal received training. An asset inventory and all investigation forms were completed.

(3) Design of the appraisal proposal

Depending on the nature of the assets to be assessed, the appraisal implementation plan was finalized, the appraisers were appointed and an on-site task force was put together.

(4) Preparation of appraisal documents

Traded prices of the assessed subjects, market prices of major raw materials, and property title proofs of the assessed subjects were gathered and collated.

The working period of this stage is from 30 June to 1 July 2020.

2. On-site inventory phase

(1) Truthfulness and legitimacy of the assessed subjects

The appraisers checked physical assets and monetary claims and debts against the statements of assets and liabilities provided by the client and the appraised entity in different ways to confirm truthfulness and accuracy of the assets and liabilities.

For monetary funds, we conduct investigations by consulting journals, reviewing bank statements and statements of bank reconciliation.

For claims and debts, the appraisers checked general ledgers and subsidiary ledgers, and randomly checked contracts and vouchers, to confirm truthfulness of the assets and liabilities.

For inventories, the appraisers checked entry, exit and custody accounting system and regular inventory system, grasped the inventory turnover situation, and randomly checked raw materials and finished products.

For fixed assets, focused and general investigations were combined, with focus on buildings and structures, and important equipment. The appraisers consulted relevant engineering design and construction documents, contractor contracts, settlement documents, and equipment purchase contracts and invoices, to determine truthfulness of the assets.

For shaft and roadway engineering, the appraisers checked the asset name and book value item by item against the fixed asset ledger according to the inventory evaluation list and the survey form related to the shaft and roadway engineering provided by the enterprise; then checked the technical characteristics and project quantity according to the unit engineering construction drawing and the excavation engineering plan, and made modification and supplement to the inconsistent charts to ensure that the accounts were consistent with the actual accounts and the account diagrams. The appraisal professionals did not conduct a comprehensive on-site survey of such shaft and roadway engineering. The assessment professionals had done their best to understand the appearance of the engineering and the current status and maintenance of the underground roadway engineering, and implemented relevant alternative procedures for consulting related materials, drawings, and partial settlement materials.

For projects under construction, the appraisers reviewed the content of the contract, and understood the actual progress and the payment of equipment through conversations with relevant personnel of the enterprise, and analyzed the composition and rationality of the book value. Through on-site investigations on the availability and installation of the equipment, the appraisers verified whether it was implemented in accordance with the terms of the contract.

For intangible assets-land use rights, the appraisers checked the State-owned Land Use Certificate, the acquisition and use of land, checked financial materials including payment vouchers, related contracts, and checked subsidiary ledgers, to confirm their authenticity.

For intangible assets-mining rights, the appraisers reviewed the Mining Rights License, the acquisition and use of mining rights, checked financial materials including payment vouchers, related contracts, related "Reserve Verification Report", and checked subsidiary ledgers, to confirm their authenticity.

For other intangible assets, the appraisers collected and verified information related to the appraisal, verified the ownership of patent rights and trademarks, and purchases of production capacity replacement indicators.

For long-term deferred expenses, the appraisers checked relevant accounting documents and account books to verify the authenticity of the business.

For deferred income tax assets, the appraisers investigated and understood the reasons and formation process of the differences, checked the final settlement of corporate income tax, checked corporate tax returns, to determine the authenticity of the deferred income tax assets and the correctness of provisions.

(2) Investigation of actual state of the assets

On-site investigation for buildings: with the cooperation of the financial management personnel of the appraised entity and related fixed asset management personnel, the appraisers conducted on-site investigation of the assessed buildings and structures one by one, and checked the names and locations, structural form, gross floor area and related parameters of the buildings and structures according to the declaration form and filled in the missing items and omissions in the asset declaration form according to the current asset status on the valuation benchmark date to achieve that accounts are consistent without omission and repeat. During the investigation, the appearance, number of floors, height, span, interior and exterior decoration, indoor facilities, current status of various components, basic conditions and maintenance and use of buildings and structures were also observed, and detailed observation records were made.

On-site survey for shaft and roadway engineering: According to the inventory evaluation list filled by the enterprise, the appraisers and professional and technical personnel from the enterprise conducted on-site surveys of the underground tunnel engineering: checked the asset name and carrying amount item by item against the fixed asset ledger based on the inspection evaluation list and the tunnel survey form provided by the enterprise; checked the technical characteristics, specifications, models, engineering quantities, etc. according to the unit engineering construction drawings and the mining engineering plan, and made modifications and supplements to the inconsistency in the charts to ensure that the accounts are consistent with the facts and the accounts are consistent with the diagrams. During the on-site investigation, the appraisers conducted a detailed understanding of the production and technical personnel of the enterprise and learned about the later maintenance of the underground roadway.

Focused and general investigations were combined to find out the state of the equipment, with focus on production machinery. Supported by the persons in charge of the equipment at the appraised entity, the appraisers reviewed the operation records of the equipment and checked the running status of the equipment on site. On the basis of investigation, key equipment investigation forms were completed.

For land use rights, the appraisers conducted on-site surveys, explored the four peripheries and surrounding environment, landscapes, facilities and geographical locations of each land use right, and got detailed understanding of and conducted on-site surveys on general factors, regional factors and individual factors that affect land price, and completed the land use right status survey form.

(3) Investigation of value composition of physical assets and business development

The value composition of the assets was checked for appropriateness and compliance depending on the nature of the assets of the appraised entity. In particular, the truthfulness, accuracy, completeness and compliance of the carrying amount of fixed assets was examined. Relevant accounting vouchers, accounting books, final accounts, construction contracts and equipment purchase contracts were reviewed.

(4) Investigation of revenue and costs

To make preparations for future cashflow forecasts, profit/loss accounting data of relevant entities in prior years were collected for estimation and analysis; actual business performance, the composition of their revenue, costs and expenses and future trends of the entities and business units were found out by interviews and other means.

By collecting relevant information, this paper analyzes and forecasts the market environment, future competition and development trend of various businesses of Shaanxi Future Energy & Chemicals Co., Ltd.

The working period of this stage is from 2 July to 14 August 2020.

3. Choice of appraisal approach, gathering of market intelligence and the process of estimation

The appraisers determined appraisal parameters and prices based on the work plan mapped out for the project in particular and the pricing principles and valuation models identified as appropriate in light of the actual situation, and then started appraising and estimating by reference to the historical data and future forecasts provided by the client.

4. Summary of appraisal findings

(1) Determination of appraisal results

According to the situation of the assessment site survey conducted by the appraisers of Pan-China Assets Appraisal Co., Ltd. and the necessary market survey and calculation, the results of the asset-based approach and the income approach entrusted with the assessment of assets are determined.

(2) Analysis of appraisal results and preparation of the valuation report

The asset valuation report was drafted in compliance with the requirements of Pan-China Assets Appraisal Co., Ltd.. The appraisal results and the relevant asset valuation report went through three-level reviews by Pan-China Assets Appraisal Co., Ltd. and were confirmed to be error-free by the signatory asset appraiser. Then the project team finalized and delivered the report.

(3) Archiving of original documents

The working period of the abovementioned phases 3 and 4 is from 15 August to 6 September 2020.

IX. ASSUMPTIONS IN THE APPRAISAL

(i) General assumptions:

1. Trade assumption: All assets to be appraised were assumed to be in the course of trading. The appraisers valued the assets according to simulated trade terms.

2. Open market assumption: Open market assumption is an assumption about the conditions of the market the assets are assumed to enter and about the degree of impact the assets are exposed to under such market conditions. An open market is defined as full-fledged and developed market conditions, a competitive market with willing buyers and sellers. In this market, buyers and sellers are on equal footing, have the opportunity and time to get sufficient market information, and are able to trade in a voluntary and sensible manner, free from any compulsory or restrictive conditions.

3. Continuous use assumption: The continuous use assumption is an assumption about the conditions of the market the assets are assumed to enter and about the state of the assets under such market conditions. First of all, the assets being appraised are in use. Secondly, hypothetically the assets in use will continue to be used. Under the continuous use assumption, the possibility of repurposing of the assets or optimal conditions of use are disregarded. Hence, the appraisal results are of limited usability.

4. Going concern assumption: The entire assets are taken as the subject of appraisal. As a business entity, the company will continue as a going concern in the external environment. The management is responsible and has the ability to take responsibilities; the business is legal and profitable, and thus sustainable.

(ii) Assumptions in the income approach:

1. No material changes will happen to the relevant laws, regulations and policies currently in force and the macroeconomic condition of the country; no material changes will happen to the political, economic and social environment in the regions where the parties are located; there will be no material adverse impact arising from other unforeseeable and force majeure factors.

2. The management of the enterprise is responsible and has the ability to perform its duties.

3. The enterprise is assumed to comply with all applicable laws and regulations unless otherwise specified.

4. The accounting policies the enterprise will adopt in the future are assumed to be, in all material aspects, consistent with the accounting policies adopted when the report was being prepared.

5. The conduct of business and the scope of activities of the enterprise are assumed to be consistent with the present management style and level.

6. No material changes will happen to interest rates, exchange rates, tax bases and rates and policy duties and levies.

7. No other man-made or force majeure factors or unforeseeable factors will have material adverse impact on the business of the enterprise.

8. The annual cashflows for the forecast year are assumed to be uniform inflow and outflow.

9. It is assumed that the business content and manner of the enterprise during the forecast year basically maintains the current model as at the valuation benchmark date without material changes.

10. It is assumed that the enterprise can maintain a continuous cooperative relationship with existing customers after the valuation benchmark date.

11. According to the "Announcement of the State Administration of Taxation on Issues Concerning Corporate Income Tax in the Deep Implementation of the Western Development Strategy", as of December 31, 2020, the enterprise can enjoy the preferential policy of 15% reduction in income tax for the Western Development Strategy. The enterprise is a safe and efficient coal mine with an annual output of 15 million tons. This appraisal assumes that the enterprise can continue to enjoy its preferential policies after the current preferential policies for western development expires, the preferential period ends on 31 December 2030 according to the "Announcement of the Ministry of Finance and the State Administration of Taxation and the National Development and Reform Commission on Continuing the Corporate Income Tax Policy for the Western Development".

12. Assuming that the Jinjitan Coal Mine can successfully obtain the mining qualification for the remaining coal resources after the current mining period expires, the indirect coal liquefaction and comprehensive utilization project branch will still purchase its coal at the cost price of Jinjitan branch in the future.

This appraisal result is based on the above assumptions. Where the above assumptions are not established, it will have a significant impact on the valuation results, and the valuation results will generally be invalid.

X. APPRAISAL CONCLUSION

(I) Appraisal Conclusion with Asset-based Approach

Under the assumption of continuing operations on the valuation benchmark date, the book value of total assets of Shaanxi Future Energy & Chemicals Co., Ltd. is RMB20,681,365,500, the book value of liabilities is RMB8,582,316,800, and the book value of net assets is RMB12,099,048,700.

According to the asset-based approach, the total assets after appraisal by the are RMB32,519,350,100, liabilities are RMB8,582,316,800, net assets are RMB23,937,033,300, representing an increase of RMB11,837,984,600, with a value-added rate of 97.84%.

Summary sheet of assessment results by asset-based approach

Unit: RMB0'000

Item	Carrying amount	Estimated value	Increase or decease	Value-added rate%
Current assets	303,135.20	306,384.89	3,249.69	1.07
Non-current assets	1,765,001.35	2,945,550.11	1,180,548.76	66.89
Of which: Long-term equity investments	6,530.00	8,361.34	1,831.34	28.05
Investment properties	2,253.02	2,658.39	405.37	17.99
Fixed assets	1,299,004.14	1,282,461.29	–16,542.85	–1.27
Construction in Progress	104,857.87	93,825.64	–11,032.23	–10.52
Intangible assets	265,805.74	1,471,658.46	1,205,852.72	453.66
Land use rights	41,975.92	47,869.54	5,893.62	14.04
Others	86,550.58	86,584.99	34.41	0.04
Total assets	**2,068,136.55**	**3,251,935.01**	**1,183,798.46**	**57.24**
Current liabilities	342,774.99	342,774.99	–	–
Non-current liabilities	515,456.69	515,456.69	–	–
Total liabilities	**858,231.68**	**858,231.68**	**–**	**–**
Net assets	**1,209,904.87**	**2,393,703.33**	**1,183,798.46**	**97.84**

(II) Appraisal Results of Income Approach

According to the income approach, the total value of shareholders' equity of Shaanxi Future Energy & Chemicals Co., Ltd. is RMB22,256,136,200, representing an increase of RMB10,157,087,500, with a value-added rate of 83.95%.

(III) Final Determination of Appraisal Conclusion

Comparing the two assessment results of the asset-based approach and the income approach, this appraisal considers the selection of the asset-based approach as the final result, mainly based on the following considerations:

The income approach is greatly affected by the future profitability, asset quality, operating capabilities, and operating risks of the enterprise. As the business scope of the appraised entity includes indirect coal liquefaction and comprehensive utilization project and coal mining, the enterprise is greatly affected by fluctuation of the oil and coal prices in the international and domestic the market, therefore the income is uncertain. The indirect coal liquefaction and comprehensive utilization project itself is a demonstration project and the reaching of capacity and effectiveness is slow. The appraised entity is a traditional coal and chemicals enterprise. As competition in the industry is increasingly intense in recent years and environmental requirements are increasing, which combined with the future development trend of coal and chemical fine processing, cause uncertainty in the enterprise's future profitability. Since the appraised entity is an enterprise with heavy investment and the investment in production facilities accounts for a large proportion of its total assets, and also taking into account of the purpose of this evaluation, the asset-based approach can reflect the fair market value of assets from the perspective of asset replacement. The appraised entity also provided detailed information about its assets and liabilities, and the appraisers also collected external data deemed necessary to the asset-based approach. We conducted a full inspection and appraisal of its assets and liabilities. Therefore, the appraisal conclusion came up with using the asset-based approach is comparatively more reliable. Therefore, the asset-based approach was adopted. That is: on the premise of continuing operations on the valuation benchmark date, being 30 June 2020, the appraised total value of shareholders' equity of Shaanxi Future Energy & Chemicals Co., Ltd. was RMB 23,937,033,300, representing an increase of RMB 11,837,984,600, with a value-added rate of 97.84%.

XI. SPECIAL NOTES

The appraiser of the Company is incapable of evaluating and estimating the following items on their own. Notwithstanding the above, this may affect the conclusion. For this reason, it is essential for the user of the valuation report to pay particular attention to this.

(I) The "appraisal value" in this report refers to our fair valuation opinions for the purposes listed in this report on the premise that the current use of the appraised assets remains unchanged and continues to operate, as well as on the basis of the status of the valuation benchmark date and the external economic environment, without being responsible for other uses.

(II) The appraisal conclusion in the report reflects the market value determined by the appraised entity according to the principle of open market under the purpose of this appraisal, without considering the relevant expenses and taxes to be borne by the assets in the process of property registration or ownership change, and without making any tax adjustment preparation for the value added of the assets appraisal. The appraisal conclusion is not to be deemed a guarantee for the realizable price of the appraised object.

(III) The appraisal has not taken into account of any premium or discount arising from factors such as controlling shareholding and minority interests, and the effect of liquidity of the appraised equity interest on the appraisal conclusion is also not considered.

(IV) In case of changes in the amount of assets and pricing standards within the term of appraisal conclusion, moderate adjustments shall be made, instead of the direct use thereof.

(V) Circumstances where the report conclusions issued by other institutions are cited:

1. The financial data source of 2017 to June 2020 have been audited by Zhongxingcai Guanghua Certified Public Accountants LLP which has issued an unqualified audit report (Zhongxingcai Guanghua Shen Kuai Zi (2020) No. 316050).

2. The "Research Report on Stable Light Hydrocarbon, Liquid Wax, and LPG Industry" issued by Jinlianchuang Network Technology Co., Ltd.（金聯創網路科技有限公司）in August 2020.

(VI) The ownership information is incomplete or defective:

1. On 9 June 2020, the People's Court of Yuyang District, Yulin City, Shaanxi Province issued a civil judgment (2020) Shaan 0802 Min Chu No. 2267), that the cooperation agreement signed by the People's Government of Yuyang District of Yulin City and the appraised entity on 28 April 2011 is valid and Yulin Yuyang State-owned Assets Operation Co., Ltd. is the legal

shareholder of the appraised entity. Within 20 days after the judgment became effective, the appraised entity assisted in registration of the possession of 1.37% equity interest of the appraised entity by Yulin Yuyang State-owned Assets Operation Co., Ltd. On 24 July 2020, Yulin Yuyang State-owned Assets Operation Co., Ltd. was registered as a shareholder holding 1.37% of the appraised entity. The shareholding structure of the enterprise after the change is as follows:

Unit: RMB0'000

No.	Name of shareholder	Contributed amount	Percentage of shareholding	Paid-up capital	Percentage of paid-up capital
1	Yankuang Group Company Limited	266,301.00	49.3150%	266,301.00	49.3150%
2	Yanzhou Coal Mining Company Limited	133,150.50	24.6575%	133,150.50	24.6575%
3	Shaanxi Yanchang Petroleum (Group) Co., Ltd.	105,070.50	19.4575%	105,070.50	19.4575%
4	Jiaxing Dejian Investment Partnership L.P.	28,080.00	5.2000%	28,080.00	5.2000%
5	Yulin Yuyang State-owned Assets Operation Co., Ltd.	7,398.00	1.3700%	7,398.00	1.3700%
Total		540,000.00	100.00%	540,000.00	100.00%

2. In this appraisal, the asset appraiser did not carry out technical tests on the technical parameters and performance of various equipment on the benchmark date. The asset appraiser made a judgment through on-site investigation on the premise that the relevant technical data and operation records provided by the evaluated unit are true and effective.

3. In this appraisal, the asset appraiser did not carry out technical inspection on the concealed works and internal structures of various buildings (structures) which are not visible to the naked eye. The appraisal conclusion of the houses and structures was based on the assumption that the relevant engineering data provided by the evaluated unit are true and effective and without any inspection instruments.

4. Due to the particularity and safety of coal mine production and the complexity of underground structures, for underground structures, the asset appraiser mainly relied on the engineering drawings, engineering design, and engineering construction contracts provided by the enterprise to conduct sampling inspection on some underground buildings after reviewing the

engineering quantities of the structures reported by the enterprise. The asset appraiser failed to verify the engineering quantities of underground structures one by one.

5. As of the valuation benchmark date, the appraised entity was involved in two lawsuits, as follows:

(1) In September 2011, Shaanxi Future Energy & Chemicals Co., Ltd. (Party A) and Yulin Water Group Yuheng Industrial Park Water Supply Co., Ltd.（榆林市水務集團榆橫工業園區供水有限公司）(Party B) signed the Water Supply Agreement on Yuheng Industrial Park (North District) Yuheng Coal Clean and Comprehensive Utilization Demonstration Project (hereinafter referred to as the "Water Supply Agreement"), stipulating that Party A shall pay water fee of RMB55 million to Party B in advance, and the water fee and interest generated thereof will be deducted from Party A's production water fee until the full amount is deducted, and water consumed by Party A shall be not less than 6.5 million tons per year, if it is less than 6.5 million tons, Party B will charge on 6.5 million tons of water.

After entering into the Water Supply Agreement, Party A paid water fees with a total amount of RMB40 million, which was deducted fully based on its actual water tax in July 2016. By the end of 2018, Party A's water consumption from 2016 to 2018 had not reached the annual guaranteed minimum amount of 6.5 million tons under the Water Supply Agreement, with a total insufficient water consumption of 39,680,570,000 tons. After deducting the interest of RMB 5,497,355.88 generated by the prepaid RMB40 million, which was calculated as water supply volume of 1,145,283 tons at RMB4.8 per ton, and Party A had outstanding water fee of RMB 31,178,660.44 for water consumption lower than the guaranteed water consumption.

In April 2019, Party B filed a lawsuit against Party A, requesting confirmation that the Water Supply Agreement signed by the two parties was valid; requesting Party A to pay the outstanding water fee of RMB31,178,660.44 for the water consumption lower than the guaranteed minimum consumption.

In March 2020, the Intermediate People's Court of Yulin City, Shaanxi Province issued a judgment in this regard and issue the Civil Judgment (2019) Shaan 08 Min Chu No. 107, stating that the Water Supply Agreement signed by both parties was valid, and Party A should pay the outstanding water fee of RMB31,178,660.44 for the water consumption lower than the guaranteed minimum consumption.

In April 2020, Party A filed an appeal, requesting the cancellation of the Civil Judgment (2019) Shaan 08 Min Chu No. 107, and requesting Party B to bear all litigation costs. As of the valuation benchmark date, no hearings have been held.

As of the valuation benchmark date, the enterprise had to pay the water fee RMB46,490,400.61 to Yulin Water Affairs Group Yuheng Industrial Park Water Supply Co., Ltd. As of the date of issuance of the report, there has been no substantial progress in the aforementioned litigation matters. The appraisal was presented based on the book value after the audit, reminding the user of the report to pay attention to the impact of the matter on the appraisal conclusion.

(2) In February 2012, Shaanxi Future Energy & Chemicals Co., Ltd. (Party A) and Shandong Haisheng Energy & Chemicals Import and Export Co., Ltd.（山東海升能源化工進出口有限公司）(Party B) signed an import agency contract for importing 16 sets of coal slurry feed diaphragm pumps and trading 8 sets of coal mill discharge tank diaphragm pumps with a total contract price of €10.8 million. After signing the contract, Party A paid RMB 119,662,908 for goods and other expenses. According to the settlement, Party A paid Party B an additional RMB 8,071,573. On 8 March 2016, Party B also confirmed in the Enterprise Inquiry Letter, Party B refused to refund after repeated reminders by Party A.

In September 2016, Party A filed a lawsuit with the People's Court of Yuyang District, requesting an order for Party B to refund the additional payment of RMB 8,071,573 and the corresponding interest.

In November 2016, the People's Court of Yuyang District issued a judgment of first instance, ruling that Party B should refund amount of RMB8.07 million to Party B. After the judgment took effect, Party B failed to perform the repayment obligations in accordance with the judgment.

In May 2017, Party A applied to the People's Court of Yuyang District for enforcement. The People's Court of Yuyang District has frozen 6 bank accounts of Party B and equity of RMB4 million in Zaozhuang Luhua Private Enterprise Financing Guarantee Co., Ltd.（棗莊魯化民營企業融資擔保有限公司）as external investment.

In January 2020, the People's Court of Yuyang District transferred the case to the Public Security Branch of Yuyang District for handling.

The above payment is reflected in other non-current assets item. As of the valuation benchmark date, the book balance is RMB8,071,573.00, the impairment provision is RMB8,071,573.00, and the book value is RMB nil. As of the date of issuance of the report, there has been no substantial progress in the aforementioned litigation matters. After communicating with the relevant personnel of the enterprise, the appraisal is presented according to the book value after the audit. The users of the report are reminded to pay attention to the impact of the matter on the appraisal conclusion.

6. In June 2019, Shaanxi Future Energy & Chemicals Co., Ltd. (Party A) and China CITIC Bank Co., Ltd. Yulin Branch (Party B) signed the "Contract Regarding Maximum Bill Pledge for Bill Pool Pledge Financing Business" (No.: 2019 Xin Yin Xi Yu Piao Zui Zhi Zi No. 003), to provide Party A with the maximum bill pledge guarantee. The guarantee period is from 26 June 2019 to 26 June 2020. In January 2020, Party A and Party B signed the "Bank Acceptance Draft Acceptance Agreement", applying for 6 bank acceptance drafts, with a total amount of RMB5,894,386.40 and a term from the date of issuance 23 January 2020 to the expiration date 23 July 2020; in this regard, Party A pledged 6 notes receivable with a total amount of RMB6 million.

   Regarding the validity period of the above-mentioned maximum bill pledge contract earlier than the expiry date of the bills, the enterprise issued a statement that after the maximum bill pledge contract expired, if Party B did not request to renew the "Contract Regarding Maximum Bill Pledge for Bill Pool Pledge Financing Business" and the "Bank Acceptance Draft Acceptance Agreement" expired on 23 July 2020 and the bank acceptance was discharged, the bank did not affirm violation of the business. As of the date of issuance of the report, this business has been accepted and the pledge has been released. This appraisal did not consider the impact of this matter on the assessment conclusion, and users of the report were remined to pay attention.

7. In July 2018, Shaanxi Future Energy & Chemicals Co., Ltd. signed an RMB-funded Loan Guarantee Contract with China Development Bank, to provide joint liability guarantee to the loan 4% amount signed between Shaanxi Jingshen Railway Co., Ltd.（陝西靖神鐵路有限責任公司）and China Development Bank (loan contract number: 6110201801100000995). This appraisal did not consider the impact of this matter on the assessment conclusion, and users of the report were remined to pay attention.

8. In May 2016, the appraised entity signed the Syndicated Loan Mortgage Contract with China Development Bank with collateral of mining rights of Jinjitan Coal Mine (Certificate Number: C6100002015061110138703), to provide guarantee to the RMB-funded Syndicated Loan Contract signed between the appraised entity and the China Development Bank. (No. 6110201601100000775). The name of the mortgaged mining right mine is: Jinjitan Coal Mine in Yuyang District of Shaanxi Future Energy & Chemicals Co., Ltd.; mining right holder: Shaanxi Future Energy & Chemicals Co., Ltd.; mining area: 98.5203 square kilometers. This appraisal did not consider the impact of this matter on the assessment conclusion, and users of the report were reminded to pay attention.

9. Other non-current financial assets are the shareholdings held by Shaanxi Future Energy & Chemicals Co., Ltd. in Shaanxi Jingshen Railway Co., Ltd. and Yulin Yuyang District Coal Mine Drainage Environmental Treatment Co., Ltd. See the following table for details:

No.	Name of investee	Investment date	Shareholding ratio	Cost (RMB)	Carrying amount (RMB)
1	Shaanxi Jingshen Railway Co., Ltd.	2014/10/24	4%	216,000,000.00	216,000,000.00
2	Yulin Yuyang District Coal Mine Drainage Environmental Treatment Co., Ltd.	2019/9/3	15.48%	82,530,000.00	82,530,000.00
Total				298,530,000.00	298,530,000.00

Since Shaanxi Future Energy & Chemicals Co., Ltd. had no substantial control over the above two companies, the investee only provided its business license, articles of association and financial statements the appraisers were unable to assess the overall corporate value of these two companies.

As of the valuation benchmark date, other non-current financial assets of Shaanxi Future Energy & Chemicals Co., Ltd. -Shaanxi Jingshen Railway Co., Ltd. has different shareholder capital contributions. The specific capital contributions are as follows:

Unit: RMB

No.	Company name	Shareholding (%)	Contributed amount	Payments of and actual payment made by each shareholder as of the valuation benchmark date Payables	Actual payment	Unpaid amount
1	Shaanxi Jingshen Railway Co., Ltd.	57	3,534,000,000.00	3,078,000,000.00	3,021,072,393.52	56,927,606.48
2	Shaanxi Yulin Energy Group Coal Transportation and Marketing Co., Ltd. (陝西榆林能源集團煤炭運銷有限公司)	20	1,240,000,000.00	1,080,000,000.00	1,080,000,000.00	–
3	Jingbian County Xingjing Investment Co., Ltd. (靖邊縣興靖投資有限責任公司)	5	310,000,000.00	270,000,000.00	5,000,000.00	265,000,000.00
4	Shaanxi Yanchang Petroleum (Group) Co., Ltd. (陝西延長石油(集團)有限責任公司)	4	248,000,000.00	216,000,000.00	216,000,000.00	–
5	Hengshan County State-owned Assets Investment Operation Co., Ltd. (橫山縣國有資產投資運營有限責任公司)	4	248,000,000.00	216,000,000.00	1,000,000.00	215,000,000.00
6	China Coal Shaanxi Yulin Energy Chemical Co., Ltd. (中煤陝西榆林能源化工有限公司)	4	248,000,000.00	216,000,000.00	215,000,000.00	1,000,000.00
7	Shaanxi Future Energy & Chemicals Co., Ltd.	4	248,000,000.00	216,000,000.00	216,000,000.00	–
8	Shaanxi Shenmu Energy Group Co., Ltd. (陝西神木能源集團有限公司)	2	124,000,000.00	108,000,000.00	108,000,000.00	–
Total		100	6,200,000,000.00	5,400,000,000.00	4,862,072,393.52	537,927,606.48

After understanding with the personnel of the investee, the shareholders who have not made capital contribution, will receive dividends and other forms of benefit distribution during the period of non-capital contribution based on the contribution ratio. This time, the paid-in capital of the appraised entity and the operating income of the investee that should be allocated to the appraised entity during the operating period are used as assessed value of other non-current financial assets. The users of the report are reminded to pay attention to the impact of the matter on the appraisal conclusion.

10. Shaanxi Future Energy & Chemicals Co., Ltd. included a total of 234 buildings in the scope of this appraisal, with a gross floor area of 436,195.46 square meters. As of the valuation benchmark date, no real estate ownership certificate has been applied. In this regard, Shaanxi Future Energy & Chemicals Co., Ltd. has issued a letter of undertaking for the building ownership to certify that its property rights belong to the enterprise and there is no ownership dispute. For the details of unlicensed buildings, please refer to the Asset Evaluation Schedule.

    For buildings that have not yet applied for a real estate ownership certificate, the floor area is mainly provided by the appraised entity according to the facts, and the appraisers shall make verification the building based on the relevant drawings and construction contracts provided by the enterprise in conjunction with the on-site check. The appraisal is conducted on the premise that the ownership of the property rights is clear without disputes.

11. The structures included in the scope of this appraisal -as for the waste residue storage and disposal area, similar to the tailings yard of a mine, once the industrial waste is piled up, it can no longer be used and needs to be covered with greenery. According to the information provided by the enterprise, the designed storage capacity of the slag yard was 2,832,200 cubic meters. As of the valuation benchmark date, approximately 1,935,000 cubic meters of waste slag had been stored. The remaining storage capacity is used in this appraisal to determine its depreciation rate. The users of the report are reminded to pay attention to the impact of the matter on the appraisal conclusion.

12. Part of $1^{\#}$-$3^{\#}$ bachelor quarters on Jinjitan coal mine of Shaanxi Future Energy & Chemicals Co., Ltd. are the government-funded public rental housing. Pursuant to Yulin Yuyang District Housing and Urban-Rural Development Bureau (Party A) and Shaanxi Future Energy & Chemicals Co., Ltd. (Party B) signed the Agreement on Cooperative Construction of Public Rental Housing, the Supplemental Agreement on Cooperative Construction of Public Rental Housing, and the Agreement on Cooperative Construction of Public Rental Housing No. 3 on Jinjitan Coal Mine, the agreed matters are as follows: ① the construction locations of public rental housing: the southwest corner of Jinjitan Coal Mine Industrial Plaza; ② Party A and Party B will cooperate in the construction of public rental housing with shared property rights. Both parties shall determine their own equity shares according to the proportion of investment; any material change in the property rights of Party B shall be resolved through negotiation with Party A; the land for the project is provided by Party B, and the equity shares enjoyed by Party A do not include the land occupied by the project; ③

public rental housing is available for workers of Jinjitan Coal Mine and migrant workers who come to Jinjitan Coal Mine to live; ④ Party A entrusts Party B to be responsible for the enclosure, operation, use and management of public rental housing. Party B is responsible for the personal and property safety of employees during their stay.

According to the Supplemental Agreement on Cooperative Construction of Public Rental Housing, 1# bachelor quarter and 2# bachelor quarter enjoyed 41.425% of Yulin Yuyang District Housing and Urban-Rural Development Bureau, and 3# bachelor quarter had no agreement on the share of property rights, and the share for this appraisal is determined based on both parties' capital contribution. The share of property rights held by both parties in and the floor areas of 1#, 2# and 3# bachelor quarter are as follows:

No.	Building name	Completion date	Floor area (m^2)	Settlement value for the completion of the building (RMB)	Of which, investment amount of government (RMB)	Share of property rights held by government	Floor area of government-owned public rental housing (m^2)	Floor area of enterprise-owned public rental housing (m^2)
1	1# bachelor quarter	2014/07	10,281.44				4,259.09	6,022.35
2	2# bachelor quarter	2014/07	10,278.16				4,257.73	6,020.43
3	3# bachelor quarter	2017/12	10,288.03	24,086,902.00	10,860,000.00	45.087%	4,638.56	5,649.47
			30,847.63				13,155.38	17,692.25

Accordingly, for this appraisal, the floor area of 1#, 2# and 3# bachelor quarter is 6,022.35 square meters, 6,020.43 square meters, and 5,649.47 square meters, respectively, which are basically the same as the corresponding floor area of the book value of the enterprise. Remind users of the report to pay attention to the impact of this matter on the assessment conclusion. The users of the report are reminded to pay attention to the impact of the matter on the appraisal conclusion.

13. Indirect coal liquefaction and comprehensive utilization project of Shaanxi Future Energy & Chemicals Co., Ltd. has a total preliminary land area of 4,515,890.34 square meters (including 2,030,013.60 square meters for the main plant of indirect coal liquefaction and comprehensive utilization project, 150,666.67 square meters for Jinchang East Road, and 546,666.67 square meters for Huanchang West Road and South Road, 306,666.67 square meters of sewage treatment plant, 227,860.47 square meters of railway line, 584,682.92 square meters of slag yard, 669,333.33 square meters of slag yard Phase II), with a total land acquisition cost of RMB217,435,906.19, including relocation compensation, ground compensation fees, forest vegetation restoration fees, and farmland occupation tax, etc. From 2013 to 2015, 2,030,013.60 square meters (the main indirect coal liquefaction and comprehensive utilization project plant) of the abovementioned land

acquisition area had been successively applied for the State-owned Land Use Certificate through bidding, auction and listing. The land certificate numbers were: Yu Shi Guo Yong (2013) No. 44183, Yu Shi Guo Yong (2013) No. 44193, Yu Shi Guo Yong (2015) No. 49720, Yu Shi Guo Yong (2015) No. 49721, Yu Shi Guo Yong (2015) No. 49722. When the land transfer contract was signed after the land auction, the enterprises would pay the land transfer fee in full according to the land price set out in the land transfer contract. Due to the overlap between the initial land acquisition cost and the land transfer fee, as of the valuation benchmark date, the land department of Yuyang District, Yulin City had returned the initial land acquisition payment of RMB111,443,677.00 paid by the enterprise, in which RMB 30,128,777.00, RMB56,314,900.00 and RMB 25,000,000.00 was returned in December 2013, August 2016 and in October 2016, respectively; as of the date of issuance of the report, the enterprise received a refund of RMB26,998,100.00 in August 2020. As to whether there would be any refunds in the later period, as well as the amount and time of the refund remained uncertain. According to the arrangement of Yankuang Group Company Limited, legal land procedures would be processed successively for the land outside the enterprise. It was understood that after the abovementioned land had completed the legal procedures and processed the land use certificate, the enterprise would apply to the local land administration department for the refund of the previous land acquisition cost.

The indirect coal liquefaction and comprehensive utilization project has an area of 2,485,876.73 square meters of land acquired outside the plant. As of the valuation benchmark date, its rights and utilization status are as follows:

Land acquisition project	**Of which state-owned land (m^2)**	**Of which collective land (m^2)**	**Subtotal of land area (m^2)**	**Remarks**
Jinchang East Road		150,666.67	150,666.67	All are collective land, the land has been developed, and the procedures for transferring collective land to state-owned land have not been completed
Huanchang West Road, South Road		546,666.67	546,666.67	All are collective land, the land has been developed, and the procedures for transferring collective land to state-owned land have not been completed

Land acquisition project	Of which state-owned land (m^2)	Of which collective land (m^2)	Subtotal of land area (m^2)	Remarks
Sewage treatment plant	91,866.67	214,800.00	306,666.67	The land has been developed, and the collective land has not yet gone through the procedures for transferring collective land to state-owned land, and the state-owned land has not yet gone through the transfer procedures
Railway		227,860.47	227,860.47	All are collective land, the land has been developed, and the procedures for transferring collective land to state-owned land have not been completed
Slag field	99,133.33	485,549.59	584,682.92	The land has been developed, and the collective land has not yet gone through the procedures for transferring collective land to state-owned land, and the state-owned land has not yet gone through the transfer procedures
Slag field Phase II		669,333.33	669,333.33	All are collective land, the land has been developed, and the procedures for transferring collective land to state-owned land have not been completed
Total	191,000.00	2,294,876.73	2,485,876.73	

Jinjitan Coal Mine Industrial Plaza of Shaanxi Future Energy & Chemicals Co., Ltd. has an area of 461,994.843 square meters in the early stage of land acquisition, with a total land acquisition cost of RMB26,250,944.67, including relocation compensation, ground property compensation, forest vegetation restoration fees, farmland occupation tax, etc., In June 2020, the above land acquisition area had been applied for the State-owned Land Use Certificate. The land certificate numbers were: Shaan (2020) Yu Lin Shi Bu Dong Chan Quan No. 07327 and Shaan (2020) Yu Lin Shi Bu Dong Chan Qua No. 07324. When the land transfer contract was signed after the land auction, the enterprise had paid the land transfer fee in full according to the land price set out in the land transfer contract.

Considering that the local land authority has a precedent for returning the cost of the preliminary land acquisition cost after the legal procedures of the corresponding land have been completed, the land transfer fee has been paid and the land certificate has been handled, the carrying amounts of the preliminary and off-site land acquisition costs of the indirect coal liquefaction and comprehensive utilization project within the scope of the assessment and the preliminary land acquisition costs of Jinjitan Coal Mine have been retained for this evaluation. The users of the report are reminded to pay attention to the impact of the matter on the appraisal conclusion.

14. The land of the investment properties has been leased out, with details as follows:

Corresponding land certificate	Lessee	Leased area (m^2)	Lease period
Yu Shi Guo Yong (2013) No. 44193	Shaanxi Future Clean Chemicals Co., Ltd.	40,170.00	1 April 2019 to 31 March 2039
Yu Shi Guo Yong (2015) No. 49721	Air Separation & Chemical Product (China) Investment Co., Ltd.	90,917.10	1 October 2015 to 31 December 2031
Yu Shi Guo Yong (2015) No. 49722	Yankuang Yuling Fine Chemical Co., Ltd.	40,716.00	1 June 2012 to 31 May 2022

The effect of the above land lease on the land valuation result is not considered in this evaluation.

15. A Toyota small off-road bus owned by Shaanxi Future Energy & Chemicals Co., Ltd. with the license plate number of Shaan KA0603. The registration date is 20 June 2007. The right holder set out in the certificate is Yanzhou Coal Industry Yulin Energy and Chemical Co., Ltd. As of 30 June 2020, the valuation benchmark date of this appraisal, the actual property right holder is Shaanxi Future Energy & Chemicals Co., Ltd., and the certificate holder and the property holder have issued a statement that there is no dispute over the property rights of the car. The users of the report are reminded to pay attention to the impact of the matter on the appraisal conclusion.

16. A Buick GL8 small passenger car owned by Shaanxi Future Energy & Chemicals Co., Ltd. with the license plate number of Shaan AEN826. The registration date is 15 December 2006. The right holder set out in certificate is Xi'an Office of Yanzhou Coal Industry Yulin Energy Chemical Co., Ltd. As of 30 June 2020, the valuation benchmark date of this appraisal, the actual property right holder is Shaanxi Future Energy & Chemicals Co., Ltd., and the right holder set out in the certificate and the property holder have issued a statement that there is no dispute over the property rights of the car. The users of the report are reminded to pay attention to the impact of the matter on the appraisal conclusion.

17. According to the "Report on the Verification of Resources and Reserves of Jinjitan Coal Mine in Yushen Mining Area of Jurassic Coalfield in Northern Shaanxi Province" and its review opinions, as of the reserve estimation base date (30 April 2019), the reserve of Jinjitan Coal Mine in Yuyang District of Shaanxi Future Energy & Chemicals Co., Ltd. is: 1,827,150,000 tons, and the valuation is calculated on the basis of the above "Report on the Verification of Resources and Reserves of Jinjitan Coal Mine in Yushen Mining Area of Jurassic Coalfield in Northern Shaanxi Province", and its filing certification of review, to determine the amount of retained resources on the valuation benchmark date. The project has paid the full price of RMB1,601,486,100 for recoverable reserve of 326.9 million tons, had used 70.837 million tons of recoverable reserve at the processed price, and the remaining recoverable reserve with the processed price was 256.063 million tons.

    According to the "Approval of the Results of the Production Capacity Assessment of Jinjitan Coal Mine" issued by the Shaanxi Coal Production Safety Supervision Administration in July 2018 (Shaan Mei Ju Fu [2018] No. 71) and the announcement on the national coal mine production capacity issued by the National Energy Administration((2019) No. 2), the production capacity is 15 million tons/year.

    Based on the above document and information, it is known that the mineable reserves for this appraisal is 256.063 million tons, and the mine service life is 13.13 years. If there is a significant change in the amount of resources confirmed for the record that results in a major change in the assessment conclusion, the corresponding assessment conclusion will become invalid and the assessment needs to be re-entrusted. The users of the report are reminded to pay attention to the impact of the matter on the appraisal conclusion.

18. The off-balance sheet assets included in the appraisal scope are the 4 trademarks held by the enterprise. Since the cost was expensed during the acquisition period and had not been capitalized, it had no book value. In this regard, Shaanxi Future Energy & Chemicals Co., Ltd. has issued a letter of commitment to relevant property right, certifying that its property rights belong to the enterprise, without any property rights dispute, all of which are included in the scope of this appraisal. The appraisal is based on the premise that the ownership of the property rights is clear and there is no dispute. The specific intangible assets are as follows:

No.	Name of trademark	Application No.	International classification	Right holder	Date of registration announcement
1	SFEC	21999963	42 types of design research	Shaanxi Future Energy & Chemicals Co., Ltd.	14 January 2018
2	SFEC	22003465	1 type of chemical raw materials		14 January 2018
3	SFEC	22003688	4 types of fuel grease		14 January 2018
4	SFEC	22004710	37 types of construction and repair		14 January 2018

The difference between the evaluation subject and the actual situation that may be caused by the incomplete data source is not considered by the company.

(VII) Long-term Equity Investment– information on the ownership of Shaanxi Future Clean Chemicals Co., Ltd. that is incomplete or flawed:

On 22 June 2020, Shaanxi Future Clean Chemicals Co., Ltd. signed a loan contract with Shaanxi Future Energy & Chemicals Co., Ltd. (No. QJHX-J-200622-001), and obtained a loan of RMB20 million with a term from 22 June 2020 to 21 June 2021. In this regard, Beijing Jiangyou Weichuang Petrochemical Co., Ltd. signed an equity pledge agreement with Shaanxi Future Energy & Chemicals Co., Ltd., to provide pledge guarantee for Shaanxi Future Clean Chemical Co., Ltd. with its 49% equity in Shaanxi Future Clean Chemical Co., Ltd.

(VIII) Subsequent events that may affect the assessment conclusions between the valuation benchmark date and the valuation report date:

1. On 6 August 2020, the general meeting of Shaanxi Future Energy & Chemicals Co., Ltd. passed the 2019 profit distribution plan: as of 31 December 2019, as its available profit for distribution was RMB4.593 billion, cash dividends were distributed to shareholders. Based on its registered capital (total share capital) of RMB5.4 billion on 31 December 2019, a total of RMB2 billion of cash dividends has been distributed to all shareholders, and the remaining undistributed profit of RMB 2.593 billion would be carried forward to the following year. After the capital contribution by Yulin Yuyang State-owned Assets Operation Co., Ltd., the last dividend distribution was deemed to be valid for the existence of Yuyang Weicheng State-owned Assets Operation Co., Ltd., and adjustments had been made for the last dividend distribution based on the proportion of shareholdings held. See the table below for specific adjustments:

Shareholder name	Shareholding percentage	Capital	Distributable profit in 2019	This dividend distribution	Adjustment to last dividend distribution	Actual realisation this time
Yankuang Group Company Limited	49.3150%	266,301.00		98,630.00	-1,161.76	97,468.24
Yanzhou Coal Mining Company Limited	24.6575%	133,150.50		49,315.00	-580.88	48,734.12
Yanchang Petroleum (Group) (including Jiaxing Dejian)	24.6575%	133,150.50		49,315.00	-580.88	48,734.12
Yuyang District State-owned Assets Operation Co., Ltd.	1.3700%	7,398.00		2,740.00	2,323.52	5,063.52
Total	100.00%	540,000.00	459,300.00	200,000.00	–	200,000.00

This appraisal did not consider the impact of this matter on the assessment conclusion, and users of the report were remined to pay attention.

2. As of the date of issuance of the report, the other receivables of the enterprise included amounts due from Yulin Yuyang State-owned Assets Operation Co., Ltd. of RMB80 million, which was repaid in August 2020; the other receivables included interest due from Yankuang Group Company Limited of RMB6,232,216.84, and the loan receivable in other current assets was RMB525,909,200.00, which were repaid in July 2020. The abovementioned loans, for this appraisal, is presented at the book value after audit. The users of the report are reminded to pay attention to the impact of the matter on the appraisal conclusion.

3. Since the outbreak of novel coronavirus epidemic in the country in January 2020, the nationwide prevention and control of the epidemic has continued. The epidemic has already affected the business operations and overall economic operations of some provinces (including Shaanxi Province), cities and industries, which may affect the profitability of the appraised entity to a certain extent. The degree of impact will depend on the situation of epidemic prevention and control, duration and implementation of various control policies. According to relevant personnel of the appraised entity, the epidemic has had a certain impact on its production and operation in the first half of the year, but as of the valuation benchmark date, it has resumed work and carried out normal production and operation activities. Therefore, this appraisal has considered the impact of the epidemic on the assessment conclusions, which is brought to the attention of all parties to the transaction.

XII. RESTRICTIONS ON THE USE OF ASSET VALUATION REPORT

(I) The valuation report may only serve the purpose of appraisal stated herein;

(II) The asset appraisal institution and the appraiser will not be held liable or take the consequences, in case the client or other users of the valuation report fail to comply with the relevant laws, administrative regulations and use the report for other purposes than what is stated herein;

(III) Any institution and individual shall not use the report on asset appraisal other than the client, other report users stated in the commission contract for asset appraisal, and report users in compliance with laws and administrative regulations;

(IV) The user of the asset valuation report should correctly understand the appraisal conclusion, which is not equal to the achievable price of the appraisal object, and the appraisal conclusion should not be considered as a guarantee for the achievable price of the appraisal object;

(V) The valuation report shall be submitted to the state-owned assets supervision and administration authorities or the competent business department for examination. The report shall not be used until after being put on file.

(VI) All (or perhaps any) of the valuation report may be extracted, quoted or disclosed, subject to examination by the appraisal institution, unless otherwise stated in the laws, regulations and entrusted by the corresponding party.

(VII) The appraisal conclusion disclosed in this valuation report is valid only for the corresponding economic behavior of the project, and the validity period of the asset appraisal conclusion is one year from the valuation benchmark date, that is, from 30 June 2020 to 29 June 2021. When the appraisal target is hit within the term, the appraisal conclusion shall be a useful guideline on the value, subject to adjustments subsequent to the benchmark date of assets appraisal. Assets shall be reappraised if the one-year limit is exceeded.

XIII. REPORTING DATE OF ASSET APPRAISAL

The asset valuation report date is 6 September 2020, which is the date when the asset appraisal conclusion is formed.

Asset appraisal institution: Pan-China Assets Appraisal Co., Ltd

Legal representative:

Asset appraiser: Sun Shengnan

Asset appraiser: Wang Nannan

6 September 2020

B. SUMMARY OF THE ASSET VALUATION REPORT ON FINE CHEMICAL

(Summary of the Report)
Asset Valuation Report on the Value of the Total Shareholders' Equity of Yankuang Yuling Fine Chemical Co., Ltd. Involved in the Proposed Acquisition of the Equity Interest in Yankuang Yuling Fine Chemical Co., Ltd. by Yanzhou Coal Mining Company Limited

Tian Xing Ping Bao Zi (2020) No.1262

To Yanzhou Coal Mining Company Limited

Pan-China Appraisal Co., Ltd is engaged by the Company to appraise the market value on 30 June 2020 of the total shareholders' equity of Yankuang Yuling Fine Chemical Co., Ltd. involved in the proposed acquisition of the equity interest in Yankuang Yuling Fine Chemical Co., Ltd. by Yanzhou Coal Mining Company Limited following necessary valuation procedures and using asset-based approach and income approach with principles of independence, objectivity and fairness in accordance with the requirements of relevant laws, administrative regulations and asset valuation standards. The asset valuation is reported as follows.

I. THE CLIENT, APPRAISED ENTITY AND OTHER VALUATION REPORT USERS AS AGREED IN THE ASSET VALUATION ENTRUSTMENT CONTRACT

(I) Overview of the Client

Company name:	Yanzhou Coal Mining Company Limited
Unified Social Credit Code:	91370000166122374N
Registered address:	No. 298, Fushan South Road, Zoucheng City
Legal representative:	Li Xiyong
Registered capital:	RMB4,912,016,000
Type of company:	Limited liability company (Taiwan, Hong Kong, Macao and domestic joint ventures, listed)
Date of Establishment:	25 September 1997

Scope of business:	selection and sale of coal (among others, the export of coal should be made through companies with coal export right according to the existing state regulations); outbound investment using the company's own fund and investment consulting; commission business; transportation of goods through self-owned railway within the mining area; transportation of goods through highway; operation of ports; manufacture, sale, lease, repair, installation and dismantlement of machinery and equipment in the mining area; production and sale of other mining materials; sale and lease of electronic equipment and sale of parts; leasing of construction mechanical equipment; sale of metallic materials, electronic products, construction materials, timber and rubber products; production and sale of cold patch, soap, anchoring agent and coat; composition of mining, science and technological services; mining rescue technology services; property development within the mining areas, property leasing and provision of services such as dining and accommodation; production and sale of coal residual stones as construction materials; sale of coke, iron ore and nonferrous metals; import and export of goods and technology; warehousing (excluding hazardous chemicals); automobile repairs; labour dispatch; property management service, landscaping; sewage treatment; heat supply; industrial tourism; corporate internal staff training (skills training for first aid team members, manufacturing technology training, safety training); measurement examination, physical and chemical inspection, non-destructive testing, analytical testing, manufacturing safety testing and inspection; corporate management; corporate management consulting; corporate planning and design; market investigation; economic and trade consulting; technology promotion, technology services; sale of lubricating oil, lubricating grease, chemical raw material and chemical engineering products (excluding dangerous chemical products), coat, labour protection products, spinning products, cultural and educational products, plastic products, instruments and apparatuses, cement and fire-resistant materials and products. General contracting of mining engineering and construction; contracting of mechanical and electrical engineering construction; sales of coal-water slurry. (Items which need approvals according to the laws shall be subject to the approvals of relevant authorities before operation activities can be carried out.)

Yanzhou Coal Mining Company Limited held the 2018 Annual General Meeting, the second class meeting of the holders of A hares for the year 2019 and the second class meeting of the holders of H shares for the year 2019 on 24 May 2019, considering and approving "The Proposal regarding the grant of general mandate to the Board to repurchase H shares of the Company". Yanzhou Coal started to exercise the general mandate on repurchase of H shares on 4 May 2020, with a total of 14 times of repurchases of H shares and an aggregate of 52,016,000 H shares repurchased. The registered capital of the Company changed from RMB4,912.0160 million to RMB4,860.0000 million, and corresponding change of business registration has not been made yet.

(II) Overview of the Appraised Entity

1. General information

Company name:	Yankuang Yuling Fine Chemical Co., Ltd.
Unified social credit code:	91610800596685070J
Registered address:	North Area, Yuheng Coal Chemical Industrial Park, Qinhe Town, Yuyang District, Yulin City, Shaanxi Province
Legal representative:	Dong Zhengqing
Paid-in capital:	RMB46.20 million
Type of company:	Other limited liability company (solely owned legal person invested in or controlled by a non-natural person)
Date of establishment:	25 May 2012
Scope of business:	Production and sales of Fische-Tropsch synthesis catalyst, paraffin wax, sodium nitrate and potassium silicate. (excluding precursors, surveillance, and hazardous chemicals). (Items which need approvals according to the laws shall be subject to the approvals of relevant authorities before operation activities can be carried out.)

2. History and changes in the enterprise's shareholding structure

Yankuang Yuling Fine Chemical Co., Ltd. was established on 25 May 2012 and funded by Yankuang Group Company Limited, with a registered capital of RMB46.2 million. Shaanxi Jindian United Accounting Firm verified the capital contribution and issued a capital verification report of Shaan Jin Dian Hui Yan Zi (2012) No. 113. After the capital contribution, the shareholding structure is as follows:

Unit: RMB (Ten Thousand)

No.	Name of shareholder	Contributed registered capital	Percentage of shareholding	Paid-up capital
1	Yankuang Group Company Limited	4,620.00	4,620.00	100.00%
Total		4,620.00	4,620.00	100.00%

As of the valuation benchmark date on 30 June 2020, the shareholding structure of Yankuang Yuling Fine Chemical Co., Ltd. has not changed.

3. Overview of the enterprise's major assets

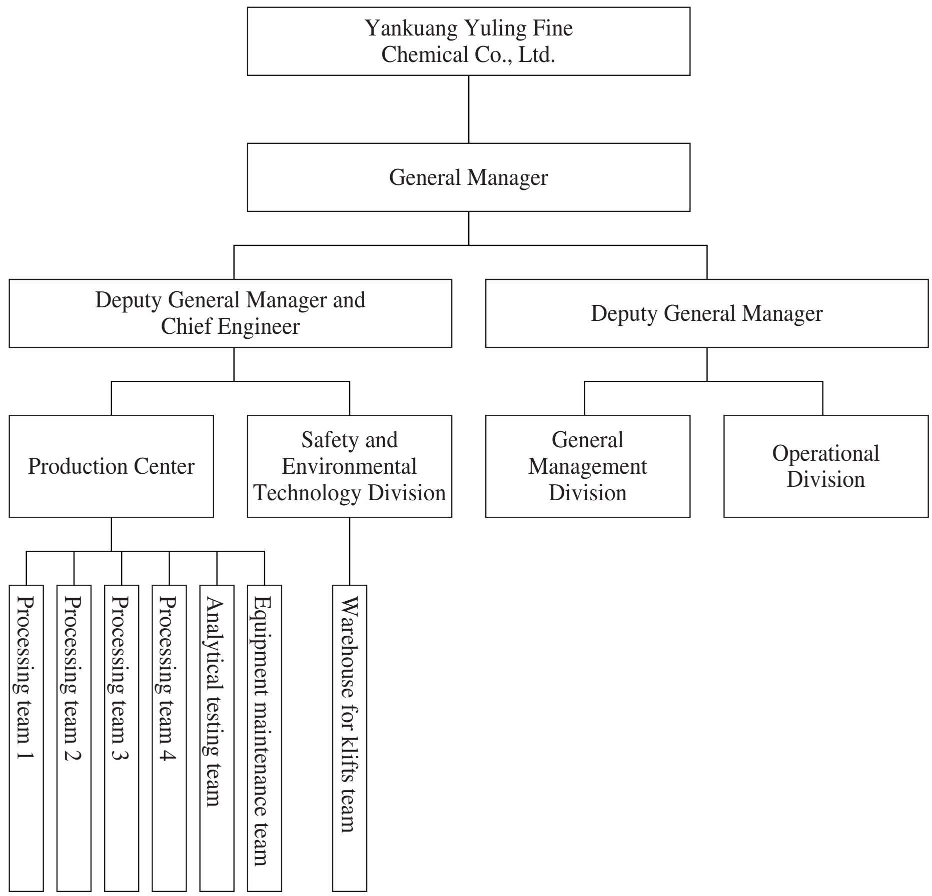
The main assets of Yankuang Yuling Fine Chemical Co., Ltd. include monetary funds, bills receivable, accounts receivable, prepayments, other receivables, inventories, fixed assets, intangible assets and right to use assets.

The main assets are as follows: inventory is mainly raw materials and inventory of commodity catalysts and sodium nitrate; fixed assets include buildings, structures, machinery and equipment, vehicles and electronic equipment; intangible assets are intangible assets-others, including 2 trademarks, 2 invention patents, 30 utility model patents; the right-of-use assets is the land lease fee incurred by the enterprise.

4. Overview of the enterprise's major businesses

Yankuang Yuling Fine Chemical Co., Ltd. was established in May 2012. Its main business is the production and sales of low-temperature Fischer-Tropsch synthesis catalysts and sodium nitrate.

5. *Organizational structure of the enterprise*



6. *Statements of Financial Position and Operating Results*

Statement of Financial Position

Unit: RMB (Ten Thousand)

Item	**31 December 2017**	**31 December 2018**	**31 December 2019**	**30 June 2020**
Current assets	4,370.42	3,113.49	6,053.80	7,765.22
Non-current assets	21,968.57	19,902.57	17,705.83	16,440.62
Of which: Long-term equity investments				
Investment properties				
Fixed assets	19,618.00	18,009.21	16,205.93	15,127.65
Construction in progress	78.46			
Intangible assets	2,199.05	1,836.19	1,473.33	1,291.90
Land use rights				
Others	73.06	57.16	26.56	21.07
Total assets	26,338.99	23,016.06	23,759.63	24,205.84
Current liabilities	14,770.02	11,035.95	8,881.18	8,331.64
Non-current liabilities	25.67	19.85	17.51	
Total liabilities	14,770.02	11,061.62	8,901.03	8,349.15
Net assets	11,568.97	11,954.44	14,858.60	15,856.69

Statement of Operating Results

Unit: RMB (Ten Thousand)

Item	2017	2018	2019	January to June 2020
I. Operating income	18,446.12	18,909.80	21,912.84	8,355.22
Less: Operating costs	14,008.86	15,500.98	16,031.91	6,387.60
Tax and surcharges	248.72	265.42	272.26	92.03
Selling expenses	418.20	417.14	389.37	127.33
Administrative expenses	737.75	727.22	675.26	329.56
Research and development expenses	745.59	793.88	680.36	190.81
Finance costs	295.95	224.65	314.52	142.84
Add: Other gains	25.76	8.38	20.65	11.32
Investment income				
II. Operating profit	2,016.81	988.90	3,569.80	1,096.37
Add: Non-operating income	2.08	1.53	4.27	0.15
Less: Non-operating expenses	0.88	10.03	11.02	
III. Total profit	2,018.02	980.39	3,574.07	1,085.50
Less: Income tax expenses	269.74	161.60	531.39	177.22
IV. Net profit	1,748.28	818.80	3,042.68	908.28

The financial data listed in the above table have been audited by Zhongxingcai Guanghua Certified Public Accountants LLP and an unqualified audit report No. 316047 was issued by the same.

(III) Other Valuation Report Users as Agreed in the Asset Valuation Entrustment Contract

According to the asset valuation entrustment contract, except the client and the user who has the right to use the valuation report as prescribed by national laws and regulations, there is no other user of the valuation report.

(IV) Relationship between the Client and the Appraised Entity

The client, Yanzhou Coal Mining Company Limited (Yankuang Group directly and indirectly held 56.01% equity interest in Yanzhou Coal) proposed to acquire the equity interests of the appraised entity, Yankuang Yuling Fine Chemical Co., Ltd. (Yankuang Group held 100%).

II. VALUATION PURPOSE

According to "Summary of General Manager Work Meeting of Yanzhou Coal Mining Company Limited (Issue 27)", Yanzhou Coal Mining Company Limited proposed to acquire the equity interests of Yankuang Yuling Fine Chemical Co., Ltd., it is required to conduct evaluation on the involved total shareholders' equity of Yankuang Yuling Fine Chemical Co., Ltd. in order to provide a value reference for the proposed acquisition.

III. VALUATION SUBJECT AND VALUATION SCOPE

(I) Valuation Subject

The valuation subject is the value of total shareholders' equity of Yankuang Yuling Fine Chemical Co., Ltd. as at the valuation benchmark date.

(II) Valuation Scope

The valuation scope covers all assets and liabilities of Yankuang Yulin Fine Chemical Co., Ltd. on the valuation benchmark date, of which the book value of total assets is RMB242,058,400, the book value of liabilities is RMB83,491,500, and the book value of net assets is RMB158,566,900. The book values of various assets and liabilities are shown in the following table:

Summary of Assets Valuation Reporting Form

Unit: RMB (Ten Thousand)

Item	**Carrying amount**
Current assets	7,765.22
Non-current assets	16,440.62
Including: Long-term equity investments	
Investment properties	
Fixed assets	15,127.65
Construction in progress	–
Intangible assets	1,291.90
Land use rights	
Others	21.07
Total assets	24,205.84
Current liabilities	8,331.64
Non-current liabilities	17.51
Total liabilities	8,349.15
Net assets	15,856.69

1. The client and the appraised entity have undertaken that the entrusted valuation object and valuation scope are consistent with the valuation object and valuation scope involved in the economic activity, and have been audited by Zhongxingcai Guanghua Certified Public Accountants LLP, which issued an unqualified audit report (Zhongxingcai Guanghua Shen Kuai Zi (2020) No. 316047).

2. A total of 20 buildings are included in the valuation scope, with a total gross floor area of 27,069.47 square meters. As of the valuation benchmark date, no Real Property Certificates has been applied. In this regard, Yankuang Yuling Fine Chemical Co., Ltd. has issued a letter of undertaking for building ownership certifying that their ownership belongs to the company and there are no ownership disputes.

3. Off-balance sheet assets declared by the enterprise

The off-balance sheet assets included in the valuation scope are the 1 invention patent, 30 utility model patents and 2 trademarks declared this time, all of which are owned by the appraised entity and are in normal use. The specific details are as follows:

No.	Content or Name	Patent No.	Type of patent	Authorisation announcement date
1	Impregnation filtrate filtering system	2016200898300	Utility model	2016-08-17
2	Impregnation slurry circulation pipeline	2016200898315	Utility model	2016-08-31
3	Pressure filter for concentrated solution	2016200898423	Utility model	2016-08-31
4	Magnetic pump isolation sleeve	201620089832X	Utility model	2016-08-31
5	Impregnation slurry conveying filter	2016200898298	Utility model	2016-08-31
6	System for removing iron oxide in sodium nitrate	2016200898442	Utility model	2016-08-10
7	Screening catalyst mixed packaging powder removing device	2016201619367	Utility model	2016-08-17
8	Vibrating screen screening and powder removing device	2016201619386	Utility model	2016-08-17
9	Device for removing sodium carbonate in sodium nitrate	2017202744227	Utility model	2017-11-24
10	Positive pressure dust removing and cooling device for switch cabinet	2017202744231	Utility model	2017-11-24

No.	Content or Name	Patent No.	Type of patent	Authorisation announcement date
11	Catalyst powder classification device	2017202744392	Utility model	2017-11-24
12	Bucket elevator with chain oiler	2017202744496	Utility model	2017-11-24
13	Roaster exhaust dust removal system	2017202744509	Utility model	2017-11-24
14	Catalyst production device	2017202744373	Utility model	2018-01-09
15	Impregnating-into-slurry tank device	2017202744528	Utility model	2018-01-12
16	Cleaning device for inner wall of thickener	2018210328321	Utility model	2019-03-15
17	Device for processing centrifugal mother liquor containing sodium nitrate	2018210328270	Utility model	2019-03-15
18	Device for improving evaporation effect	2018210608337	Utility model	2019-02-15
19	Device for improving concentration and purity of wastewater containing sodium nitrate	2018210347549	Utility model	2019-02-22
20	Device for improving the stability of evaporation system	2018210335433	Utility model	2019-02-22
21	Catalyst pulse dense-phase gap gas delivery device	2018210396742	Utility model	2019-02-22
22	Catalyst fine powder classification recovery device	2018209331253	Utility model	2019-02-22
23	Classification device for eliminating static electricity of catalyst particles	2018209380226	Utility model	2019-03-15
24	Catalyst wet dust collection system	2018209370879	Utility model	2019-02-15
25	Catalyst high-position silo	2018209376038	Utility model	2019-02-15
26	Device for continuously detecting pH value of catalyst reaction liquid on-line	2018210414539	Utility model	2019-02-15
27	Self-flowing concentrated nitric acid unloading system	2018209320422	Utility model	2019-02-15
28	System for detecting pH value of catalyst reaction liquid	2018210397001	Utility model	2019-02-15

No.	Content or Name	Patent No.	Type of patent	Authorisation announcement date
29	Cooling device for rapidly diluting concentrated nitric acid	2018209331925	Utility model	2019-02-15
30	Container mechanical sealing device	2018210608515	Utility model	2019-04-16
31	Method for efficiently recycling and utilizing fine powder in low-temperature Fischer-Tropsch synthesis iron-based catalyst	2017103926509	Invention	2020-04-03
32	Trademark YKFC	27513913	Trademark	2017-11-16
33	Trademark YKFC	16811967	Trademark	2015-04-27

4. Reference to the reports issued by other institutions

The relevant financial data of the asset valuation is referred to an unqualified audit report (Zhongxingcai Guanghua Shen Kuai Zi (2020) No. 316047) issued by Zhongxingcai Guanghua Certified Public Accountants LLP.

IV. ASSESSED VALUE TYPE

Assessed value types include market value and value types other than market value. Value types other than market value generally include (but are not limited to) investment value, in-use value, liquidation value, residual value, etc.

The purpose of this valuation is to provide a value reference for equity acquisitions, and there are no special restrictions on market conditions. Therefore, market value is selected as the value type of this valuation. The market value mentioned in this asset valuation report refers to the estimated amount of the value of normal and fair transactions of the valuation target on the valuation benchmark date when the voluntary buyer and the voluntary seller act rationally without any coercion.

V. VALUATION BENCHMARK DATE

The valuation benchmark date for the valuation is 30 June 2020.

This valuation benchmark date is determined by the client and is consistent with the valuation base date agreed in the asset valuation entrustment contract.

VI. BASIS OF VALUATION

The basis of valuation on which this asset valuation was conducted includes the basis of economic activity, the basis of laws and regulations, the basis of valuation criteria, the basis of asset ownership as well as the pricing basis, as follows:

(I) Basis of Economic Activity

1. Summary of General Manager Work Meeting of Yanzhou Coal Mining Company Limited (Issue 27).

(II) Basis of Laws and Regulations

1. Asset Valuation Law of the People's Republic of China (Decree No. 46 of the President of the People's Republic of China);

2. The State-owned Assets of Companies Law of the People's Republic of China (Decree No. 5 of the President of the People's Republic of China in 2008);

3. Company Law of the People's Republic of China (adopted at the 5th meeting of the Standing Committee of the 8th National People's Congress on 29 December 1993 and amended in 1999, 2004, 2005, 2013 and 2018);

4. Securities Law of the People's Republic of China (amended at the 10th meeting of the Standing Committee of the 12th National People's Congress of the People's Republic of China on 31 August 2014 and amended for the second time at the 15th meeting of the Standing Committee of the 13th National People's Congress on 28 December 2019);

5. Property law of the People's Republic of China (Decree No. 62 of the President of the People's Republic of China in 2007);

6. Trademark Law of the People's Republic of China (The decision on amending the Land Management Law and Urban Real Estate Management Law was passed at the 12th meeting of the Standing Committee of the 13th National People's Congress on 26 August 2019)

7. Enterprise Income Tax Law of the People's Republic of China (adopted at the fifth meeting of the Tenth National People's Congress on 16 March 2007, revised for the first time according to the "Decision on Amending the Enterprise Income Tax Law of the People's Republic of China" adopted on the 26th meeting of the Standing Committee of the 12th National People's Congress on 24 February 2017) and revised for the second time according to the "Decision on Amending Four Laws including the Electric Power Law of

the People's Republic of China" adopted at the seventh meeting of the Standing Committee of the 13th National People's Congress on 29 December 2018);

8. The Enforcement Regulations of Corporate Income Tax Law of the People's Republic of China) amended at the 26th meeting of the Standing Committee of the 12th National People's Congress on 24 February 2017)

9. The Vehicle Acquisition Tax Law of the People's Republic of China (Decree No. 19 of the President of the People's Republic of China)

10. Administrative Measures for State-Owned Assets Assessment (State Council Order 1991 No. 91);

11. Detailed Rules for the Implementation of the Administrative Measures for State-Owned Assets Assessment (Guo Zi Ban Fa [1992] No. 36) issued by the former State Administration of State-owned Assets;

12. Opinions on Reforming the Administration and Management of Appraisal of State-owned Assets and Strengthening the Supervision and Management of Asset Appraisal (Guo Ban Fa [2001] No. 102);

13. Rules on Certain Issues Relating to the Appraisal of State-owned Assets (Ministry of Finance No. 14 Order);

14. Notice of the Ministry of Finance on Issuance of Administrative Measures for Filing of State-owned Assets Valuation Project (Cai Qi [2001] No. 802);

15. Interim Regulation on the Supervision and Administration of State-owned Assets of Enterprises (State Council 2003 No. 378 Order);

16. Administration Measures for Supervision over Trading of State-owned Assets by Enterprises (SASAC and MOF 2016 No. 32 Order);

17. Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises (SASAC of the State Council 2005 No.12 Order);

18. Notice on Strengthening Management of Appraisal of State-Owned Assets in Enterprises (SASAC Property [2006] No. 274);

19. Notice on the Audit of Valuation Report for State-owned Assets of Enterprises (SASAC Property [2009] No. 941);

20. Guidelines for the Filing for Recordation of the Valuation Projects of State-owned Assets of Enterprises (SASAC Property [2013] No. 64);

21. Provisional Regulations on Value-added Tax of the People's Republic of China (amended by the 191st Executive Meeting of the State Council, on 30 October 2017, and was promulgated by Order No. 691 of the State Council of the People's Republic of China on November 19 of the same year);

22. Regulations for the Implementation of the Provisional Regulations on Value-added Tax of the People's Republic of China (the "Implementation Rules" were promulgated by Order No. 50 of the Ministry of Finance and the State Administration of Taxation on 18 December 2008; amended according to Order No. 65 issued by the Ministry of Finance and the State Administration of Taxation on 28 October 2011);

23. Public Notice on Relevant Polices for Deepening VAT Reform (Announcement 2019 No. 39 by the Ministry of Finance, the State Administration of Taxation, and the General Administration of Customs);

24. Other relevant laws and regulations.

(III) Basis of Valuation Criteria

1. Asset Valuation Standards (Cai Zi [2017] No. 43);

2. Code of Ethics for Assets Assessment (CAS [2017] No. 30);

3. Asset Valuation Practicing Standards – Asset Valuation Methods (Zhong Ping Xie[2019] No.35);

4. Asset Valuation Practicing Standards – Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);

5. Asset Valuation Practicing Standards – Asset Valuation Report (Zhong Ping Xie [2018] No. 35);

6. Asset Valuation Practicing Standards – Contract on Asset Valuation Entrustment (Zhong Ping Xie [2017] No. 33);

7. Asset Valuation Practicing Standards – Asset Valuation Files (Zhong Ping Xie [2018] No. 37);

8. Practicing Standards for Asset Valuation – Engagement of Experts and Relevant Reports (Zhong Ping Xie [2017] No. 35);

9. Asset Appraisal Practice Guidelines-Enterprise Value (Zhong Ping Xie (2018) No. 38);

10. Practicing Rules Standards for the Appraisal of Assets – Intangible Assets (Zhong Ping Xie (2017) No. 37);

11. Practice Standards for Asset Evaluation – Real Estate (Zhong Ping Xie [2017] No. 38);

12. Practice Guidelines for Asset Appraisal – Machinery and Equipment (Zhong Ping Xie [2017] No. 39);

13. Guiding Opinions on the Appraisal of Trademark Assets (Zhong Ping Xie [2017] No. 51);

14. Asset Valuation Expert Guide No. 8 – Check and Verification in Asset Valuation (Zhong Ping Xie [2019] No. 39);

15. Guidelines to Evaluation Report of State – owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);

16. Guidelines for the Appraisal of Intellectual Property Rights Assets (Zhong Ping Xie [2017] No. 44);

17. Guidelines for Business Quality Control of Asset Valuation Institutions (Zhong Ping Xie [2017] No. 46);

18. Guiding Opinions on Types of Value for the Appraisal of Assets (Zhong Ping Xie [2017] No. 47)

19. Guidance on Legal Ownership of Asset Valuation Object (Zhong Ping Xie [2017] No. 48);

20. Guiding Opinions on Patent Asset Evaluation (Zhong Ping Xie [2017] No. 49);

(IV) Basis of Asset Ownership

1. Motor vehicles license and registration certificate;

2. Major equipment purchase contracts, invoices, and relevant agreements, contracts;

3. Patent certificate and trademark certificate;

4. Other ownership documents.

(V) Pricing Basis for the Valuation

1. The asset valuation declaration form and income forecast statement provided by the valued entities;

2. An unqualified audit report Zhongxingcai Guanghua Shen Kuai Zi (2020) No. 316047;

3. The Notice of National Development and Reform Commission on Further Liberalization of the Professional Service Fees for Construction Projects (Fa Gai Jia Ge [2015] No. 299)

4. Notice by the Ministry of Finance on Issuing Notice of Construction Project Construction Cost Management Requirement (Cai Jian [2016] No. 504)

5. Notice on Issues Concerning the Charging Standards for Engineering Cost Consulting Services in Our Province (Shaan Jia Hang Fa [2014] No. 88) of Shaanxi Provincial Price Bureau and Shaanxi Provincial Housing and Urban Construction Department;

6. Guiding Opinions on Safety Evaluation Fees in Shaanxi Province;

7. Notice on Adjustment of the Pricing Basis of Construction Projects in Our Province of Shaanxi (Shaan Jian Fa [2019] No.45) Provincial Housing and Urban Construction Department

8. Shaanxi Construction Engineering Consumption Quota (2006), Shaanxi Installation Engineering Consumption Quota (2006) and Shaanxi Construction Decoration Engineering Price List (2009), Shaanxi Installation Engineering Price List (2009) and Shaanxi Province Construction Engineering Quantity List Valuation Rate (2019);

9. Notice on Adjusting the Comprehensive Manpower Unit Price in the Bill of Quantities of Housing Construction and Municipal Infrastructure Projects issued by Shaanxi Provincial Department of Housing and Urban-Rural Development (Shaan Jian Fa [2018] No. 2019);

10. Shaanxi Project Cost Information" (Issue 6 of 2020);

11. National Interbank Funding Center is authorized to issue the loan prime rate (LPR) announcement on 22 June 2020;

12. 2020 Mechanical and Electrical Products Price Information Query System from Machinery Industry Press;

13. Information of budget and final account of relevant construction projects provided by the enterprise;

14. Financial statements, audit reports and other related financial information provided by the enterprise;

15. Future operation plans, profit forecast and other information provided by the enterprise;

16. Information such as the feasibility research report of project, project investment budget, design budget provided by the enterprise;

17. Raw material purchase contracts entered into between the enterprise and related entities;

18. Engineering contracts entered into between the enterprise and related entities;

19. Other related valuation information recorded and collected by appraisers from on-site survey;

20. Other information related to this asset valuation;

21. Financial information including original accounting statements, financial and accounting information, as well as relevant agreements, contracts, invoices provided by the appraised entity;

22. Statistical data, technical standard data and price information data released by relevant state departments, as well as relevant inquiry data and price parameter data collected by our company.

VII. VALUATION METHODS

(I) Introduction to Valuation Methods

Basic asset valuation methods for enterprise value appraisal include asset-based approach, income approach and market approach.

The asset-based method for enterprise value appraisal, also known as the cost approach, refers to the valuation method that determines the value of a valuation subject by valuating the value of on-balance sheet and identifiable off-balance-sheet assets and liabilities based on the balance sheet of the appraised entity as at the valuation base date.

The income approach for enterprise value appraisal refers to the valuation method that determines the value of a valuation subject by capitalising or discounting the expected revenue. The specific methods commonly involved when using the income approach include the dividend discount method and the discounted cashflows method. The income approach is the assessment of the value of an enterprise by its profitability, which is based on the economics theory of expected utility.

The market approach for enterprise value appraisal refers to the valuation method that determines the value of a valuation subject by comparing the valuation subject with comparable listed companies or comparable transaction cases. There are two commonly used specific methods under the market approach, which are listed-company comparison and transaction-case comparison.

(II) Selection of Valuation Methods

The asset-based approach refers to the method of valuation, in which the value of the valuation target is determined by reasonable appraisal of the value of all on-and-off balance sheet assets and liabilities on the basis of the balance sheet. For the purpose of this valuation, the necessary information for adopting the asset-based approach could be provided by the appraised entity or collected by the appraiser externally, which allowed a comprehensive review and valuation on the assets and liabilities of the appraised entity. Therefore, the asset-based approach was adopted for this valuation.

The income approach is based on the expected utility theory of economics. In other words, from the perspective of the investors, the enterprise value lies in the future income expected to be generated for the enterprise. Despite the absence of the direct use of comparable in the actual market for stating the prevailing fair market value of the appraised entity, the income approach assesses the value of an asset by its expected profitability, which is the essential basis for determining the prevailing fair market value of the asset. As such, it can completely reflect the overall value of an enterprise and its valuation conclusion is more reliable and convincing. From the perspective of applicable conditions of the income approach, since the enterprise is profitable in its own right and the management of the appraised entity has provided the profit forecast for the future years, according to the historical operating data of the enterprise and the internal and external operating environment, the future level of profit of the enterprise can be reasonably forecasted. In addition, the risk of future income can be reasonably quantified. Hence, the income approach is applicable to this valuation.

The market approach determines the prevailing fair market value of the appraised entity by referring to comparables in the market. This approach is direct in terms of valuation perspective and valuation methods, and the valuation process is intuitive. The data for the valuation is from market, making the result convincing. Since this valuation has fewer units than listed companies, it is difficult to collect transaction cases, and it is impossible to obtain transaction cases of companies with similar production scales and business types of Yankuang Yuling Fine Chemical Co., Ltd.. Therefore, the market approach is not adopted for this assessment.

(III) Introduction to Assessment Approaches

i) Assets-based approach

The asset-based approach used for assessing the value of an enterprise refers to the valuation method where the value of the valuation subject is determined on the basis of a reasonable valuation of various assets and liabilities of the enterprise based on its balance sheet as at the valuation benchmark date. The valuation process of various assets and liabilities is stated as follows:

1. Valuation of current assets and liabilities

Current assets of the appraised entity include monetary funds, receivables financing, account receivable, prepayments, other receivables, inventories; while liabilities include accounts payable, prepayments, staff remuneration payable, tax payable, other payables and other current liabilities and deferred income tax liabilities.

(1) Monetary funds include, all bank deposits assessed value of which was determined as the verified book value which was arrived at after the verification of bank reconciliation statements and bank confirmations.

(2) Receivables financing: Receivables financing refers to the commercial bills received by enterprises for selling products. All bills receivable in the scope of valuation are bank acceptance bills. For bills receivable, the appraisers reviewed the book records and the register of receivables financing while making inventories of and verified the bills. Corresponding sales contracts and delivery orders as well as other original records were also reviewed. The appraised value was then determined at the verified book value after verification.

(3) Accounts receivable and other receivables: accounts receivable and other receivables are valued according to their likely recoverable amount on the basis that they have been verified. With regard to those receivables which are, with sufficient reason, believed to be fully recoverable, the appraised value is the total amount of the accounts receivable; for the current accounts due to and due from the related companies for which there is sufficient reason to believe that the full amount can be collected, the risk of loss are evaluated as 0.

(4) Prepayment: Appraisers first verified the general ledgers and detailed ledgers, financial statements and appraisal checklist. The appraisers made enquiries with relevant personnel of the appraised entity to make clear the reasons for the formation of such

prepayment, and conducted random checks on the corresponding contracts and vouchers of the prepayments. Through procedures such as confirmation letters, comprehensive analysis and judgment, the estimated value of the amount of the corresponding equity that can be formed by the service available for the prepayment is used as the appraised value.

(5) Inventories Raw materials: The cost approach is adopted for the valuation of raw materials: These materials are valued by reference to their prevailing market prices plus reasonable freight and other miscellaneous costs and wastage. The raw materials included in the scope of the valuation have quick turnaround and the purchase date is close to the valuation benchmark date with slight movements in prices. Thus, the verified book value is taken as the appraised value in this valuation.

Finished goods: The appraisers determines the appraisal value based on the verified quantity and sales price of the finished goods using the market approach. That is, the appraised value is determined after deducting sale tax, sales expenses, income tax and an appropriate proportion of the profit after-tax on the basis of the sales price without tax of the finished goods. The formula is listed below:

Valuation unit price = Unit selling price (exclusive of tax) × (1– tax and surcharge rate – sales expenses ratio) – Appropriate net selling profit – Income tax

Income tax = [Unit selling price (exclusive of tax) × (1 – tax and surcharge rate – sales expenses ratio-Overhead expenses ratio – Financial expenses ratio) – Unit book cost] × 15%

Valuated value = Valuation unit price × Quantity

Among them: the sales price of finished goods without tax is determined based on the sales situation on the valuation benchmark date; the tax and surcharge rate, sales expense ratio, overhead expense ratio, R&D spending rate, financial expense ratio and other indicators are comprehensively determined based on the company's accounting statements in recent years; the appropriate net profit rate is determined in accordance with the sales situation of the finished goods, and the appropriate net profit rate for the valuation is 30%.

(6) Liabilities: On the basis of inspection and verification, the assessment value is determined according to the actual liabilities and amount of liabilities that the assessed enterprise needs to bear

after the assessment purpose is achieved. For those liabilities for which the appraised entity will no longer be liable after the proposed transfer, the appraised value is nil.

2. *Valuation of non-current assets*

(1) Buildings (structures)

The replacement cost method is mainly used for valuation. The replacement cost method refers to the idea of replacing the evaluated subject, taking the replacement cost as the basis for determining the value of the evaluated subject and deducting the relevant depreciation, to determine the evaluation method for evaluating the value of the subject. The calculation formula is:

Appraisal value = replacement cost (excluding tax) – substantial – functional – economic depreciation

or:

Appraisal value = replacement cost (excluding tax) × integrated depreciation rate

Replacement cost (excluding tax) = construction and installation project cost (including tax) + upfront expenses and other expenses (including tax) + capital cost-deductible input VAT

1) Determination of replacement cost

① Determination of the cost of construction and installation engineering

During the evaluation work, the appraisers use different evaluation methods to determine the cost of construction and installation engineering of the buildings (structures) to be valued by investigating the physical conditions of the buildings (structures) to be valued and investigating the completeness of the construction contract, completion drawings, and project settlement materials. The general project cost is determined according to the actual situation of the buildings (structures) to be evaluated by using one of the methods of re-budgeting method, final accounts adjustment method, analog coefficient adjustment method, unilateral cost estimation index method or using several methods at the same time.

This assessment uses the following 3 methods to determine the construction and installation project cost of a building (structure):

Re-budgeting method: based on the construction contract, completion drawings, project settlement and other materials of the buildings (structures) to be evaluated, combined with the results of the on-site survey, to compile a list of engineering quantities, and calculate the cost of construction and installation engineering of the representative building (structure) on the valuation benchmark date of the assessment based on the prevailing budget quota and expenses quota of local construction, decoration and installation project.

Analogy coefficient adjustment method: through comparing the typical engineering cases with the buildings (structures) to be evaluated in the gross floor area, structure type, storey height, number of storeys, span, material, interior and exterior decoration, construction quality, application of repair and maintenance, refer to the labor cost, material expenses, and mechanical cost growth rate of a typical engineering case calculated by using the re-budgeting method, to obtain the cost of the construction and installation engineering of this type of building (structure) after adjusting the cost of construction and installation engineering of a typical engineering case.

Unilateral cost index estimation method: For some simple buildings (structures), the evaluator adopts unilateral cost indicators after comprehensive analysis, combined with previous experience in similar projects, to obtain the cost of construction and installation engineering of such buildings (structures).

② Determination of upfront expenses and other expenses

The upfront expenses and other expenses mainly include survey and design fees and upfront consulting fees, bidding agency service fees, management fees of construction unit, project cost consulting service fees, project supervision fees, environmental impact consulting fees, safety evaluation fees, etc. The calculated rates are as follows:

No.	Project or cost name	Calculation formula	Rate	Basis for charging
1	Survey and design fees and preliminary consultation fees	Project cost × rate	2.50%	With reference to Fa Gai Jia Ge [2015] No. 299 to implement the adjusted market prices
2	Bidding agency service fee	Project cost × rate	0.15%	
3	Construction supervision fee	Project cost × rate	1.45%	
4	Environmental impact consulting fees	Project cost × rate	0.07%	
5	Management fees of construction unit	Project cost × rate	1.75%	Cai Jian [2016] No.504
6	Project cost consulting service fees	Project cost × rate	0.20%	With reference to Shaan Jia Xing Fa [2014] No. 88 to implement the adjusted market prices
7	Safety evaluation fees	Project cost × rate	0.08%	With reference to the "Guiding Opinions on Safety Evaluation Fees in Shaanxi Province" to implement the adjusted market prices
Total		Cost of construction and installation engineering × 6.20%		

③ Capital cost

The capital cost is the financing cost of the funds occupied during the normal construction period of the building, and is the loan interest on the funds invested in the construction during the construction period. The capital cost is determined based on the reasonable construction period of this project, and the loan interest rate of the corresponding period on the valuation benchmark date based on the sum of the cost of construction and installation project and the previous period and other expenses. The calculation formula is as follows:

Capital cost = (cost of construction and installation project + upfront expenses and other expenses) × normal construction period × loan interest rate during normal construction period × 1/2

Note: On 22 June 2020, the National Interbank Lending Center is authorized to publish the loan prime rate (LPR): "The loan prime rate (LPR) on 22 June 2020 is: LPR for 1 year is 3.85%, LPR for over 5 years is 4.65%. The above LPRs are effective until the next LPR is issued." The reasonable construction period of this construction project is 2 years, so the selected loan interest rate for the construction period is based on the average of 4.25% of the LPR for 1 year of 3.85% and the LPR for over 5 years of 4.65%.

④ Determination of deductible input VAT

According to the "Notice on Comprehensively Launching the Pilot Program for the Reform of Business Tax to VAT" (Cai Shui [2016] No. 36) and the "Announcement on Deepening the Relevant Policies of VAT Reform" (Announcement No. 39 of 2019 by the Ministry of Finance, State Administration of Taxation, and General Administration of Customs), the general tax calculation method shall be applicable to the taxable activities of general taxpayers. The deductible input VAT is calculated as follows:

Deductible input VAT on the cost of construction and installation project = cost of construction and installation project (including tax) ÷ (1+9%) × 9%

Input VAT that can be deducted for upfront expenses and other expenses = upfront expenses and other expenses (including tax) ÷ (1+6%) ×6%

The management fee of the construction unit belongs to the expenses incurred by the enterprise itself and is not taxable.

The input tax amount of the interest paid by the taxpayer for purchasing loan services (occupying and borrowing other person's funds in various forms) and the interest nature expenditure shall not be deducted from the output tax amount.

2) Determination of integrated depreciation rate

① For high-value important buildings and structures, site survey depreciation rate and useful life-based depreciation rate are combined to determine integrated depreciation rate. The formula is as follows:

Integrated depreciation rate = survey depreciation × 60% + life-time depreciation rate × 40%

Of which:

Life depreciation rate (%) = (economic durability life -life used)/economic durability life) × 100%

In determining the surveyed newness rate, construction completion documents of major buildings (structures) shall be inspected to learn about the maintenance and renovation and management history, while onsite survey shall be conducted to evaluate the three parts including its structure, decoration and equipment with on-site survey lists filled in and calculate surveyed newness rate item by item.

② For low-value and simple structured buildings (structures), the newness rate was determined based on useful life approach with adjustment according to the specific condition. The formula is as follows:

Depreciation rate (%) = (economic durability life -life used)/ economic durability life × 100%

3) Calculation of Appraisal value

Assessed value= replacement cost×integrated newness rate

(2) Equipment assets

Such equipment assets are mainly evaluated using the replacement cost method.

The replacement cost method of equipment evaluation is a method to determine the evaluated value of the equipment through estimating the replacement cost of new equipment, and then deducting physical depreciation, functional depreciation and economic depreciation, or based on the integrated depreciation rate. The replacement cost of equipment generally includes all reasonable direct and indirect costs for repurchasing or constructing a new asset with the same function as the evaluated subject, such as the purchase price of the equipment, transportation costs, basic equipment costs, installation and commissioning costs, upfront and other expenses, capital costs, etc. The calculation formula used in this assessment is:

Assessed value= replacement value × integrated depreciation rate

1) Appraisal of machinery and equipment

① Determination of replacement cost of machinery and equipment

Replacement cost = equipment purchase price + transportation and miscellaneous expenses + installation and commissioning fee + basic fee + other expenses + capital cost-deductible VAT

A. Equipment purchase price

For equipment that is still in circulation in the current market, the purchase price of the equipment is directly determined according to the current market price; for equipment that has been eliminated, no longer produced by the manufacturer, and no longer circulated in the market, the purchase price is determined by comparing similar equipment with the evaluated equipment and comprehensively considering the differences in performance, technical parameters, use functions of the equipment.

B. Transportation and miscellaneous expenses

According to the price conditions selected at the time of equipment inquiry, if the purchase price of the equipment includes transportation and miscellaneous charges, it will no longer be calculated, otherwise, refer to the following table to determine the transportation and miscellaneous charges:

Transport mileage	**Fee basis**	**Rate (%)**	**Transport mileage**	**Fee basis**	**Rate (%)**
Within100km	Equipment purchase price	1.0	Within 1000km	Equipment purchase price	2.8
Within 200km	Equipment purchase price	1.2	Within 1250km	Equipment purchase price	3.3
Within 300km	Equipment purchase price	1.4	Within 1500km	Equipment purchase price	3.8
Within 400km	Equipment purchase price	1.6	Within 1750km	Equipment purchase price	4.3
Within 500km	Equipment purchase price	1.8	Within 2000km	Equipment purchase price	4.8
Within 750km	Equipment purchase price	2.3	The rate will increase for every 250km over 2,000km	Equipment purchase price	0.5

C. Installation and commissioning fee

The installation and commissioning fee is determined mainly based on the reference rate of the installation and commissioning fee provided in the "Manual of Common Methods and Parameters for Asset Valuation", while considering the complexity of installation of the equipment and the previous analysis of installation costs of such equipment. According to the price conditions selected in the equipment inquiry, if the equipment purchase price does not include the installation and commissioning costs, refer to the settlement data to calculate the actual installation costs, and after excluding the unreasonable costs, refer to the relevant regulations to comprehensively determine the proportion of the equipment purchase price; If the purchase price already includes the installation and commissioning fee while enquiring the price of the equipment, the calculation will not be repeated.

D. Determination of basic costs

The foundation of most of the machinery and equipment has been reserved during the construction of the project, the basic costs has been reflected in the appraisal of the building, and only a small part of the equipment considers the basic costs.

E. Upfront expenses and other expenses of project construction

It refers to, in addition to the construction and installation engineering costs and the equipment installation engineering costs, the various expenses incurred during the entire construction period from the preparation to the completion of the project and the acceptance and delivery of the project, to ensure the smooth completion of the project construction and normal function after delivery. Details are set out in the table below:

No	Project or cost name	Calculation formula	Rate	Basis for charging
1	Survey and design fees	Equipment purchase price + installation cost + basic costs) x rate	2.00%	With reference to Fa Gai Jia Ge [2015] No. 299 to implement the adjusted market prices

No	Project or cost name	Calculation formula	Rate	Basis for charging
2	Management fees of construction unit	Equipment purchase price + installation cost + basic costs) × rate	1.75%	Cai Jian [2016] No.504
3	Project supervision fee	Equipment purchase price + installation cost + basic costs) × rate	1.45%	With reference to Fa Gai Jia Ge [2015] No. 299 to implement the adjusted market prices
4	Environmental impact consulting fees	Equipment purchase price + installation cost + basic costs) × rate	0.07%	With reference to Fa Gai Jia Ge [2015] No. 299 to implement the adjusted market prices
5	Consulting fee for the upfront work of the project	Equipment purchase price + installation cost + basic costs) × rate	0.05%	With reference to Fa Gai Jia Ge [2015] No. 299 to implement the adjusted market prices
6	Bidding agency service fee	Equipment purchase price + installation cost + basic costs) × rate	0.15%	With reference to Fa Gai Jia Ge [2015] No. 299 to implement the adjusted market prices
7	Project cost consulting service fees	Equipment purchase price + installation cost + basic costs) × rate	0.20%	With reference to Shaan Jia Xing Fa [2014] No. 88 to implement the adjusted market prices
8	Safety evaluation fees	Equipment purchase price + installation cost + basic costs) × rate	0.08%	With reference to the "Guiding Opinions on Safety Evaluation Fees in Shaanxi Province" to implement the adjusted market prices
9	Trial operation fees	Equipment purchase price + installation cost + basic costs) × rate	1.00%	Based on the actual situation of the enterprise and the "Manual of Common Methods and Parameters for Asset Valuation"
Total			7.20%	

F. Capital cost

On 22 June 2020, the National Interbank Lending Center is authorized to publish the loan prime rate (LPR): "the LPR on 22 June 2020 is: LPR for 1 year is 3.85%, LPR for over 5 years is 4.65%. The above LPRs are effective until the next LPR is issued." The reasonable construction period of the construction project is 2 years, and therefore, the selected borrowing rate during the construction period is calculated based on the average 4.25% of the 1-year LPR3.85% and the 5-year LPR4.65%.

The calculation formula is as follows:

Capital cost = (equipment purchase price + transportation and miscellaneous costs + installation and commissioning costs + basic costs + trial operation fees+ other costs) × loan interest rate × (reasonable construction period ÷ 2)

According to the project category, overall construction scale and construction company level, with reference to the actual construction period of the enterprise, it is determined that the normal and reasonable construction period is 2 years. Assuming that the project funds are evenly invested during the construction period, the construction investment loan interest rate is calculated by the average of 4.25% of LPR3.85% for 1 year and LPR4.65% for over 5 years.

G. Deductible VAT

Pursuant to relevant regulations, the value-added tax is calculated at 13% for machinery and equipment, 9% for freight, basic costs and installation fees, and 6% for other expenses less deductible VAT, in which the trial operation fees, management fees of the construction unit and capital costs do not are not included in VAT calculation and are not deductible.

② Determination of integrated depreciation rate

A. For large-scale and key equipment, the survey depreciation rate and theoretical depreciation rate are determined by weight:

Integrated depreciation rate = survey depreciation rate × 0.6 + theoretical depreciation rate × 0.4

a. Survey depreciation rate

The determination of survey depreciation rate is mainly based on the actual status of the enterprise's equipment. According to the technical status, working environment, and maintenance conditions, the equipment is scored item by item according to the actual on-site survey situation to determine the survey depreciation rate.

b. Theoretical depreciation rate

The theoretical depreciation rate is determined according to the economic life of the equipment (or the remaining useful life) and the life used.

Theoretical depreciation rate = (economic life -life used)/economic life× 100%

For equipment whose service life exceeds the economic life, the following calculation formula is applicable:

Theoretical depreciation rate = remaining useful life/(life used + remaining useful life) × 100%

B. For ordinary equipment with small value, the depreciation rate is determined by the life method based on the service time, combined with the maintenance situation.

③ Calculation of Appraisal value

Appraisal value = replacement cost × integrated depreciation rate

2) Appraisal of the vehicles

According to the characteristics of the assets declared to be assessed, the replacement cost method is mainly used for this assessment.

① Price of replacement of vehicles

Price of replacement of vehicles consists of three parts: purchase price, vehicle purchase tax and other appropriate expenses (such as vehicle examination fee, plate license fee and handling charges). The purchase price is mainly determined with reference to latest trade prices of comparable models.

② Determination of integrated depreciation rate

For transportation vehicles, the depreciation rate is determined based on the lower of the vehicle mileage and useful life, and then adjusted according to the on-site survey.

Mileage depreciation rate = (specified vehicle mileage-accumulated mileage)/specified vehicle mileage × 100%

Life depreciation rate = (economic durability life of vehicles -life used)/economic durability life× 100%

Integrated depreciation rate = theoretical depreciation rate × 0.4 + survey depreciation rate × 0.6

③ Determination of assessed value of vehicles

Appraisal value = price of replacement of vehicles × integrated depreciation rate

3) Appraisal of electronic and office equipment

① Determination of the replacement cost of electronic equipment:

The electronic equipment mainly includes corporate office computers, printers, air conditioners, kitchen appliances, washing machines, which are delivered by distributors. The replacement cost is directly determined by the market purchase price.

② Determination of depreciation rate

The depreciation rate of electronic and office equipment is mainly based on its integrated depreciation rate calculated by its economic life. For large-scale electronic equipment, the integrated depreciation rate is also determining with reference to its working environment and equipment operating conditions.

③ Determination of appraisal value

Appraisal value = replacement value of vehicles × integrated depreciation rate

For electronic equipment that has been purchased at an earlier time and has been discontinued and has no comparable prices, assessed value is determined using the market method by inquiring about the second-hand transaction price.

(3) Intangible assets-other intangible assets

1) Patent use rights and patent rights

Since the patent technologies held by the appraised entity act on its products and function together, the value contribution of its individual patent rights cannot be accurately divided, and therefore, the patent technologies are used as an asset group to evaluate its value using the income approach.

The ideology of the income approach is to estimate the income of products using above-mentioned other intangible assets in the upcoming years and based on a certain profit sharing ratio (which is the contribution of the intangible assets to the income in the upcoming years), to calculate the appraised value of the corresponding asset group by discounting and adding the estimated income using the appropriate discount ratio. The basic formula is as follows:

$$P = \sum_{t=1}^{n} \frac{kRt}{(1+i)^t}$$

Where:

P: the value of intangible assets commissioned to be evaluated

Rt: the annual income from the technology in the T year

t: the sequence number of the year for valuation

k: the profit sharing ratio of the intangible assets for the income

i: discount rate

n: the economic income period of the product

2) Trademark

According to market research, due to the exclusivity and difference of trademarks, similar references cannot be selected from market transactions, and the market approach is therefore not applicable.

The appraised entity unit is a special catalyst for related parties, which does not need to be exported and does not contribute significantly to the revenue of the product, and therefore, the income approach is not used for valuation.

In respect of valuation of a trademark, the appraisers first reviewed the trademark certificate and relevant materials of the trademark applied for, and verified the legality, reasonableness, authenticity and validity of the trademark obtainment. Then, the appraisers learnt about history and reality of trademark rights and the scope of application from financial officers, technicians and management personnel, to define and verify the goods involved in this commissioned valuation of trademark rights, and judge the remaining useful life, which can meet the requirement of cost approach, and thus the cost approach is adopted for the valuation of trademark.

According to the general process of registration of ordinary trademarks, registration fees and agency fees will be incurred during the process of trademark registration. The valuation takes the sum of all costs incurred as the appraised value.

(4) Right-of-use asset

The right-of-use asset is the land leases. The appraisers reviewed the relevant contract and evidence of payment. The land leases of companies were evenly apportioned according to the lease term, used life and remaining lease life. The appraisers confirmed the appraised value according to its book value after verifying the amount incurred and the original value entered into the account.

VIII. APPRAISAL PROCESS AND FINDINGS

Pan-China Assets Appraisal Co., Ltd. validated and reviewed the legal documents, accounting records and other relevant materials provided by the client, validated the property titles, inspected relevant assets on site and checked against the inventory of assets provided by the appraised entity, carried out necessary market research and transaction price comparisons, as well as financial analysis and forecast, among other necessary asset appraisal procedures, in accordance with asset appraisal standards, generally accepted accounting principles, relevant laws, regulations and requirements of the authorities, and by following the matters specified in the asset appraisal engagement contract concluded with the client. The asset appraisal process is detailed as follows:

1. Acceptance of engagement and preparations

(1) Pan-China Assets Appraisal Co., Ltd accepted the entrustment of the Client in June 2020 and engaged in this asset appraisal project. Upon taking the job, Pan-China Assets Appraisal Co., Ltd. held talks with the client over the purpose, subject and scope, valuation benchmark date of the appraisal, the nature of the assets to be assessed and other matters that are of significance to the asset appraisal proposal.

(2) An asset declaration breakdown form was tailored to the assets to be assessed. Main assets investigation form and profit and loss investigation form of main activities were designed. Some staff members of the Client supporting the appraisal received training. An asset inventory and all investigation forms were completed.

(3) Design of the appraisal proposal

Depending on the nature of the assets to be assessed, the appraisal implementation plan was finalized, the appraisers were appointed and an on-site task force was put together.

(4) Preparation of appraisal documents

Traded prices of the assessed subjects, market prices of major raw materials, and property title proofs of the assessed subjects were gathered and collated.

The working period of this stage is from 30 June to 1 July 2020.

2. On-site inventory phase

(1) Truthfulness and legitimacy of the assessed subjects

The appraisers checked physical assets and monetary claims and debts against the statements of assets and liabilities provided by the client and the appraised entity in different ways to confirm truthfulness and accuracy of the assets and liabilities.

For monetary funds, we conduct investigations by consulting journals, reviewing bank statements and statements of bank reconciliation.

For inventories, the appraisers carried out an inventory and on-site surveys on the quantity and storage conditions declared by the company, and made detailed verification records on the quantity and purchase time of the inventories of the company. The appraisers checked the quantity and quality of the inventories of the company through on-site spot check.

For claims and debts, the appraisers checked general ledgers and subsidiary ledgers, and randomly checked contracts and vouchers, to confirm truthfulness of the assets and liabilities.

For fixed assets, focused and general investigations were combined, with focus on buildings and structures, and important equipment. The appraisers consulted relevant engineering design and construction documents, contractor contracts, settlement documents, and equipment purchase contracts and invoices, to determine truthfulness of the assets.

For intangible assets, the appraisers reviewed the patent certificate, etc., and checked the subsidiary ledgers to determine its truthfulness.

For right-of-use assets, the appraisers checked general ledgers and subsidiary ledgers, and randomly checked contracts and vouchers, to confirm truthfulness of the right-of-use assets.

(2) Investigation of actual state of the assets

On-site investigation for buildings (structures): with the cooperation of the financial management personnel of the appraised entity and related fixed asset management personnel, the appraisers conducted on-site investigation of the assessed buildings and structures one by one, and checked the names and locations, structural form, gross floor area of the buildings and structures according to the declaration form and filled in the missing items and omissions in the asset declaration form according to the current asset status on the valuation benchmark date to achieve that accounts are consistent without omission and repeat. During the investigation, the appearance, number of floors, height, span, interior and exterior decoration, indoor facilities, current status of various components, basic conditions and maintenance and use of buildings and structures were also observed, and detailed observation records were made.

Focused and general investigations were combined to find out the state of the equipment, with focus on production machinery. Supported by the persons in charge of the equipment at the appraised entity, the appraisers reviewed the operation records of the equipment and checked the running status of the equipment on site. On the basis of investigation, key equipment investigation forms were completed.

For patents, the appraisers checked the patent application materials, utility model patent certificates and invention patent certificates to confirm their maintenance status and usage status.

(3) Investigation of value composition of physical assets and business development

The value composition of the assets was checked for appropriateness and compliance depending on the nature of the assets of the appraised entity. In particular, the truthfulness, accuracy, completeness and compliance of the carrying amount of fixed assets was examined. Relevant accounting vouchers, accounting books, final accounts, construction contracts and equipment purchase contracts were reviewed.

(4) Investigation of revenue and costs

To make preparations for future cashflow forecasts, profit/loss accounting data of relevant entities in prior years were collected for estimation and analysis; actual business performance, the composition of their revenue, costs and expenses and future trends of the entities and business units were found out by interviews and other means.

By collecting relevant information, this paper analyzes and forecasts the market environment, future competition and development trend of various businesses of Shaanxi Future Energy & Chemicals Co., Ltd.

The working period of this stage is from 2 July to 5 August 2020.

3. Choice of appraisal approach, gathering of market intelligence and the process of estimation

The appraisers determined appraisal parameters and prices based on the work plan mapped out for the project in particular and the pricing principles and valuation models identified as appropriate in light of the actual situation, and then started appraising and estimating by reference to the historical data and future forecasts provided by the client.

4. Summary of appraisal findings

(1) Determination of appraisal results

According to the situation of the assessment site survey conducted by the appraisers of Pan-China Assets Appraisal Co., Ltd and the necessary market survey and calculation, the results of the asset-based approach and the income approach entrusted with the assessment of assets are determined.

(2) Analysis of appraisal results and preparation of the valuation report

The asset valuation report was drafted in compliance with the requirements of Pan-China Assets Appraisal Co., Ltd.. The appraisal results and the relevant asset valuation report went through three-level reviews by Pan-China Assets Appraisal Co., Ltd. and were confirmed to be error-free by the signatory asset appraiser. Then the project team finalized and delivered the report.

(3) Archiving of original documents

The working period of the abovementioned phases 3 and 4 is from 6 August to 6 September 2020.

IX. ASSUMPTIONS IN THE APPRAISAL

General assumptions:

1. Trade assumption: All assets to be appraised were assumed to be in the course of trading. The appraisers valued the assets according to simulated trade terms.

2. Open market assumption: Open market assumption is an assumption about the conditions of the market the assets are assumed to enter and about the degree of impact the assets are exposed to under such market conditions. An open market is defined as full-fledged and developed market conditions, a competitive market with willing buyers and sellers. In this market, buyers and sellers are on equal footing, have the opportunity and time to get sufficient market information, and are able to trade in a voluntary and sensible manner, free from any compulsory or restrictive conditions.

3. Continuous use assumption: The continuous use assumption is an assumption about the conditions of the market the assets are assumed to enter and about the state of the assets under such market conditions. First of all, the assets being appraised are in use. Secondly, hypothetically the assets in use will continue to be used. Under the continuous use assumption, the possibility of repurposing of the assets or optimal conditions of use are disregarded. Hence, the appraisal results are of limited usability.

4. Going concern assumption: The entire assets are taken as the subject of appraisal. As a business entity, the company will continue as a going concern in the external environment. The management is responsible and has the ability to take responsibilities; the business is legal and profitable, and thus sustainable.

This appraisal result is based on the above assumptions. Where the above assumptions are not established, it will have a significant impact on the valuation results, and the valuation results will generally be invalid.

X. APPRAISAL CONCLUSION

(I) Appraisal Conclusion with Asset-based Approach

Under the going concern assumption as at the valuation benchmark date, the book value of total assets, the book value of liabilities and the book value of net assets of Yankuang Yuling Fine Chemical Co., Ltd were RMB242,058,400, RMB83,491,500 and 158,566,900, respectively. The total assets after appraisal by the asset-based approach were RMB307,115,700, liabilities were RMB83,491,500, net assets were RMB223,624,200, and the appraised appreciation was RMB65,057,300, representing an appreciation rate of 41.03%.

Summary of the detailed valuation is shown in the following table:

Summary sheet of assets assessment results

Unit: RMB (Ten Thousand)

Item	Carrying amount	Estimated value	Increase or decease	Value-added rate%
Current assets	7,765.22	8,045.19	279.97	3.61
Non-current assets	16,440.62	22,666.38	6,225.76	37.87
Of which: Long-term equity investments	–	–	–	
Investment properties	–	–	–	
Fixed assets	15,127.65	21,072.16	5,944.51	39.30
Construction in Progress	–	–	–	
Intangible assets	1,291.90	1,573.15	281.25	21.77
Land use rights	–	–	–	
Others	21.07	21.07	–	–
Total assets	**24,205.84**	**30,711.57**	**6,505.73**	**26.88**
Current liabilities	8,331.64	8,331.64	–	–
Non-current liabilities	17.51	17.51	–	–
Total liabilities	**8,349.15**	**8,349.15**	**–**	**–**
Net assets	**15,856.69**	**22,362.42**	**6,505.73**	**41.03**

Note: For details of the valuation conclusion, please refer to the "Asset Valuation Schedule".

(II) Appraisal Results of Income Approach

The income approach is greatly affected by the future profitability, asset quality, operating capabilities, and operating risks of the enterprise. As the appraised entity is a catalyst operation supporting the indirect coal liquefaction comprehensive utilization project with an annual output of 1 million tons of Shaanxi Future Energy & Chemicals Co., Ltd., an affiliate of Yuheng Industrial Park. At present, it mainly provides Shaanxi Future Energy & Chemicals Co., Ltd. with catalysts and its future revenue is greatly affected by the affiliate. Combining the purpose of this evaluation, the asset-based approach can reflect the fair market value of assets from the perspective of asset replacement. The appraised entity also provided detailed information about its assets and liabilities, and the appraisers also collected external data deemed necessary to the asset-based approach. We conducted a full inspection and appraisal of its assets and liabilities. Therefore, the appraisal conclusion came up with using the asset-based approach is comparatively more reliable. Therefore, the asset-based approach was adopted. That is, under the ongoing concern on 30 June 2020, being the valuation benchmark date, the value of total shareholders' equity after appraisal of Fine Chemical is RMB223,624,200 with an estimated appreciation of RMB65,057,300 and an appreciation rate of 41.03%.

XI. SPECIAL NOTES

The appraiser of the company is incapable of evaluating and estimating the following items on their own. Notwithstanding the above, this may affect the conclusion. For this reason, it is essential for the user of the valuation report to pay particular attention to this.

(I) The "appraisal value" in this report refers to our fair valuation opinions for the purposes listed in this report on the premise that the current use of the appraised assets remains unchanged and continues to operate, as well as on the basis of the status of the valuation benchmark date and the external economic environment, without being responsible for other uses.

(II) The appraisal conclusion in the report reflects the market value determined by the appraised entity according to the principle of open market under the purpose of this appraisal, without considering the relevant expenses and taxes to be borne by the assets in the process of property registration or ownership change, and without making any tax adjustment preparation for the value added of the assets appraisal. The appraisal conclusion is not to be deemed a guarantee for the realizable price of the appraised object.

(III) In case of changes in the amount of assets and pricing standards within the term of appraisal conclusion, moderate adjustments shall be made, instead of the direct use thereof.

(IV) Circumstances where the report conclusions issued by other institutions are cited:

The relevant financial data of the asset valuation is referred to an unqualified audit report (Zhongxingcai Guanghua Shen Kuai Zi (2020) No. 316047) issued by Zhongxingcai Guanghua Certified Public Accountants LLP.

(V) The ownership information is incomplete or defective:

1. A total of 20 buildings are included in the valuation scope, with a total gross floor area of 27,069.47 square meters. As of the valuation benchmark date, no real estate ownership certificate has been applied. In this regard,

Yankuang Yuling Fine Chemical Co., Ltd. has issued a letter of undertaking for the building ownership to certify that its property rights belong to the company and there is no ownership dispute. For buildings that have not yet applied for a real estate ownership certificate, the floor area is mainly provided by the valued entities according to the facts, and the appraisers shall check and verify according to relevant drawings, construction contracts and other materials provided by the company in conjunction with on-site inventory. The valuation was carried under the prerequisite that the building ownership is clear from any dispute.

2. The parcel occupied by the building (structures) is the land of the leasing related party, Shaanxi Future Energy & Chemicals Co., Ltd., and the "Land Lease Agreement" has been entered into. The lease term is from 1 June 2012 to 31 May 2022. The state-owned land use certificate number of the occupied land is: Yushi Guoyong (2015) No. 49722, the nature of the transfer is industrial land, and the area of leased land use rights is 40,716.00 square meters. This valuation is based on the assumption of sustainable land lease. The report users are reminded to pay attention to the impact of this matter on the valuation conclusion.

(VI) Limitations of asset appraisal procedures, handling methods and their impact on appraisal conclusions:

1. In this appraisal, the asset appraiser did not carry out technical inspection on the concealed works and internal structures of various buildings (structures) which are not visible to the naked eye. The appraisal conclusion of the houses and structures was based on the assumption that the relevant engineering data provided by the title holder are true and effective and without any inspection instruments.

2. In this appraisal, the asset appraiser did not carry out technical tests on the technical parameters and performance of various equipment on the benchmark date. The asset appraiser made a judgment through on-site investigation on the premise that the relevant technical data and operation records provided by the evaluated unit are true and effective.

(VII) Since the outbreak of novel coronavirus in China in January 2020, the prevention and control of the epidemic has been carried out nationwide. As of the date of the valuation report, the epidemic prevention and control of China has been further consolidated, and the resumption of work and production is gradually approaching or reaching normal levels. According to relevant personnel of the appraised entity, the epidemic has partially affected the production and operation of the enterprise. Therefore, the impact of the epidemic has been taken into account in this valuation. The report users are reminded to pay attention to the impact of this matter on the valuation conclusion.

XII. RESTRICTIONS ON THE USE OF ASSET VALUATION REPORT

(I) The valuation report may only serve the purpose of appraisal stated herein;

(II) The asset appraisal institution and the appraiser will not be held liable or take the consequences, in case the client or other users of the valuation report fail to comply with the relevant laws, administrative regulations and use the report for other purposes than what is stated herein;

(III) Any institution and individual shall not use the report on asset appraisal other than the client, other report users agreed in the commission contract for asset appraisal, and report users in compliance with laws and administrative regulations;

(IV) The user of the asset valuation report should correctly understand the appraisal conclusion, which is not equal to the achievable price of the appraisal object, and the appraisal conclusion should not be considered as a guarantee for the achievable price of the appraisal object;

(V) The valuation report shall be submitted to the competent business department for examination. The report shall not be used until after being put on file.

(VI) All (or perhaps any) of the valuation report may be extracted, quoted or disclosed, subject to examination by the appraisal institution, unless otherwise agreed in the laws, regulations and entrusted by the corresponding party.

(VII) The appraisal conclusion disclosed in this valuation report is valid only for the corresponding economic behavior of the project, and the validity period of the asset appraisal conclusion is one year from the appraisal benchmark date, that is, from 30 June 2020 to 29 June 2021. When the appraisal target is hit within the term, the appraisal conclusion shall be a useful guideline on the value, subject to adjustments subsequent to the benchmark date of assets appraisal. (but is necessary it be adjusted for the postponement of the valuation date). Assets shall be reappraised if the one-year limit is exceeded.

XIII.REPORTING DATE OF ASSET APPRAISAL

The asset valuation report date is 6 September 2020, which is the date when the asset appraisal conclusion is formed.

Asset appraisal institution: Pan-China Assets Appraisal Co., Ltd

Legal representative:

Asset appraiser: Sun Shengnan

Asset appraiser: Wang Nannan

6 September 2020

C. SUMMARY OF THE ASSET VALUATION REPORT ON LUNAN CHEMICAL

(Summary of the Report)
ASSET VALUATION REPORT ON THE VALUE OF THE TOTAL SHAREHOLDERS' EQUITY OF YANKUANG LUNAN CHEMICAL CO., LTD. INVOLVED IN THE PROPOSED ACQUISITION OF EQUITY INTEREST IN YANKUANG LUNAN CHEMICAL CO., LTD. BY YANZHOU COAL MINING COMPANY LIMITED

Tian Xing Ping Bao Zi (2020) No. 1255

To Yanzhou Coal Mining Company Limited

Pan-China Appraisal Co., Ltd is engaged by the Company to appraise the market value of the total shareholders' equity of Yankuang Lunan Chemical Co., Ltd. involved in the proposed acquisition of equity interest in Yankuang Lunan Chemical Co., Ltd. by Yanzhou Coal Mining Company Limited as at 30 June 2020 following necessary valuation procedures and using asset-based approach and income approach with principles of independence, objectivity and fairness in accordance with the requirements of relevant laws, administrative regulations and asset valuation standards. The asset valuation is reported as follows.

I. THE CLIENT, APPRAISED ENTITY AND OTHER VALUATION REPORT USERS AS AGREED IN THE ASSET VALUATION ENTRUSTMENT CONTRACT

(I) Overview of the Client

Company name:	Yanzhou Coal Mining Company Limited
Unified Social Credit Code:	91370000166122374N
Registered address:	No. 298, Fushan South Road, Zoucheng City
Legal representative:	Li Xiyong
Registered capital:	RMB4,912,016,000
Type of company:	Limited liability company (Taiwan, Hong Kong, Macao and domestic joint ventures, listed)
Date of Establishment:	25 September 1997

Scope of business: selection and sale of coal (among others, the export of coal should be made through companies with coal export right according to the existing state regulations); outbound investment using the company's own fund and investment consulting; commission business; transportation of goods through self-owned railway within the mining area; transportation of goods through highway; operation of ports; manufacture, sale, lease, repair, installation and dismantlement of machinery and equipment in the mining area; production and sale of other mining materials; sale and lease of electronic equipment and sale of parts; leasing of construction mechanical equipment; sale of metallic materials, electronic products, construction materials, timber and rubber products; production and sale of cold patch, soap, anchoring agent and coat; composition of mining, science and technological services; mining rescue technology services; property development within the mining areas, property leasing and provision of services such as dining and accommodation; production and sale of coal residual stones as construction materials; sale of coke, iron ore and nonferrous metals; import and export of goods and technology; warehousing (excluding hazardous chemicals); automobile repairs; labour dispatch; property management service, landscaping; sewage treatment; heat supply; industrial tourism; corporate internal staff training (skills training for first aid team members, manufacturing technology training, safety training); measurement examination, physical and chemical inspection, non-destructive testing, analytical testing, manufacturing safety testing and inspection; corporate management; corporate management consulting; corporate planning and design; market investigation; economic and trade consulting; technology promotion, technology services; sale of lubricating oil, lubricating grease, chemical raw material and chemical engineering products (excluding dangerous chemical products), coat, labour protection products, spinning products, cultural and educational products, plastic products, instruments and apparatuses, cement and fire-resistant materials and products. General contracting of mining engineering and construction; contracting of mechanical and electrical engineering construction; sales of coal-water slurry. (Items which need approvals according to the laws shall be subject to the approvals of relevant authorities before operation activities can be carried out.)

Yanzhou Coal Mining Company Limited held the 2018 Annual General Meeting, the second class meeting of the holders of A shares for the year 2019 and the second class meeting of the holders of H shares for the year 2019 on 24 May 2019, considering and approving "The Proposal Regarding the Grant of General Mandate to the Board to Repurchase H Shares of the Company". Yanzhou Coal started to exercise the general mandate on repurchase of H shares on 4 May 2020, with a total of 14 times of repurchases of H shares and an aggregate of 52,016,000 H shares repurchased. The registered capital of the Company changed from RMB 4,912.0160 million to RMB4,860.0000 million, and corresponding change of business registration has not been made yet.

(II) Overview of the appraised entity

1. General information

Company name:	Yankuang Lunan Chemical Co., Ltd.
Unified Social Credit Code:	913704006644327461
Registered address:	Mushi Town, Tengzhou City, Shandong Province (Lunan High-tech Chemical Industrial Park)
Legal representative:	Liu Qiang
Registered capital:	Renminbi five billion forty million six hundred and ninety thousand and nine hundred only
Type of company:	Limited liability company (solely owned legal person invested in or controlled by a natural person)
Date of establishment:	11 July 2007

Scope of business: development, production and sales of: acetic acid, ethyl acetate, methyl acetate, n-butanol, isobutanol, n-butyraldehyde, isobutyraldehyde, propane, methanol, n-butyl acetate, sulfur, formaldehyde solution, liquid ammonia, ammonia solution, paraformaldehyde, acetic anhydride; urea and acetyl chemical products (validity period is subject to license); power generation; engagement in the operation of self-use equipment, raw materials, materials and packaging; production and sales of steam, polyformaldehyde, urea aqueous solution, 84 disinfectant (excluding any dangerous chemical products); catering services; accommodation services; conference and exhibition services; import and export business (excluding publications). (Items which need approvals according to the laws shall be subject to the approvals of relevant authorities before operation activities can be carried out.)

2. History and changes in the enterprise's shareholding structure

The predecessor of Yankuang Lunan Chemical Co., Ltd. was Yankuang Guotai Acetyl Chemical Co., Ltd., which was established in 2007. On 1 June 2007, Yankuang Guotai Acetyl Chemical Co., Ltd. was established according the document of Yankuang Group Company Limited, namely the "Approval of Yankuang Group Company Limited on the establishment of a company with an annual output of 300,000 tons of acetic acid and 100,000 tons of acetic ether and public works projects" (Yankuang Group Ji Fa [2007] No. 270) with a registered capital of RMB600 million and a paid-in capital of RMB600 million, all of which were contributed by Yankuang Group Company Limited in monetary capital. The paid-in registered capital was reviewed and verified by the Zoucheng branch of Shandong Xinlianyi Accounting Firm Co., Ltd. and issued a capital verification report of Lu Xinlianyi Yan Zi (2007) No. 028. The shareholding structure of the company at its inception is as follows:

Unit: RMB0'000

No.	**Name of shareholder**	**Contributed registered capital**	**Percentage of shareholding**
1	Yankuang Group Company Limited	60000.00	100.00%
Total		60000.00	100.00%

On 28 June 2012, the shareholders' meeting of Yankuang Guotai Acetyl Chemical Co., Ltd. passed a resolution to increase the capital by RMB349.62 million. The increased capital was contributed by the original shareholder in monetary capital. Upon the completion of the capital increase, the registered capital of Yankuang Guotai Acetyl Chemical Co., Ltd. was RMB949.62 million, and the paid-in capital was RMB949.62 million. Upon the completion of this capital increase, the shareholding structure of the company is as follows:

Unit: RMB0'000

No.	Name of shareholder	Contributed registered capital	Percentage of shareholding
1	Yankuang Group Company Limited	94,962.00	100.00%
Total		94,962.00	100.00%

On 2 November 2016, the shareholders' meeting of Yankuang Guotai Acetyl Chemical Co., Ltd. resolved to change the company name from Yankuang Guotai Acetyl Chemical Co., Ltd. to Yankuang Lunan Chemical Co., Ltd.

On 15 February 2017, as approved by Yankuang Group Company Limited, Yankuang Lunan Chemical Co., Ltd. absorbed and merged Yankuang Guotai Chemical Co., Ltd. Upon the merger, the company name was changed to Yankuang Lunan Chemical Co., Ltd.; upon the completion of the absorption and merger, Yankuang Guotai Chemical Co., Ltd. was deregistered. On 15 February 2017, Yankuang Lunan Chemical Co., Ltd. entered into the absorption and merger agreement with Yankuang Guotai Chemical Co., Ltd. Upon the merger, the registered capital of the new company was RMB1,879,620,000 and the company was held by Yankuang Group Company Limited as to 100%. Upon the completion of the absorption and merger, the shareholding structure of Yankuang Lunan Chemical Co., Ltd. is as follows:

Unit: RMB0'000

No.	Name of shareholder	Contributed registered capital	Percentage of shareholding
1	Yankuang Group Company Limited	187,962.00	100.00%
Total		187,962.00	100.00%

On 21 December 2017, the 27th meeting of the first session of the board of directors of Yankuang Group Company Limited agreed a trust plan established by Industrial Bank through China Industrial International Trust Limited to become a preferred limited partner of the limited partnership with an asset scale of RMB2 billion. Yankuang Group Company Limited contributed RMB500 million to become a subordinated limited partner of the limited partnership, and the proportion of preferred limited partners and subordinated limited partners was 4:1. Yankuang Group and Industrial Bank established Fuzhou Gulou Yankuang Investment Center (Limited Partnership), and increased the capital of Yankuang Lunan Chemical Co., Ltd. by RMB2.5 billion, of which RMB1,805.9 million was included in the equity, and the remaining capital was included in the capital reserve, and thus the limited partnership held 49% equity interests in Lunan Chemical. The increased capital was specifically used to repay loans from financial institutions. On 25 December 2017, the shareholders' meeting of Yankuang Lunan Chemical Co., Ltd. passed a resolution to increase the registered capital of RMB1,879.62 million to RMB3,685.52 million. The increased registered capital of RMB1,805.9 million was contributed by the shareholder, Fuzhou Gulou Yankuang Investment Center (Limited Partnership). Upon the completion of the capital increase, the shareholding structure of Yankuang Lunan Chemical Co., Ltd. is as follows:

Unit: RMB0'000

No.	Name of shareholder	Contributed registered capital	Percentage of shareholding
1	Yankuang Group Company Limited	187,962.00	51.00%
2	Fuzhou Gulou Yankuang Investment Center (Limited Partnership)	180,590.00	49.00%
Total		368,552.00	100.00%

On 30 January 2018, the shareholders' meeting of Yankuang Lunan Chemical Co., Ltd. passed a resolution to increase the registered capital of RMB3,685.52 million to RMB4,755.52 million. The increased registered capital of RMB1,070.00 million was contributed by the shareholder, Yankuang Group Company Limited. Upon the completion of the capital increase, the shareholding structure of Yankuang Lunan Chemical Co., Ltd. is as follows:

Unit: RMB0'000

No.	Name of shareholder	Contributed registered capital	Percentage of shareholding
1	Yankuang Group Company Limited	294,962.00	62.03%
2	Fuzhou Gulou Yankuang Investment Center (Limited Partnership)	180,590.00	37.97%
Total		475,552.00	100.00%

On 11 October 2018, the shareholders' meeting of Yankuang Lunan Chemical Co., Ltd. passed a resolution to increase the registered capital of RMB4,755.52 million to RMB5,040,690,900. The increased registered capital of RMB285,170,900 was contributed by the shareholder, Yankuang Group Company Limited, by way of land use rights. Upon the completion of the capital increase, the shareholding structure of Yankuang Lunan Chemical Co., Ltd. is as follows:

Unit: RMB0'000

No.	Name of shareholder	Contributed registered capital	Percentage of shareholding
1	Yankuang Group Company Limited	323,479.09	64.17%
2	Fuzhou Gulou Yankuang Investment Center (Limited Partnership)	180,590.00	35.83%
Total		504,069.09	100.00%

On 16 August 2019, the shareholders' meeting of Yankuang Lunan Chemical Co., Ltd. passed a resolution that Fuzhou Gulou Yankuang Investment Center (Limited Partnership) transferred part of equity interest of RMB1,444.72 million (accounting for 28.66% of the registered capital) among its entire equity interest of RMB1,805.90 million (accounting for 35.83% of the registered capital) in Yankuang Lunan Chemical Co., Ltd. to Yankuang Group Company Limited

according to the law at a consideration of RMB2,000,000,000. Upon the equity transfer, the shareholding structure of Yankuang Lunan Chemical Co., Ltd. is as follows:

Unit: RMB0'000

No.	Name of shareholder	Contributed registered capital	Percentage of shareholding
1	Yankuang Group Company Limited	467,951.09	92.83%
2	Fuzhou Gulou Yankuang Investment Center (Limited Partnership)	36,118.00	7.17%
	Total	504,069.09	100.00%

On 16 August 2019, the shareholders' meeting of Yankuang Lunan Chemical Co., Ltd. passed a resolution that Fuzhou Gulou Yankuang Investment Center (Limited Partnership) transferred its entire equity interest of RMB361.18 million (accounting for 7.1% of the registered capital) in Yankuang Lunan Chemical Co., Ltd. to Yankuang Group Company Limited according to the law. Upon the equity transfer, the shareholding structure of Yankuang Lunan Chemical Co., Ltd. is as follows:

Unit: RMB0'000

No.	Name of shareholder	Contributed registered capital	Percentage of shareholding
1	Yankuang Group Company Limited	504,069.09	100.00%
	Total	504,069.09	100.00%

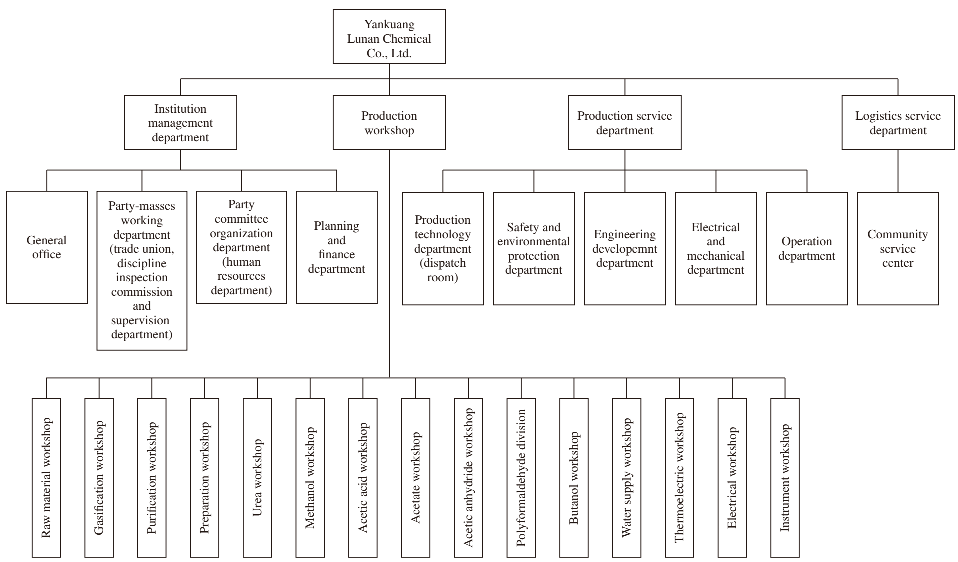
As of 30 June 2020, being the valuation benchmark date, there is no change in the shareholding structure of Yankuang Lunan Chemical Co., Ltd.

3. Overview of the company's major assets

The major assets of Yankuang Lunan Chemical Co., Ltd. are current assets and non-current assets. Overview of the company's major assets is as follows:

Current assets include monetary funds, bills receivable, accounts receivable, accounts prepaid, other receivables, inventories and other current assets; non-current assets include investment in other equity instruments, fixed assets, construction in progress, intangible assets, and long-term deferred expenses, deferred income tax assets and other non-current assets. Among them: fixed assets include buildings (structures), machinery and equipment, and electronic equipment; intangible assets are mainly proprietary techniques, trademarks, patents, and use rights of outsourced technology; construction in progress refers to payments for civil works and facilities under construction; other non-current assets are prepayment, bankruptcy asset package of Yankuang Lunan Fertilizer Plant, certificate of deposit and interest.

4. Organisational structure and human resources of the company



Yankuang Lunan Chemical Co., Ltd. currently comprises 4 departments, namely the institution management department (including the general office, party-masses working department, party committee organization department and planning and finance department), production workshop (including the raw material workshop, gasification workshop, purification workshop, preparation workshop, urea workshop, methanol workshop, acetic acid workshop, acetate workshop, acetic anhydride workshop, polyformaldehyde division, butanol workshop, water supply workshop, thermoelectric workshop, electrical workshop and instrument workshop), production service department (including the production technology department, safety and environmental protection department, engineering development department, electrical and mechanical department and operation department) and logistics service department (including the community service center).

5. *Statements of Financial Position and Operating Results*

Statement of Financial Position

Unit: RMB0'000

Item	31 December 2017	31 December 2018	31 December 2019	30 June 2020
Current assets	426,819.75	274,049.94	246,704.77	255,241.72
Non-current assets	426,582.20	610,396.15	695,223.75	731,024.02
Including: Long-term equity investment	–	–	–	–
Investment properties	–	–	–	–
Fixed assets	378,147.26	461,830.70	431,432.33	438,685.65
Construction in progress	6,929.14	12,552.51	78,365.66	78,659.71
Intangible assets	28,715.70	33,485.31	59,960.97	52,073.40
Others	12,790.09	102,527.63	125,464.80	161,605.26
Total assets	853,401.95	884,446.09	941,928.52	986,265.74
Current liabilities	634,326.59	202,492.37	264,441.71	369,334.04
Non-current liabilities	138,246.18	204,676.17	132,166.43	62,733.02
Total liabilities	772,572.76	407,168.54	396,608.15	432,067.06
Net assets	80,829.19	477,277.55	545,320.38	554,198.68

Statement of Operating Results

Unit: RMB0'000

Item	2017	2018	2019	January to June 2020
I. Operating income	407,940.89	635,612.36	631,034.96	260,306.65
Less: Operating costs	327,241.57	513,297.85	535,351.87	243,015.00
Tax and surcharges	2,292.75	3,717.18	3,867.73	1,529.94
Selling expenses	13,413.51	146.34	43.44	23.87
Administrative expenses	4,734.44	14,183.21	12,847.69	5,945.69
Research and development expenses	14,432.71	9,030.84	19,996.92	7,247.05
Finance costs	26,103.34	15,729.24	13,220.18	5,866.01
Add: Other gains	8.54	3.32	70.38	90.00
Loss on impairment of credit	–	-36,568.75	–	–
Loss on impairment of assets	–	-155.25	-1,023.42	–2,043.97
Gains from disposal of assets	–	–	6.58	67.86
II. Operating profit	19,731.09	42,787.01	44,760.66	-5,207.01
Add: Non-operating income	102.32	36.83	532.94	576.75
Less: Non-operating expenses	22.76	53.87	551.62	72.52
III. Total profit	19,810.65	42,769.97	44,741.98	-4,702.78
Less: Income tax expenses	-119.30	3,467.80	5,885.63	1,012.02
IV. Net profit	19,929.95	39,302.17	38,856.35	-5,714.80

The financial data of 2017, 2018, 2019 and January to June 2020 as set out in the tables above have been audited by Zhongxingcai Guanghua Certified Public Accountants LLP which has issued a standard unqualified Audit Report (Zhongxingcai Guanghua Shen Kuai Zi [2020] No. 316051).

(III) Other Valuation Report Users as Agreed in the Asset Valuation Entrustment Contract

According to the asset valuation entrustment contract, there is no other user of the valuation report.

(IV) Relationship between the Client and the appraised entity

Yanzhou Coal Mining Company Limited proposed to acquire the equity interest of Yankuang Lunan Chemical Co., Ltd., whereas Yankuang Group Company Limited holds directly and indirectly 56.01% equity interest in Yanzhou Coal Mining Company Limited, and holds 100% equity interest in Yankuang Lunan Chemical Co., Ltd. Yankuang Group Company Limited is the ultimate controlling party of Yanzhou Coal Mining Company Limited and Yankuang Lunan Chemical Co., Ltd.

II. VALUATION PURPOSE

According to "Summary of General Manager Work Meeting of Yanzhou Coal Mining Company Limited (Issue 27)", Yanzhou Coal Mining Company Limited proposed to acquire the equity interests of Yankuang Lunan Chemical Co., Ltd., and it is required to conduct evaluation on the involved total shareholders' equity of Yankuang Lunan Chemical Co., Ltd. in order to provide a value reference for the proposed acquisition.

III. VALUATION SUBJECT AND VALUATION SCOPE

(I) Valuation Subject

The valuation subject is the total value of shareholders' equity of Yankuang Lunan Chemical Co., Ltd.

(II) Valuation Scope

The valuation scope is the audited assets and liabilities of Yankuang Lunan Chemical Co., Ltd. reported on the valuation benchmark date including the book value of total assets, the book value of liabilities and the book value of net assets of RMB9,862,657,400, RMB4,320,670,600 and RMB5,541,986,800, respectively. The book values have been audited by Zhongxingcai Guanghua Certified Public Accountants LLP which has issued a standard unqualified Audit Report (Zhongxingcai Guanghua Shen Kuai Zi [2020] No. 316051). The book values of various assets and liabilities are shown in the table below:

Summary of Assets Valuation Reporting Form

Unit: RMB0'000

Item	**Book value**
Current assets	255,241.72
Non-current assets	731,024.02
Including: Long-term equity investments	–
Investment properties	–
Fixed assets	438,685.65
Construction in progress	78,659.71
Intangible assets	52,073.40
Land use right	44,026.42
Others	161,605.26
Total assets	986,265.74
Current liabilities	369,334.04
Non-current liabilities	62,733.02
Total liabilities	432,067.06
Net assets	554,198.68

1. The client has undertaken that the entrusted subject and scope of the valuation are consistent with those involved in such economic activity, and such subject and scope have been audited by Zhongxingcai Guanghua Certified Public Accountants LLP which has issued a standard unqualified Audit Report (Zhongxingcai Guanghua Shen Kuai Zi [2020] No. 316051).

2. The off-balance sheet assets reported by the enterprise

The book value of trademarks and patents owned by Yankuang Lunan Chemical Co., Ltd. was nil, including 20 trademarks, 26 patents for invention, 3 patents for utility models and 3 proprietary technologies. Related costs of such trademarks and patents are included in the expenses during the current period and are not included in intangible assets. Details are set out in the table below:

1) Trademarks

Application number	Content or name	Right holder	Date of trademark registration
1745162	Lunan Chemical	Yankuang Lunan Chemical Co., Ltd.	2002/4/14
1728139	Lunan		2002/3/14
6202519	Lunan Chemical		2010/3/7
6389074	Lunan Chemical		2010/3/28
6712174	Lunan Chemical		2010/6/14
5105868	Lunan Chemical		2009/6/14
738423	Luofengshan		1995/4/7
738427	Luofengshan		1995/4/7
1292502	Luofengshan		1999/7/14
738977	Luofengshan		1995/4/7
3461120	Kesheng		2004/11/21
6034658	Kesheng		2010/1/21
3461121	Mozi		2004/11/21
9367498	Lunan Chemical		2012/8/14
9367461	Yankuang Lunan Chemical		2012/6/21
3461460	Mozi		2004/7/14
3461461	Kesheng		2004/8/28
11327484	Lunan Chemical		2014/1/7
18299895	Lunan Chemical		2016/12/21
4823130	Yankuang Guotai		2008/11/4

2) Patents

Application number	Type	Content or name	Right holder	Date of Application
201210173703.5	Invention	Rare earth coupling agent, preparation method and application thereof in treatment of glass fiber reinforced polyformaldehyde composite material	Yankuang Lunan Chemical Co., Ltd.	2012/5/3

Application number	Type	Content or name	Right holder	Date of Application
201210164197.3	Invention	Reinforced and toughened polyformaldehyde and preparation method thereof	Yankuang Lunan Chemical Co., Ltd.	2012/5/24
201310633266.5	Invention	Portable sampling device of double-screw polyformaldehyde polymerization extruder	Yankuang Lunan Chemical Co., Ltd.	2013/11/29
201210164300.4	Invention	Wear resistant self-lubricating polyformaldehyde and preparation method thereof	Yankuang Lunan Chemical Co., Ltd.	2012/5/24
201110293116.5	Invention	Reactive distillation unpowered circulation technology and device	Yankuang Lunan Chemical Co., Ltd.	2011/9/30
201010217347.3	Invention	Reaction equipment for synthesizing ethylic acid by low-pressure methanol carbonylation of methanol	Yankuang Lunan Chemical Co., Ltd.; Yankuang Group Company Limited	2010/7/5
200810157532.0	Invention	Method for de-iodinating and refining acetic acid	Yankuang Lunan Chemical Co., Ltd.; Yankuang Group Company Limited	2008/10/6
201510068764.9	Invention	Separating reducing impurity decanter in a kind of acetic acid refining process	Yankuang Lunan Chemical Co., Ltd.	2015/2/10
201210274859.2	Invention	Method for indirectly preparing ethyl acetate by hydrogenating acetic acid	Yankuang Lunan Chemical Co., Ltd.	2012/8/3
201110453527.6	Invention	Gasified coal-water-slurry preparation process and corresponding production line	Yankuang Lunan Chemical Co., Ltd.	2011/12/30
201210164732.5	Invention	Technology and device for preparing industrial carbon monoxide with water gas	Yankuang Lunan Chemical Co., Ltd.	2012/5/24
201210358383.0	Invention	Method and system for internal compression process space division reducing high-pressure plate type heat exchanger temperature differences	Yankuang Lunan Chemical Co., Ltd.	2012/9/24
201110247407.0	Invention	Steam trap and manufacturing and use method thereof	Yankuang Lunan Chemical Co., Ltd.	2011/8/24

Application number	Type	Content or name	Right holder	Date of Application
201110247509.2	Invention	Burner of coal gasification process	Yankuang Lunan Chemical Co., Ltd.	2011/8/24
200910174963.2	Invention	Coal water slurry gasification furnace vault	Yankuang Lunan Chemical Co., Ltd.; Yankuang Group Company Limited; Inner Mongolia Rongxin Chemicals Co., Ltd	2009/10/14
201210038528.9	Invention	Safety production device and process for dimethyl sulfide oxidation reaction	Yankuang Lunan Chemical Co., Ltd.	2012/2/20
200910309545.X	Invention	Process for operating methanol rectification system	Yankuang Lunan Chemical Co., Ltd.	2009/11/11
201510172645.8	Invention	Method and device for blending combustion of coke with small particle size of 10-25 mm in oxygen-enriched gas making furnace	Yankuang Lunan Chemical Co., Ltd.	2015/4/13
201720225105.6	Utility model	A kind of reactor of methyl acetate liquid-phase carbonylation synthesis aceticanhydride	Yankuang Lunan Chemical Co., Ltd.	2017/3/9
201710619674.3	Invention	A kind of system and method that chemical industry low-pressure tail gas recycles	Yankuang Lunan Chemical Co., Ltd.	2017/7/26
201810941878.3	Invention	The online depolymerization method of by-product paraformaldehyde in a kind of metaformaldehyde synthetic reaction	Yankuang Lunan Chemical Co., Ltd.	2018-08-17
201821680135.7	Utility model	A kind of online fix tool of cut-off disc nut fastening failure	Yankuang Lunan Chemical Co., Ltd.	2018/10/16
201821680059.X	Utility model	A kind of both-end location guide formula float level meter	Yankuang Lunan Chemical Co., Ltd.	2018/10/16
201811252821.9	Invention	System and process for rapid extraction and refining of ethyl acetate after synthesis by pressurized esterification	Yankuang Lunan Chemical Co., Ltd.	2018/10/25
201811224192.9	Invention	A kind of process units and production method of synthesizing acetic acid by methanol low-voltage carbonylation	Yankuang Lunan Chemical Co., Ltd.	2018/10/19

Application number	Type	Content or name	Right holder	Date of Application
201810265761.8	Invention	A kind of system and method for the pump generation cavitation preventing conveying high temperature, low boiling point working medium	Yankuang Lunan Chemical Co., Ltd.	2018/3/28
201710137754.5	Invention	A kind of process of synthesizing acetic anhydride by low-voltage carbonylation	Yankuang Lunan Chemical Co., Ltd.	2017/3/9
201811313485.4	Invention	Device, system and process for concentrating formaldehyde	Yankuang Lunan Chemical Co., Ltd.	2018/11/6
201811222760.1	Invention	Fluid mixing system of acetic acid reaction kettle	Yankuang Lunan Chemical Co., Ltd.	2018/10/19

3) ***Proprietary techniques***

Type	Content or name	Right holder	Date of acquisition/ date of patent application/ date of trademark registration
Proprietary techniques	Optimization and innovation of parallel operation of large and small acetic anhydride reactors	Yankuang Lunan Chemical Co., Ltd.	2017
Proprietary techniques	Quality and production improvement technology for the polyformaldehyde system	Yankuang Lunan Chemical Co., Ltd.	2017
Proprietary techniques	Research and development of gasification expansion project	Yankuang Lunan Chemical Co., Ltd.	2018

3. Reference to the reports issued by other institutions

The financial data in the valuation report are quoted from the standard unqualified Audit Report (Zhongxingcai Guanghua Shen Kuai Zi [2020] No. 316051) audited and issued by Zhongxingcai Guanghua Certified Public Accountants LLP.

The unit selling prices of acetic acid, ethyl acetate, butanol, polyoxymethylene, and synthetic ammonia from July 2020 to 2025 in the income forecast of major businesses in the valuation report are quoted from the Market Research Report on Coal Chemical Products and Raw Materials issued by Jinlianchuang Network Technology Co., Ltd.（金聯創網絡科技有限公司）on 2 August 2020.

IV. TYPE OF VALUE

Appraisal value types include market value and value types other than market value. Value types other than market value generally include (but are not limited to) investment value, in-use value, liquidation value, residual value, etc.

The purpose of this valuation is to provide a value reference for equity acquisitions, and there are no special restrictions on market conditions. Therefore, market value is selected as the value type of this valuation.

The market value mentioned in this asset valuation report refers to the estimated amount of the value of normal and fair transactions of the valuation target on the valuation benchmark date when the voluntary buyer and the voluntary seller act rationally without any coercion.

V. VALUATION BENCHMARK DATE

The valuation benchmark date for the valuation is 30 June 2020.

This valuation benchmark date is determined by the client and is consistent with the valuation benchmark date agreed in the asset valuation entrustment contract.

VI. BASIS OF VALUATION

The basis of valuation on which this asset valuation was conducted includes the basis of economic activity, the basis of laws and regulations, the basis of valuation criteria, the basis of asset ownership as well as the pricing basis, as follows:

(I) Basis of Economic Activity

Summary of General Manager Work Meeting of Yanzhou Coal Mining Company Limited (Issue 27) (14 August 2020)

(II) Basis of Laws and Regulations

1. Asset Valuation Law of the People's Republic of China (Decree No. 46 of the President of the People's Republic of China);

2. The State-owned Assets of Companies Law of the People's Republic of China (Decree No. 5 of the President of the People's Republic of China);

3. Company Law of the People's Republic of China (adopted at the 5th meeting of the Standing Committee of the 8th National People's Congress on 29 December 1993 and amended in 1999, 2004, 2005, 2013 and 2018);

4. Property law of the People's Republic of China (Decree No. 62 of the President of the People's Republic of China);

5. Securities Law of the People's Republic of China (adopted at the 6th meeting of the Standing Committee of the Ninth National People's Congress of the People's Republic of China on 29 December 1998 and amended for the second time at the 15th meeting of the Standing Committee of the 13th National People's Congress on 28 December 2019);

6. Enterprise Income Tax Law of the People's Republic of China (adopted at the fifth meeting of the Tenth National People's Congress on 16 March 2007, revised for the first time according to the "Decision on Amending the Enterprise Income Tax Law of the People's Republic of China" adopted on the 26th meeting of the Standing Committee of the 12th National People's Congress on 24 February 2017) and revised for the second time according to the "Decision on Amending Four Laws including the Electric Power Law of the People's Republic of China" adopted at the seventh meeting of the Standing Committee of the 13th National People's Congress on 29 December 2018);

7. Administrative Measures for State-Owned Assets Assessment (State Council Order 1991 No. 91);

8. Law of the People's Republic of China on Urban Real Estate Management (adopted at the eighth meeting of the Standing Committee of the Eighth National People's Congress on 5 July 1994, amended at the 29th of the Standing Committee of the Tenth National People's Congress on 30 August 2007, revised for the second time according to the 10th meeting of the Standing Committee of the 11th National People's Congress on 27 August 2009, and revised for the third time according to the 12th meeting of the Standing Committee of the 13th National People's Congress on 26 August 2019);

9. Land Administration Law of the People's Republic of China (revised for the third time according to the "Decision on Amending the Land Administration Law of the People's Republic of China and the Law of the People's Republic of China on Urban Real Estate Management" adopted at the 12th meeting of the Standing Committee of the 13th National People's Congress on 26 August 2019);

10. Detailed Rules for the Implementation of the Administrative Measures for State-Owned Assets Assessment (Guo Zi Ban Fa [1992] No. 36) issued by the former State Administration of State-owned Assets;

11. Opinions on Reforming the Administration and Management of Appraisal of State-owned Assets and Strengthening the Supervision and Management of Asset Appraisal (Guo Ban Fa [2001] No. 102);

12. Rules on Certain Issues Relating to the Appraisal of State-owned Assets (Ministry of Finance No.14 Order);

13. Notice of the Ministry of Finance on Issuance of Administrative Measures for Filing of State-owned Assets Valuation Project (Qi [2001] No. 802);

14. Interim Regulation on the Supervision and Administration of State-owned Assets of Enterprises (State Council 2003 No. 378 Order);

15. Administration Measures for Supervision over Trading of State-owned Assets by Enterprises (SASAC and MOF No. 32 Order);

16. Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises (SASAC of the State Council 2005 No.12 Order);

17. Notice on Strengthening Management of Appraisal of State-Owned Assets in Enterprises (SASAC Property [2006] No. 274);

18. Notice on the Audit of Valuation Report for State-owned Assets of Enterprises (SASAC Property [2009] No. 941);

19. Notice on Promoting the Circulation of State-owned Property Rights of Enterprises (SASAC Property [2014] No. 95);

20. Regulations of the People's Republic of China on the Implementation of the Enterprise Income Tax Law;

21. Provisional Regulations on Value-added Tax of the People's Republic of China (State Council of the People's Republic of China No. 538 Order, Value-added Tax of the People's Republic of China was revised and adopted at the 34th executive meeting of the State Council on 5 November 2008, with effective on 1 January 2009, amended for the second time according to the Decision of the State Council on Abolishing the "Provisional Regulations of the People's Republic of China on Business Tax" and the "Provisional Regulations on Value-added Tax of the People's Republic of China" on 19 November 2017);

22. Regulations for the Implementation of the Provisional Regulations on Value-added Tax of the People's Republic of China (the "Implementation Rules" were promulgated by Order No. 50 of the Ministry of Finance and the State Administration of Taxation on 18 December 2008; amended according to the "Decision on Amending the "Regulations for the Implementation of the Provisional Regulations on Value-added Tax of the People's Republic of China" and the "Regulations for the Implementation of the Provisional Regulations on Business Tax of the People's Republic of China" promulgated by Order No. 65 of the State Administration of Taxation issued by the Ministry of Finance and the State Administration of Taxation on 28 October 2011);

23. Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-round Manner (Cai Shui [2016] No. 36);

24. Public Notice on Relevant Polices for Deepening VAT Reform (Announcement 2019 No. 39 by the Ministry of Finance, the State Administration of Taxation, and the General Administration of Customs);

25. Other relevant laws and regulations.

(III) Basis of Valuation Criteria

1. Asset Valuation Standards (Cai Zi [2017] No. 43);

2. Code of Ethics for Assets Assessment (Zhong Ping Xie [2017] No. 30);

3. Asset Valuation Practicing Standards – Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);

4. Asset Valuation Practicing Standards – Asset Valuation Report (Zhong Ping Xie [2018] No. 35);

5. Asset Valuation Practicing Standards – Contract on Asset Valuation Entrustment (Zhong Ping Xie [2017] No. 33);

6. Asset Valuation Practicing Standards – Asset Valuation Files (Zhong Ping Xie [2018] No. 37);

7. Practicing Standards for Asset Valuation – Engagement of Experts and Relevant Reports (Zhong Ping Xie [2017] No. 35);

8. Asset Valuation Practicing Standards – Asset Valuation Methods (Zhong Ping Xie [2019] No. 35);

9. Asset Appraisal Practice Guidelines-Enterprise Value (Zhong Ping Xie [2018] No. 38);

10. Practice Guidelines for Asset Appraisal – Machinery and Equipment (Zhong Ping Xie [2017] No. 39);

11. Practice Standards for Asset Evaluation – Real Estate (Zhong Ping Xie [2017] No. 38);

12. Practicing Rules Standards for the Appraisal of Assets – Intangible Assets (Zhong Ping Xie [2017] No. 37);

13. Guiding Opinions on Patent Asset Evaluation (Zhong Ping Xie [2017] No. 49);

14. Guiding Opinions on the Appraisal of Trademark Assets (Zhong Ping Xie [2017] No. 51);

15. Guidelines for the Appraisal of Intellectual Property Rights Assets (Zhong Ping Xie [2017] No. 44);

16. Asset Valuation Expert Guide No. 8 – Check and Verification in Asset Valuation (Zhong Ping Xie [2019] No. 39);

17. Guidelines to Evaluation Report of State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);

18. Guidelines for Business Quality Control of Asset Valuation Institutions (Zhong Ping Xie [2017] No. 46);

19. Guiding Opinions on Types of Value for the Appraisal of Assets (Zhong Ping Xie [2017] No. 47);

20. Guidance on Legal Ownership of Asset Valuation Object (Zhong Ping Xie[2017] No. 48);

21. Asset Appraisal Expert Guidelines No. 10-Reasonable Performance of Asset Appraisal Procedures During the COVID-19 Epidemic Period (Zhong Ping Xie [2020] No. 6);

(IV) Basis of Asset Ownership

1. Articles of Association and High and New-Technology Enterprise Certificates;

2. Building ownership certificate, real estate ownership certificate and land use right certificate;

3. Major equipment purchase contracts, invoices, and relevant agreements, contracts;

4. Other ownership documents.

(V) Pricing Basis for the Valuation

1. Asset Appraisal Declaration Form and Income-based Profit Forecast Form provided by the appraised entity;

2. The loan prime rate (LPR) published by the National Interbank Lending Center at the authorization of the People's Bank of China on 22 June 2020;

3. 2020 Mechanical and Electrical Products Price Information Query System by China Machine Press;

4. Handbook of Common Methods and Parameters for Asset Evaluation by China Machine Press;

5. The standard unqualified Audit Report (Zhongxingcai Guanghua Shen Kuai Zi [2020] No. 316051) audited and issued by Zhongxingcai Guanghua Certified Public Accountants LLP;

6. The Market Research Report on Coal Chemical Products and Raw Materials issued by Jinlianchuang Network Technology Co., Ltd.(金聯創網絡科技有限公司)on 2 August 2020;

7. Notice of the National Development and Reform Commission on Further Liberalizing the Price of Professional Services for Construction Projects (Fa Gai Price [2015] No. 299);

8. Notice of the Ministry of Finance on the Issuance of the "Regulations on the Management of Capital Construction Project Construction Costs" (Cai Jian [2016] No.504);

9. Charging Standards for Construction Cost Consultation Services of Shandong Province (Lu Jia Fei Fa [2007] No. 205);

10. Charging Standards for Safety Evaluation of Shandong Province (Lu An Guan Xie Zi [2006] No. 4);

11. Buildings Consumption Quota of Shandong Province (2016), Installation Work Consumption Quota of Shandong Province (2016), Buildings Construction Price List of Shandong Province (2019), Installation Work Price List of Shandong Province (2019), Construction Cost Components and Calculation Rules of Shandong Province and Price List for Buildings Construction Supplemental Quota of Shandong Province;

12. Notice on Adjusting the Value-added Tax Rate of the Pricing Foundation of Construction Projects by Shandong Province Department of Housing and Urban-Rural (Lu Jian Biao Zi [2019] No. 10);

13. Notice of the People's Government of Shandong Province on Printing and Distributing Certain Policies Supporting the High Quality Development of the Real Economy (Lu Zheng Fa [2018] No. 21);

14. Administrative Measures for the Collection of Supporting Urban Infrastructure Costs of Zaozhuang City (for small towns) (Zao Zheng Fa [2005] No. 24);

15. Price information of the real estate market in Rushan City and Tengzhou City;

16. Construction cost information of Zaozhuang City (June 2020);

17. The Criteria of Damage Rating of Houses and Rating Standards;

18. Other related valuation information recorded and collected by appraisers from on-site survey;

19. Accounting statements, financial accounting materials, relevant agreements, contracts, invoices and other financial data provided by the appraised entity;

20. Hithink Information;

21. Statistics, technical specifications, pricing documents released by relevant authorities and relevant inquiry materials and pricing parameters information gathered by the Company;

22. Other materials related to this asset appraisal.

VII. VALUATION METHODS

(I) Introduction to Valuation Methods

Basic asset valuation methods for enterprise value appraisal include asset-based approach, income approach and market approach.

The asset-based method for enterprise value appraisal, also known as the cost approach, refers to the valuation method that determines the value of a valuation subject by valuating the value of on-balance sheet and identifiable off-balance-sheet assets and liabilities based on the balance sheet of the appraised entity as at the valuation benchmark date.

The income approach for enterprise value appraisal refers to the valuation method that determines the value of a valuation subject by capitalising or discounting the expected revenue. The specific methods commonly involved when using the income approach include the dividend discount method and the discounted cashflow method. The income approach is the assessment of the value of an enterprise by its profitability, which is based on the economics theory of expected utility.

The market approach for enterprise value appraisal refers to the valuation method that determines the value of a valuation subject by comparing the valuation subject with comparable listed companies or comparable transaction cases. There are two commonly used specific methods under the market approach, which are listed-company comparison and transaction-case comparison.

(II) Selection of Valuation Methods

The asset-based approach refers to the method of valuation, in which the value of the valuation target is determined by reasonable appraisal of the value of all on-and-off balance sheet assets and liabilities on the basis of the balance sheet. For the purpose of this valuation, the necessary information for adopting the asset-based approach could be provided by the appraised entity or collected by the appraiser externally, which allowed a comprehensive review and valuation on the assets and liabilities of the appraised entity. Therefore, the asset-based approach was adopted for this valuation.

The income approach is based on the expected utility theory of economics. In other words, from the perspective of the investors, the enterprise value lies in the future income expected to be generated for the enterprise. Despite the absence of the direct use of comparable in the actual market for stating the prevailing fair market value of the appraised entity, the income approach assesses the value of an asset by its expected profitability, which is the essential basis for determining the prevailing fair market value of the asset. As such, it can completely reflect the overall value of an enterprise and its valuation conclusion is more reliable and convincing. From the perspective of applicable conditions of the income approach, since the enterprise is profitable in its own right and the management of the appraised entity has provided the profit forecast for the future years, according to the historical operating data of the enterprise and the internal and external operating environment, the future level of profit of the enterprise can be reasonably forecasted. In addition, the risk of future income can be reasonably quantified. Hence, the income approach is applicable to this valuation.

The market approach determines the prevailing fair market value of the appraised entity by referring to comparables in the market. The data for the valuation is directly from the market. This approach is direct in terms of valuation perspective and valuation methods, and the valuation process is intuitive. It is market-oriented, making the assessment result convincing. The value influencing factors of the comparables and the target enterprise are convergent, and there is a close connection between the factors influencing value and the valuation conclusion. The relationship can be obtained by certain methods, and relevant data can be collected. In light of such characteristics of the market approach, we can be assured that the best place to determine or test the value is the market. A basic way to evaluate a target company is to observe the public market and seek evidence of such prices: namely how much investors are willing to pay for similar companies. Since it is difficult to obtain transaction cases of listed companies in the same or similar industry as the appraised entity in the capital market, the major business of companies listed on the Shanghai and Shenzhen stock exchanges is quite different from that of the appraised entity, and the reference value of listed company's valuation multiples is little. Hence, the market approach is not applicable to this valuation.

In summary, the asset-based approach and the income approach were applied to the evaluation.

(III) Introduction to Assessment Approaches

The asset-based approach used for assessing the value of an enterprise refers to the valuation method where the value of the valuation subject is determined on the basis of a reasonable valuation of various assets and liabilities of the enterprise based on its balance sheet as at the valuation benchmark date. The valuation process of various assets and liabilities is stated as follows:

1. Valuation of current assets and liabilities

Current assets of the appraised entity include monetary funds, bills receivable, accounts receivable, accounts prepaid, other receivables, inventories and other current assets; while liabilities include short-term borrowings, bills payable, accounts payable, contract liabilities, staff remuneration payable, tax payable, other payables and non-current liabilities due within one year, other current liabilities, long-term borrowings, lease liabilities, long-term payables, long-term staff remuneration payable, deferred income tax liabilities and other non-current liabilities.

(1) Monetary funds include bank deposits and other monetary funds, the value of which was determined based on the verified value through the verification of bank reconciliation statements, bank confirmations, and other proofs of monetary funds.

(2) Bills receivable: the appraisers checked accounting records, reviewed the register of bills receivable, and carried out bills stocktaking. The verified book value is the appraisal value.

(3) Accounts receivable and other receivables: After all receivables are confirmed to be error-free, the appraisal value of each receivable is an estimate of its recoverable amount. For the accounts receivable, there is no sign that the accounts receivable cannot be recovered in this assessment, so no risk of loss of bad debts will be recognized in this assessment. For the creditor's rights of RMB365,687,510.10 in Yankuang Lunan Chemical Fertilizer Plant in other receivables, due to the bankruptcy liquidation of Yankuang Lunan Chemical Fertilizer Plant, after the preliminary asset distribution of the bankruptcy asset, the remaining amount receivable of the appraised entity from Yankuang Lunan Chemical Fertilizer Plant was RMB365,687,510.10. Based on the principle of prudence, the audit agency makes full provision for bad debts of the above-mentioned other receivables, and takes the audited book value as the appraisal value. There is no evidence that the remaining funds can not be recovered in this assessment. No provision is made for bad debts in the assessment.

(4) Prepayments: The value is determined based on the value of the assets or rights that can be recovered from the corresponding goods. For the goods or rights that can be recovered, the carrying value after verification was used as appraisal value.

(5) Inventories: Include raw materials and finished products. Due to the short inventory time, strong liquidity and little change in market prices of the raw materials to be assessed this time, the carrying value after verification is used to determine the appraisal value; for the finished products used by the enterprise, the assessment value is confirmed according to the carrying value after verification; for the finished products sold externally, the appraiser shall determine the appraisal value by the market method according to the verified quantity and sales price of the finished product. That is, on the basis of the tax-free sales price of the finished product, the sales tax, sales expenses, income tax and an appropriate proportion of after-tax profit are deducted to determine its appraisal value.

(6) Other current assets

Other current assets refer to the input tax of value-added tax to be deducted, amortized value of catalyst and prepaid tax.

The appraisers shall confirm the correctness and authenticity of the numbers of tax payment voucher declared by understanding the applicable tax, tax rate, tax amount and payment rate, checking the tax return, tax voucher, and checking the investment and amortization process of catalyst and original documents. Therefore, the book value after verification was used as the appraisal value.

(7) Liabilities: On the basis of inspection and verification, the assessment value is determined according to the actual liabilities and amount of liabilities that the assessed enterprise needs to bear after the assessment purpose is achieved.

2. Investment in other equity instruments

For the evaluation of the investment in other equity instruments, the appraisers collected information including investment certificates and statements as at the valuation benchmark date to verify the authenticity and completeness of the financial assets based on the reconciliation between the general ledgers and subsidiary ledgers, financial statements and appraisal checklist. In the evaluation, Zhongfeng Chemical Co., Ltd. did not provide the assets valuation declaration lists, the authority of information inquiry and on-site inventory for the appraisers, and the appraisers also failed to get direct contact with the financial personnel, sales personnel and engineering personnel of the enterprise. Therefore, the appraisal value of the investment in other equity instrument is determined by multiplying the shareholding ratio of the appraised entity by the net assets of Zhongfeng Chemical Co., Ltd. on the valuation benchmark date.

3. The evaluation of buildings (structures)

The replacement cost method is mainly used for valuation. The market approach will be applied in the evaluation of the commodity housing purchased.

(1) Cost approach

Appraisal value= replacement cost × integrated depreciation rate

1) Determination of replacement cost

Replacement cost = construction and installation project cost + upfront expenses and other expenses + capital cost-deductible VAT

① Determination of the cost of construction and installation engineering

During the evaluation work, the appraisers use different evaluation methods to determine the cost of construction and installation engineering of the buildings (structures) to be valued by investigating the physical conditions of the buildings (structures) to be valued and investigating the completeness of the completion drawings and project settlement materials. The general project cost is determined according to the actual situation by using one of the methods of re-budgeting method, final accounts adjustment method, analog coefficient adjustment method, unilateral cost estimation index method or using several methods at the same time.

This assessment uses the following 4 methods to determine the construction and installation project cost of a building (structure):

Re-budgeting method: based on the completion information, drawings, budget and final accounts of the buildings to be evaluated, combined with the results of the on-site survey, to re-compile a list of engineering quantities, and calculate the construction costs of various major buildings and the representative building on the valuation benchmark date based on the prevailing budget quota for building construction and charging standards in various regions, after taking into account other construction costs charged by the national or local authorities on the construction projects at the valuation benchmark date, calculate the capital cost during the reasonable construction period and then the replacement cost of the building.

Final accounts adjustment method: for the assessed buildings (structures) with complete construction completion drawings and project final accounts, the appraisers will classify the buildings (structures) to be assessed according to their structures after making detailed records of the conditions of the buildings (structures) one by one. The representative buildings (structures) with complete final accounts information are selected from the main structural types as typical project cases. Based on the confirmed quantities in the final accounts of buildings (structures) to be assessed, the final accounts adjustment method is used to analyze the components of the construction and installation cost of buildings (structures) which have been settled, and adjust the construction and installation cost of buildings (structures) which have been settled according to the labor cost, material costs and other price information in the local market and relevant charging documents on the valuation benchmark date. Finally, the construction and installation project cost is determined by comprehensively considering the actual situation of the buildings (structures) to be assessed and the local construction market.

Analogy coefficient adjustment method: for buildings (structures) with incomplete design drawings and final accounts, the analogy coefficient adjustment method can be used for calculation. The construction and installation project cost of such buildings (structures) will be calculated by comparing the construction area, structural type, storey height, number of floors, span, material, internal and external decoration, construction quality, use, repair and maintenance of typical project cases or the settled project cases in the "Analysis Table of the Construction Cost of Completed Projects" published by the provincial and municipal local project cost authorities with those of the assessed target, referring to the growth rate of labor cost, material cost and machinery cost of typical project cases calculated based on the final accounts adjustment method, and adjusting the construction and installation project cost of typical engineering cases or engineering settlement examples.

Unilateral cost index estimation method: for some buildings built in earlier years, the historical book cost has no reference value, and the engineering drawings and final accounts are not complete. After comprehensive analysis, the appraisers can use the unilateral cost index and combine with the previous similar engineering experience to calculate the construction and installation project cost of such buildings (structures).

In the evaluation, the buildings (structures) entrusted for evaluation are of large scale, complex types and large number of items. Therefore, in calculating the replacement value, the buildings (structures) entrusted for evaluation are divided into three categories: category A is large-scale, high-value and important buildings (structures); category B is general buildings (structures); category C is buildings (structures) with small value and simple structure.

For large-scale, high-value and important buildings (structures), the final accounts adjustment method is adopted to determine the construction and installation project cost, that is, based on the quantities in the final accounts of the buildings (structures) to be assessed, the construction and installation project cost will be adjusted to the prevailing construction and installation project cost according to the prevailing project budget price and rate.

General buildings (structures): the comprehensive construction cost is determined according to the real work quantities of typical houses and structures, based on the prevailing construction and installation engineering quota (or index), charging standards, local material prices and labor wages; after calculating the comprehensive construction cost of typical projects, the analogy method is used to analyze similar houses and structures, and find out the factors causing the difference between them and typical buildings and structures to calculate the comprehensive construction cost of houses and structures similar to typical projects after making adjustments.

The construction and installation project cost of buildings (structures) with small value and simple structure is determined by using the unilateral cost index estimation method.

② Determination of upfront expenses and other expenses

The upfront expenses and other expenses mainly include survey and design fees and upfront consulting fees, bidding agency service fees, management fees of construction unit, project cost consulting service fees, project supervision fees, environmental impact consulting fees, safety evaluation fees, etc. The calculated rates are as follows:

No.	Project or cost name	Charging rate of the construction cost	Charging based on the GFA (RMB/m^2)	Basis for charging
1	Project preliminary consultation fee	0.07%		Implement the adjusted market prices with reference to Fa Gai Jia Ge [2015] No. 299
2	Survey and design expense	2.16%		
3	Bidding agency service fee	0.02%		
4	Management fees of construction unit	2.00%		Cai Jian [2016] No. 504, Regulations on Other Expenses of Coal Construction
5	Project cost consulting service fees	0.04%		Lu Jia Fei Fa [2007] No. 205

No.	Project or cost name	Charging rate of the construction cost	Charging based on the GFA (RMB/m^2)	Basis for charging
6	Construction supervision fee	1.30%		Implement the adjusted market prices with reference to Fa Gai Jia Ge [2015] No. 299
7	Environmental impact consulting fees	0.02%		
8	Safety evaluation fees	0.02%		Lu An Guan Xie Zi [2006] No. 4
9	Supporting urban infrastructure costs		RMB10/ m^2*70%*GFA	Zao Zheng Fa [2005] No. 24, Lu Zheng Fa [2018] No. 21
	Sub-total	5.63%	RMB10/ m^2*70%*GFA	

Note: For the buildings without real estate ownership certificate, the supporting urban infrastructure cost is not included in the evaluation (according to the Administrative Measures for the Collection of Supporting Urban Infrastructure Costs of Zaozhuang City (for small towns) (Zao Zheng Fa [2005] No. 24), the collection standard for the supporting urban infrastructure cost (for small towns): the general residential properties and other houses in small town are charged based on the GFA of RMB5-15 per square meter. RMB10 per square meter is charged in the evaluation. According to Article 4 of the Notice of the People's Government of Shandong Province on Printing and Distributing Certain Policies Supporting the High Quality Development of the Real Economy (Lu Zheng Fa [2018] No. 21), from 1 October 2018 to 31 December 2020, the supporting urban infrastructure cost of all cities and counties (cities and districts) will be charged based on 70% of the charging standard (excluding real estate projects).

③ Capital cost

The capital cost is the financing cost of the funds occupied during the normal construction period of the building, and is the loan interest on the funds invested in the construction during the construction period. The capital cost is determined based on the reasonable construction period of this project, and the loan interest rate of the corresponding period on the valuation benchmark date based on the sum of the cost of construction and installation project and the previous period and other expenses. The calculation formula is as follows:

Capital cost = (comprehensive construction and installation project cost + upfront expenses and other expenses) × normal construction period × loan interest rate during normal construction period × 1/2

Note: According to the loan prime rate (LPR) announcement published by the National Interbank Lending Center at the authorization of the People's Bank of China on 22 June 2020: "The loan prime rate (LPR) on 22 June 2020 is: LPR for 1 year is 3.85%, LPR for over 5 years is 4.65%. The above LPRs are effective until the next LPR is issued." The reasonable construction period of this construction project is 4.0 years, so the selected loan interest rate for the construction period is based on the average of 4.25% of the LPR for 1 year of 3.85% and the LPR for over 5 years of 4.65%.

④ Determination of deductible input VAT

According to the "Notice on Comprehensively Launching the Pilot Program for the Reform of Business Tax to VAT" (Cai Shui [2016] No. 36) and the "Announcement on Deepening the Relevant Policies of VAT Reform" (Announcement No. 39 of 2019 by the Ministry of Finance, State Administration of Taxation, and General Administration of Customs), the general tax calculation method shall be applicable to the taxable activities of general taxpayers. The deductible input VAT is calculated as follows:

Deductible input VAT on the cost of construction and installation project = cost of construction and installation project (including tax) ÷ (1+9%) × 9%

Input VAT that can be deducted for upfront expenses and other expenses = upfront expenses and other expenses (including tax) ÷ (1+6%) ×6%

The management fee of the construction unit belongs to the expenses incurred by the enterprise itself and is not taxable.

The input tax amount of the interest paid by the taxpayer for purchasing loan services (occupying and borrowing other person's funds in various forms) and the interest nature expenditure shall not be deducted from the output tax amount.

2) Determination of integrated depreciation rate

① For high-value and important buildings and structures, site survey depreciation rate and useful life-based depreciation rate are combined to determine integrated depreciation rate. The formula is as follows:

Integrated depreciation rate = survey depreciation × 60% + life-time depreciation rate × 40%

Of which:

Life depreciation rate (%) = remaining useful life / (remaining useful life + life used) × 100%

The on-site survey depreciation rate refers to, after on-site survey, scoring the three parts of its structure, decoration, and equipment, respectively, filling in the on-site survey depreciation table, and calculating the survey depreciation rate of the buildings one by one checking the completion information of the main buildings (structures) item by item to understand their maintenance, renovation, and management over the years.

② For buildings (structures) with low unit value and relatively simple structure, the depreciation rate shall be determined after being modified by using the life method based on the actual situation of the subject. The calculation formula is:

Depreciation rate = (durability life -life used) / durability life × 100%

3) Calculation of Appraisal value

Appraisal value= replacement cost × integrated depreciation rate

For the demolished buildings (structures), the provision for impairment has been made, and the appraisal value is nil. For the idle structures without use value, the evaluation value is determined according to the recoverable value in the evaluation.

(2) Market comparison method

The basic calculating formula of the market comparison method is:

Valuation of real estate = Benchmark price of real estate × Floor area

Benchmark price of real estate = Σ (adjusted unit price of real estate)/ Amount of comparable samples

Adjusted unit price of real estate = transaction unit price of comparable samples × Adjustment for the condition of the transaction × Adjustment for transaction date × Adjustment for condition of real estate.

The assessing process of market comparison method is as follows:

1) Collect sample transactions, specifically including: parties of the transaction, and the transaction purpose, real estate conditions of sample transaction, the price, date and payment methods of the transaction.

2) Select three comparable samples (i.e. the comparable samples used for comparing and referring) from the above collected ones, based on the principles such as the sample transactions are similar to the appraised object (real estate), the transaction dates are close to the valuation benchmark date, the transaction prices are normal price or can be adjusted to a normal price.

3) Establish the comparable basis for price, i.e. convert the transaction prices of these samples, in order to establish the comparable basis for price, and unify the expression and connotation.

4) Adjust for the transaction condition

   The transaction price of the comparable sample may be normal or subnormal. As the valuation staff was required to evaluate the market value of the valuation object, if the transaction price of the comparable sample was not the normal price, it shall be adjusted to be normal, so as to adjust the benchmark price of the valuation objects.

5) Adjust for the transaction date

   The transaction price of the comparable sample is the price on transaction date, as the price of the valuation object was the price on the valuation benchmark date, if the transaction date differs from the valuation benchmark date, the market condition of real estate may change, and thus the price may be different. Adjustment of the transaction date is to adjust the price of the comparable sample on its transaction date to be the price on the valuation benchmark date.

6) Adjust for the real estate condition: including to adjust for regional condition, interest condition and actual object condition.

① Adjust for regional condition: increase (or decrease) the price mainly based on the differences of regional condition, such as the geographical location, convenience of transportation, external supporting facilities, environmental quality, and property concentration.

② Adjust for actual object condition: increase (or decrease) the price mainly based on the differences in respect of the actual object condition between the valuation object and the comparable sample, such as the floor/total floors, orientation, parking lots, structure, spatial arrangement, completion time, floor area and decoration.

③ Adjust for interest condition: increase (or decrease) the price mainly based on the differences in respect of interest condition between the valuation object and the comparable sample, such as right type, the integrity of rights and other rights.

7) Prices of various comparable samples selected will go through all the adjustments above and generate a comprehensive figure according to specific conditions as the benchmark price.

8) The market value of the appraised real estate is calculated by multiplying the benchmark price by the floor area of the valuation object.

4. The evaluation of equipment assets

The replacement cost method is mainly used in the evaluation of machinery and equipment. The replacement cost method of machinery and equipment evaluation is a method to determine the evaluated value of the equipment through estimating the replacement cost of new equipment, and then deducting physical depreciation, functional depreciation and economic depreciation, or based on the integrated depreciation rate. The replacement cost of equipment generally includes all reasonable direct and indirect costs for repurchasing or constructing a new asset with the same function as the evaluated subject, such as the purchase price of the equipment, transportation costs, basic equipment costs, installation and commissioning costs, upfront and other expenses, capital costs, etc. The calculation formula used in this assessment is:

Appraisal value= replacement value × integrated depreciation rate

1) Appraisal of machinery and equipment

① Determination of replacement cost of machinery and equipment

Replacement cost = equipment purchase price + transportation and miscellaneous expenses + equipment foundation cost + installation and commissioning fee + preliminary and other expenses + capital cost – deductible VAT inputs

For small equipment sporadically purchased and not requiring installation, the replacement cost = equipment purchase price + transportation and miscellaneous expenses – deductible VAT inputs. The transportation cost and installation fee were included in the equipment costs. Therefore, the equipment purchase price (exclusive of tax) is the replacement cost.

A Equipment purchase price

For equipment that is still in circulation in the current market, the purchase price of the equipment is directly determined according to the current market price; for equipment that has been eliminated, no longer produced by the manufacturer, and no longer circulated in the market, the purchase price is determined by comparing similar equipment with the evaluated equipment and comprehensively considering the differences in performance, technical parameters, use functions of the equipment.

B Transportation and miscellaneous expenses

For transportation and miscellaneous expenses: According to the price conditions selected at the time of equipment inquiry, if the purchase price of the equipment includes transportation and miscellaneous charges, it will no longer be calculated, otherwise, properly select transportation and miscellaneous expense rate according to the transportation method and distance.

C Equipment foundation cost

The equipment foundation cost is calculated by different installation rates depending on the features of the equipment on the basis of the purchase price and with reference to the industry quota, but it is no longer considered in the calculation of full replacement price of equipment if separate equipment foundation is not needed or unified foundations have been built when constructing the buildings.

D Installation and commissioning fee

The charge is calculated on the basis of the purchase price on different installation rates with reference to the Manual of Common Methods and Parameters for Asset Valuation and the equipment industry quota depending on the features, weights and difficulty in installation of the equipment. For small equipment not requiring installation, installation and testing cost shall not be considered.

E Preliminary and other expenses

The preliminary and other expenses refer to the expenses incurred during the whole construction period from the preparation of the project to the completion acceptance and delivery of the project, except for the construction and installation cost and the equipment installation cost, in order to ensure the smooth completion of the construction of the project and the normal operation after delivery, including project survey and design expense, management fees of construction unit, bidding agency service fee, environmental impact consulting fees, safety evaluation fees and combined trial operation costs. The preliminary and other expenses rates and charging basis calculated in the evaluation are as follows:

No.	**Item or fee name**	**Calculation formula**	**Rate/ amount**	**Charging basis**
1	Management fees of construction unit	(Equipment purchase price + transportation and miscellaneous expenses + foundation cost + installation fee) x rate	2.00%	With reference to Cai Jian [2016] No. 504 and the market price

No.	Item or fee name	Calculation formula	Rate/ amount	Charging basis
2	Survey and design expense and preliminary consultation fee	(Equipment purchase price + transportation and miscellaneous expenses + foundation cost + installation fee) x rate	2.23%	Implement the adjusted market prices with reference to Fa Gai Jia Ge [2015] No. 299
3	Bidding agency service fee	(Equipment purchase price + transportation and miscellaneous expenses + foundation cost + installation fee) x rate	0.02%	
4	Project supervision fee	(Equipment purchase price + transportation and miscellaneous expenses + foundation cost + installation fee) x rate	1.30%	
5	Environmental evaluation fee	(Equipment purchase price + transportation and miscellaneous expenses + foundation cost + installation fee) x rate	0.02%	
6	Project cost consultation service fee	(Equipment purchase price + transportation and miscellaneous expenses + foundation cost + installation fee) x rate	0.04%	Lu Jia Fei Fa [2007] No. 205
7	Safety evaluation fee	(Equipment purchase price + transportation and miscellaneous expenses + foundation cost + installation fee) x rate	0.02%	Lu An Guan Xie Zi [2006] No. 4
	Total		5.63%	

Combined trial operation costs: refer to the excess of the expenses incurred by the newly-built enterprise or the expansion enterprise with additional production capacity to conduct joint trial operation of the whole production line or workshop with and without load according to the project quality standards specified in the design before the completion acceptance, over the revenue from the trial operation, excluding the commissioning expenses and trial operation expenses that should be expensed under the equipment installation cost.

Combined trial operation costs shall be recorded for part of equipment according to the actual situation of the enterprise, the charging basis of which is set out in the table below:

Itme	Calculation formula	Charging rate	Charging basis
Combined trial operation costs	(Equipment purchase price + transportation and miscellaneous expenses + foundation cost + installation fee) x rate	1.00%	According to the actual situation of the enterprise and the preparation method for investment estimation of chemical construction project feasibility study

Preliminary and other expenses = (equipment purchase price + transportation and miscellaneous expenses + foundation cost + installation fee) x 5.63% + combined trial operation costs

F Capital cost

According to the reasonable construction period of the construction project, based on the loan interest rate applicable on the valuation benchmark date, the capital cost is calculated according to the uniform investment during the construction period.

Capital cost = (equipment purchase price + transportation and miscellaneous costs + installation and commissioning costs + foundation cost + other costs) × loan interest rate × (construction period) x 1/2

According to the announcement published by the National Interbank Lending Center at the authorization of the People's Bank of China, the loan prime rate (LPR) on 22 June 2020: LPR for 1 year is 3.85%, LPR for over 5 years is 4.65%.

According to the scale of the assets to be appraised, the complexity of process technology, equipment manufacturing, installation cycle and other factors, it is determined that the normal and reasonable construction period is 4 years. Assuming that the project funds are evenly invested during the construction period, the construction investment loan interest rate is calculated by the average of 4.25% of LPR for 1 year and LPR for over 5 years.

G Deductible VAT

Pursuant to relevant national regulations, the value-added tax is calculated at 13% for the purchase price of machinery and equipment, 9% for freight, foundation costs and installation fees, and 6% for other expenses, and can be used to offset output taxes, in which the management fees of the construction unit and capital costs and combined trial operation costs do not are not subject to VAT and are not deductible.

② Determination of integrated depreciation rate

For large-scale and key equipment, the survey depreciation rate and theoretical depreciation rate are determined by weight:

Integrated depreciation rate = survey depreciation rate × 0.6 + theoretical depreciation rate × 0.4

A. Survey depreciation rate

The determination of survey depreciation rate is mainly based on the actual status of the enterprise's equipment. According to the technical status, working environment, and maintenance conditions, the equipment is scored item by item according to the actual on-site survey situation to determine the survey depreciation rate.

B. Theoretical depreciation rate

The theoretical depreciation rate is determined according to the economic life of the equipment (or the remaining useful life) and the life used.

Theoretical depreciation rate = (economic life – life used) / economic life× 100%

For equipment whose service life exceeds the economic life, the following calculation formula is applicable:

Theoretical depreciation rate = remaining useful life / (life used + remaining useful life) × 100%

For equipment with small value, simple structure and in normal operation, the depreciation rate is determined by the useful life method based on the service time, combined with the maintenance situation.

③ Calculation of Appraisal value

Appraisal value = replacement cost × integrated depreciation rate

2) *Appraisal of electronic and office equipment*

① Determination of the replacement cost of electronic equipment: The electronic equipment mainly includes corporate office computers, air conditioners and other devices, which are delivered, installed and commissioned by distributors. The replacement cost is directly determined by the market purchase price.

② Determination of depreciation rate

The depreciation rate of electronic and office equipment is mainly based on its integrated depreciation rate calculated by its economic life. For large-scale electronic equipment, the integrated depreciation rate is also determining with reference to its working environment and equipment operating conditions.

① Determination of appraisal value

Appraisal value= replacement value of vehicles × depreciation rate

Depreciation rate = (economic life – life used) / economic life× 100%

3) For electronic equipment that has been purchased at an earlier time and has been discontinued and has no comparable prices, the appraisal value is determined using the market method by inquiring about the second-hand transaction price. For the equipment to be discarded, the evaluation value is determined according to the recoverable net value in the evaluation.

5. The evaluation of construction in progress

Construction in progress is evaluated using the replacement cost method. In order to avoid repeated valuation of assets and omission of asset value, combined with the characteristics of the construction in progress, the following evaluation methods are adopted based on the types and specific conditions of the construction in progress:

(1) The new fire alarm system, one of projects to maintain simple reproduction in the equipment under construction, is the completed equipment, and is evaluated according to the fixed assets-machinery equipment method.

(2) Unfinished projects

1) For the upgrading and reconstruction projects of total phosphorus and total nitrogen in the water purification plant, the newly-built ultra-low emission device project of ammonia desulfurization, and other projects to maintain simple reproduction, where the construction commenced within half a year from the valuation benchmark date, the appraised value of the construction in progress is the verified value declared, net of unreasonable expenditure.

2) 300,000 tons/year caprolactam project and 40,000 tons/year polyformaldehyde project

If there is a big difference between the book value and the price level on the valuation benchmark date, the project cost shall be adjusted according to the price level on the valuation benchmark date. The relevant formula of equipment assets is as follows: evaluation value = replacement cost = equipment purchase price + transportation and miscellaneous expenses + management fee of construction unit – deductible VAT input tax.

The 40,000 tons/year polyoxymethylene project commenced more than half a year ago from the valuation benchmark date and has not yet been completed. As the construction in progress – prepaid expenses has been included in the preliminary expenses and capital costs, but not included in the actual management fees of construction unit, the management fees of construction unit needs to be calculated in this evaluation.

The 300,000 tons/year caprolactam project commenced more than half a year ago from the valuation benchmark date and has not yet been completed. As capital costs and management fees of construction unit are not included in the book value, capital costs and the management fees of construction unit need to be calculated.

Management fees of construction unit = (reported book value – unreasonable expenditure) x management fees of construction unit rate

Of which: management fees of construction unit rate is determined according to the Notice of the Ministry of Finance on the Issuance of the "Regulations on the Management of Capital Construction Project Construction Costs" (Cai Jian [2016] No. 504);

Capital costs = (reported book value + management fees of construction unit – unreasonable expenditure) x interest rate x construction period/2

Of which: interest rate is determined according to the loan prime rate (LPR) published by the National Interbank Lending Center at the authorization of the People's Bank of China on 22 June 2020;

The construction period shall be reasonably determined according to the project scale and actual completion rate and with reference to the construction period quota of the construction project.

6. *The evaluation of disposal of fixed assets*

(1) Disposal of fixed assets – house buildings

The fixed assets – house buildings included in the appraisal scope are classified into two categories: buildings and structures. Such assets are in idle state for a long period, to be demolished, with poor physical condition and no use value. Therefore, it is not suitable to use the income method for evaluation. Similarly, the entrusted assets do not have the conditions for continuous use, and the cost method is not suitable for evaluation. According to the characteristics of the assets to be assessed and the purpose of evaluation, the residual value of the assets to be obsolete is evaluated by the market method.

Appraisal value = net realizable value of the detachable and realizable materials

= the weight of the detachable and realizable materials x the unit recycling price of the detachable and realizable materials – disposal cost

1) Determination of the unit recycling price of the detachable and realizable materials

After market research, the appraisers inquired from the major recycling sites where the evaluation object is located, collected relevant price information, and comprehensively determined the recycling quotation of various materials on the valuation benchmark date of large recycling websites.

2) Determination of the weight of the detachable and realizable materials

For buildings, the weight of the detachable and realizable materials is determined according to the reference table of main material consumption of buildings with different structures in the Manual of Common Methods and Parameters for Asset Valuation and the weight declared by Yankuang Lunan Chemical Co., Ltd.

3) Determination of the disposal cost

The disposal cost mainly refers to the necessary and reasonable expenses in the process of disposal and realization, such as demolition cost, transportation and miscellaneous expenses.

(2) Disposal of fixed assets – equipment

Disposal of fixed assets – equipment assets included in the scope of appraisal mainly include power distribution cabinet, water pump, air conditioner and other equipment. As of the valuation benchmark date, the equipment has been obsolete and has not been disposed.

According to the onsite verification of the material and weight of the obsolete equipment provided by the enterprise, the appraisal value is determined based on the net recoverable value of such equipment. For air conditioners, walkie talkie and other electronic equipment, the appraisal value is determined based on the net recoverable value in the evaluation.

7. Intangible assets-land use rights

Pursuant to the "Urban Land Appraisal Regulations", the basic appraisal methods that can be used in land appraisal include capitalisation method, market comparison method, cost approach method, hypothetical development method and benchmark land price coefficient correction method.

(1) Unsuitable evaluation methods

The land to be appraised is the land for industrial purpose and the development and construction has been completed. Therefore, hypothetical development method and income reduction method are not used in this evaluation;

Because the cost approximation method is generally applicable to the price evaluation of newly developed land, in addition to understanding the appraisal purpose, delimitation of property rights, preconditions and collecting sufficient information, the calculation standard and determination basis of various costs and expenses should also be mainly explained in the application of the cost approximation method. Given that the calculation standard and determination basis of various costs and expenses for the appraisal object which is not the newly developed land are not easy to obtain, and it is impossible to determine the costs of the development of the entrusted appraisal object, the cost approximation method cannot be applied in the evaluation.

There are few similar land transaction cases in the vicinity of the land to be appraised recently, the land market is not mature, and there are not enough transaction cases in the same supply and demand circle, so it is not suitable to use the market comparison method for evaluation.

(2) Appropriate evaluation methods

The land to be appraised is located in Tengzhou City. Tengzhou City has issued the benchmark land price of urban area and construction town, so it is suitable to use the coefficient correction method of benchmark land price for evaluation.

Therefore, only the coefficient correction method of benchmark land price is applied in the evaluation.

8. Intangible assets– other intangible assets

(1) Intangible assets in normal use

1) Proprietary technologies, patents and rights to use proprietary technology

For the technologies, patents and rights to use proprietary technology which are normally used in the production of the enterprise, we can make a reasonable forecast on the economic life span and expected income level of the assets to be appraised. Therefore, the income sharing method is adopted in this evaluation.

The technical idea of the income sharing method is to forecast the income of the enterprise in the future years brought by the use of the above assets, analyze its contribution to the income, determine the appropriate sharing rate, calculate its future income status, and analyze the normal refresh cycle of such assets, so as to determine its future income life, and then discount it with an appropriate discount rate to obtain the evaluation value. The basic calculation formula is as follows:

$$P = \sum_{i=1}^{n} \frac{n\ x\ R_i}{(1+r)^t}$$

In which: P – Appraisal value

Ri – Annual sales income

η – Sales income sharing rate

n – income life

r – Discount rate

i – year No.

2) Trademarks

According to the on-site investigation by the appraisers, the trademark used by the appraised entity is "Yankuang brand", which belongs to Yankuang Group Company Limited. The trademark within the scope of the appraisal is the self-owned trademark of the appraised entity, which is not used in the sales process. The appraised entity has not specially publicized and promoted its own trademark, and the public awareness of the trademark is very low, so the income method is not applicable to the valuation. Currently, there is no trademark asset transaction case identical to the software and trademark to be assessed in the open market, so the market valuation is not applicable to the evaluation.

Currently, there are more than 7 million applications for trademark registration annually in China. The cost of trademark design and registration is relatively open and easily available. It is qualified to use the cost method to evaluate the trademark rights. Therefore, the cost method is adopted to evaluate the trademark rights.

(2) Disabled use rights of outsourced technologies and software

The disabled intangible assets that have been included in the scope of the appraisal are Jinzhitong infrastructure financial software and the heat insulating casing externally cooling combined reactor technology. According to the on-site verification by the appraisers, the use right of the software and the purchased technology has been out of service for many years, and the value is nil.

9. Long-term deferred expenses

The appraisers consulted the relevant contracts and payment documents, and the expenses were evenly apportioned according to the amortization period. After verifying and confirming that the amount incurred and the original value of amortization recorded are correct, the appraisal value is determined according to its book value.

10. Deferred income tax assets

The deferred income tax assets are caused by the difference between the book value of assets and their tax base in the subsequent measurement process due to the difference between the accounting standards for business enterprises and the provisions of the tax law. The appraisers investigated and understood the causes and formation process of the differences. It is verified that the accounting content of this subject is composed of four items, which are caused by the differences between the accounting policies and the deduction policies of tax regulations, such as bad debt provision for receivables, depreciation difference of fixed assets, salary of early retired employees, and changes in fair value of other equity instruments. The appraisal value is determined according to the amount of the deductible temporary difference after recalculation.

11. Other non-current assets

Other non-current assets included in the evaluation include the land transfer fee, project payment, equipment payment, certificate of deposit and interest prepaid by Yankuang Lunan Chemical Co., Ltd., and the bankruptcy asset package of Yankuang Lunan Chemical Fertilizer Plant purchased.

(1) The appraisers confirm the authenticity and accuracy of the book value by consulting the land transfer contract, project construction contract, equipment procurement contract, corresponding accounting documents and on-site verification of project progress and equipment delivery. For the certificate of deposit and interest, the appraisers consulted the relevant accounting records and bank statements, confirmed the closing balance by letter, and confirmed the amount according to the reply. After verification, the book value is true and accurate. The appraisal value is determined according to the book value after verification.

(2) Bankruptcy asset package of Yankuang Lunan Chemical Fertilizer Plant

1) For raw materials, according to the onsite investigation by the appraisers and the introduction of the management personnel of the appraised entity, such part of inventories are relatively aged and all of them are obsolete materials after technical transformation. The appraisal value is determined according to the net realizable value.

2) There are 43 buildings (structures) in total. As of the valuation benchmark date, 38 of such assets have been demolished and there is no physical item in the site, so the appraisal value is nil; remaining 5 assets are in idle state for a long period, to be demolished, with poor physical condition and without use value. Therefore, it is not suitable to use the income method for evaluation. Similarly, the entrusted assets do not have the conditions for continuous use, and the cost method is not suitable for evaluation. According to the characteristics of the assets to be assessed and the purpose of evaluation, the residual value of the assets to be obsolete is evaluated by the market method.

3) For equipment assets, the following evaluation method is applied:

Equipment in idle is evaluated according to the fixed assets-machinery equipment method.

For the equipment that will be demolished in the future for Yankuang Lunan Chemical Co., Ltd. to build a 3,000 tons/day OMB new pulverized coal gasification technology R&D industrial demonstration project, the preliminary cost and capital cost are not included in the evaluation, and the integrated depreciation rate is only determined by the life method. For the equipment that has not been demolished (to be demolished), the equipment demolition cost should be included. The relevant formula is as follows:

Appraisal value = replacement cost x life-time depreciation rate – demolition cost

For equipment to be obsolete, according to the onsite verification of the material and weight of the obsolete equipment provided by the enterprise, the appraisal value is determined based on the net recoverable value of such equipment.

Appraisal value = the weight of the detachable and realizable materials x the unit recycling price of the detachable and realizable materials – disposal cost

VIII.APPRAISAL PROCESS AND FINDINGS

Pan-China Assets Appraisal Co., Ltd. validated and reviewed the legal documents, accounting records and other relevant materials provided by the client, validated the property titles, inspected relevant assets on site and checked against the inventory of assets provided by the appraised entity, carried out necessary market research and transaction price comparisons, among other necessary asset appraisal procedures, in accordance with asset appraisal standards, generally accepted accounting principles, relevant laws, regulations and requirements of the authorities, and by following the matters specified in the asset appraisal engagement contract concluded with the client. The asset appraisal process is detailed as follows:

1. Acceptance of engagement and preparations

(1) Pan-China Assets Appraisal Co., Ltd accepted the entrustment of the client in June 2020 and engaged in this asset appraisal project. Upon taking the job, Pan-China Assets Appraisal Co., Ltd. held talks with the client over the purpose, subject and scope, valuation benchmark date of the appraisal, the nature of the assets to be assessed and other matters that are of significance to the asset appraisal proposal.

(2) An asset declaration breakdown form was tailored to the assets to be assessed. Main assets investigation form was designed. Some staff members of the client supporting the appraisal received training. An asset inventory and all investigation forms were completed.

(3) Design of the appraisal proposal

Depending on the nature of the assets to be assessed, the appraisal implementation plan was finalized, the appraisers were appointed and an on-site task force was put together.

(4) Preparation of appraisal documents

Traded prices of the assessed subjects and property title proofs of the assessed subjects were gathered and collated.

The working period of this stage is from 1 July 2020 to 2 July 2020.

2. On-site inventory phase

(1) Truthfulness and legitimacy of the assessed subjects

The appraisers checked physical assets and monetary claims and debts against the statements of assets and liabilities provided by the client and the appraised entity in different ways to confirm truthfulness and accuracy of the assets and liabilities.

For monetary funds, we conduct investigations by consulting journals, reviewing bank statements and statements of bank reconciliation.

For the inventory, the appraisers checked and investigated the inventory quantity and storage situation declared by the enterprise, and carried out detailed verification records on the inventory quantity and purchase time. The inventory quantity and quality status declared by the enterprise will be verified through spot check.

For claims and debts, the appraisers checked general ledgers and subsidiary ledgers, and randomly checked contracts and vouchers, to confirm truthfulness of the assets and liabilities.

For investment in other equity instruments, the appraisers check the statements of equity investment companies and investment agreements to determine the authenticity of the assets.

For fixed assets, focused and general investigations were combined, with focus on buildings and structures, and important equipment. The appraisers consulted relevant engineering design and construction documents, contractor contracts, settlement documents, and equipment purchase contracts and invoices, to determine truthfulness of the assets.

For the construction in progress, the appraisers checked to the relevant contract content, investigate and analyze the commencement time, project content, current progress and actual payment of the construction in progress to determine its authenticity.

For intangible assets, the appraisers consulted the land transfer contract, state-owned land use certificate, patent certificate, software purchase contract and payment, and verified the subsidiary account, so as to determine its authenticity.

For the long-term deferred expenses, the appraisers spotted check the original vouchers, invoices and contracts, verified the correctness of the enterprise's accounting treatment, and reviewed the correctness of the enterprise's amortization.

For deferred income tax assets, the appraisers investigated and understood the reasons and formation process of the differences, checked the final settlement of corporate income tax, checked corporate tax returns, to determine the authenticity of the deferred income tax assets and the correctness of provisions.

(2) Investigation of actual state of the assets

On-site investigation for buildings: with the cooperation of the financial management personnel of the appraised entity and related fixed asset management personnel, the appraisers conducted on-site investigation of the assessed buildings one by one, and checked the names and locations, structural form and gross floor area of the buildings according to the declaration form and filled in the missing items and omissions in the asset declaration form according to the current asset status on the valuation benchmark date to achieve that accounts are consistent without omission and repeat. During the investigation, the appearance, number of floors, height, span, interior and exterior decoration, indoor facilities, current status of various components, basic conditions and maintenance and use of buildings were also observed, and detailed observation records were made.

Focused and general investigations were combined to find out the state of the equipment. Supported by the persons in charge of the equipment at the appraised entity, the appraisers reviewed the operation records of the equipment and checked the running status of the equipment on site. On the basis of investigation, key equipment investigation forms were completed.

With the cooperation of the engineering personnel of the appraised entity, the onsite investigation on the location, category, quantity, construction in progress and completion status of the project under construction shall be carried out, and the onsite investigation record form shall be filled in.

For land use rights, the appraisers conducted on-site surveys, explored the four peripheries and surrounding environment, landscapes, facilities and geographical locations of each land use right, and got detailed understanding of and conducted on-site surveys on general factors, regional factors and individual factors that affect land price, and completed the land use right status survey form.

(3) Investigation of value composition of physical assets and business development

The value composition of the assets was checked for appropriateness and compliance depending on the nature of the assets of the appraised entity. In particular, the truthfulness, accuracy, completeness and compliance of the carrying amount of fixed assets was examined. Relevant accounting vouchers, accounting books, final accounts, construction contracts and equipment purchase contracts were reviewed.

The working period of this stage is from 3 July to 31 July 2020.

3. Choice of appraisal approach, gathering of market intelligence and the process of estimation

The appraisers determined appraisal parameters and prices based on the work plan mapped out for the project in particular and the pricing principles and valuation models identified as appropriate in light of the actual situation, and then started appraising and estimating by reference to the historical data provided by the client.

4. Summary of appraisal findings

(1) Determination of appraisal results

According to the situation of the assessment site survey conducted by the appraisers of Pan-China Assets Appraisal Co., Ltd and the necessary market survey and calculation, the results of the asset-based approach and the income approach entrusted with the assessment of assets are determined.

(2) Analysis of appraisal results and preparation of the valuation report

The asset valuation report was drafted in compliance with the requirements of Pan-China Assets Appraisal Co., Ltd.. The appraisal results and the relevant asset valuation report went through three-level reviews by Pan-China Assets Appraisal Co., Ltd. and were confirmed to be error-free by the signatory asset appraiser. Then the project team finalized and delivered the report.

(3) Archiving of original documents

The working period of the abovementioned phases 3 and 4 is from 1 August to 6 September 2020.

IX. ASSUMPTIONS IN THE APPRAISAL

General assumptions:

1. Trade assumption: All assets to be appraised were assumed to be in the course of trading. The appraisers valued the assets according to simulated trade terms.

2. Open market assumption: Open market assumption is an assumption about the conditions of the market the assets are assumed to enter and about the degree of impact the assets are exposed to under such market conditions. An open market is defined as full-fledged and developed market conditions, a competitive market with willing buyers and sellers. In this market, buyers and sellers are on equal footing, have the opportunity and time to get sufficient market information, and are able to trade in a voluntary and sensible manner, free from any compulsory or restrictive conditions.

3. Continuous use assumption: The continuous use assumption is an assumption about the conditions of the market the assets are assumed to enter and about the state of the assets under such market conditions. First of all, the assets being appraised are in use. Secondly, hypothetically the assets in use will continue to be used. Under the continuous use assumption, the possibility of repurposing of the assets or optimal conditions of use are disregarded. Hence, the appraisal results are of limited usability.

4. Going concern assumption: The entire assets are taken as the subject of appraisal. As a business entity, the Company will continue as a going concern in the external environment. The management is responsible and has the ability to take responsibilities; the business is legal and profitable, and thus sustainable.

This valuation results are based on the assumptions mentioned above. Failure of the aforementioned assumptions will result in significant impact on the valuation result, and the valuation result will generally be void and null.

X. APPRAISAL CONCLUSION

(I) Appraisal Conclusion with Asset-based Approach

Under the going concern assumption as at the valuation benchmark date, the book value of total assets, the book value of liabilities and the book value of net assets of Yankuang Lunan Chemical Co., Ltd. were RMB9,862,657,400, RMB4,320,670,600 and RMB5,541,986,800, respectively.

Total assets after appraisal by the asset-based approach were RMB10,496,784,100, liabilities were RMB4,309,299,200, net assets were RMB6,187,484,900, and the appraised appreciation was RMB645,498,100, representing an appreciation rate of 11.65%.

Summary sheet of appraisal results by asset-based approach

Unit: RMB0'000

Item	Book value	Appraised value	Changes	Appreciation rate (%)
Current assets	255,241.72	255,665.54	423.82	0.17
Non-current assets	731,024.02	794,012.87	62,988.85	8.62
Including: Long-term equity investment	–	–	–	
Investment properties	–	–	–	
Fixed assets	438,685.65	465,954.04	27,268.39	6.22
Construction in Progress	78,659.71	79,799.22	1,139.51	1.45
Intangible assets	52,073.40	86,254.68	34,181.28	65.64
Land use rights	44,026.42	66,983.89	22,957.47	52.14
Others	161,605.26	162,004.93	399.67	0.25
Total assets	**986,265.74**	**1,049,678.41**	**63,412.67**	**6.43**
Current liabilities	369,334.04	369,334.04	–	–
Non-current liabilities	62,733.02	61,595.88	–1,137.14	–1.81
Total liabilities	**432,067.06**	**430,929.92**	**-1,137.14**	**-0.26**
Net assets	**554,198.68**	**618,748.49**	**64,549.81**	**11.65**

Note: for details of the appraisal conclusion, please refer to the Detailed Statement of Assets Appraisal.

(II) Selection of the appraisal conclusion

The appraisal considers the selection of the asset-based approach as the final result, mainly based on the following considerations: The income approach is greatly affected by the future profitability, asset quality, operating capabilities, and operating risks of the enterprise, while due to the impact of price fluctuations in the international and domestic coal and oil markets, the future profitability of the appraised entity is uncertain to a certain extent. Combining the purpose of the evaluation, the asset-based approach can reflect the fair market value of assets from the perspective of asset replacement. The appraised entity provided detailed information about its assets and liabilities, and the appraisers also collected external data deemed necessary to the asset-based approach. We conducted a full inspection and appraisal of its assets and liabilities. Therefore, the appraisal conclusion come up with using the asset-based approach is comparatively more reliable. Therefore, the asset-based approach was adopted. On the premise of continuing operations on the valuation benchmark date, being 30 June2020, the appraised total value of shareholders' equity of Yankuang Lunan Chemical Co., Ltd. was RMB6,187,484,900, and the appraised appreciation was RMB645,498,100, representing an appreciation rate of 11.65%.

XI. SPECIAL NOTES

The appraiser of the company is incapable of evaluating and estimating the following items on their own. Notwithstanding the above, this may affect the conclusion. For this reason, it is essential for the user of the valuation report to pay particular attention to this.

(I) The "Appraisal value" in this report refers to our market valuation opinions for the purposes listed in this report on the premise that the current use of the appraised assets remains unchanged and continues to operate, as well as on the basis of the status of the valuation benchmark date and the external economic environment, without being responsible for other uses.

(II) The appraisal conclusion in the report reflects the market value determined by the appraised entity according to the principle of open market under the purpose of this appraisal, without considering the relevant expenses and taxes to be borne by the assets in the process of property registration or ownership change, and without making any tax adjustment preparation for the value added of the assets appraisal. The appraisal conclusion is not to be deemed a guarantee for the realizable price of the appraised object.

(III) In case of changes in the amount of assets and pricing standards within the term of appraisal conclusion, moderate adjustments shall be made, instead of the direct use thereof.

(IV) Circumstances where the report conclusions issued by other institutions are cited:

1. The financial data from 30 June 2017 to 2020 are quoted from the standard unqualified Audit Report (Zhongxingcai Guanghua Shen Kuai Zi [2020] No. 316051) audited and issued by Zhongxingcai Guanghua Certified Public Accountants LLP.

2. The unit selling prices of acetic acid, ethyl acetate, butanol, polyoxymethylene, and synthetic ammonia from July 2020 to 2025 in the income forecast of major businesses are quoted from data of the Market Research Report on Coal Chemical Products and Raw Materials issued by Jinlianchuang Network Technology Co., Ltd.（金聯創網絡科技有限公司）on 2 August 2020.

(V) Other special matters affecting the appraisal conclusion

1. Other monetary funds

In other monetary funds, there are RMB227,800,000.00 of fixed deposit certificate pledge in the Luhua Sub-branch of Zaozhuang Branch of Agricultural Bank of China for the purpose of issuing bills payable. The impact of such pledge on the appraisal conclusion is not taken into account in the evaluation.

2. As of the valuation benchmark date, a total of 421 bank acceptance bills among the bills receivable have been pledged in the "bill pool", with a total amount of RMB218,440,394.16. The impact of such pledge on the appraisal conclusion is not taken into account in the evaluation.

3. ***Other receivables***

Due to the bankruptcy liquidation of Yankuang Lunan Chemical Fertilizer Plant, after the preliminary asset distribution of the bankruptcy asset, the remaining amount receivable of the appraised entity from Yankuang Lunan Chemical Fertilizer Plant was RMB365,687,510.10. Since the bankruptcy proceedings have not been completed, the subsequent recovery and payment of the creditor's rights are uncertain. Based on the principle of prudence, the audit firm makes full provision for bad debts of the above-mentioned other receivables, and takes the audited book value as the appraisal value. All parties of the equity transaction are reminded to agree on the subsequent payment or recovery of creditor's rights separately.

4. ***Investment in other equity instruments***

Investment in other equity instruments refers to the 8% equity interest in Zhongfeng Chemical Co., Ltd. held by the appraised entity. In the evaluation, Zhongfeng Chemical Co., Ltd. did not provide the assets valuation declaration lists, the authority of information inquiry and on-site inventory for the appraisers, and the appraisers also failed to get direct contact with the financial personnel, sales personnel and engineering personnel of the enterprise. The appraisers only obtained the articles of association of Zhongfeng Chemical Co., Ltd., the audit report for 2018-2019 and the financial statements as at 30 June 2020. Since the overall appraisal procedure has not been implemented, the appraisers confirmed the appraisal value only based on the accounting statements obtained and multiplying the net assets of the financial statements as at 30 June 2020 by the shareholding percentage of Yankuang Lunan Chemical Co., Ltd.

5. The 11 buildings with a total GFA of 7,802.63 square meters were included in the evaluation. As of the valuation benchmark date, no real estate ownership certificate has been applied. In this regard, Yankuang Lunan Chemical Co., Ltd. has issued a letter of undertaking for the building ownership to certify that the property rights belong to the company and there is no ownership dispute. The evaluation is conducted on the premises that the ownership of the relevant building is clear and free from any dispute.

6. There are 18 sets residential buildings in Luhua living area, with a total GFA of 913.73 square meters included in the evaluation. The right holders of such assets specified in the Building Ownership Certificate is Shandong Lunan Chemical Fertilizer Plant; there are business building No. 40-107 of Jingshan Anju community and No. 40-108 business building of Jingshan Anju community, with a total GFA of 208.18 square meters, included in the evaluation. The right holders of such assets specified in the Building Ownership Certificate is Yankuang Lunan Chemical Fertilizer Plant. As of the valuation benchmark date, the change of right holders for such buildings has not been registered. In this regard, Yankuang Lunan Chemical Co., Ltd. has issued a letter of undertaking for the building ownership to certify that the property rights belong to the company and there is no ownership dispute. The evaluation is conducted on the premises that the ownership of the relevant buildings is clear and free from any dispute.

7. According to the Finance Lease Contract (No. Zu-Z2019040010) signed by Yankuang Lunan Chemical Co., Ltd. (the lessee) and Fucheng Financial Leasing Co., Ltd. (the lessor) in 2019, some of the machinery and equipment included in the scope of the evaluation are finance lease assets, the property rights of the equipment belong to Fucheng Financial Leasing Co., Ltd., and the lessee obtains the right to use the equipment from the lessor. The lease term is 36 months (from 9 May 2019 to 9 May 2022)) for a total of 13 terms, the lease principal is RMB400,000,000.00. After the lessee has paid up the rent and paid the purchase price of RMB1.00, the lessor will issue the Ownership Transfer Certificate to the lessee, and the lessee will obtain the property rights of the equipment. In the evaluation, such assets are evaluated based on the replacement cost method. The related equipment is as follows:

			Book value (RMB)	
Asset no.	**Equipment name**	**Date of acquisition**	**Original value**	**Net value**
2200000031	6kV high voltage switchgear	2009/12/31	5,549,278.25	2,642,341.86
2200000038	6kV filter capacitor cabinet	2009/12/31	1,670,068.50	795,219.04
2200000045	6kV microcomputer protection device	2009/12/31	1,972,637.45	939,290.18
2200000056	EPS power supply unit	2009/12/31	3,614,863.77	1,721,251.90
2200000044	Section I incoming line – switch cabinet, bus bar	2009/12/31	8,657,627.75	4,122,412.14
2200000053	UPS power supply	2009/12/31	3,947,265.04	1,879,527.97
2200000036	Low voltage switch cabinet	2009/12/31	5,354,009.90	2,549,362.93
2200000035	Dry type transformer	2009/12/31	1,603,124.83	763,343.21
2200000025	SF6 circuit breaker	2009/12/31	5,345,957.21	2,545,528.59
3260000149	Cooling tower	2009/12/31	1,491,566.97	710,223.85
3260000150	Cooling tower	2009/12/31	1,491,566.97	710,223.85
3260000151	Cooling tower	2009/12/31	1,491,566.97	710,223.85
2100003698	Double suction horizontal centrifugal pump	2009/12/31	1,641,632.12	781,678.82
2100003699	Double suction horizontal centrifugal pump	2009/12/31	1,641,632.12	781,678.82
2100003700	Double suction horizontal centrifugal pump	2009/12/31	1,641,632.12	781,678.82
3030000015	Desalted water system	2009/12/31	12,023,501.12	5,725,104.88
3170000021	Grid type fiber filter	2009/12/31	5,136,059.96	2,445,583.99

Asset no.	Equipment name	Date of acquisition	Book value (RMB) Original value	Net value
2100000880	High temperature hot water storage tank	2009/12/31	1,973,376.71	939,642.14
2100002094	Process burner	2009/12/31	4,021,455.93	1,914,854.63
3010000042	Slag extractor	2009/12/31	1,571,216.14	748,149.56
2100002092	Coal slurry tank agitator	2009/12/31	1,644,155.94	782,880.53
2100003732	Coal slurry feed pump	2009/12/31	12,027,338.53	5,726,932.13
2100003733	Coal slurry feed pump	2009/12/31	12,027,338.53	5,726,932.13
2100000228	Gasifier	2009/12/31	63,075,355.70	30,033,933.08
2100000881	Water washing tower	2009/12/31	12,822,893.25	6,105,743.12
2100000224	Lock bucket	2009/12/31	10,289,857.38	4,899,613.88
2100000879	Vacuum flash tank	2009/12/31	3,959,342.20	1,885,278.60
2100000882	Evaporation hot water tower	2009/12/31	6,963,029.90	3,315,513.17
2100000866	1#Temperature and pressure reducer	2009/12/31	1,454,352.79	692,503.98
3050000011	Bag filter	2009/12/31	8,234,271.53	3,920,827.01
2100003708	Secondary air fan	2009/12/31	915,730.26	436,033.69
2100003709	Secondary air fan	2009/12/31	915,730.26	436,033.69
2100003716	High pressure boiler feed pump	2009/12/31	2,113,758.53	1,006,486.31
2100003717	High pressure boiler feed pump	2009/12/31	2,113,758.53	1,006,486.31
2100003718	High pressure boiler feed pump	2009/12/31	2,113,758.53	1,006,486.31
2100003724	Screw air compressor	2009/12/31	488,540.81	232,623.38
2100003725	Screw air compressor	2009/12/31	488,540.81	232,623.38
2100003726	Screw air compressor	2009/12/31	488,540.81	232,623.38
3050000003	Pneumatic conveying system	2009/12/31	2,061,299.38	981,507.39
3030000415	Steam water sampling device	2009/12/31	1,509,044.88	693,395.41
3050000005	Circulating fluidized bed boiler	2009/12/31	57,974,857.10	27,605,281.95
2400000338	DCS control system	2009/12/31	6,189,754.69	2,947,310.85
2400000808	DCS expansion hardware equipment	2009/12/31	8,708,199.35	4,001,355.65
2400000809	ESD system	2009/12/31	6,931,144.74	3,184,811.67
2400000787	Ethyl acetate analysis room	2009/12/31	10,616,447.38	4,878,182.03
2400000805	Flue gas monitoring system	2009/12/31	1,474,054.27	677,317.48
2100002067	Filling car stack	2009/12/31	4,805,873.34	2,288,362.47
2100000817	Storage tank for unqualified acetic acid products	2009/12/31	7,857,205.54	3,741,283.45
2100000818	Intermediate storage tank for acetic acid product	2009/12/31	8,794,118.73	4,187,403.61
2100003381	Acetic acid tank	2009/12/31	33,780,366.11	16,084,844.00
2100003382	Acetic acid tank	2009/12/31	33,780,366.11	16,084,844.00
2200001976	Distributed control system	2009/12/31	7,158,746.40	3,408,705.48
2100000820	Methanol intermediate storage tank	2009/12/31	5,752,023.30	2,738,880.81
2400002566	Ion chromatograph	2009/12/31	730,399.69	335,613.46
2400002567	Ion chromatograph	2009/12/31	730,399.69	335,613.46
2400000799	Hydrogen generator	2009/12/31	1,711,874.14	786,593.98
2400000812	Automatic Potentiometric Titrator	2009/12/31	1,418,000.00	651,560.92
2100000830	Finished product tower	2009/12/31	6,358,671.40	3,027,742.11

Asset no.	Equipment name	Date of acquisition	Book value (RMB) Original value	Net value
2100000843	Reboiler of finished product tower	2009/12/31	1,517,820.21	722,724.60
2100000213	Reaction kettle	2009/12/31	9,106,556.86	4,336,174.05
2100000829	Falling film heat exchanger	2009/12/31	25,201,912.91	12,000,131.53
2100000214	Rectifying tower	2009/12/31	32,060,546.42	15,265,935.43
2100000840	Distillation column condenser	2009/12/31	3,229,722.35	1,537,863.14
2100000821	Ethanol intermediate tank	2009/12/31	1,967,312.64	936,754.71
2100003379	Storage tank for unqualified ethyl ester	2009/12/31	5,114,249.56	2,435,198.76
2100003380	Storage tank for unqualified ethyl ester	2009/12/31	5,114,249.56	2,435,198.76
2100000823	Ethyl ester intermediate component tank	2009/12/31	1,761,537.35	838,772.83
2100000822	Heavy component storage tank	2009/12/31	1,715,649.88	816,923.10
3010000041	Coal mill	2009/12/31	9,362,951.25	4,458,258.69
2100003173	Automobile sampling machine	2009/12/31	1,716,922.36	788,913.60
2400000794	Gas chromatograph	2009/12/31	3,436,127.53	1,578,876.13
2400000795	Gas chromatograph	2009/12/31	3,436,127.73	1,578,876.24
2400000801	Gas chromatograph	2009/12/31	3,497,661.06	1,607,150.40

8. *The off-balance sheet assets*

The off-balance sheet assets included in the scope of the evaluation is trademarks and patents owned by Yankuang Lunan Chemical Co., Ltd., the book value of which was RMB0.00, including 20 trademarks, 26 patents for invention, 3 patents for utility models and 3 proprietary technologies. Related costs of such assets are included in the expenses during the current period and are not included in intangible assets. Such assets are included in the scope of the evaluation and evaluated by adopting income approach and cost approach. Details are set out in the table below:

Trademarks

Application number	Content or name	Right holder	Date of trademark registration
1745162	Lunan Chemical	Yankuang Lunan Chemical Co., Ltd.	2002/4/14
1728139	Lunan		2002/3/14
6202519	Lunan Chemical		2010/3/7
6389074	Lunan Chemical		2010/3/28
6712174	Lunan Chemical		2010/6/14
5105868	Lunan Chemical		2009/6/14
738423	Luofengshan		1995/4/7
738427	Luofengshan		1995/4/7
1292502	Luofengshan		1999/7/14
738977	Luofengshan		1995/4/7
3461120	Kesheng		2004/11/21
6034658	Kesheng		2010/1/21
3461121	Mozi		2004/11/21
9367498	Lunan Chemical		2012/8/14
9367461	Yankuang Lunan Chemical		2012/6/21
3461460	Mozi		2004/7/14
3461461	Kesheng		2004/8/28
11327484	Lunan Chemical		2014/1/7
18299895	Lunan Chemical		2016/12/21
4823130	Yankuang Guotai		2008/11/4

Patents

Application number	Type	Content or name	Right holder	Date of Application
201210173703.5	Invention	Rare earth coupling agent, preparation method and application thereof in treatment of glass fiber reinforced polyformaldehyde composite material	Yankuang Lunan Chemical Co., Ltd.	2012/5/3
201210164197.3	Invention	Reinforced and toughened polyformaldehyde and preparation method thereof	Yankuang Lunan Chemical Co., Ltd.	2012/5/24
201310633266.5	Invention	Portable sampling device of double-screw polyformaldehyde polymerization extruder	Yankuang Lunan Chemical Co., Ltd.	2013/11/29
201210164300.4	Invention	Wear resistant self-lubricating polyformaldehyde and preparation method thereof	Yankuang Lunan Chemical Co., Ltd.	2012/5/24
201110293116.5	Invention	Reactive distillation unpowered circulation technology and device	Yankuang Lunan Chemical Co., Ltd.	2011/9/30

Application number	Type	Content or name	Right holder	Date of Application
201010217347.3	Invention	Reaction equipment for synthesizing ethylic acid by low-pressure methanol carbonylation of methanol	Yankuang Lunan Chemical Co., Ltd.; Yankuang Group Company Limited	2010/7/5
200810157532.0	Invention	Method for de-iodinating and refining acetic acid	Yankuang Lunan Chemical Co., Ltd.; Yankuang Group Company Limited	2008/10/6
201510068764.9	Invention	Separating reducing impurity decanter in a kind of acetic acid refining process	Yankuang Lunan Chemical Co., Ltd.	2015/2/10
201210274859.2	Invention	Method for indirectly preparing ethyl acetate by hydrogenating acetic acid	Yankuang Lunan Chemical Co., Ltd.	2012/8/3
201110453527.6	Invention	Gasified coal-water-slurry preparation process and corresponding production line	Yankuang Lunan Chemical Co., Ltd.	2011/12/30
201210164732.5	Invention	Technology and device for preparing industrial carbon monoxide with water gas	Yankuang Lunan Chemical Co., Ltd.	2012/5/24
201210358383.0	Invention	Method and system for internal compression process space division reducing high-pressure plate type heat exchanger temperature differences	Yankuang Lunan Chemical Co., Ltd.	2012/9/24
201110247407.0	Invention	Steam trap and manufacturing and use method thereof	Yankuang Lunan Chemical Co., Ltd.	2011/8/24
201110247509.2	Invention	Burner of coal gasification process	Yankuang Lunan Chemical Co., Ltd.	2011/8/24
200910174963.2	Invention	Coal water slurry gasification furnace vault	Yankuang Lunan Chemical Co., Ltd.; Yankuang Group Company Limited; Inner Mongolia Rongxin Chemicals Co., Ltd	2009/10/14
201210038528.9	Invention	Safety production device and process for dimethyl sulfide oxidation reaction	Yankuang Lunan Chemical Co., Ltd.	2012/2/20
200910309545.X	Invention	Process for operating methanol rectification system	Yankuang Lunan Chemical Co., Ltd.	2009/11/11

Application number	Type	Content or name	Right holder	Date of Application
201510172645.8	Invention	Method and device for blending combustion of coke with small particle size of 10-25 mm in oxygen-enriched gas making furnace	Yankuang Lunan Chemical Co., Ltd.	2015/4/13
201720225105.6	Utility model	A kind of reactor of methyl acetate liquid-phase carbonylation synthesis aceticanhydride	Yankuang Lunan Chemical Co., Ltd.	2017/3/9
201710619674.3	Invention	A kind of system and method that chemical industry low-pressure tail gas recycles	Yankuang Lunan Chemical Co., Ltd.	2017/7/26
201810941878.3	Invention	The online depolymerization method of by-product paraformaldehyde in a kind of metaformaldehyde synthetic reaction	Yankuang Lunan Chemical Co., Ltd.	2018-08-17
201821680135.7	Utility model	A kind of online fix tool of cut-off disc nut fastening failure	Yankuang Lunan Chemical Co., Ltd.	2018/10/16
201821680059.X	Utility model	A kind of both-end location guide formula float level meter	Yankuang Lunan Chemical Co., Ltd.	2018/10/16
201811252821.9	Invention	System and process for rapid extraction and refining of ethyl acetate after synthesis by pressurized esterification	Yankuang Lunan Chemical Co., Ltd.	2018/10/25
201811224192.9	Invention	A kind of process units and production method of synthesizing acetic acid by methanol low-voltage carbonylation	Yankuang Lunan Chemical Co., Ltd.	2018/10/19
201810265761.8	Invention	A kind of system and method for the pump generation cavitation preventing conveying high temperature, low boiling point working medium	Yankuang Lunan Chemical Co., Ltd.	2018/3/28
201710137754.5	Invention	A kind of process of synthesizing acetic anhydride by low-voltage carbonylation	Yankuang Lunan Chemical Co., Ltd.	2017/3/9
201811313485.4	Invention	Device, system and process for concentrating formaldehyde	Yankuang Lunan Chemical Co., Ltd.	2018/11/6
201811222760.1	Invention	Fluid mixing system of acetic acid reaction kettle	Yankuang Lunan Chemical Co., Ltd.	2018/10/19

Proprietary techniques

Type	Content or name	Right holder	Date of acquisition
Proprietary techniques	Optimization and innovation of parallel operation of large and small acetic anhydride reactors	Yankuang Lunan Chemical Co., Ltd.	2017
Proprietary techniques	Quality and production improvement technology for the polyformaldehyde system	Yankuang Lunan Chemical Co., Ltd.	2017
Proprietary techniques	Research and development of gasification expansion project	Yankuang Lunan Chemical Co., Ltd.	2018

9. The trademark used by the appraised entity for selling the products is the "Yankuang brand" trademark owned by Yankuang Group Co., Ltd. for free, and the appraised entity is a wholly-owned subsidiary of Yankuang Group Company Limited. Yankuang Group Company Limited agrees the appraised entity to continue to use such trademarks for free. The right to use such trademarks has not been evaluated.

10. ***Other non-current assets***

Among other non-current assets, there are some idle or unused equipment in the bankruptcy asset package – equipment assets of Yankuang Lunan Chemical Fertilizer Plant. The appraised entity has issued relevant instructions and plans to use the assets to build a 3,000 tons/day OMB new pulverized coal gasification technology R&D industrial demonstration project. The appraisers conduct the evaluation on the assumption that such assets can be used in the project in the future and can continue to be used. If the equipment cannot be used or the project is not initiated later, the application scope of the evaluation results is limited, and the evaluation organization and relevant personnel will not be held responsible. Users of the report are reminded to pay attention to the impact of this matter.

11. According to the relevant information provided by Yankuang Lunan Chemical Co., Ltd., short-term borrowings include the total residual loan principal of RMB879,000,000.00 from Tengzhou sub-branch of Agricultural Bank of China Limited as of the valuation benchmark date, the residual loan principal of RMB130,000,000.00 from Tengzhou sub-branch of Bank of China Limited as of the valuation benchmark date, the residual loan principal of RMB300,000,000.00 from Tengzhou sub-branch of China Construction Bank Corporation as of the valuation benchmark date, and the residual loan principal of RMB200,000,000.00 from Jinan branch business department of China Everbright Bank as of the valuation benchmark date. Such loans are secured by Yankuang Group Co., Ltd. with joint and several liabilities.

Among non-current liabilities due within one year, loans from Industrial Bank Co., Ltd. Jining Branch are secured by a pledge. The pledge is a certificate of deposit of RMB800,000,000.00. As of the valuation benchmark date, the certificate of deposit of RMB800,000,000.00 is reflected in other non-current assets. The appraised entity signed the pledge contracts of term deposits of Xing Yin Ji Ning Jie Zhi Zi No. 2018-023 and Xing Yin Ji Ning Jie Zhi Zi No. 2018-028 with the Jining Branch of Industrial Bank Co., Ltd. in February 2018 and March 2018, respectively, to borrow total loans of RMB776,000,000.00 from Jining Branch of Industrial Bank Co., Ltd., and the pledge period lasts until the payment for the secured loans was settled. As of the valuation benchmark date, such borrowings are not due and the remaining outstanding principal amounts to RMB176,000,000.00.

Among non-current liabilities due within one year, loans from Zaozhuang branch of Bank of Rizhao Co., Ltd. and SMEs branch of Shandong Tengzhou Rural Commercial Bank Co., Ltd. are secured by joint and several liability guarantee. The guarantor is Shandong Xinxing Property Co., Ltd.

Long-term borrowings are loans from Zaozhuang Tengzhou sub-branch of Bank of Qingdao Co., Ltd. and secured by Shandong Xinxing Property Co., Ltd. with joint and several liability.

12. The long-term accounts payable is cost of water resources payable to Tengzhou Urban and Rural Water Bureau. According to the Settlement Performance Agreement signed between the appraised entity and the Tengzhou Urban and Rural Water Bureau on 27 July 2020, it is agreed that "for the outstanding cost of water resources of RMB57,168,400, the municipal government agrees Yankuang Lunan Chemical Co., Ltd. to gradually repay the borrowings from the municipal government within the repayment period of ten years in line with the principle of supporting enterprise development and accelerating project construction." Therefore, such debts will be paid evenly between 2021 and 2030, and the present value of RMB45,796,959.26 is calculated based on the average discount rate of 4.25% of the 1-year and 5-year LPR published on 22 June 2020 over the discount period. All parties of the equity transaction are reminded to agree on the subsequent payment of such debts separately.

13. On 13 May 2019, Yuan Shuaishuai signed a labor contract with the appraised entity for a term of one year from 13 May 2019 to 12 May 2020, with a probation period of 2 months. After the expiration of the contract, due to unqualified assessment, the appraised entity terminated the labor contract. On 19 May 2020, Yuan Shuaishuai submitted to Tengzhou Labor and Personnel Dispute Arbitration Committee for arbitration on the grounds of occupational disease caused by formaldehyde poisoning caused by formaldehyde powder leakage, with dizziness and vomiting, and no dismissal inspection was carried out. He requested to confirm that the termination of the labor contract was invalid according to law, pay retroactively a wage difference of RMB4,789.62, compensate nursing expenses, food subsidies and medical expenses of RMB2,998. The case was called in court on 23 June 2020, and no arbitration decision has been made. The impact of such matter has not been taken into account in the evaluation.

14. Since the outbreak of novel coronavirus epidemic in the country in January 2020, the nationwide prevention and control of the epidemic has continued. The epidemic has already affected the business operations and overall economic operations of some provinces (including Shandong Province), cities and industries, which may affect the profitability of the appraised entity to a certain extent. The degree of impact will depend on the situation of epidemic prevention and control, duration and implementation of various control policies. According to relevant personnel of the appraised entity, the epidemic has had a certain impact on its production and operation in the first half of the year, but as of the valuation benchmark date, it has resumed work and carried out normal production and operation activities. Therefore, this appraisal has considered the impact of the epidemic on the assessment conclusions, which is brought to the attention of all parties to the transaction.

(VI) Circumstances occurred between the valuation benchmark date of assets appraisal and the date of valuation report may affect the appraisal conclusion:

Nil.

XII. RESTRICTIONS ON THE USE OF ASSET VALUATION REPORT

(I) The valuation report may only serve the purpose of appraisal stated herein;

(II) The asset appraisal institution and the appraiser will not be held liable or take the consequences, in case the client or other users of the valuation report fail to comply with the relevant laws, administrative regulations and use the report for other purposes than what is stated herein;

(III) Any institution and individual shall not use the report on asset appraisal other than the client, other report users stated in the commission contract for asset appraisal, and report users in compliance with laws and administrative regulations;

(IV) The user of the asset valuation report should correctly understand the appraisal conclusion, which is not equal to the achievable price of the appraisal object, and the appraisal conclusion should not be considered as a guarantee for the achievable price of the appraisal object;

(V) The valuation report shall be submitted to the state-owned assets supervision and administration authorities or the competent business department for examination. The report shall not be used until after being put on file;

(VI) All (or perhaps any) of the valuation report may be extracted, quoted or disclosed, subject to examination by the appraisal institution, unless otherwise stated in the laws, regulations and entrusted by the corresponding party;

(VII) The appraisal conclusion disclosed in this valuation report is valid only for the corresponding economic behavior of the project, and the validity period of the asset appraisal conclusion is one year from the appraisal benchmark date, that is, from 30 June 2020 to 29 June 2021. When the appraisal target is hit within the term, the appraisal conclusion shall be a useful guideline on the value, subject to adjustments subsequent to the benchmark date of assets appraisal. Assets shall be reappraised if the one-year limit is exceeded.

XIII. REPORTING DATE OF ASSET APPRAISAL

The asset valuation report date is 6 September 2020, which is the date when the asset appraisal conclusion is formed.

Asset appraisal institution: Pan-China Assets Appraisal Co., Ltd

Legal representative:

Asset appraiser: Sun Shengnan

Asset appraiser: Wang Nannan

6 September 2020

D. SUMMARY OF THE ASSET VALUATION REPORT ON CHEMICAL EQUIPMENT

(Summary of the Report)

ASSET VALUATION REPORT ON THE VALUE OF THE TOTAL SHAREHOLDERS' EQUITY OF YANKUANG JINING CHEMICAL EQUIPMENT CO., LTD. INVOLVED IN THE PROPOSED ACQUISITION OF EQUITY INTEREST IN YANKUANG JINING CHEMICAL EQUIPMENT CO., LTD. BY YANZHOU COAL MINING COMPANY LIMITED

Tian Xing Ping Bao Zi (2020) No.1252

To Yanzhou Coal Mining Company Limited,

Pan-China Assets Appraisal Co., Ltd. is engaged by the Company to appraise the market value of the entire shareholders' equity involved in the proposed acquisition of equity interest in Yankuang Jining Chemical Equipment Co., Ltd. by Yanzhou Coal Mining Company Limited as at 30 June 2020 following necessary valuation procedures and using asset-based approach and income approach with principles of independence, objectivity and fairness in accordance with the requirements of relevant laws, administrative regulations and asset valuation standards. The asset valuation is reported as follows:

I. THE CLIENT, APPRAISED ENTITY AND OTHER VALUATION REPORT USERS AS AGREED IN THE ASSET VALUATION ENTRUSTMENT CONTRACT

(1) Overview of the Client

Company name:	Yanzhou Coal Mining Company Limited
Registered address:	No. 298 South Fushan Road, Zoucheng City
Legal representative:	Li Xiyong
Registered capital:	RMB4912.016 million
Type of company:	Limited liability company (Taiwan, Hong Kong, Macao and domestic joint ventures, listed)
Date of establishment:	25 September 1997
Unified social credit code:	91370000166122374N

Scope of business: selection and sales of coal (among others, the export of coal should be made through companies with coal export right according to the existing state regulations); outbound investment using the company's own fund and investment consulting; commission business; transportation of goods through self-owned railway within the mining area; transportation of goods through highway; operation of ports; manufacture, sales, leasing, repair, installation and dismantlement of machinery and equipment in the mining area; production and sales of other mining materials; sales and leasing of electronic equipment and sales of parts; leasing of construction mechanical equipment; sales of metallic materials, electronic products, construction materials, timber and rubber products; production and sales of cold patch, soap, anchoring agent and coat; composition of mining, science and technological services; mining rescue technology services; property development within the mining areas, property leasing and provision of services such as dining and accommodation; production and sales of coal residual stones as construction materials; sales of coke, iron ore and nonferrous metals; import and export of goods and technology; warehousing (excluding hazardous chemicals); automobile repairs; labour dispatch; property management services, landscaping; sewage treatment; heat supply; industrial tourism; corporate internal staff training (skills training for first aid team members, manufacturing technology training, safety training); measurement examination, physical and chemical inspection, non-destructive testing, analytical testing, manufacturing safety testing and inspection; corporate management; corporate management consulting; corporate planning and design; market investigation; economic and trade consultation; technology promotion, technology services; sales of lubricating oil, lubricating grease, chemical raw material and chemical engineering products (excluding hazardous chemicals), coat, labour protection products, textile products, cultural and educational products, plastic products, instruments and apparatuses, cement and fire-resistant materials and products; general contracting of mining engineering and construction; contracting of mechanical and electrical engineering construction; sales of coal-water slurry. (Items which need approvals according to the laws shall be subject to the approvals of relevant authorities before operation activities can be carried out).

Yanzhou Coal Mining Company Limited held the 2018 Annual General Meeting, the second class meeting of the holders of A shares for the year 2019 and the second class meeting of the holders of H shares for the year 2019 on 24 May 2019, considering and approving "The Proposal regarding the grant of general mandate to the Board to repurchase H shares of the Company". Yanzhou Coal started to exercise the general mandate on repurchase of H shares on 4 May 2020, with a total of 14 repurchases of H shares and an aggregate of 52,016,000 H shares repurchased. The registered capital of the Company changed from RMB 4,912.0160 million to RMB4,860.0000 million, and corresponding change of business registration has not been made yet.

(2) Overview of the appraised entity

1. Basic information

Company name:	Yankuang Jining Chemical Equipment Co., Ltd.
Registered address:	1 Jiejia Road, Jining National Hi-Tech Industrial Development Zone, Jining, Shandong Province
Legal representative:	Shi Shanxue
Registered capital:	RMB111.899207 million
Type of company:	limited liability company (legal person solely invested or controlled by non-natural person)
Date of establishment:	2 September 1989
Unified social credit code:	9137080016592018X3
Scope of business:	design of high-pressure vessels (single layer only), third-class low and medium pressure vessels; manufacturing of high-pressure vessels (single layer only), third-class low and medium pressure vessels; manufacturing and overhaul of chemical equipment and accessories such as blowers, tower internals and filling materials; manufacturing and overhaul of electromechanical mining equipment and components, as well as technical services. (Items which need approvals according to the laws shall be subject to the approvals of relevant authorities before operation activities can be carried out).

2. *History and changes in the Company's shareholding structure*

Yankuang Jining Chemical Equipment Co., Ltd., founded on 2 September 1989, was funded and established by Jining Chemical Industry Co., Ltd. (濟寧市化學工業公司)in way of currency. The company name was Jining Chemical Machinery Plant (濟寧化工機械廠)at the time of establishment. The registered capital was RMB1.468549 million. The shareholding structure at the time of establishment was as follows:

Unit: RMB (0'000)

No.	Name of shareholder	Contributed registered capital	Paid-up capital	Percentage of shareholding
1	Jining Chemical Industry Co., Ltd. (濟寧市化學工業公司)	146.8549	146.8549	100.00%
Total		146.8549	146.8549	100.00%

On 30 March 1992, Jining Chemical Industry Co., Ltd. injected capital into the appraised entity. Upon the completion of the capital injection, the shareholding structure of the appraised entity was as follows:

Unit: RMB (0'000)

No.	Name of shareholder	Contributed registered capital	Paid-up capital	Percentage of shareholding
1	Jining Chemical Industry Co., Ltd. (濟寧市化學工業公司)	198.40	173.00	100.00%
Total		198.40	173.00	100.00%

On 17 April 1996, the registered capital increased by RMB9.36 million due to an increase in the net assets of the appraised entity. The shareholding structure of the appraised entity upon capital injection was as follows:

Unit: RMB (0'000)

No.	Name of shareholder	Contributed registered capital	Paid-up capital	Percentage of shareholding
1	Jining Chemical Industry Co., Ltd. (濟寧市化學工業公司)	1,134.00	1,134.00	100.00%
Total		1,134.00	1,134.00	100.00%

As at 27 February, 1999, Jining Chemical Industry Co., Ltd. (濟寧市化學工業公司) was a subsidiary of Jining Municipal People's Government. Pursuant to the Agreement on Transfer of Jining Chemical Machinery Plant to Yankuang Group Co. Ltd. signed by Jining Municipal People's Government and Yanzhou Coal Mining Company Limited, the State-owned Assets Administration Bureau of Jining City valuated the plant and issued the Confirmation Notice on the Asset Valuation Report on Jining Chemical Machinery Plant Asset Appraisal Results (Ji Guo Zi Ping Zi [1998] No. 22), and Jining City Land Price Evaluation Institute valuated the plant and issued Land Valuation Report on Jining Chemical Machinery Plant (Ji Tu Jia Zi (1998) No. 13). The registered capital of the appraised entity was reduced to RMB10.790 million. Jining Municipal People's Government transferred its Jining Chemical Machinery Plant (濟寧化工機械廠) to Yankuang Group Co. Ltd. Jining Chemical Machinery Plant was renamed Jining Chemical Machinery Plant of Yankuang Group (兗礦集團濟寧化工機械廠)and Yankuang Group Co. Ltd. became its shareholder.

Unit: RMB (0'000)

No.	Name of shareholder	Contributed registered capital	Paid-up capital	Percentage of shareholding
1	Yankuang Group Company Limited	1,079.00	1,079.00	100.00%
Total		1,079.00	1,079.00	100.00%

In December 2017, the appraised entity was restructured from a whole people-owned enterprise into a wholly state-owned limited liability company, and was renamed Yankuang Jining Chemical Equipment Co., Ltd.

On 20 October 2019, Yankuang Group Company Limited increased its capital to RMB111899207.15 through debt-to-equity swaps upon passing of resolution at the general meeting. After the capital increase, the shareholding structure of the appraised entity was as follows:

Unit: RMB (0'000)

No.	Name of shareholder	Contributed registered capital	Paid-up capital	Percentage of shareholding
1	Yankuang Group Company Limited	11,189.9207	11,189.9207	100.00%
Total		11,189.9207	11,189.9207	100.00%

As at the valuation benchmark date, there was no change in the shareholding structure.

3. *Overview of the Company's major assets*

Major assets of Yankuang Jining Chemical Equipment Co., Ltd. were current and non-current assets, a summary of which is as follows:

Current assets include cash, bills receivable, accounts receivable, payment in advance, other payables and inventories; non-current assets include fixed assets, right-of-use assets, long-term deferred expenses, intangible assets and deferred tax assets, of which fixed assets include buildings, structures and other ancillary facilities, machinery, vehicles and electronic appliances; whereas intangible assets include land use rights.

4. *Overview of the Company's major businesses*

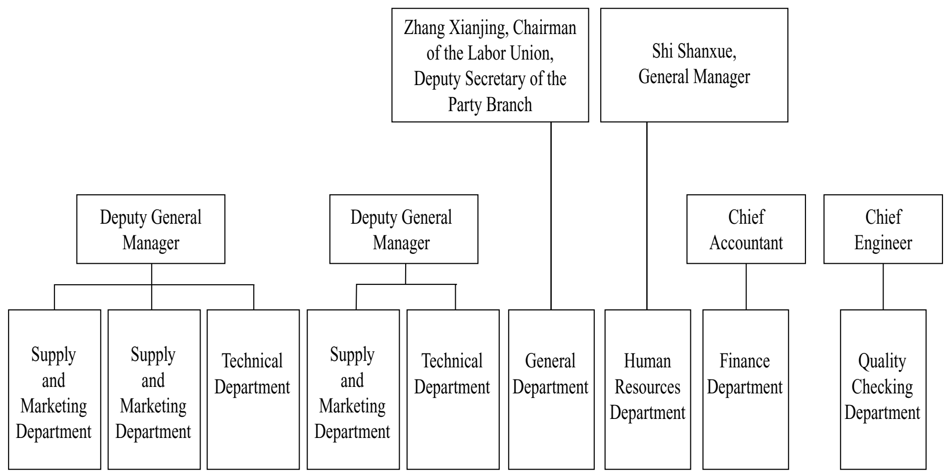
Yankuang Jining Chemical Equipment Co., Ltd. has obtained qualifications of A1 high pressure design and manufacturing and A2 three-type medium and low pressure design and manufacturing, as well as A grade boiler manufacturing qualification from the General Administration of Quality Supervision, Inspection and Quarantine, which is the highest qualification in the pressure vessel design and manufacturing industry and the boiler manufacturing industry, representing a top ranking in terms of comprehensive strength in the chemical machinery manufacturing industry in Shandong Province.

Yankuang Jining Chemical Equipment Co., Ltd. is mainly engaged in the manufacturing of high-pressure vessels (single layer only), third-class low and medium pressure vessels; manufacturing of boilers and accessories; manufacturing and maintenance of chemical equipment and accessories such as blowers, tower internals and filling materials; manufacturing and maintenance of electromechanical mining equipment and components, as well as technical services. Products of the Company are in four categories, namely heat exchangers, separation vessels, reaction vessels, storage vessels, as well as environmentally friendly boilers. With a long history of manufacturing, the Company has accumulated extensive experience in the manufacturing of pressure vessels. Products of the Company are widely used in coal chemical, petrochemical, fine chemical, pharmaceutical, metallurgical, electric power, environmental protection and water treatment industries. The Company also participated in the construction of Yankuang Coal Chemical Project throughout the entire process, and has achieved remarkable performance in projects of Yankuang Coal Chemical Acetic Acid, Butanol, Polyformaldehyde, Methanol, Synthetic Ammonia, Coal-to-liquid, Urea, Coal tar, etc.

5. *Overview of qualifications obtained*

Qualification	Grade	Number	Grantor	Acquisition Date
Manufacture License of Special Equipment (pressure vessels)	A1\A2	TS2210149-2021	General Administration of Quality Supervision, Inspection and Quarantine	23 June 2017
Design License of Special Equipment (pressure vessels)	A1\A2	TS1210220-2021	General Administration of Quality Supervision, Inspection and Quarantine	13 July 2017
Radiation Safety License		Lu Huan Fu Zheng [08129]	Jining Municipal Ecology and Environment Bureau	23 February 2018
Production License of Special Equipment (manufacturing of boilers)	A	TS2110E17-2023	State Administration for Market Regulation	11 December 2019

6. *Organizational structure of the Company*



7. *Statement of financial position and operating results*

Statement of Financial Position

Unit: RMB (0'000)

Item	**2020.6.30**	**2019.12.31**	**2018.12.31**	**2017.12.31**
Current Assets	4,998.88	4,791.04	3,528.14	2,909.09
Non-current Assets	3,670.11	3,799.60	1,871.78	2,006.15
Of which: Long term equity investment				
Investment properties				
Fixed assets	2,548.29	2,662.53	1,223.76	1,355.62
Construction in progress				–
Intangible assets	314.13	318.66	327.72	336.78
Of which: Land use rights	314.13	318.66	327.72	336.78
Others	807.69	818.41	320.30	313.76
Total assets	8,668.99	8,590.64	5,399.92	4,915.24
Current liabilities	2,871.67	2,968.90	12,531.43	12,066.23
Non-current liabilities	459.70	474.34	74.88	86.60
Total liabilities	3,331.36	3,443.23	12,606.31	12,152.83
Equity of owners	5,337.63	5,147.40	–7,206.38	–7,237.59

Statement of Operating Conditions

Unit: RMB (0'000)

Item		January-June 2020	2019	2018	2017
1.	Operating income	3,355.50	5,290.67	3,918.86	2,753.92
	Less: Operating cost	2,981.98	4,684.90	3,558.52	2,440.79
	Tax and surcharges	33.67	77.22	80.15	74.22
	Selling expenses	43.78	80.05	70.69	33.19
	Management expenses	125.76	205.05	152.13	144.77
	Finance costs	-1.57	1.58	6.83	0.53
	Loss on credit impairment	-60.13	-7.14	-26.18	–
	Loss on asset impairment	–	–	-0.29	-86.93
	Add: Gain on investment	–	–	–	–
	Gain on asset disposal	2.61	15.09	–	–
	Other income	5.63	0.12	1.38	1.81
II.	Operating profits	119.99	249.93	25.45	-24.71
	Add: Non-operating income	1.12	256.70	–	0.05
	Less: Non-operating expenses	–	1.73	0.79	10.76
III.	Total profit	121.11	504.91	24.66	-35.42
	Less: Income tax expenses	–28.81	409.12	-6.54	-21.73
IV.	Net profit	149.92	95.79	31.21	-13.69

Zhongxingcai Guanghua Certified Public Accountants LLP has audited the above financial data of 2017, 2018, 2019, and January-June 2020 and issued the unqualified audit report (Zhongxingcai Guanghua Shen Kuai Zi [2020] No.316052).

(3) Other Valuation Report Users as Agreed in the Asset Valuation Entrustment Contract

Pursuant to to the asset valuation entrustment contract, except for the client and users entitled to use the valuation report in compliance with laws and regulations of the PRC, there are no other users of this report.

(4) Relationship between the Client and the Appraised Entity

The client, Yanzhou Coal Mining Company Limited, proposed to acquire the equity interests of the appraised entity, Yankuang Jining Chemical Equipment Co., Ltd. Yankuang Group Company Limited is the ultimate controller of both Yanzhou Coal Mining Company Limited and Jining Chemical Equipment Co., Ltd.

II. VALUATION PURPOSE

According to "Summary of general manager work meeting of Yanzhou Coal Mining Company Limited (Issue 27)", Yanzhou Coal Mining Company Limited proposed to acquire the equity interests of Yankuang Jining Chemical Equipment Co., Ltd., it is required to conduct evaluation on the involved total shareholders' equity of Yankuang Jining Chemical Equipment Co., Ltd. in order to provide a value reference for the proposed acquisition.

III. VALUATION SUBJECT AND VALUATION SCOPE

(I) Valuation Subject

The valuation subject is the total value of shareholders' equity of Yankuang Jining Chemical Equipment Co., Ltd.

(II) Valuation Scope

The valuation scope is the entire assets and liabilities of Yankuang Jining Chemical Equipment Co., Ltd. on the valuation benchmark date including total assets with a carrying amount of RMB86,689,900, liabilities with a carrying amount of RMB33,313,600 and net assets with a carrying amount of 53,376,300. The carrying amounts of various assets and liabilities are shown in the table below:

Summary of Asset Valuation Reporting Form

Unit: RMB (0'000)

Item	Carrying amount
Current assets	4,998.88
Non-current assets	3,670.11
Of which: Long-term equity investments	–
Investment properties	–
Fixed assets	2,548.29
Construction in progress	–
Intangible assets	314.13
Land use rights	314.13
Others	807.69
Total assets	8,668.99
Current liabilities	2,871.66
Non-current liabilities	459.70
Total liabilities	3,331.36
Net assets	5,337.63

The client and the appraised entity have undertaken that the entrusted valuation object and evaluation scope are consistent with the valuation object and valuation scope involved in the economic activity, and was audited by Zhongxingcai Guanghua Certified Public Accountants LLP and the unqualified audit report (Zhongxingcai Guanghua Shen Kuai Zi [2020] No.316052) was issued.

IV. ASSESSED VALUE TYPE

Assessed value types include market value and value types other than market value. Value types other than market value generally include (but are not limited to) investment value, in-use value, liquidation value, residual value, etc. The purpose of this valuation is to provide a value reference for equity acquisitions, and there are no special restrictions on market conditions. Therefore, market value is selected as the value type of this valuation. The market value mentioned in this asset valuation report refers to the estimated amount of the value of normal and fair transactions of the valuation target on the valuation benchmark date when the voluntary buyer and the voluntary seller act rationally without any coercion.

V. VALUATION BENCHMARK DATE

The valuation benchmark date for the valuation is 30 June 2020.

This valuation benchmark date is determined by the client and is consistent with the valuation base date agreed in the asset valuation entrustment contract.

VI. BASIS OF VALUATION

The basis of valuation on which this asset valuation was conducted includes the basis of economic activity, the basis of laws and regulations, the basis of valuation criteria, the basis of asset ownership as well as the pricing basis, as follows:

(I) Basis of Economic Activity

Summary of general manager office Meeting of Yanzhou Coal Mining Company Limited (Issue 27)

(II) Basis of Laws and Regulations

1. Asset Valuation Law of the People's Republic of China (Decree No. 46 of the President of the People's Republic of China);

2. The State-owned Assets of Companies Law of the People's Republic of China (Decree No. 5 of the President of the People's Republic of China);

3. Company Law of the People's Republic of China (adopted at the 6th Session of the Standing Committee of the 13th National People's Congress on 26 October 2018);

4. Property law of the People's Republic of China (adopted at the 5th meeting of the 10th National People's Congress on 16 March 2007 with effect from 1 October 2007);

5. Enterprise Income Tax Law of the People's Republic of China (adopted at the fifth meeting of the Tenth National People's Congress on 16 March 2007, amended for the first time according to the "Decision on Amending the Enterprise Income Tax Law of the People's Republic of China" adopted on the 26th meeting of the Standing Committee of the 12th National People's Congress on 24 February 2017) and revised for the second time according to the "Decision on Amending Four Laws including the Electric Power Law of the People's Republic of China" adopted at the seventh meeting of the Standing Committee of the 13th National People's Congress on 29 December 2018); and amended pursuant to Order No. 714 of the State Council on 23 April 2019);

6. Securities Law of the People's Republic of China (adopted at the 6th Meeting of the Standing Committee of the Ninth National People's Congress of the People's Republic of China on 29 December 1998 and amended for the second time at the 15th Session of the Standing Committee of the 13th National People's Congress on 28 December 2019);

7. Administrative Measures for State-Owned Assets Assessment (State Council Order 1991 No. 91);

8. Detailed Rules for the Implementation of the Administrative Measures for State-Owned Assets Assessment (Guo Zi Ban Fa [1992] No. 36) issued by the former State Administration of State-owned Assets;

9. Opinions on Reforming the Administration and Management of Appraisal of State-owned Assets and Strengthening the Supervision and Management of Asset Appraisal (Guo Ban Fa [2001] No. 102);

10. Rules on Certain Issues Relating to the Appraisal of State-owned Assets (Ministry of Finance NO.14 Order);

11. Interim Regulation on the Supervision and Administration of State-owned Assets of Enterprises (State Council 2003 No. 378 Order);

12. Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises (SASAC of the State Council 2005 No.12 Order);

13. Administration Measures for Supervision over Trading of State-owned Assets by Enterprises (SASAC and MOF 2016 No. 32 Order);

14. Notice on Strengthening Management of Appraisal of State-Owned Assets in Enterprises (SASAC Property [2006] No. 274);

15. Guidelines for the Filing for Recordation of the Valuation Projects of State-owned Assets of Enterprises (SASAC Property [2013] No. 64);

16. Regulation on the Implementation of the Enterprise Income Tax Law of the PRC (issued pursuant to Order No. 512 of the State Council on 6 December 2007 and amended pursuant to Decision of the State Council on Amending Some Administrative Regulations on 23 April 2019);

17. Interim Regulations on Value-added Tax of the People's Republic of China (issued pursuant to Order No. 691 of the State Council on 19 November 2017);

18. Detailed Rules for the Implementation of the Interim Regulations of the PRC on Value-added Tax (MOF and SAT No. 65 Order);

19. Notice on Deepening the VAT Reform" (Notice No. 39, 2019 of the General Administration of Customs of the Ministry of Finance);

20. Notice of Construction Bureau of Shandong Province on Continuing the Implementation of the Standards for the Cost Consultation Services of New Construction Projects (Lu Jia Fei Fa [2007] No.205);

21. Notice of Shandong Safety Production Management Association on the Suggested Price Disclosure of Shandong Safety Valuation (trial implementation) (Lu An Guan Xie Zi [2006] No.4);

22. Notice of the People's Government of Jining City on the Issuance the Interim Measures for the Collection, Use and Management of Urban Infrastructure Supporting Fees in the Main Urban Area of Jining (Ji Zheng Fa [2019] No. 12);

23. Notice of the People's Government of Jining City on the Issuance of Certain Policies to Support the High-quality Development of the Real Economy (Lu Zheng Fa [2018] No.21);

24. Notice of Housing and Urban-Rural Development Bureau of Shandong Province on Adjusting the Value-added Tax Rate of Construction Project Valuation (Lu Jian Biao Zi [2019] No. 10);

25. Notice of MOF and SAT on Comprehensively Launching the Pilot Program for the Reform of Business Tax to VAT (Cai Shui [2016] No. 36);

26. Land Administration Law of the People's Republic of China (the Decision on Amending the Land Management Law and the Urban Real Estate Management Laws was adopted at the 12th Meeting of the Standing Committee of the Thirteenth National People's Congress on 26 August 2019, and shall be implemented with effect from 1 January 2020);

27. Urban Real Estate Administration Law of the People's Republic of China (amended for the third time at the 12th Meeting of the Standing Committee of the Thirteenth National People's Congress in relation to the Decision on Amending the Land Management Law and the Urban Real Estate Management Laws on 26 August 2019;

28. Regulations on the Implementation of the Land Administration Law of the PRC (State Council Order No. 256);

29. Interim Regulations on Assignment and Transfer of the Rights to the Use of the State-Owned Urban Land (State Council Order No. 55);

30. Measures of Shandong Province for the Implementation of the Land Administration Law of the People's Republic of China (adopted at the tenth meeting of the Standing Committee of the Ninth People's Congress of Shandong Province on 22 August 1999) and amended on 25 November 2004 at the 11th meeting of the Standing Committee of the People's Congress of Shandong Province in relation to Decision on Amending Ten Local Regulations including the Regulations on the Management of the Talent Market of Shandong Province);

31. Interim Regulations on Assignment and Transfer of the Rights to the Use of the State-Owned Urban Land of Shandong Province (adopted at the 4th meeting of the Standing Committee of the Eighth Provincial People's Congress on 18 November 1993);

32. Technical Specifications for Land Price Evaluation in relation to Transfer of Rights to Use State-Owned Construction Lands (Guo Tu Zi Ting Fa [2018] No.4);

33. Other documents of relevant laws and regulations.

(III) Basis of Valuation Criteria

1. Asset Valuation Standards (Cai Zi [2017] No. 43);

2. Asset Valuation Practicing Standards – Asset Valuation Method (Zhong Ping Xie [2019] No. 35);

3. Asset Valuation Practicing Standards – Real Estates (Zhong Ping Xie [2017] No. 38);

4. Guidance on Legal Ownership of Asset Valuation Object (Zhong Ping Xie[2017] No. 48;

5. Guidelines to Evaluation Report of State – owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);

6. Code of Ethics for Assets Assessment (Zhong Ping Xie [2017] No. 30);

7. Asset Valuation Practicing Standards – Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);

8. Asset Valuation Practicing Standards – Asset Valuation Report (Zhong Ping Xie [2018] No. 35);

9. Asset Valuation Practicing Standards – Contract on Asset Valuation Entrustment (Zhong Ping Xie [2017] No. 33);

10. Asset Valuation Practicing Standards – Asset Valuation Files (Zhong Ping Xie [2018] No. 37);

11. Asset Valuation Practicing Standards – Enterprise Value (Zhong Ping Xie [2018] No. 38);

12. Asset Valuation Expert Guide No. 8 – Check and Verification in Asset Valuation (Zhong Ping Xie [2019] No. 39);

13. Practice Guidelines for Asset Appraisal – Machinery and Equipment (Zhong Ping Xie [2017] No. 39);

14. Guidelines for Business Quality Control of Asset Valuation Institutions (Zhong Ping Xie [2017] No. 46);

15. Guiding Opinions on Types of Value for the Appraisal of Assets (Zhong Ping Xie [2017] No. 47);

16. Guidance on Legal Ownership of Asset Valuation Object (Zhong Ping Xie[2017] No. 48).

(IV) Basis of Asset Ownership

1. Building ownership certificate;

2. Major equipment purchase contracts, invoices, and relevant agreements, contracts;

3. Real estate ownership certificate, and state-owned land use right assignment contract;

4. Other ownership documents.

(V) Pricing Basis for the Valuation

1. Asset Appraisal Declaration Form and Profit Forecast Form provided by the appraised entity;

2. Consumption Quota for Construction Projects of Shandong Province (2016), Consumption Quota for Installation Projects of Shandong Province (2016), Price List of Constructional Engineering of Shandong Province (2019), Price List of Installation Engineering of Shandong Province (2019), and Composition and Calculation Rules of the Expense Items of Constructional Engineering of Shandong Province (2017);

3. Rating Standard for Condition of Houses issued by the former Ministry of Urban and Rural Development and Environmental Protection;

4. Guiding Opinions on the Implementation of the Notice of National Development and Reform Commission on Further Liberalization of the Professional Service Fees for Construction Projects (Fa Gai Jia Ge [2015] No.299);

5. Update report on land grading and benchmark land price in Jining City (implemented from 1 January 2017);

6. Code for Urban Land Valuation in the National Standards of the People's Republic of China (GB/T18508-2014);

7. Rules for Classification and Grading of Urban Land in the National Standards of the People's Republic of China (GB/T18507-2014);

8. Current Land Use Classification in the National Standards of the People's Republic of China (GB/T21010-2017);

9. Notice of the Ministry of Finance on Issuing the Regulations for Management of Construction Costs of Capital Construction Projects (Cai Jian [2016] No. 504);

10. Notice on Loan Prime Rate for Loans (LPR) promulgated by the National Interbank Funding Centre on 22 June 2020;

11. Handbook of Data and Parameters Commonly Used in Asset Valuation (China Machine Press);

12. 2020 Mechanical and Electrical Product Price Information Inquiry System (China Machine Press);

13. Accounting entry invoices, purchase contracts and other information provided by the appraised entity;

14. Online Price Inquiry;

15. Price Information collected from the market and equipment manufacturers by the appraisers;

16. Information such as future operation plan provided by the enterprise;

17. Records of on-site inspection and other relevant valuation information collected by the appraisers;

18. Financial information including the original accounting statements, audit reports, financial and accounting information, as well as relevant agreements, contracts, invoices provided by the appraised entity;

19. Statistical data, technical standard data and price information data released by relevant state departments, as well as relevant inquiry data and price parameter data collected by our company;

20. Price information collected from the market and equipment manufacturers by appraisers;

21. The main building (structure) construction contracts and relevant agreements, construction drawings, final financial reports, budget and accounts of construction, original account vouchers and other information provided by the appraised entity;

22. Project price information of Jining City in June 2020;

23. WIND information.

VII. VALUATION METHODS

(I) Introduction to Valuation Methods

Basic asset valuation methods for enterprise value appraisal include asset-based approach, income approach and market approach.

The asset-based method for enterprise value appraisal, also known as the cost approach, refers to the valuation method that determines the value of a valuation subject evaluating the value of on-balance sheet and identifiable off-balance-sheet assets and liabilities based on the balance sheet of the appraised entity as at the valuation benchmark date.

The income approach for enterprise value appraisal refers to the valuation method that determines the value of a valuation subject by capitalising or discounting the expected revenue. The specific methods commonly involved when using the income approach include the dividend discount method and the discounted cashflows method. The income approach is the assessment of value of an enterprise by its profitability, which is based on the economics theory of expected utility.

The market approach for enterprise value appraisal refers to the valuation method that determines the value of a valuation subject by comparing it with comparable listed companies or comparable transaction cases. There are two commonly used specific methods under the market approach, which are listed-company comparison and transaction-case comparison.

(II) Selection of Valuation Methods

The asset-based approach refers to the method of valuation, in which the value of the valuation target is determined by reasonable appraisal of the value of all on-and-off balance sheet assets and liabilities on the basis of the balance sheet. For the purpose of this valuation, the necessary information for adopting the asset-based approach could be provided by the appraised entity or collected by the appraiser externally, which allowed a comprehensive review and valuation on the assets and liabilities of the appraised entity. Therefore, the asset-based approach was adopted for this valuation.

The income approach is based on the expected utility theory of economics. In other words, from the perspective of the investors, the enterprise value lies in the future income expected to be generated from the enterprise. Despite the absence of the direct use of comparable in the actual market for stating the prevailing fair market value of the appraised entity, the income approach assesses the value of an asset by its expected profitability, which is the essential basis for determining the prevailing fair market value of the asset. As such, it can completely reflect the overall value of an enterprise and its valuation conclusion is more reliable and convincing. From the perspective of applicable conditions of the income approach, since the enterprise is profitable in its own right and the management of the appraised entity has provided the profit forecast for the future years, according to the historical operating data of the enterprise and the internal and external operating environment, the future level of profit of the enterprise can be reasonably forecast. In addition, the risk of future income can be reasonably quantified. Hence, the income approach is applicable to this valuation.

The market approach refers to a valuation method that compares the valuation subject with a comparable listed company or comparable transaction case to determine the value of the valuation object. As the appraised entity is not a listed company, there are significant differences between the appraised entity and a listed company of the same industry in business structure, operation model, business scale, asset allocation and usage, company operation stage, growth potential, operation risk, financial risk, etc. In addition, since there are only a few cases of transactions, acquisitions and mergers of comparable companies in the same industry in China close to the valuation benchmark date, it is difficult to obtain relevant reliable operating and financial data of comparable transaction cases, resulting in the impossibility to calculate an appropriate value ratio. Therefore, the market approach is not adopted for this valuation.

Therefore, the asset-based approach and the income approach are adopted for this valuation.

(III) Introduction to Assessment Approaches

Assets-based method

The asset-based approach used for assessing the value of an enterprise refers to the valuation method where the value of the valuation subject is determined on the basis of a reasonable valuation of various assets and liabilities of the enterprise based on its balance sheet as at the Valuation Benchmark Date. The valuation process of various assets and liabilities is stated as follows:

1. Valuation of current assets and liabilities

Current assets of the appraised entity include monetary funds, notes receivable, accounts receivable, prepayments, other receivables and inventories; liabilities include current liabilities and non-current liabilities, of which current liabilities include accounts payable, contract liabilities, staff remuneration payable, tax payable, other payables and non-current liabilities due within one year, and non-current liabilities include lease liabilities.

(1) Monetary funds: all being bank deposits, the assessed value of which is determined as the verified book value arrived at after the verification of bank reconciliation statements, bank confirmations, and others;

(2) Notes receivable: the appraisers checked the accounting records, reviewed the register of notes receivable, and carried out notes stocktaking. For some significant notes receivable, the appraisers examined original records including relevant sales contracts.

(3) Accounts receivable and other receivables: For valuation of account receivable, conformity among the sub-ledger, general ledger, balance in the statements and the valuation schedule was verified, and account records such as the account balance, occurrence time and business content were reviewed to analyze the aging. For payment with a large amount or abnormal amount, cross confirmation was made. For fund without a reply letter, replacement procedures were conducted to perform cross checking on the receivables for related units to verify their truth and completeness. The amount of receivables was verified to be consistent with the amount in the statement.

On the basis of an inerrable verification of the receivables, by means of historical data as well as on-site investigation and understanding of the situation, the appraisers conducted a concrete analysis of the amount of sums, arrears of time and causes in connection thereof, amount recovery status, as well as the funds, creditability, operation management status of the debtors, etc. For accounts receivable, the amount of audited balance less loss on impairment of valuation risk was determined as the appraised value. Impairment of valuation risk was determined based on individual identification and the final aging method. Impairment of risk was not recognized in recurring transactions between related parties (involving employees of those entities related to accounts receivable and other receivables). Risk impairment (related to other receivables) was not recognized in security deposits. The aging category is determined in accordance with the following principles: If accounts receivable of each customer incurs economic operations as at a certain year, his/her remaining balance is deemed as incurred during the year to confirm the aging. The balance of accounts receivable of each aging group is multiplied by the corresponding risk impairment rate to recognize the appraised impairment of risk. The corresponding risk impairment rate of each aging category is as follows:

Aging	Risk Impairment Rate (%)
Within one year (inclusive, the same below)	5.00
1-2 years	30.00
2-3 years	50.00
3-4 years	80.00
4-5 years	80.00
More than 5 years	100.00

(4) Prepayments: The value is determined based on the value of the assets or rights that can be recovered from the corresponding goods. For the goods or rights that can be recovered, the carrying value after verification was used as assessed value.

(5) Inventories

Raw materials:

For the purchased inventory of short inventory time, high liquidity and little changes in market price, the appraised value is determined based on the verified book value. For the purchased inventory of long inventory time, low liquidity and significant change in market price, the appraised value is determined based on the effective open market price on the benchmark date. Among the raw materials included in the appraisal, 103 items with a book value of RMB264,180.01 were damaged. Three steel plates with a book value of RMB31,190.74 were lost. Provision for impairment of these items was made in full. As the damaged raw materials are mainly oil seals, gaskets, switches, paints and others, they have no recyclable value. As a result, the appraised value is RMB0, and the missing steel plates were valued at RMB0. For difference in material costs, the appraised value is RMB0. Provision for impairment of raw materials made by the appraised entity is RMB0.

Finished products: Finished products can be assessed using the cost approach or the market approach. The market approach is adopted in this valuation. The value of a finished product is determined based on the full cost of the products, and depending on its sales in the market, the value may be adjusted upward to reflect its profit or adjusted lower than the cost. For popular products, the appraised value is their ex-factory prices less selling expenses and all taxes; for products with normal selling pattern, the assessed value is determined by ex-factory prices less selling expenses, all taxes, and an appropriate amount of after-tax net profit; for products that have to be sold with great efforts, the assessed value is determined by ex-factory prices less selling expenses, all taxes, and after-tax net profit; for products that are slow-selling, overstocked or have to be sold at lower prices, the net realizable value is adopted as the appraised value. Products that are sold on installment or consigned for sales are deemed as finished products provided that the account books, original vouchers and contracts are verified.

The finished products in the valuation scope include a propylamine synthesis tower equipment at a book value of RMB513,196.70, a provision for impairment of RMB341,796.20 was made and the net book value was RMB171,400.50. The propylamine synthesis tower equipment of the appraised entity was in the same batch of aniline equipment under the procurement contract entered into with Shandong Jinmei Riyue Chemical Company Limited on 3 February 2010. Except for the propylamine synthesis tower, the delivery of the rest of the equipment was completed pursuant to the contract. The propylamine synthesis tower is made of Q345R, with a weight of 83,610 kg and the price was RMB758,800. As no payment was made by the counterparty, the appraised entity did not deliver the product. In 2015, a lawsuit was filed by Yankuang Chemical Equipment Co., Ltd. Pursuant to the judgment of the People's Court of Zhangqiu City (2014) (Zhang Shang Chu Zi No. 1605), the propylamine synthesis tower belonged to the appraised entity, and Shandong Jinmei Riyue Chemical Company Limited has to pay the appraised entity a compensation amounted to RMB 240,900, which has already been received by the appraised entity. The propylamine synthesis tower, a piece of non-standard equipment, has not received any purchase offers after market research and promotion. As the propylamine synthesis tower was stored in open air over a long time, it was valuated based on the scrap price due to serious corrosion.

Products in progress: For products in progress and self-manufactured semi-finished products nearing completion, they were converted into the equivalent of the finished product and appraised by the valuation method of finished products. For products in progress and self-manufactured semi-finished products far from completion, their appraised value was their book value upon verification due to insignificant changes in their value as a result of the short input time of labor and material costs.

Among the products in progress included in the valuation scope, three items were in the equipment processing contract signed between the appraised entity and Yankuang Yishan Chemical Co., Ltd. in 2011. The contract stipulates a total of 11 DMF equipment amounting to RMB14.17 million. After the signing of the contract, Yankuang Yishan Chemical Co., Ltd. made a prepayment of RMB3.054 million to the appraised entity, and 5 units of equipment were manufactured by the appraised entity and put into production. In September 2011, the manager of Yankuang Yishan Chemical Co., Ltd. issued a notice of termination of the DMF project contract to the appraised entity, while the appraised entity declared the creditor's rights of RMB11.116 million to the manager of Yankuang Yishan Chemical Co., Ltd. The declared amount was not recognized at the creditors' meeting. On 23 April 2015, the People's Court of Zoucheng City, Shandong Province announced the ruling of ((2014) Zou Min Po Zi No. 3-2) to declare bankruptcy of Yankuang Yishan Chemical Co., Ltd. In April 2015, the manager of Yankuang Yishan Chemical Co., Ltd. issued a notice of debt settlement to the appraised entity, requesting refund of the prepayment of RMB 3.054 million made by Yankuang Yishan Chemical Co., Ltd. On 10 October 2017, the administrator of Yankuang Yishan Chemical Co., Ltd. issued an Explanation on the Expected Repayment of Declared Claims from Jining Chemical Machinery Plant of Yankuang Group Co. Ltd., pursuant to which the amount to be paid to the appraised entity is zero based on the current conditions of asset disposal after deduction of bankruptcy administrative expenses. As a result, Yankuang Yishan Chemical Co., Ltd. no longer requested the refund of RMB3.054 million from the appraised entity. The book value of the 3 DMF products was RMB5,978,461.85 and a provision for impairment of RMB5,582,776.78 was made. As the DMF products were also unable to be sold as normal products due to their serious corrosion resulted from their open-air storage over a long time, they were appraised based on the scrap price.

(6) Liabilities: On the basis of inspection and verification of each liability item, the appraised value is determined in accordance with the actual liabilities and amounts assumed by the appraised entity upon the performance of the valuation.

2. Valuation of non-current assets

(1) Fixed assets

1) Description of valuation method of buildings (structures)

The replacement cost method is mainly used for valuation. The replacement cost method refers to the idea of replacing the evaluated subject, taking the replacement cost as the basis for determining the value of the evaluated subject and deducting the relevant depreciation, to determine the evaluation method for evaluating the value of the subject. The calculation formula is:

Appraisal value = replacement cost (excluding tax)-substantial, functional, economic depreciation

or:

Appraisal value = replacement cost (excluding tax) × integrated depreciation rate

Replacement cost (excluding tax) = construction and installation project cost (including tax) + upfront expenses and other expenses (including tax) + capital cost – deductible input VAT

① Determination of replacement cost

A. Determination of the cost of construction and installation engineering

During the evaluation work, the appraisers use different evaluation methods to determine the cost of construction and installation engineering of the buildings (structures) to be valued by investigating the physical conditions of the buildings (structures) to be valued and investigating the completeness of the construction contract, completion drawings, and project settlement materials. The general project cost is determined according to the actual situation of the buildings (structures) to be evaluated by using one of the methods of re-budgeting method, final accounts adjustment method, analog coefficient adjustment method, unilateral cost estimation index method or using several methods at the same time.

This assessment uses the following 3 methods to determine the construction and installation project cost of a building (structure):

Re-budgeting method: based on the construction contract, completion drawings, project settlement and other materials of the buildings (structures) to be evaluated, combined with the results of the on-site survey, to compile a list of engineering quantities, and calculate the cost of construction and installation engineering of the representative building (structure) on the valuation benchmark date of the assessment based on the prevailing budget quota and expenses quota of local construction, decoration and installation project.

Analogy coefficient adjustment method: through comparing the typical engineering cases with the buildings (structures) to be evaluated in the gross floor area, structure type, storey height, number of storeys, span, material, interior and exterior decoration, construction quality, application of repair and maintenance, refer to the labor cost, material expenses, and mechanical cost growth rate of a typical engineering case calculated by using the re-budgeting method, to obtain the cost of the construction and installation engineering of this type of building (structure) after adjusting the cost of construction and installation engineering of a typical engineering case.

Unilateral cost index estimation method: For some simple buildings (structures), the evaluator adopts unilateral cost indicators after comprehensive analysis, combined with previous experience in similar projects, to obtain the cost of construction and installation engineering of such buildings (structures).

B. Determination of upfront expenses and other expenses

The upfront expenses and other expenses mainly include survey and design fees and upfront consulting fees, bidding agency service fees, management fees of construction unit, project cost consulting service fees, project supervision fees, environmental impact consultation fees, safety evaluation fees, etc. The calculated rates are as follows:

No.	Project or cost name	Calculation formula	Rate	Basis for charging
1	Survey and design fees and preliminary consultation fees	Project cost × rate	2.50%	With reference to Fa Gai Jia Ge [2015] No. 299 to implement the adjusted market prices
2	Bidding agency service fee	Project cost × rate	0.23%	
3	Construction supervision fee	Project cost × rate	1.50%	
4	Environmental impact consultation fees	Project cost × rate	0.17%	
5	Management fees of construction unit	Project cost × rate	2.00%	With reference to Cai Jian [2016] No.504
6	Project cost consultation service fees	Project cost × rate	0.38%	With reference to Lu Jia Fei Fa [2007] No. 205 to implement the adjusted market prices
7	Safety evaluation fees	Project cost × rate	0.24%	With reference to Lu An Guan Xie Zi [2006] No. 4 to implement the adjusted market prices
8	Supporting fees of city infrastructures	RMB73/ construction square meter		Ji Zheng Fa (2019) No.12
Total		Cost of construction and installation engineering×7.02%+Charging standard of supporting fees of city infrastructures* construction area		

C. Capital cost

The capital cost is the financing cost of the funds occupied during the normal construction period of the building, and is the loan interest on the funds invested in the construction during the construction period. The capital cost is determined based on the reasonable construction period of this project, and the loan interest rate of the corresponding period on the valuation benchmark date based on the sum of the cost of construction and installation project and the previous period and other expenses. The calculation formula is as follows:

Capital cost = (cost of construction and installation project + upfront expenses and other expenses) × normal construction period × loan interest rate during normal construction period × 1/2

Note: On 22 June 2020, the National Interbank Lending Center is authorized to publish the loan market quoted interest rate (LPR): "The loan market quoted interest rate (LPR) on 22 June 2020 is: LPR for 1 year is 3.85%, LPR for over 5 years is 4.65%. The above LPRs are effective until the next LPR is issued." The reasonable construction period of this construction project is 1 year, so the selected loan interest rate for the construction period is based on the LPR for 1 year of 3.85%.

D. Determination of deductible input VAT

According to the "Notice on Comprehensively Launching the Pilot Program for the Reform of Business Tax to VAT" (Cai Shui [2016] No. 36) and the "Announcement on Deepening the Relevant Policies of VAT Reform" (Announcement No. 39 of 2019 by the Ministry of Finance, State Administration of Taxation, and General Administration of Customs), the general tax calculation method shall be applicable to the taxable activities of general taxpayers. The deductible input VAT is calculated as follows:

Deductible input VAT on the cost of construction and installation project = cost of construction and installation project (including tax) ÷ (1+9%) × 9%

Input VAT that can be deducted for upfront expenses and other expenses = upfront expenses and other expenses (including tax) ÷ (1+6%) ×6%

The management fee of the construction unit belongs to the expenses incurred by the enterprise itself and is not taxable.

The input tax amount of the interest paid by the taxpayer for purchasing loan services (occupying and borrowing other person's funds in various forms) and the interest nature expenditure shall not be deducted from the output tax amount.

② Determination of integrated depreciation rate

A. For high-value important buildings and structures, site survey depreciation rate and useful life-based depreciation rate are combined to determine integrated depreciation rate. The formula is as follows:

Integrated depreciation rate = survey depreciation × 60% + life-time depreciation rate × 40%

Of which:

Life depreciation rate (%) = (economic durability life -life used) / economic durability life) × 100%

or:

Life depreciation rate = remaining useful life / (life used + remaining useful life) × 100%

The on-site survey depreciation rate refers to, after on-site survey, scoring the three parts of its structure, decoration, and equipment, respectively, filling in the on-site survey depreciation table, and calculating the survey depreciation rate one by one checking the completion information of the main buildings (structures) item by item to understand their maintenance, renovation, and management over the years.

B. For buildings (structures) with low unilateral cost and relatively simple structure, the depreciation rate shall be determined after modification by using the life method based on the actual situation of the subject. The calculation formula is:

Depreciation rate (%) = (economic durability life -life used) / economic durability life × 100%

③ Calculation of Appraisal value

Assessed value= replacement cost × integrated depreciation rate

2) *Valuation of machinery and equipment*

The replacement cost method is primarily adopted in the valuation of machinery and equipment. The replacement cost method of machinery and equipment valuation is a method to determine the appraisal value of machinery and equipment through estimation of the replacement cost of new equipment less the physical impairment, functional impairment and economic impairment, or based on the determined integrated deprecation rate. The replacement cost of equipment generally includes all reasonable direct and indirect costs for repurchasing or building a new asset with the same function as the appraised entity, such as the purchase price of the equipment, transportation and miscellaneous costs, equipment foundation costs, installation and commissioning fees, upfront and other expenses, capital costs, etc. The calculation formula adopted in this valuation is:

Appraisal value = replacement cost × integrated depreciation rate

① Determination of replacement cost

Replacement cost= equipment purchase price + transportation and miscellaneous costs + equipment foundation costs + installation and commissioning fees + upfront and other expenses + capital cost– deductible input VAT

A. Equipment purchase price

For equipment that is still in circulation in the current market, the purchase price of the equipment is directly determined according to the current market price; for equipment that has been eliminated, no longer produced by the manufacturer, and no longer circulated in the market, the purchase price is determined by comparing similar equipment with the appraised equipment and comprehensively considering the differences in performance, technical parameters, use functions of the equipment.

B. Transportation and miscellaneous costs

For transportation and miscellaneous costs, in accordance with the price conditions selected at the time of equipment price inquiry, the transportation and miscellaneous costs will not be calculated if they are included in the purchase price of the equipment. Otherwise, the transportation and miscellaneous rates are appropriately determined based on the transportation method and distance.

C. Equipment foundation costs

Equipment foundation costs are calculated based on the characteristics of the equipment, the reference rate of the industry and the purchase price, and determined at different installation rates. If the equipment is not on a standalone basis or the foundation is built along with the housing construction, the equipment foundation cost will not be taken into consideration when calculating the replacement cost of equipment.

D. Installation and commissioning fees

Based on the purchase price, the installation and commissioning fee is determined at different installation rates with reference to characteristics, weight, complexity of installation, the "Manual of Common Methods and Parameters for Asset Valuation", and the reference rate in the equipment industry. For small equipment that does not require installation, installation and commissioning fees are not incurred.

E. Upfront expenses and other expenses

They refer to, in addition to the construction and installation engineering costs and the equipment installation engineering costs, the various expenses incurred during the entire construction period from the preparation to the completion of the project and the acceptance and delivery of the project, to ensure the smooth completion of the project construction and normal function after delivery, including survey and design fees, management fees of construction unit, bidding agency service fees, environmental impact consultation fees, safety evaluation fees, etc. The rates of upfront and other expenses and their charging basis are set out in the table below:

No.	Project or cost name	Calculation formula	Rate/ price	Basis for charging
1	Management fees of construction unit	(equipment purchase price + transportation and miscellaneous costs + basic costs+ installation costs)× rate	2.00%	With reference to Cai Jian [2016] No.504

No.	Project or cost name	Calculation formula	Rate/ price	Basis for charging
2	Consultation fee for the upfront work of the project	(equipment purchase price + transportation and miscellaneous costs + basic costs+ installation costs)× rate	2.50%	With reference to Fa Gai Jia Ge [2015] No. 299 to implement the adjusted market prices
3	Bidding agency service fee	(equipment purchase price + transportation and miscellaneous costs + basic costs+ installation costs)× rate	0.23%	
4	Construction supervision fee	(equipment purchase price + transportation and miscellaneous costs + basic costs+ installation costs)× rate	1.50%	
5	Environmental impact consultation fees	(equipment purchase price + transportation and miscellaneous costs + basic costs+ installation costs)× rate	0.17%	
6	Project cost consultation service fees	(equipment purchase price + transportation and miscellaneous costs + basic costs+ installation costs)× rate	0.38%	With reference to Lu Jia Fei Fa [2007] No.205
7	Safety evaluation fees	(equipment purchase price + transportation and miscellaneous costs + basic costs+ installation costs)× rate	0.24%	With reference to Lu An Guan Xie Zi [2006] No.4
Total		7.02%		

F. Capital cost

According to the reasonable construction period of the construction project, based on the loan interest rate applicable on the valuation benchmark date, the capital cost is calculated with reference to the even input during the construction period.

Capital cost = (equipment purchase price+ transportation and miscellaneous costs+ installation and commissioning fees+ basic costs+ other costs) ×loan interest rate ×construction period ×1/2

According to the National Interbank Lending Center, the loan prime rate (LPR) as at 22 June 2020: LPR for 1 year is 3.85%.

According to factors such as the scale of the appraised asset, complexity of the process technology, manufacturing of equipment, installation period, and others, it is determined that the normal and reasonable construction period is 1 year. Where project funds are invested evenly during the construction period, the construction investment loan interest rate is calculated at the loan prime rate (LPR) of 3.85% for 1 year.

G. Deductible VAT

Pursuant to relevant regulations, the value-added tax is calculated at 13% for machinery and equipment, 9% for freight, foundation costs and installation fees, and 6% for other expenses less deductible VAT, in which the management fees of the construction unit and capital costs are not included in VAT calculation and are not deductible.

② Determination of integrated depreciation rate

A. For large-scale and key equipment, the survey depreciation rate and theoretical depreciation rate are determined by weighting:

Integrated depreciation rate = survey depreciation rate × 0.6 + theoretical depreciation rate × 0.4

a. Survey depreciation rate

The determination of survey depreciation rate is mainly based on the actual status of the enterprise's equipment. According to the technical status, working environment, and maintenance conditions, the equipment is scored item by item according to the actual on-site survey situation to determine the survey depreciation rate.

b. Theoretical depreciation rate

The theoretical depreciation rate is determined according to the economic life of the equipment (or the remaining useful life) and the life used.

Theoretical depreciation rate = (economic life -life used) / economic life× 100%

For equipment whose service life exceeds the economic life, the following calculation formula is applicable:

Theoretical depreciation rate = remaining useful life / (life used + remaining useful life) × 100%

B. For ordinary equipment with small value, the depreciation rate is determined by the life method based on the service time, combined with the maintenance situation.

③ Calculation of Appraisal value

Appraisal value = replacement cost × integrated depreciation rate

3) Appraisal of electronic and office equipment

① Determination of the replacement cost of electronic equipment

The electronic equipment mainly includes corporate office computers, air conditioners and others, which are delivered, installed and commissioned by distributors. The replacement cost is directly determined by the market purchase price.

② Determination of depreciation rate

The depreciation rate of electronic and office equipment is mainly based on its integrated depreciation rate calculated by its economic life. For large-scale electronic equipment, the integrated depreciation rate is also determined with reference to its working environment and equipment operating conditions.

③ Determination of appraisal value

Appraisal value= replacement cost × depreciation rate

Depreciation value= (economic life -life used)/ economic life× 100%

④ For electronic equipment that has been purchased at an earlier time and its production has been discontinued with no comparable prices, the appraisal value is determined using the market method by inquiring about the second-hand transaction price. For the equipment to be retired, the appraisal value is determined based on its recoverable price in this valuation.

(2) Right-of-use assets

The right-of-use asset refers to the right of the Company to use the leased asset during the lease term as the lessee. The right-of-use asset of the appraised entity is a gantry mobile high-speed CNC drilling machine. For the valuation method of the machine, please refer to the valuation method of Fixed Asset-Machinery and Equipment.

(3) Long-term deferred expenses

Long-term deferred expenses of the appraised entity are the maintenance costs for buildings and structures in the plant area. The appraisers checked the relevant contracts, documents and payment vouchers. The maintenance cost was evenly apportioned based on the used life and remaining lease term. Since the valuation of buildings and structures is based on their state on the valuation benchmark date, maintenance costs were taken into account in the valuation of buildings and structures.

(4) Intangible assets

The intangible assets of the appraised entity are land use rights. According to the summary of land use right asset valuation reporting form provided by the Company, the land appraisers compared the use, nature, term of use, development level, area, and others of the land listed in the table with the ownership documents such as land certificates. The land appraisers also looked into the general, regional and individual factors affecting land prices in detail and conducted on-site inspections, as well as filling in the survey form of land use rights status.

Pursuant to the Code for Urban Land Valuation, the basic approaches adopted for the land use rights valuation include income capitalisation approach, market comparison approach, cost approximation approach, hypothetical development approach and benchmark land price coefficient correction approach.

There are similar recent land transaction cases in the vicinity of the land parcel to be appraised for reference. As the land market is relatively mature, and enough transaction cases can be collected in the same supply and demand circle, the market comparison approach is adopted in the valuation.

(5) Deferred income tax assets

Deferred income tax assets are derived from the difference between the book value of the asset and its tax base due to the difference between the requirement of the enterprise accounting standards and the tax law in the subsequent calculation process of enterprise accounting. The appraisers investigated and increased their understanding of the reasons and formation process of the differences. Upon verification, deferred income tax assets were formed by the deductible temporary difference between the provision for bad debts for accounts receivable and the provision for impairment of inventories. The valuation of deferred income tax assets was recognized in accordance with the amount of future deductible temporary difference multiplied by applicable income tax rate.

VIII. APPRAISAL PROCESS AND FINDINGS

Pan-China Assets Appraisal Co., Ltd. validated and reviewed the legal documents, accounting records and other relevant materials provided by the client, validated the property titles, inspected relevant assets on site and checked against the inventory of assets provided by the appraised entity, carried out necessary market research and transaction price comparisons, as well as financial analysis and forecast, among other necessary asset appraisal procedures, in accordance with asset appraisal standards, generally accepted accounting principles, relevant laws, regulations and requirements of the authorities, and by following the matters specified in the asset appraisal engagement contract concluded with the client. The asset appraisal process is detailed as follows:

1. Acceptance of engagement and preparations

(1) Pan-China Assets Appraisal Co., Ltd accepted the entrustment of the Client in June 2020 and engaged in this asset appraisal project. Upon taking the job, Pan-China Assets Appraisal Co., Ltd. held talks with the client over the purpose, subject and scope, valuation benchmark date of the appraisal, the nature of the assets to be assessed and other matters that are of significance to the asset appraisal proposal.

(2) An asset declaration breakdown form was tailored to the appraised assets. Main assets investigation form and profit and loss investigation form of main activities were designed. Some staff members of the Client supporting the appraisal received training. An asset inventory form and all investigation forms were completed.

(3) Design of the appraisal proposal

Depending on the nature of the assets to be assessed, the appraisal implementation plan was finalized, the appraisers were appointed and an on-site task force was put together.

(4) Preparation of appraisal documents

Traded prices of the assessed subjects, market prices of major raw materials, and property title proofs of the assessed subjects were gathered and collated.

The working period of this stage is from 1 July to 5 July 2020.

2. On-site inventory phase

(1) Truthfulness and legitimacy of the assessed subjects

The appraisers checked physical assets and monetary claims and debts against the statements of assets and liabilities provided by the client and the appraised entity in different ways to confirm truthfulness and accuracy of the assets and liabilities.

For monetary funds, investigations were conducted by consulting journals, reviewing bank statements and statements of bank reconciliation.

For claims and debts, the appraisers checked general ledgers and subsidiary ledgers, and randomly checked contracts and vouchers, to confirm truthfulness of the assets and liabilities.

For fixed assets, focused and general investigations were combined, with a focus on assets such as important equipment. The appraisers checked relevant equipment purchase contracts and invoices to determine truthfulness of the assets.

Deferred income tax assets are derived from the difference between the book value of the asset and its tax base due to the difference between the requirement of the enterprise accounting standards and the tax law in the subsequent calculation process of corporate accounting. The appraisers investigated and increased their understanding of the reasons and formation process of the differences.

(2) Investigation of actual state of the assets

Focused and general investigations were combined to find out the state of the equipment, with a focus on equipment used on the inspected site. Supported by the persons in charge of the equipment at the appraised entity, the appraisers reviewed the operation records of the equipment and conducted on-site inspection on the working status of the equipment. On the basis of investigation, key equipment investigation forms were completed.

(3) Investigation of value composition of physical assets and business development

The value composition of the assets was checked for appropriateness and compliance depending on the nature of the assets of the appraised entity. In particular, the truthfulness, accuracy, completeness and compliance of the carrying amount of fixed assets were examined. Relevant accounting vouchers, accounting books and equipment purchase contracts were reviewed.

(4) Investigation of revenue and costs

To prepare for future cash flow forecasts, profit/loss accounting data of relevant entities in prior years were collected for estimation and analysis; actual business performance, the composition of their revenue, costs and expenses and future trends of the entities and business units were investigated via interviews and other means.

By collecting relevant information, this report analyzes and forecasts the market environment, future competition and development trend of various businesses of Yankuang Jining Chemical Equipment Co., Ltd.

The working period of this stage is from 6 July to 11 July 2020.

3. Choice of appraisal approach, gathering of market information and the process of estimation

The appraisers determined appraisal parameters and prices based on the work plan mapped out for the project in particular and the pricing principles and valuation models identified as appropriate in light of the actual situation, and then started appraising and estimating with reference to the historical data and future forecasts provided by the client.

4. Summary of appraisal findings

(1) Determination of appraisal results

According to the situation of the assessment site survey conducted by the appraisers of Pan-China Assets Appraisal Co., Ltd and the necessary market survey and calculation, the results of the asset-based approach and the income approach entrusted with the assessment of assets are determined.

(2) Analysis of appraisal results and preparation of the valuation report

The asset valuation report was drafted in compliance with the requirements of Pan-China Assets Appraisal Co., Ltd. The appraisal results and the relevant asset valuation report went through three-level reviews by Pan-China Assets Appraisal Co., Ltd. and were confirmed to be error-free by the signatory asset appraiser. Then the project team finalized and submitted the report.

IX. ASSUMPTIONS MADE IN THE APPRAISAL

General assumptions:

1. Trade assumption: All assets to be appraised were assumed to be in the course of trading. The appraisers valued the assets according to simulated trade terms.

2. Open market assumption: Open market assumption is an assumption about the conditions of the market the assets are assumed to enter and about the degree of impact the assets are exposed to under such market conditions. An open market is defined as full-fledged and developed market conditions, a competitive market with voluntary buyers and sellers. In this market, buyers and sellers are on equal footing, have the opportunity and time to get sufficient market information, and are able to trade in a voluntary and sensible manner, free from any compulsory or restrictive conditions.

3. Continuous use assumption: The continuous use assumption is an assumption about the conditions of the market the assets are assumed to enter and about the state of the assets under such market conditions. First of all, the appraised assets are in use. Secondly, hypothetically the assets in use will continue to be used. Under the continuous use assumption, the possibility of repurposing of the assets or optimal conditions of use is disregarded. Hence, the appraisal results are of limited usability.

4. Going concern assumption: The entire assets are taken as the appraised entity. As a business entity, the company will continue as a going concern in the external environment. The management is responsible and has the ability to take responsibilities; the business is legal and profitable, and thus sustainable.

According to the requirements of evaluating the appraised entity with the asset-based approach and the income approach, the appraisers determined that these assumptions are valid on the valuation benchmark date, and the corresponding valuation conclusions were derived based on these assumptions. If there are material changes in the future economic environment or other assumption conditions are not justified, the valuation results will incur significant changes.

X. APPRAISAL CONCLUSION

(I) Appraisal Conclusion with Asset-based Approach

Under the assumption of continuing operations on the valuation benchmark date, the book value of the total assets of Yankuang Jining Chemical Equipment Co., Ltd. amounted to RMB86,689,900, the book value of the liabilities amounted to RMB33,313,600, and the book value of the net assets amounted to RMB53,376,300.

According to the asset-based approach, the total assets after appraisal amounted to RMB102,954,900. Liabilities amounted to RMB33,313,600. Net assets amounted to RMB69,641,300, representing an appreciation of RMB16,265,000, with an appreciation rate of 30.47%.

Summary sheet of assessment results by asset-based approach

Unit: RMB (0'000)

Item	Carrying amount	Estimated value	Increase or decease	Value-added rate%
Current assets	4,998.88	5,063.47	64.59	1.29
Non-current assets	3,670.11	5,232.02	1,561.91	42.56
Of which:				
Long-term equity investments	–	–	–	
Investment properties	–	–	–	
Fixed assets	2,548.29	3,664.32	1,116.03	43.80
Construction in Progress	–	–	–	
Intangible assets	314.13	1,153.86	839.73	267.32
Land use rights	314.13	1,153.86	839.73	267.32
Others	807.69	413.84	–393.85	–48.76
Total assets	8,668.99	10,295.49	1,626.50	18.76
Current liabilities	2,871.66	2,871.66	–	–
Non-current liabilities	459.70	459.70	–	–
Total liabilities	3,331.36	3,331.36	–	–
Net assets	5,337.63	6,964.13	1,626.50	30.47

Note: Please refer to the Asset Valuation Reporting Form for details of the appraisal conclusion.

(II) Final Determination of Appraisal Conclusion

The asset-based approach, which determines the fair market value of the appraised assets from the asset replacement perspective, can reflect the intrinsic value of the assets of the appraised entity. The income approach is based on the expected utility theory of economics. In other words, from the perspective of the investors, the enterprise value is the future income expected to be generated from the enterprise. Although the appraised entity was established in an early period, it has been suffering a loss initially. Since 2017, however, it has gradually started to earn profits, and obtained various qualifications. Having said that, it needs time to prove whether the profitability can be sustained. In comparison, the appraisal results derived from asset-based approach are more reliable and therefore this appraisal adopts the appraisal results derived from asset-based approach as the final conclusion. That is, on the premise of continuing operations on the valuation benchmark date, being 30 June 2020, the appraised total value of shareholders' equity of Yankuang Jining Chemical Equipment Co., Ltd. was RMB69,641,300, representing an increase of RMB16,265,000, with a value-added rate of 30.47%.

XI. SPECIAL NOTES

The appraisers of the company are incapable of evaluating and estimating the following items on their own. Notwithstanding the above, this may affect the conclusion. For this reason, it is essential for the user of the valuation report to pay particular attention to the followings.

I. The "Appraisal value" in this report refers to our fair valuation opinions for the purposes listed in this report on the premise that the current use of the appraised assets remains unchanged and continues to operate, as well as on the basis of the status of the valuation benchmark date and the external economic environment, without being responsible for other uses.

II. The appraisal conclusion in the report reflects the market value determined by the appraised entity according to the principle of open market under the purpose of this appraisal, without considering the relevant expenses and taxes to be borne by the assets in the process of property registration or ownership change, and without making any tax adjustment preparation for the value added of the assets appraisal. The appraisal conclusion shall not be deemed as a guarantee for the realizable price of the appraised object.

III. In case of changes in the amount of assets and pricing standards within the term of appraisal conclusion, moderate adjustments shall be made, instead of the direct use thereof.

IV. Among the raw materials included in the appraisal, 103 items with a book value of RMB264,180.01 were damaged. Three steel plates with a book value of RMB31,190.74 were lost. Provision for impairment was made in full. As the damaged raw materials are mainly oil seals, gaskets, switches, paints and others, they do not have a recyclable value. As a result, the appraised value is RMB0, with the missing steel plates valuated at RMB0.

V. Among the products in progress included in the valuation scope, three items were in the equipment processing contract signed between the appraised entity and Yankuang Yishan Chemical Co., Ltd. in 2011. The contract stipulates a total of 11 DMF equipment amounting to RMB14.17 million. After the signing of the contract, Yankuang Yishan Chemical Co., Ltd. made a prepayment of RMB3.054 million to the appraised entity, and 5 units of equipment were manufactured by the appraised entity and put into production. In September 2011, the manager of Yankuang Yishan Chemical Co., Ltd. issued a notice of termination of the DMF project contract to the appraised entity, while the appraised entity declared the creditor's rights of RMB11.116 million to the manager of Yankuang Yishan Chemical Co., Ltd. The declared amount was not recognized at the creditors' meeting. On 23 April 2015, the People's Court of Zoucheng City, Shandong Province announced the ruling of ((2014) Zou Min Po Zi No. 3-2) to declare bankruptcy of Yankuang Yishan Chemical Co., Ltd. In April 2015, the manager of Yankuang Yishan Chemical Co., Ltd. issued a notice of debt settlement to the appraised entity, requesting refund of the prepayment of RMB 3.054 million made by Yankuang Yishan Chemical Co., Ltd. On 10 October 2017, the administrator of Yankuang Yishan Chemical Co., Ltd. issued an Explanation on the Expected Repayment of Declared Claims from Jining Chemical Machinery Plant of Yankuang Group Co. Ltd., pursuant to which the amount to be paid to the appraised entity is zero based on the current conditions of asset disposal after deduction of bankruptcy administrative expenses. As a result, Yankuang Yishan Chemical Co., Ltd. no longer requested the refund of RMB3.054 million from the appraised entity. The book value of the 3 DMF products was RMB5,978,461.85 and a provision for impairment of RMB5,582,776.78 was made. As the DMF products were also unable to be sold as normal products due to their serious corrosion resulted from their open-air storage over a long time, they were appraised based on the scrap price.

VI. The finished products in the valuation scope include a propylamine synthesis tower equipment with a book value of RMB513,196.70, a provision for impairment of RMB341,796.20 was made and the net book value was RMB171,400.50. The propylamine synthesis tower equipment of the appraised entity was in the same batch of aniline equipment under the procurement contract entered into with Shandong Jinmei Riyue Chemical Company Limited on 3 February 2010. Except for the propylamine synthesis tower, the delivery of the rest of the equipment was completed pursuant to the contract. The propylamine synthesis tower is made of Q345R, with a weight of 83,610 kg and the price was RMB758,800. As no payment was made by the counter party, the appraised entity did not deliver the product. In 2015, a lawsuit was filed by Yankuang Chemical Equipment Co., Ltd. Pursuant to the judgment of the People's Court of Zhangqiu City (2014) (Zhang Shang Chu Zi No. 1605), the propylamine synthesis tower belonged to the appraised entity, and Shandong Jinmei Riyue Chemical Company Limited has to pay the appraised entity a compensation amounted to RMB 240,900, which has already been received by the appraised entity. The propylamine synthesis tower, a piece of non-standard equipment, has not received any purchase offers after market research and promotion. As the propylamine synthesis tower was stored in open air for a long period, it was valuated based on the scrap price due to serious corrosion.

VII. A total of 19 sets of machinery and equipment included in the scope of assessment were pending retirement, representing an original book value of RMB 434,494.08 and a net book value of RMB 0. A total of 9 sets of electronic appliances were pending retirement, representing an original book value of RMB31,435.15 and a net book value of RMB2,930.42. The appraised value of equipment pending retirement was determined based on its recyclable value in this appraisal.

VIII. There were 10 buildings included in the valuation scope, representing a total gross floor area of 15,289.63 square meters. As of the valuation benchmark date, there was a building that has not completed the real estate title registration. As such, Yankuang Jining Chemical Equipment Co., Ltd. issued a letter of undertaking on the real estate ownership to prove that the ownership of the building belongs to the appraised entity and there are no disputes on property rights. For details of the building without real estate ownership certificate, please refer to the table below:

No.	Building	Structure	Completion date	Gross floor area (m^2)
1	Welding materials storehouse	Brick and concrete	31 December 2017	15.60
Total				15.60

For buildings that have not applied for real estate ownership certificate, their building areas were mainly provided by the appraised entity based on facts. The appraisers performed verification in accordance with relevant drawings and construction contracts provided by the appraised entity apart from on-site inspection. The appraisal was conducted under the assumption that the ownership of property right is clear and without disputes.

IX. Of the accounts receivable, goods payment receivable from Yankuang Kelankamate Chemical Co., Ltd. amounted to RMB1,116,485.18. Since Yankuang Kelankamate Chemical Co., Ltd. failed to repay the amount on time, the appraised entity filed a lawsuit to the People's Court of Jinxiang County, Shandong Province, demanding the repayment of the amount. The People's Court of Jinxiang County, Shandong Province accepted the case on 28 February 2019, and issued the Civil Judgment of the People's Court of Jinxiang County, Shandong Province ([2019] Lu 0827 Min Chu No.1044) on 17 April 2019. According to the judgment, Yankuang Kelankamate Chemical Co., Ltd. shall repay the amount within 10 days from the effective date of the judgment. Due to the failure of Yankuang Kelankamate Chemical Co., Ltd. to make the payment, the appraised entity applied to the People's Court of Jinxiang County, Shandong Province for enforcement. The case for enforcement was accepted by the People's Court of Jinxiang County, Shandong Province on 20 February 2020. During the enforcement procedure, no assets of Yankuang Kelankamate Chemical Co., Ltd. were found for enforcement upon property investigation, and the appraised entity also did not provide other clues on other enforceable assets of Yankuang Kelankamate Chemical Co., Ltd. In accordance with Section 519 of the Interpretation of the Supreme People's Court on the Application of the Civil Procedure Law of the People's Republic of China, the ruling is as follows: The enforcement procedure for this case is terminated. If the appraised entity finds that Yankuang Kelankamate Chemical Co., Ltd. possesses enforceable assets, it can apply for enforcement again. Provision for impairment of RMB1,091,485.18 of the amount has been made based on the aging method. As the appraised entity can apply for enforcement again if it finds that Yankuang Kelankamate Chemical Co., Ltd. possesses enforceable assets, the amount is temporarily presented at its audited book value. Users of the report shall pay attention that the recoverable amount is subject to the actual amount recovered.

X. The right-of-use asset included in the valuation scope is a gantry mobile high-speed CNC drilling machine. Pursuant to the Financial Lease Contract (No. 2017ZYZZ-NFL17000010) entered into between Yankuang Jining Chemical Equipment Co., Ltd. (the lessee) and Bank of China Financial Leasing Corporation Limited (the lessor) in 2017, the gantry mobile high-speed CNC drilling machine (Asset No. 2100000110) in the valuation scope is a financial lease asset. The use rights of the equipment belong to the Bank of China Financial Leasing Corporation Limited whereas the lessee obtains the right to use the equipment from the lessor with a lease term of 72 months (from 19 December 2017 to 19 December 2023) divided into 24 periods in total. The lease principal is RMB1,095,000.00, and the estimated rent for each period is RMB57,077.31 and RMB1,369,855.44 in total. After the lessee has paid the rent in full and paid the purchase price of RMB100.00, the lessor will issue the ownership transfer certificate to the lessee, and the lessee will thereby obtain the use rights of the equipment. The impact of this matter was not taken into account in this appraisal. The appraisal method of the equipment is the same as that of fixed asset machinery equipment.

XI. The appraisers did not perform technical inspections on the concealed works and internal structures (parts unobservable by the naked eye) of various buildings (structures) in this appraisal. The appraisal conclusion of buildings (structures) was drawn from the on-site inspection results without the use of any testing equipment provided that information about the relevant constructions provided by the appraised entity is true and valid.

XII. Subsequent events that may affect the appraisal conclusions between the valuation benchmark date and the valuation report date:

Since the outbreak of novel coronavirus epidemic in the PRC in January 2020, prevention and control of the epidemic have been ongoing in the whole country. The epidemic has already affected the business operations and overall economic activities of some provinces (including Shandong Province), cities and industries, which may affect the profitability of the appraised entity to a certain extent. The degree of impact will depend on the progress of epidemic prevention and control, duration and implementation of various control policies. As of the issue date of this report, the appraised entity has resumed operation. Users of this report shall pay attention that the impact of the epidemic on income was duly considered upon communication with the management of the appraised entity during the process of income forecasting.

XII. RESTRICTIONS ON THE USE OF ASSET VALUATION REPORT

(I) The valuation report may only serve the purpose of appraisal stated herein;

(II) The asset appraisal institution and the appraiser will not be held liable or take the consequences, in case the client or other users of the valuation report fail to comply with the relevant laws, administrative regulations and use the report for other purposes than what is stated herein;

(III) Any institution and individual shall not use the report on asset appraisal other than the client, other report users stated in the commission contract for asset appraisal, and report users in compliance with laws and administrative regulations;

(IV) The user of the asset valuation report should correctly understand the appraisal conclusion, which is not equal to the achievable price of the appraisal object, and the appraisal conclusion should not be considered as a guarantee for the achievable price of the appraisal object;

(V) The valuation report shall be submitted to the state-owned assets supervision and administration authorities or the competent business department for examination. The report shall not be used until after filing;

(VI) All (or perhaps any) of the valuation report may be extracted, quoted or disclosed, subject to examination by the appraisal institution, unless otherwise stated in the laws, regulations and agreed by the corresponding party;

(VII) The appraisal conclusion disclosed in this valuation report is valid only for the corresponding economic behavior of the project, and the validity period of the asset appraisal conclusion is one year from the valuation benchmark date, that is, from 30 June 2020 to 29 June 2021. When the appraisal target is reached within the term, the appraisal conclusion shall be a useful guideline on the value. Assets shall be reappraised if the one-year limit is exceeded.

XIII. REPORTING DATE OF ASSET APPRAISAL

The asset valuation report date is 6 September 2020, which is the date when the asset appraisal conclusion is formed.

Asset appraisal institution: Pan-China Assets Appraisal Co., Ltd

Legal representative:

Asset appraiser: Sun Shengnan

Asset appraiser: Wang Nannan

6 September 2020

E. SUMMARY OF THE ASSET VALUATION REPORT ON TRADING COMPANY

(Summary of the Report)

ASSET VALUATION REPORT ON THE VALUE OF THE TOTAL SHAREHOLDERS' EQUITY OF YANKUANG COAL CHEMICALS INTERNATIONAL TRADING CO., LTD. INVOLVED IN THE PROPOSED ACQUISITION OF EQUITY INTEREST IN YANKUANG COAL CHEMICALS INTERNATIONAL TRADING CO., LTD. BY YANZHOU COAL MINING COMPANY LIMITED

Tian Xing Ping Bao Zi (2020) No. 1254

To Yanzhou Coal Mining Company Limited

Pan-China Appraisal Co., Ltd is engaged by the Company to appraise the market value of the total shareholders' equity of Yankuang Coal Chemicals International Trading Co., Ltd. involved in the proposed acquisition of equity interest in Yankuang Coal Chemicals International Trading Co., Ltd. by Yanzhou Coal Mining Company Limited as at 30 June 2020 following necessary valuation procedures and using asset-based approach and income approach with principles of independence, objectivity and fairness in accordance with the requirements of relevant laws, administrative regulations and asset valuation standards. The asset valuation is reported as follows.

I. THE CLIENT, APPRAISED ENTITY AND OTHER VALUATION REPORT USERS AS AGREED IN THE ASSET VALUATION ENTRUSTMENT CONTRACT

(I) Overview of the Client

Company name:	Yanzhou Coal Mining Company Limited
Unified Social Credit Code:	91370000166122374N
Registered address:	No. 298, South Fushan Road, Zoucheng City
Legal representative:	Li Xiyong
Registered capital:	RMB4,912,016,000
Type of company:	Limited liability company (Taiwan, Hong Kong, Macao and domestic joint ventures, listed)
Date of Establishment:	25 September 1997

Scope of business: selection and sale of coal (among others, the export of coal should be made through companies with coal export right according to the existing state regulations); outbound investment using the company's own fund and investment consultation; commission business; transportation of goods through self-owned railway within the mining area; transportation of goods through highway; operation of ports; manufacture, sales, lease, repair, installation and dismantlement of machinery and equipment in the mining area; production and sales of other mining materials; sales and lease of electronic equipment and sales of parts; leasing of construction mechanical equipment; sales of metallic materials, electronic products, construction materials, timber and rubber products; production and sale of cold patch, soap, anchoring agent and coat; composition of mining, science and technological services; mining rescue technology services; property development within the mining areas, property leasing and provision of services such as dining and accommodation; production and sales of coal residual stones as construction materials; sales of coke, iron ore and nonferrous metals; import and export of goods and technology; warehousing (excluding hazardous chemicals); automobile repairs; labour dispatch; property management service, landscaping; sewage treatment; heat supply; industrial tourism; corporate internal staff training (skills training for first aid team members, manufacturing technology training, safety training); measurement examination, physical and chemical inspection, non-destructive testing, analytical testing, manufacturing safety testing and inspection; corporate management; corporate management consultation; corporate planning and design; market investigation; economic and trade consultation; technology promotion, technology services; sales of lubricating oil, lubricating grease, chemical raw material and chemical engineering products (excluding dangerous chemical products), coat, labour protection products, spinning products, cultural and educational products, plastic products, instruments and apparatuses, cement and fire-resistant materials and products. General contracting of mining engineering and construction; contracting of mechanical and electrical engineering construction; sales of coal-water slurry. (Items which need approvals according to the laws shall be subject to the approvals of relevant authorities before operation activities can be carried out.)

Yanzhou Coal Mining Company Limited held the 2018 Annual General Meeting, the second class meeting of the holders of A shares for the year 2019 and the second class meeting of the holders of H shares for the year 2019 on 24 May 2019, considering and approving "The Proposal regarding the grant of general mandate to the Board to repurchase H shares of the Company". Yanzhou Coal started to exercise the general mandate on repurchase of H shares on 4 May 2020, with a total of 14 times of repurchases of H shares and an aggregate of 52,016,000 H shares repurchased. The registered capital of the Company changed from RMB 4,912.0160 million to RMB4,860.0000 million, and corresponding change of business registration has not been made yet.

(II) Overview of the appraised entity

1. General information

Company name:	Yankuang Coal Chemicals International Trading Co., Ltd. ("Trading Company")
Unified Social Credit Code:	91370883673179586B
Registered address:	No. 7657, Xiwaihuan Road, Zoucheng, Jining City, Shandong Province (University Science and Technology Industrial Park in the Economic Development Zone)
Legal representative:	Yang Shumi
Registered capital:	RMB260 million
Paid-in capital:	RMB260 million
Type of company:	Limited liability company (solely owned legal person invested in or controlled by a non-natural person)
Date of establishment:	25 March 2008

Scope of business:	Wholesale of crude benzene, methanol, ethanol, coal tar, ethyl acetate, butyl acetate, vinyl acetate, dimethyl formamide, liquid oxygen, liquid argon, liquid nitrogen, methyl ether, ethylene, formaldehyde, acetic acid, acetic anhydride, sulfur, n-butanol, benzene, aniline, calcium carbide, caustic soda, pitch, anthracene oil, naphthalene, oxazole, refined anthracene, toluene, xylene, styrene, naphtha, methyl tert-butyl ether, propylene oxide, dimethyl sulfide, ammonia water, ammonia, methyl formate, methyl acetate, propylene, acetonitrile, methylal, paraformaldehyde, methyl Amine, trimethylamine, isobutanol, ethylene oxide, acetone, washing oil, crude phenol, carbon dioxide, (di)methyl carbonate, methyl acrylate, acrylic acid, formic acid, methane, metaformaldehyde, hydroiodic acid, methyl iodide, boron trifluoride ether complex, methyl sulfonic acid, propane, isopropanol, mercury sulfate, potassium hydroxide, acetylacetone, barium chloride, cobalt chloride, sodium bisulfite, dioxolane, potassium dichromate and sodium hypochlorite solution (containing available chlorine>5%) (no storage) (operates with hazardous chemicals operating license, validity period is subject to the license); retail of fertilizer; wholesale of coal; sales of heavy oil, fuel oil, coke, lubricating ore, chemical equipment, textile raw materials, chemical raw materials and products (excluding hazardous chemical products), iron ore, nickel ore, instrumentation, cables, hardware tools, bearings, valve fittings, building materials, labor protection supplies, metals, rubber products, and copper ore; import and export of goods and technology (except for goods or technology that the state restricts or prohibits companies from operating); and warehousing services. (Items which need approvals according to the laws shall be subject to the approvals of relevant authorities before operation activities can be carried out.)

2. *History and changes in the enterprise's shareholding structure*

Yankuang Coal Chemicals International Trading Co., Ltd. was established on 25 March 2008 with a registered capital of RMB260 million, all of which were contributed by Yankuang Group Company Limited in monetary capital. The shareholding structure of the company at its inception is as follows:

Unit: RMB (0'000)

No.	Name of shareholder	Contributed registered capital	Contributed paid-in capital	Percentage of shareholding
1	Yankuang Group Company Limited	26,000.00	26,000.00	100.00%
Total		26,000.00	26,000.00	100.00%

As at the valuation benchmark date, being 30 June 2020, there is no change in the shareholding structure of the company.

3. *Overview of the company's major assets*

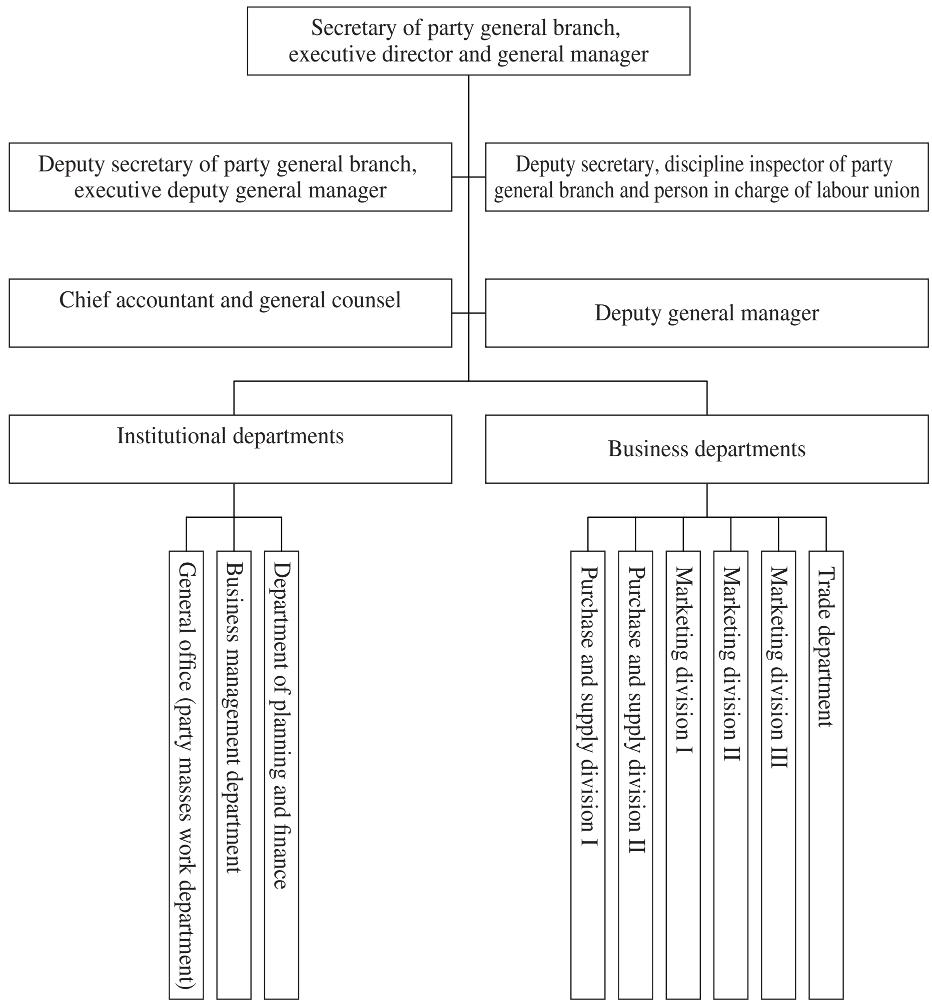
The major assets of Yankuang Coal Chemicals International Trading Co., Ltd. are current assets and non-current assets. Overview of the company's major assets is as follows:

Current assets include monetary funds, financing receivable, accounts receivable, accounts prepaid, other receivables and inventories; non-current assets include fixed assets and deferred income tax assets, of which fix assets refer to electronic office equipment.

4. *Overview of the company's client business*

Yankuang Coal Chemicals International Trading Co., Ltd. was established in March 2008. It is mainly responsible for the sales of chemical products of Yankuang Group Company Limited, material procurement of affiliated units and domestic and foreign trade of coal chemical products. Its products mainly include five categories in more than 50 varieties, such as urea, methanol, acetic acid, acetate and butanol, with an annual sales volume of 5.3 million tons and a sales revenue of over RMB10 billion. In 2011, "Yankuang" brand, under which the company sold methanol, was recognised as a "China Famous Brand" by the Trademark Office under the State Administration for Industry and Commerce. The company has passed the national quality / environment / occupational safety and health system certification, and was awarded the "Enterprises of Observing Contract & Valuing Credit" of Jining City. It was awarded the "Provincial Enterprises of Observing Contract & Valuing Credit " by Shandong Provincial Administration of Industry and Commerce at the end of 2011.

5. *Organisational structure of the company*



6. *Statements of Financial Position and Operating Results*

Statement of Financial Position

Unit: RMB (0'000)

Item	**30 June 2020**	**31 December 2019**	**31 December 2018**	**31 December 2017**
Current assets	69,932.00	54,215.34	57,372.94	138,705.63
Non-current assets	509.63	933.25	978.84	3,337.05
Fixed assets	27.38	36.51	57.32	52.34
Construction in progress	–	–	–	–
Intangible assets	–	–	2.70	3.65
Deferred income tax assets	482.25	896.73	918.82	3,281.06
Others	–	–	–	–
Total assets	70,441.63	55,148.59	58,351.78	142,042.68
Current liabilities	46,826.25	32,091.93	37,070.54	119,771.39
Non-current liabilities	656.97	678.70	675.58	825.37
Total liabilities	47,483.22	32,770.63	37,746.12	120,596.76
Net assets	22,958.41	22,377.96	20,605.66	21,445.92

Statement of Operating Results

Unit: RMB (0'000)

Item	January to June 2020	2019	2018	2017
I. Operating income	338,807.94	717,037.50	1,021,708.20	1,112,707.53
Less: Operating costs	336,013.99	712,808.55	1,016,334.73	1,107,341.23
Tax and surcharges	113.26	178.81	286.38	296.54
Selling expenses	1,146.71	2,193.91	1,704.89	2,213.77
Administrative expenses	602.87	1,379.56	1,295.83	1,187.71
Research and development expenses	–	–	–	–
Finance costs	-469.50	-1,269.18	-303.71	1,253.38
Add: Other gains	0.60	–	–	–
Investment income	–	–	117.88	1,600.44
Loss on impairment of credit	-59.06	164.98	-19.68	–
Loss on impairment of assets	–	-73.50	–	259.15
Gains on disposal of assets	–	0.95	–	–
II. Operating profit	1,342.14	1,838.27	2,488.28	2,274.48
Add: Non-operating income	20.45	322.77	2.50	1,015.82
Less: Non-operating expenses	11.61	2.67	167.27	10.00
III. Total profit	1,350.98	2,158.37	2,323.50	3,280.30
Less: Income tax expenses	858.78	386.07	2,606.14	814.00
IV. Net profit	492.21	1,772.30	-282.64	2,466.30

The financial data set out in the tables above have been audited by Zhongxingcai Guanghua Certified Public Accountants LLP which has issued an unqualified Audit Report (Zhongxingcai Guanghua Shen Kuai Zi [2020] No. 316049).

(III) Other Valuation Report Users as Agreed in the Asset Valuation Entrustment Contract

According to the asset valuation entrustment contract, except the client and users who are entitled to use the valuation report as required by the national laws and regulations, there is no other user of the valuation report.

(IV) Relationship between the Client and the appraised entity

The client, Yanzhou Coal Mining Company Limited, proposed to acquire the equity interest of the appraised entity, Yankuang Coal Chemicals International Trading Co., Ltd. Yankuang Group Company Limited is the ultimate controlling party of both Yanzhou Coal Mining Company Limited and Yankuang Coal Chemicals International Trading Co., Ltd.

II. VALUATION PURPOSE

According to the "Summary of general manager work meeting of Yanzhou Coal Mining Company Limited (Issue 27)", Yanzhou Coal Mining Company Limited proposed to acquire the equity interests of Yankuang Coal Chemicals International Trading Co., Ltd., and it is necessary to conduct evaluation on the total shareholders' equity of Yankuang Coal Chemicals International Trading Co., Ltd., so as to provide a value reference for such economic activity.

III. VALUATION SUBJECT AND VALUATION SCOPE

(I) Valuation Subject

The valuation subject is the total value of shareholders' equity of Yankuang Coal Chemicals International Trading Co., Ltd.

(II) Valuation Scope

The valuation scope is the entire assets and liabilities of Yankuang Coal Chemicals International Trading Co., Ltd. reported on the valuation benchmark date including the book value of total assets, the book value of liabilities and the book value of net assets of RMB704,416,300, RMB474,832,200 and RMB229,584,100, respectively. The book values of various assets and liabilities are shown in the table below:

Summary of Assets Valuation Reporting Form

Unit: RMB (0'000)

Item	Book value
Current assets	69,932.00
Non-current assets	509.63
Including: Long-term equity investments	–
Investment properties	–
Fixed assets	27.38
Construction in progress	–
Intangible assets	–
Including: Intangible assets – land use rights	–
Others	482.25
Total assets	70,441.63
Current liabilities	46,826.25
Non-current liabilities	656.97
Total liabilities	47,483.22
Net assets	22,958.41

1. The client has undertaken that the entrusted subject and scope of the valuation are consistent with those involved in such economic activity, and such subject and scope have been audited by Zhongxingcai Guanghua Certified Public Accountants LLP which has issued an unqualified audit report (Zhongxingcai Guanghua Shen Kuai Zi [2020] No. 316049).

2. The off-balance sheet assets reported by the enterprise

   Nil.

3. Reference to the reports issued by other institutions

   The financial data in the valuation report are quoted from the unqualified audit report (Zhongxingcai Guanghua Shen Kuai Zi [2020] No. 316049) audited and issued by Zhongxingcai Guanghua Certified Public Accountants LLP.

IV. TYPE OF VALUE

Appraisal value types include market value and value types other than market value. Value types other than market value generally include (but are not limited to) investment value, in-use value, liquidation value, residual value, etc. The purpose of this valuation is to provide a value reference for equity acquisitions, and there are no special restrictions on market conditions. Therefore, market value is selected as the value type of this valuation. The market value mentioned in this asset valuation report refers to the estimated amount of the value of normal and fair transactions of the valuation target on the valuation benchmark date when the voluntary buyer and the voluntary seller act rationally without any coercion.

V. VALUATION BENCHMARK DATE

The valuation benchmark date for the valuation is 30 June 2020.

This valuation benchmark date is determined by the client and is consistent with the valuation benchmark date agreed in the asset valuation entrustment contract.

VI. BASIS OF VALUATION

The basis of valuation on which this asset valuation was conducted includes the basis of economic activity, the basis of laws and regulations, the basis of valuation criteria, the basis of asset ownership as well as the pricing basis, as follows:

(I) Basis of Economic Activity

1. Summary of general manager work meeting of Yanzhou Coal Mining

Company Limited (Issue 27),

(II) Basis of Laws and Regulations

1. Asset Valuation Law of the People's Republic of China (Decree No. 46 of the President of the People's Republic of China);

2. The State-owned Assets of Companies Law of the People's Republic of China (Decree 2008 No. 5 of the President of the People's Republic of China);

3. Company Law of the People's Republic of China (adopted at the 6th meeting of the Standing Committee of the 13th National People's Congress on 26 October 2018);

4. Securities Law of the People's Republic of China (amended for the second time at the 15th meeting of the Standing Committee of the 13th National People's Congress on 28 December 1998);

5. Property law of the People's Republic of China (Decree 2007 No. 62 of the President of the People's Republic of China);

6. Enterprise Income Tax Law of the People's Republic of China (adopted at the fifth meeting of the Tenth National People's Congress on 16 March 2007, revised for the first time according to the "Decision on Amending the Enterprise Income Tax Law of the People's Republic of China" adopted on the 26th meeting of the Standing Committee of the 12th National People's Congress on 24 February 2017), revised for the second time according to the "Decision on Amending Four Laws including the Electric Power Law of the People's Republic of China" adopted at the seventh meeting of the Standing Committee of the 13th National People's Congress on 29 December 2018, and revised according to the Order No. 714 of the State Council of the People's Republic of China on 23 April 2019);

7. Regulations on the Implementation of the Enterprise Income Tax Law of the People's Republic of China (issued according to the Order No. 512 of the State Council of the People's Republic of China on 6 December 2007 and amended according to the Decision of the State Council on Amending Some Administrative Regulations on 23 April 2019);

8. Administrative Measures for State-Owned Assets Assessment (State Council Order 1991 No. 91);

9. Detailed Rules for the Implementation of the Administrative Measures for State-Owned Assets Assessment (Guo Zi Ban Fa [1992] No. 36) issued by the former State Administration of State-owned Assets;

10. Opinions on Reforming the Administration and Management of Appraisal of State-owned Assets and Strengthening the Supervision and Management of Asset Appraisal (Guo Ban Fa [2001] No. 102);

11. Rules on Certain Issues Relating to the Appraisal of State-owned Assets (Ministry of Finance No.14 Order);

12. Notice of the Ministry of Finance on Issuance of Administrative Measures for Filing of State-owned Assets Valuation Project (Cai Qi [2001] No. 802);

13. Interim Regulations on the Supervision and Administration of State-owned Assets of Enterprises (State Council 2003 No. 378 Order);

14. Administration Measures for Supervision over Trading of State-owned Assets by Enterprises (SASAC and MOF 2016 No. 32 Order);

15. Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises (SASAC of the State Council 2005 No.12 Order);

16. Notice on Strengthening Management of Appraisal of State-Owned Assets in Enterprises (SASAC Property [2006] No. 274);

17. Notice on the Audit of Valuation Report for State-owned Assets of Enterprises (SASAC Property [2009] No. 941);

18. Working Guidelines for Filing of State-owned Assets Valuation Project (SASAC Property [2013] No. 64);

19. Notice on Promoting the Circulation of State-owned Property Rights of Enterprises (SASAC Property [2014] No. 95);

20. Notice of the Ministry of Finance and the State Administration of Taxation on Comprehensively Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax (Cai Shui [2016] No. 36)

21. Provisional Regulations on Value-added Tax of the People's Republic of China (State Council of the People's Republic of China No. 691 Order)

22. Regulations for the Implementation of the Provisional Regulations on Value-added Tax of the People's Republic of China (promulgated by Order No. 50 of the Ministry of Finance and the State Administration of Taxation on 18 December 2008; amended by Order No. 65 issued by the Ministry of Finance and the State Administration of Taxation on 28 October 2011);

23. Public Notice on Relevant Polices for Deepening VAT Reform (Announcement 2019 No. 39 by the Ministry of Finance, the State Administration of Taxation, and the General Administration of Customs);

24. Other relevant laws and regulations.

(III) Basis of Valuation Criteria

1. Asset Valuation Basic Standards (Cai Zi [2017] No. 43);

2. Code of Ethics for Assets Assessment (Zhong Ping Xie [2017] No. 30);

3. Asset Valuation Practicing Standards – Asset Valuation Methods (Zhong Ping Xie [2019] No. 35);

4. Asset Valuation Practicing Standards – Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);

5. Asset Valuation Practicing Standards – Asset Valuation Report (Zhong Ping Xie [2018] No. 35);

6. Asset Valuation Practicing Standards – Contract on Asset Valuation Entrustment (Zhong Ping Xie [2017] No. 33);

7. Asset Valuation Practicing Standards – Asset Valuation Files (Zhong Ping Xie [2018] No. 37);

8. Asset Valuation Practicing Standards – Engagement of Experts and Relevant Reports (Zhong Ping Xie [2017] No. 35);

9. Asset Valuation Practicing Standards – Enterprise Value (Zhong Ping Xie [2018] No. 38);

10. Asset Valuation Practicing Standards – Machinery and Equipment (Zhong Ping Xie [2017] No. 39);

11. Asset Valuation Expert Guidelines No. 8 – Check and Verification in Asset Valuation (Zhong Ping Xie [2019] No. 39);

12. Asset Valuation Expert Guidelines No. 10 – Reasonable Performance of Asset Appraisal Procedures During the COVID-19 Epidemic Period (Zhong Ping Xie [2020] No. 6);

13. Guidelines to Valuation report of State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);

14. Guidelines for Business Quality Control of Asset Valuation Institutions (Zhong Ping Xie [2017] No. 46);

15. Guiding Opinions on Types of Value for the Appraisal of Assets (Zhong Ping Xie [2017] No. 47)

16. Guidance on Legal Ownership of Asset Valuation Object (Zhong Ping Xie [2017] No. 48);

(IV) Basis of Asset Ownership

1. Information such as major equipment purchase contracts, invoices, and relevant agreements, contracts;

2. Other ownership documents.

(V) Pricing Basis for the Valuation

1. Asset appraisal Declaration Form and Income Forecast Form provided by the appraised entity;

2. The unqualified audit report (Zhongxingcai Guanghua Shen Kuai Zi [2020] No. 316049) audited and issued by Zhongxingcai Guanghua Certified Public Accountants;

3. Manual of Common Methods and Parameters for Asset Evaluation by China Machine Press;

4. Financial statements, audit reports and other relevant financial information provided by the enterprise;

5. The business plan and profit forecast of the future year provided by the enterprise;

6. Purchase contract signed between the enterprise and relevant entities;

7. On-site investigation records and other appraisal information collected by the appraisers;

8. WIND Information;

9. Original accounting statements, financial and accounting materials, relevant agreements, contracts, invoices and other financial data provided by the appraised entity;

10. Statistics, technical specifications, pricing documents released by relevant authorities and relevant online inquiry materials and pricing parameters information gathered by the company;

11. Other materials collected by the appraisers.

VII. VALUATION METHODS

(I) Introduction to Valuation Methods

Basic asset valuation methods for enterprise value appraisal include asset-based approach, income approach and market approach.

The asset-based method for enterprise value appraisal, also known as the cost approach, refers to the valuation method that determines the value of a valuation subject by valuating the value of on-balance sheet and identifiable off-balance sheet assets and liabilities based on the balance sheet of the appraised entity as at the valuation benchmark date.

The income approach for enterprise value appraisal refers to the valuation method that determines the value of a valuation subject by capitalising or discounting the expected revenue. The specific methods commonly involved when using the income approach include the dividend discount method and the discounted cashflow method. The income approach is the assessment of the value of an enterprise by its profitability, which is based on the economics theory of expected utility.

The market approach for enterprise value appraisal refers to the valuation method that determines the value of a valuation subject by comparing the valuation subject with comparable listed companies or comparable transaction cases. There are two commonly used specific methods under the market approach, which are listed-company comparison and transaction-case comparison.

(II) Selection of Valuation Methods

The asset-based approach refers to the method of valuation, in which the value of the valuation target is determined by reasonable appraisal of the value of all on-balance sheet and off-balance sheet assets and liabilities on the basis of the balance sheet. For the purpose of this valuation, the necessary information for adopting the asset-based approach could be provided by the appraised entity or collected by the appraisers externally, which allowed a comprehensive review and valuation on the assets and liabilities of the appraised entity. Therefore, the asset-based approach was adopted for this valuation.

The income approach is based on the expected utility theory of economics. In other words, from the perspective of the investors, the enterprise value lies in the future income expected to be generated from the enterprise. Despite the absence of the direct use of comparable in the actual market for stating the prevailing fair market value of the appraised entity, the income approach assesses the value of an asset by its expected profitability, which is the essential basis for determining the prevailing fair market value of the asset. As such, it can completely reflect the overall value of an enterprise and its valuation conclusion is more reliable and convincing. From the perspective of applicable conditions of the income approach, since the enterprise is profitable in its own right and the management of the appraised entity has provided the profit forecast for the future years, according to the historical operating data of the enterprise and the internal and external operating environment, the future profitability of the enterprise can be reasonably forecast. In addition, the risk of future income can be reasonably quantified. Hence, the income approach is applicable to this valuation.

(III) Introduction to Assessment Approaches

Asset-based approach

The asset-based approach used for determining the value of an enterprise refers to the valuation method where the value of the valuation subject is determined on the basis of a reasonable valuation of various assets and liabilities of the enterprise based on its balance sheet as at the valuation benchmark date. The valuation process of various assets and liabilities is stated as follows:

1. Valuation of current assets and liabilities

Current assets of the appraised entity include monetary funds, financing receivable, accounts receivable, prepayments, other receivables and inventories; liabilities include accounts payable, contract liabilities, staff remuneration payable, taxes payable, other payables and long-term staff remuneration payable.

(1) Monetary funds include bank deposits and other monetary funds, the value of which was determined based on the verified value through the verification of bank reconciliation statements, bank confirmations, and other proofs of monetary funds.

(2) Financing receivables: all financing receivables are bank acceptance bills. For financing receivables, the appraisers checked the book records, confirmed whether the financing receivable had been endorsed or discounted, and checked the corresponding sales contract and other original records for bills of large amount. The book value after verification was adopted as the appraisal value.

(3) Accounts receivable and other receivables: On the basis of verifying such receivables and combining with the historical data and onsite investigation, the appraisers analyzed the amount of arrears, the time and reason, the recovery of funds, the debtor's capital, credit and current situation of operation and management. For accounts receivable, the audited book balance after deducting the evaluated risk of loss is the evaluation value. The evaluated risk of loss is identified individually and determined using the final aging method, and the aging is determined according to the following principles; if economic operation is incurred as at a particular year in respect of a customer's account receivables, all balances of that customer's account receivables will be deemed as the age of that year. Then the evaluated risk of loss is determined by multiplying the balance of accounts receivable of each aging group with the corresponding risk of loss rate, and the bad debt provision of the enterprise is evaluated as zero. The corresponding risk loss rate of each age is as follows:

Aging	**Risk of loss rate** *(%)*
Within 1 year (inclusive, same for below)	5.00
1-2 years	20.00
2-3 years	40.00
More than 3 years	80.00

Of which, in other receivables, the book value of Yankuang Kelan Kaimeite Chemical Co., Ltd. is RMB10,005,000.00. Due to the failure of recovering the receivables from Yankuang Kelan Kaimeite Chemical Co., Ltd. after calling in arrears for a long period, the appraised entity expected to be unable to recover the payment, and made full amount of provision for the bad debt. A provision for the risk of loss was made in full in the valuation.

In the accounts receivable, the liquid ammonia amount receivable from Guizhou Kailin Group Mineral Fertilizer Co., Ltd. (hereinafter referred to as "Kailin Company") is RMB183,080,249.02. The appraised entity entered into the Debt Repayment Agreement with Kailin Company in relation to such amount on 30 November 2018. According to the agreement, the appraised entity agreed to repay the liquid ammonia amount in installments to the company and postpone the settlement to the end of 2020. Kailin Company shall repay the appraised entity no less than RMB15 million (inclusive) by the end of each month from January 2020, and repay all the remaining amount by the end of December 2020. If Kailin Company fails to fulfill its obligation of repayment within the time limit, the appraised entity has the right to take other collection measures, including litigation, to directly recover the debts from Kailin Company, and Kailin Company shall bear the legal expenses and all other expenses incurred by the appraised entity to realize the creditor's rights. According to the letter of guarantee signed by Guizhou Kailin Holding (Group) Co., Ltd. and Guizhou Kailin Group Co., Ltd. in 2018, Guizhou Kailin Holding (Group) Co., Ltd. and Guizhou Kailin Group Co., Ltd. provided guarantees for the amounts owed by Kailin Company and Guizhou Kaiyang Chemical Co., Ltd. to Yankuang Group Company Limited and its affiliated companies, including such amount payable by Kailin Company to the appraised entity. If Kailin Company fails to fulfill the repayment obligation on time, Guizhou Kailin Holding (Group) Co., Ltd. and Guizhou Kailin Group Co., Ltd. undertake to timely fulfill the repayment obligation within 3 days from the date of receiving the written notice from the creditor, namely the appraised entity. As of the valuation benchmark date, the debt entity has not repaid the principal but only paid part of the interest, and the appraised entity has not made provision for impairment of such amount. The appraised value is presented based on the book value temporarily.

In the accounts receivable, amounts receivable from Jining He'er Chemical Co., Ltd. for raw oil were RMB2,473,637.57. Since Jining He'er Chemical Co., Ltd. failed to pay the amount on time, the appraised entity filed a lawsuit with the People's Court of Zoucheng City on 6 December 2018, requiring it to pay the amount. On 18 May 2019, the People's Court of Zoucheng City issued a Civil Judgment of the People's Court of Zoucheng City, Shandong Province ((2018) Lu 0883 Min Chu No. 7967). According to the judgment, Jining He'er Chemical Co., Ltd. shall pay the amount within five days from the effective date of the judgment, but it failed. The appraised entity applied to the People's Court of Zoucheng City for enforcement, and the People's Court of Zoucheng City filed a case for enforcement on 28 October 2019 and the case entered the enforcement procedure. After property investigation, no property of Jining He'er Chemical Co., Ltd. was found to be available for enforcement and the appraised entity did not provide any other clues of property of Jining He'er Chemical Co., Ltd. available for enforcement. Pursuant to the provisions of the first paragraph of article 519 of the interpretation of the Supreme People's Court on the application of the Civil Procedure Law of the People's Republic of China, the ruling is as follows: this case is closed for the enforcement procedure. If the appraised entity finds any property of Jining He'er Chemical Co., Ltd. available for enforcement, it may apply for enforcement again. A provision of

RMB1,978,910.06 for impairment of the amount has been made based on the aging method. If the appraised entity finds any property of Jining He'er Chemical Co., Ltd. available for enforcement, it can apply for enforcement again. The risk of loss is temporarily determined based on the final aging method in the evaluation.

(4) Prepayments: The appraisal value is determined based on the value of the assets or rights that can be recovered from the corresponding goods. For the goods or rights that can be recovered, the carrying value after verification was used as appraisal value.

(5) Inventories:

Finished products: the appraisers checked the inventory declaration sheet against the breakdown, general account and accounting statement and review the relevant accounting records and original vouchers to confirm the existence and ownership of the inventory. The appraisers checked the relevant accounting records and contracts, and obtained the enterprise's "Report on the investigation of coal inventory of Shanxi Ridongsheng", and learned about the inventory through interviews with the management of the appraised entity.

As of the valuation benchmark date, being 30 June 2020, the inventory balance of the appraised entity is RMB735,001.31, which is 3,245.10 tons of coal inventory subject to sales restriction. This batch of coal inventory was part of 22,676 tons of coal purchased from Shanxi Ridongsheng Energy Co., Ltd. in December 2017 on one-off basis. It was stored in Dongbang mining area D on Hengshan Mountain ridge between Chuanchang Village, Hunyuan County, Datong City, Shanxi Province, and Highway 025, and was gradually sold to local downstream customers. Controlled by the local government's coal industry governance policies, 3,245.10 tons of coal remained unsold as of the valuation benchmark date.

On 25 July 2020, the appraised entity dispatched four staff to conduct on-site check of the batch of coal together with the appraisers. According to the results of coal inventory and test, such batch of coal has no use value. According to the enterprise accounting system, the appraised entity has made full provision for the impairment loss on inventory assets. Therefore, the appraisal value of inventory is nil.

(6) Liabilities: On the basis of inspection and verification, the assessment value is determined according to the actual liabilities and amount of liabilities that the appraised entity needs to bear after the assessment purpose is achieved. Liability items the appraised entity will not assume are stated at zero.

2. *The evaluation of non-current assets*

(1) Equipment assets

All equipment assets included in the scope of evaluation are electronic and office equipment.

Electronic equipment is mainly evaluated by adopting the replacement cost method.

1) Determination of the replacement cost of electronic equipment

The electronic equipment mainly includes corporate office computers, printers and other devices, which are delivered, installed and commissioned by distributors. The replacement cost is directly determined by the market purchase price.

2) Determination of depreciation rate

The depreciation rate of electronic and office equipment is mainly based on its integrated depreciation rate calculated by its economic life. For large-scale electronic equipment, the integrated depreciation rate is also determined with reference to its working environment and equipment operating conditions.

3) Determination of appraisal value

Appraisal value= replacement value × depreciation rate

Depreciation rate = (economic life – life used) / economic life× 100%

4) For electronic equipment that has been purchased at an earlier time and its production has been discontinued with no comparable prices, the appraisal value is determined using the market method by inquiring about the second-hand transaction price.

(2) Deferred income tax assets

The deferred income tax assets are caused by the difference between the book value of assets and their tax base in the subsequent measurement process due to the difference between the accounting standards for business enterprises and the provisions of the tax law. The appraisers investigated and understood the causes and formation process of the differences. The verified deferred income tax assets are the deductible temporary differences arising from accounts receivable, other receivables, provision for bad debts, provision for decline in inventory value, income tax assets and salary of early retired employees. The risk loss of accounts receivable and other receivables was taken into account in the evaluation and the appraisal value of inventory was nil. Salaries of early retired employees were recognized. As a result, the deductible temporary difference of forming deferred income tax assets still exists. The deferred income tax assets are recognized by the deductible temporary differences determined after the evaluation.

VIII. APPRAISAL PROCESS AND FINDINGS

Pan-China Assets Appraisal Co., Ltd. validated and reviewed the legal documents, accounting records and other relevant materials provided by the client, validated the property titles, inspected relevant assets on site and checked against the inventory of assets provided by the appraised entity, carried out necessary market research and transaction price comparisons, financial analysis and forecast, and other necessary asset appraisal procedures, in accordance with asset appraisal standards, generally accepted accounting principles, relevant laws, regulations and requirements of the authorities, and based on the matters specified in the asset appraisal engagement contract concluded with the client. The asset appraisal process is detailed as follows:

1. Acceptance of engagement and preparations

(1) Pan-China Assets Appraisal Co., Ltd accepted the entrustment of the client in June 2020 and engaged in this asset appraisal project. Upon taking the job, Pan-China Assets Appraisal Co., Ltd. held talks with the client over the purpose, subject and scope, valuation benchmark date of the appraisal, the nature of the assets to be appraised and other matters that are of significance to the asset appraisal proposal.

(2) An asset declaration breakdown form was tailored to the assets to be appraised. Main assets investigation form and profit investigation form of client business were designed. Some staff members of the client supporting the appraisal received training. An asset inventory form and all investigation forms were completed.

(3) Design of the appraisal proposal

Depending on the nature of the assets to be appraised, the appraisal implementation plan was finalized, the appraisers were appointed and an on-site task force was formed.

4) Preparation of appraisal documents

Traded prices of the valuation subjects, market price information of major raw materials and property title proofs of the assessed subjects were gathered and collated.

The working period of this stage is from 12 July 2020 to 18 July 2020.

2. On-site inventory phase

(1) Truthfulness and legitimacy of the assessed subjects

The appraisers checked physical assets and monetary claims and debts against the statements of assets and liabilities provided by the client and the appraised entity in different ways to confirm truthfulness and accuracy of the assets and liabilities.

For monetary funds, we conducted investigations by consulting journals, reviewing bank statements, statements of bank reconciliation and relevant vouchers.

For financing receivables, the appraisers verified accounting records, examined register of bills, and physically counted the financing receivables. For certain financing receivables of material value, they also checked relevant project contracts and other original records.

For the inventory, the appraisers investigated the inventory quantity, storage and unsalable inventory declared by the enterprise. When it is impossible to carry out on-site inventory check and send letters from other places, the appraisers check the relevant accounting vouchers, contracts and other relevant materials. Through interviewing the management of the appraised entity, reviewing relevant reports, materials and instructions provided by the enterprise, and verifying the quantity, quality and ownership of the enterprise's inventory declared, the appraisers have obtained the Report on the investigation of coal inventory of Shanxi Ridongsheng.

For claims and debts, the appraisers checked general ledgers and subsidiary ledgers, and randomly checked contracts and vouchers, to confirm truthfulness of the assets and liabilities.

For fixed assets, focused and general investigations were combined, with an emphasis on assets such as electronic and office equipment. The appraisers consulted relevant electronic equipment purchase contracts and invoices, to determine the authenticity of assets.

For deferred income tax assets, the appraisers investigated and understood the reasons and formation process of the differences, and checked the account book and original vouchers, to determine the authenticity of the deferred income tax assets and the correctness of provisions.

(2) Investigation of actual state of the assets

Focused and general investigations were combined to find out the state of the equipment with an emphasis on large equipment. Supported by persons in charge of the equipment at the appraised entity, the appraisers reviewed the operation records of the equipment and checked the running status of the equipment on site. On the basis of investigation, key equipment investigation forms were completed.

(3) Investigation of value composition of physical assets and business development

The value composition of the assets was checked for appropriateness and compliance depending on the nature of the assets of the appraised entity. In particular, the truthfulness, accuracy, completeness and compliance of the carrying amount of fixed assets was examined. Relevant accounting vouchers, accounting books and equipment purchase contracts were reviewed.

(4) Investigation of revenue and costs

To prepare for future cash flow forecasts, profit/loss accounting data of relevant entities in prior years were collected for estimation and analysis; actual business performance, the composition of their revenue, costs and expenses and future trends of the entities and business units were acquired through interviews and other means.

Relevant information was gathered to analyze and forecast the market environment where each business of Yankuang Coal Chemicals International Trading Co., Ltd. is operating, competition and development trends in the future.

The working period of this stage is from 18 July to 30 July 2020.

3. Selection of appraisal approach, gathering of market intelligence and the process of estimation

The appraisers determined appraisal parameters and prices based on the work plan mapped out for the project in particular and the pricing principles and valuation models identified as appropriate in light of the actual situation, and then commenced appraisal and estimation with reference to the historical data and future operating forecast information provided by the client.

4. Summary of appraisal findings

(1) Determination of appraisal results

According to the situation of the assessment site survey conducted by the appraisers of Pan-China Assets Appraisal Co., Ltd and the necessary market survey and calculation, the results of the asset-based approach and the discounted income approach entrusted with the assessment of assets are determined.

(2) Analysis of appraisal results and preparation of the appraisal report

The asset appraisal report was drafted in compliance with the requirements of Pan-China Assets Appraisal Co., Ltd.. The appraisal results and the relevant asset appraisal report went through three-level reviews by Pan-China Assets Appraisal Co., Ltd. and were confirmed to be error-free by the signatory asset appraiser. Then the project team finalized and delivered the report.

3) Archiving of original documents

The working period of the abovementioned phases 3 and 4 is from 31 July to 6 September 2020.

IX. ASSUMPTIONS IN THE APPRAISAL

General assumptions:

1. Trade assumption: All assets to be appraised were assumed to be in the course of trading. The appraisers valued the assets according to simulated trade terms.

2. Open market assumption: Open market assumption is an assumption about the conditions of the market the assets are assumed to enter and about the degree of impact the assets are exposed to under such market conditions. An open market is defined as full-fledged and developed market conditions, a competitive market with voluntary buyers and sellers. In this market, buyers and sellers are on equal footing, have the opportunity and time to get sufficient market information, and are able to trade in a voluntary and rational manner, free from any compulsory or restrictive conditions.

3. Continuous use assumption: The continuous use assumption is an assumption about the conditions of the market the assets are assumed to enter and about the state of the assets under such market conditions. First of all, the appraised assets are in use. Secondly, the assets in use is assumed to be used continuously. Under the continuous use assumption, the possibility of repurposing of the assets or optimal conditions of use are disregarded. Hence, the appraisal results are of limited usability.

4. Going concern assumption: The entire assets are taken as the subject of the appraisal. As a business entity, the Company will continue as a going concern in the external environment. The management is responsible and capable to take responsibilities; the business is legal and profitable, and thus sustainable.

This valuation results are based on the assumptions mentioned above. Failure of the aforementioned assumptions will result in significant impacts on the valuation result, which will generally be void and null.

X. APPRAISAL CONCLUSION

(I) Appraisal Conclusion with Asset-based Approach

Under the going concern assumption as at the valuation benchmark date, the book value of total assets, the book value of liabilities and the book value of net assets of Yankuang Coal Chemicals International Trading Co., Ltd. were RMB704,416,300, RMB474,832,200 and RMB229,584,100, respectively.

Total assets after appraisal by the asset-based approach were RMB704,735,600; liabilities were RMB474,832,200; net assets were RMB229,903,400, and the appraised appreciation was RMB319,300, representing an appreciation rate of 0.14%.

Summary sheet of asset appraisal results

Unit: RMB (0'000)

Item	Book value	Appraised value	Changes	Appreciation rate (%)
Current assets	69,932.00	69,932.00	–	–
Non-current assets	509.63	541.56	31.93	6.27
Including: Long-term equity investment	–	–	–	
Investment properties	–	–	–	
Fixed assets	27.38	59.31	31.93	116.62
Construction in Progress	–	–	–	
Intangible assets	–	–	–	
Land use rights	–	–	–	
Others	482.25	482.25	–	–
Total assets	**70,441.63**	**70,473.56**	**31.93**	**0.05**
Current liabilities	46,826.25	46,826.25	–	–
Non-current liabilities	656.97	656.97	–	–
Total liabilities	**47,483.22**	**47,483.22**	**–**	**–**
Net assets	**22,958.41**	**22,990.34**	**31.93**	**0.14**

Note: for details of the appraisal conclusion, please refer to the Detailed Statement of Assets Appraisal.

(II) Determination of the appraisal conclusion

The income approach is greatly affected by the future profitability, asset quality, operating capabilities, and operating risks of the enterprise, while the appraised entity mainly provides services in the coal chemical segment with relatively strong relevance and reliance. Combining the purpose of the evaluation, the asset-based approach can reflect the fair market value of assets from the perspective of asset replacement. The appraised entity provided detailed information about its assets and liabilities, and the appraisers also collected external data deemed necessary to the asset-based approach. We conducted a full inspection on and appraisal of its assets and liabilities. Therefore, the appraisal conclusion come up with the adoption of the asset-based approach is comparatively more reliable. Therefore, the asset-based approach was adopted.

On the premise of continuing operations on the valuation benchmark date, being 30 June 2020, the appraised total equity interest of shareholders of Yankuang Coal Chemicals International Trading Co., Ltd. was RMB229,903,300, and the appraised appreciation was RMB319,300, representing an appreciation rate of 0.14%.

XI. SPECIAL NOTES

The appraiser of the company is incapable of evaluating and estimating the following items on their own. Notwithstanding the above, this may affect the conclusion. For this reason, it is essential for the user of the valuation report to pay particular attention to the following:

(I) The "Appraisal value" in this report refers to our fair valuation opinions for the purposes listed in this report on the premise that the current use of the appraised assets will continue without changes, as well as on the basis of the status of the valuation benchmark date and the external economic environment, without being responsible for other uses.

(II) The appraisal conclusion in the report reflects the market value determined by the appraised entity according to the principle of open market under the purpose of this appraisal, without considering the relevant expenses and taxes to be borne by the assets in the process of property registration or ownership change, and without making any tax adjustment preparation for the values added of the assets appraisal. The appraisal conclusion is not deemed as a guarantee of the realizable price of the appraised object.

(III) In case of changes in the amount of assets and pricing standards within the term of appraisal conclusion, moderate adjustments shall be made, instead of the direct use thereof.

(IV) Circumstances where the report conclusions issued by other institutions are cited:

The financial data in the valuation report are quoted from the unqualified Audit Report (Zhongxingcai Guanghua Shen Kuai Zi [2020] No. 316049) audited and issued by Zhongxingcai Guanghua Certified Public Accountants LLP.

(V) Limitations of asset appraisal procedures, handling methods and their impacts on appraisal conclusions:

1. As of the valuation benchmark date, being 30 June 2020, the inventory balance of the appraised entity is RMB735,001.31, which is equivalent to 3,245.10 tons of coal inventory subject to sales restriction. This batch of coal inventory was part of 22,676 tons of coal purchased from Shanxi Ridongsheng Energy Co., Ltd. in December 2017 on a one-off basis. It was stored in Dongbang mining area D on Hengshan Mountain ridge between Chuanchang Village, Hunyuan County, Datong City, Shanxi Province, and Highway 025, and was gradually sold to local downstream customers. Controlled by the local government's coal industry governance policies, 3,245.10 tons of coal remained unsold as of the valuation benchmark date.

On 25 July 2020, the appraised entity dispatched four staff to conduct on-site check of the batch of coal together with the appraisers. According to the results of coal inventory and test, such batch of coal is characterized by cinder, and the inventory location is in the pit mouth, so the transportation is difficult and the transportation expense is higher than the coal value. Therefore, such batch of coal has no use value. According to the enterprise accounting system, the appraised entity has made full provision for the impairment loss on inventory assets. Therefore, the appraisal value of the inventory is nil.

Users of the report are reminded that the evaluation is conducted on the premise of the assets details filled in by the appraised entity and its current situation.

2. In the accounts receivable, the liquid ammonia amount receivable from Guizhou Kailin Group Mineral Fertilizer Co., Ltd. (hereinafter referred to as "Kailin Company") is RMB183,080,249.02. The appraised entity entered into the Debt Repayment Agreement with Kailin Company in relation to such amount on 30 November 2018. According to the agreement, the appraised entity agreed to the company to repay the liquid ammonia amount in installments and postpone the settlement to the end of 2020. Kailin Company shall repay the assessed unit no less than RMB15 million (inclusive) by the end of each month from January 2020, and repay all the remaining amount by the end of December 2020. If Kailin Company fails to fulfill its obligation of repayment within the time limit, the appraised entity has the right to take other collection measures to directly recover the debts from Kailin Company, including litigation, and Kailin Company shall bear the legal expenses and all other expenses incurred by the appraised entity to realize the creditor's rights. According to the letter of guarantee signed by Guizhou Kailin Holding (Group) Co., Ltd. and Guizhou Kailin Group Co., Ltd. in 2018, Guizhou Kailin Holding (Group) Co., Ltd. and Guizhou Kailin Group Co., Ltd. provided guarantees for the amounts owed by Kailin Company and Guizhou Kaiyang Chemical Co., Ltd. to Yankuang Group Company Limited and its affiliated companies, including such amount payable by Kailin Company to the appraised entity. If Kailin Company fails to fulfill the repayment obligation on time, Guizhou Kailin Holding (Group) Co., Ltd. and Guizhou Kailin Group Co., Ltd. undertake to timely fulfill the repayment obligation within 3 days from the date of receiving the written notice from the creditor, namely the appraised entity. As of the valuation benchmark date, the debt entity has not repaid the client except part of the interest, and the appraised entity has not made provision for impairment of such amount. The appraised value is presented based on the book value temporarily. Users of the report are reminded that the recoverable amount of such payment is subject to the actual recovered amount.

(VI) Circumstances occurred between the valuation benchmark date of assets appraisal and the date of appraisal report may affect the appraisal conclusion:

Since the outbreak of novel coronavirus epidemic in the country in January 2020, the nationwide prevention and control of the epidemic has continued. The epidemic has already affected the business operations and overall economic operations of some provinces (including Shandong Province), cities and industries, which may affect the profitability of the appraised entity to a certain extent. The degree of impact will depend on the situation of epidemic prevention and control, duration and implementation of various control policies. As of the issuance date of the report, the appraised entity has resumed work and the appraisers have properly considered the impact of the epidemic on the revenue after communication with the management of the appraised entity during the profit forecast process, which is brought to the attention of users of the report.

XII. RESTRICTIONS ON THE USE OF ASSET APPRAISAL REPORT

(I) The appraisal report may only serve the purpose of appraisal stated herein;

(II) The asset appraisal institution and the appraiser will not be held liable or take the consequences, in case the client or other users of the appraisal report fail to comply with the relevant laws, administrative regulations and use the report for other purposes than what is stated herein;

(III) Any institution and individual shall not use the report on asset appraisal other than the client, other report users agreed in the commission contract for asset appraisal, and report users in compliance with laws and administrative regulations;

(IV) The user of the asset appraisal report should correctly understand and use the appraisal conclusion, which is not equal to the achievable price of the appraisal object, and the appraisal conclusion should not be considered as a guarantee of the achievable price of the appraisal object;

(V) The appraisal report shall be submitted to the state-owned assets supervision and administration authorities or the competent business department for examination. The report shall not be used until filing;

(VI) All (or perhaps any) of the appraisal report may be extracted, quoted or disclosed, subject to examination by the appraisal institution, unless otherwise stated in the laws, regulations and agreed by the corresponding party;

(VII) The appraisal conclusion disclosed in this appraisal report is valid only for the corresponding economic behavior of the project, and the validity period of the asset appraisal conclusion is one year from the valuation benchmark date, that is, from 30 June 2020 to 29 June 2021. When the appraisal target is reached within the term, the appraisal conclusion shall be a useful guideline on the value, subject to adjustments subsequent to the benchmark date of assets appraisal. Assets shall be reappraised if the one-year limit is exceeded.

XIII. REPORTING DATE OF ASSET APPRAISAL

The asset appraisal report date is 6 September 2020, which is the date when the asset appraisal conclusion is formed.

Asset appraisal institution: Pan-China Assets Appraisal Co., Ltd

Legal representative:

Asset appraiser: Wang Nannan

Asset appraiser: Sun Shengnan

6 September 2020

F. SUMMARY OF THE ASSET VALUATION REPORT ON JISAN ELECTRICITY

(Summary of the Report)

ASSET VALUATION REPORT ON THE VALUE OF THE TOTAL SHAREHOLDERS' EQUITY OF YANKUANG JISAN ELECTRICITY CO., LTD. INVOLVED IN THE PROPOSED ACQUISITION OF EQUITY INTEREST IN YANKUANG JISAN ELECTRICITY CO., LTD. BY YANZHOU COAL MINING COMPANY LIMITED

Tian Xing Ping Bao Zi (2020) No. 1247

To Yanzhou Coal Mining Company Limited

Pan-China Appraisal Co., Ltd is engaged by the unit to appraise the market value of the total shareholders' equity of Shandong Yankuang Jisan Electricity Co., Ltd. involved in the proposed acquisition of equity interest in Shandong Yankuang Jisan Electricity Co., Ltd. by Yanzhou Coal Mining Company Limited as at 30 June 2020 following necessary valuation procedures and using asset-based approach and income approach with principles of independence, objectivity and fairness in accordance with the requirements of relevant laws, administrative regulations and asset valuation standards. The asset valuation is reported as follows.

I. THE CLIENT, APPRAISED ENTITY AND OTHER VALUATION REPORT USERS AS AGREED IN THE ASSET VALUATION ENTRUSTMENT CONTRACT

(I) Overview of the Client

Company name:	Yanzhou Coal Mining Company Limited
Unified Social Credit Code:	91370000166122374N
Registered address:	No. 298, South Fushan Road, Zoucheng City
Legal representative:	Li Xiyong
Registered capital:	RMB4,912,016,000
Paid-in capital:	RMB2.6 billion
Type of company:	Limited liability company (Taiwan, Hong Kong, Macao and domestic joint ventures, listed)
Date of Establishment:	25 September 1997

Scope of business: selection and sale of coal (among others, the export of coal should be made through companies with coal export right according to the existing state regulations); outbound investment using the company's own fund and investment consulting; commission business; transportation of goods through self-owned railway within the mining area; transportation of goods through highway; operation of ports; manufacture, sale, lease, repair, installation and dismantlement of machinery and equipment in the mining area; production and sale of other mining materials; sale and lease of electronic equipment and sale of parts; leasing of construction mechanical equipment; sale of metallic materials, electronic products, construction materials, timber and rubber products; production and sale of cold patch, soap, anchoring agent and coat; composition of mining, science and technological services; mining rescue technology services; property development within the mining areas, property leasing and provision of services such as dining and accommodation; production and sale of coal residual stones as construction materials; sale of coke, iron ore and nonferrous metals; import and export of goods and technology; warehousing (excluding hazardous chemicals); automobile repairs; labour dispatch; property management service, landscaping; sewage treatment; heat supply; industrial tourism; corporate internal staff training (skills training for first aid team members, manufacturing technology training, safety training); measurement examination, physical and chemical inspection, non-destructive testing, analytical testing, manufacturing safety testing and inspection; corporate management; corporate management consulting; corporate planning and design; market investigation; economic and trade consulting; technology promotion, technology services; sale of lubricating oil, lubricating grease, chemical raw material and chemical engineering products (excluding dangerous chemical products), coat, labour protection products, spinning products, cultural and educational products, plastic products, instruments and apparatuses, cement and fire-resistant materials and products. General contracting of mining engineering and construction; contracting of mechanical and electrical engineering construction; sales of coal-water slurry. (Items which need approvals according to the laws shall be subject to the approvals of relevant authorities before operation activities can be carried out.)

Yanzhou Coal Mining Company Limited held the 2018 Annual General Meeting, the second class meeting of the holders of A shares for the year 2019 and the second class meeting of the holders of H shares for the year 2019 on 24 May 2019, considering and approving "The Proposal regarding the grant of general mandate to the Board to repurchase H shares of the Company". Yanzhou Coal started to exercise the general mandate on repurchase of H shares on 4 May 2020, with a total of 14 times of repurchases of H shares and an aggregate of 52,016,000 H shares repurchased. The registered capital of the Company changed from RMB 4,912.0160 million to RMB4,860.0000 million, and corresponding change of business registration has not been made yet.

(II) Overview of the Appraised Entity

1. General information

Company name: Shandong Yankuang Jisan Electricity Co., Ltd. ("Jisan Electricity")

Unified Social Credit Identifier:	91370800771045952K
Registered address:	Shiqiao Town, Beihu Provincial Tourist Resort, Jining
Legal representative:	Liu Jie
Registered capital:	RMB430 million
Paid-in capital:	RMB430 million
Type of company:	Other limited liability company
Date of establishment:	31 January 2005
Operating period:	31 January 2005 to 30 January 2035
Scope of business:	Heating operation (validity period is subject to license). Thermal power generation. (Business involving license shall be subject to licensing or approval documents)

2. *History and Changes in the Shareholding Structure of the Company*

Shandong Yankuang Jisan Electricity Co., Ltd. was established on 31 January 2005, and incorporated in the Administration for Market Regulation of Beihu Provincial Tourism Resort, Jining. The registered address is Shiqiao Town, Beihu Provincial Tourist Resort, Jining. Registered capital and paid-in capital amounted to RMB430 million, respectively. It was jointly funded and established by Yankuang Group Company Limited and Jining Rencheng District Public Assets Management Company, of which: Yankuang Group Company Limited contributed RMB395.6 million by way of physical assets and Jining Rencheng District Public Assets Management Company contributed RMB34.40 million by way of monetary fund, accounting for 92.00% and 8.00% equity interests in Jisan Electricity, respectively. The aforementioned capital contributions were verified by the Zoucheng branch of Shandong Xin Lianyi Certified Public Accountants Company Limited, and Capital Verification Report Lu Xin Lian Yi Zou Yan Zi [2005] No. 004 was issued.

The shareholding structure when the company was established is as follows:

Unit: RMB (Ten Thousand)

No.	Name of shareholder	Contributed registered capital	Paid-in capital	Percentage of shareholding
1	Yankuang Group Company Limited	39,560.00	39,560.00	92.00%
2	Jining Rencheng District Public Assets Management Company	3,440.00	3,440.00	8.00%
Total		43,000.00	43,000.00	100.00%

On 6 November 2015, Shandong Yankuang Jisan Electricity Co., Ltd. convened a general meeting. The resolution of the meeting was as follows: It was agreed that Jining Rencheng District Public Assets Management Company would transfer 7.00% equity interests in the company to Yankuang Group Company Limited for RMB30.10 million. After the transfer, Yankuang Group Company Limited and Jining Rencheng District Public Assets Management Company invested RMB425.7 million and RMB4.30 million, respectively for holding of 99.00% and 1.00% equity interests in Jisan Electricity, respectively.

As at the valuation benchmark date, the shareholding structure of Shandong Yankuang Jisan Electricity Co., Ltd. is as follows:

Shareholding Structure Table

Unit: RMB (Ten Thousand)

No.	Name of shareholder	Contributed registered capital	Paid-in capital	Percentage of shareholding
1	Yankuang Group Company Limited	42,570.00	42,570.00	99.00%
2	Jining Rencheng District Public Assets Management Company	430.00	430.00	1.00%
Total		43,000.00	43,000.00	100.00%

3. *Overview of the company's major assets*

The main assets of Shandong Yankuang Jisan Electricity Co., Ltd. are notes receivable, accounts receivable, prepayments, other receivables, fixed assets and intangible assets. The main assets are summarized as follows:

(1) Fixed assets:

Shandong Yankuang Jisan Electricity Co., Ltd. is mainly engaged in thermal power generation business. The company is equipped with two generators and two furnaces designed by Shandong Electric Power Engineering Consulting Institute: a generator set with an installed capacity of 2×135 MW, equipped with a 2×440T/H circulating fluidized bed boiler, and is designed to generate up to 2.3 billion kWh of electricity per year. As at the valuation benchmark date, the types of physical assets of Jisan Electricity mainly consist of: buildings (structures), machinery and equipment, electronic equipment, etc.

Among which, 41 buildings and 110 structures were completed during 2006 to 2019, which are mainly power generation and production auxiliary facilities for the 2×135MW power generation project and living welfare facilities.

There are 1506 sets of machines in total, including boilers, generators, transformers, conveyors, etc., and the equipment is in a normal state of maintenance.

Electronic and office equipment are mainly used by various departments for daily office use, including computers, air conditioners, printers, copiers, various control systems and other office equipment of various specifications.

(2) Intangible assets:

1 land use right and 5 software use rights owned by the company.

4. Overview of the company's major operation

Jisan Electricity is mainly engaged in thermal power generation business.

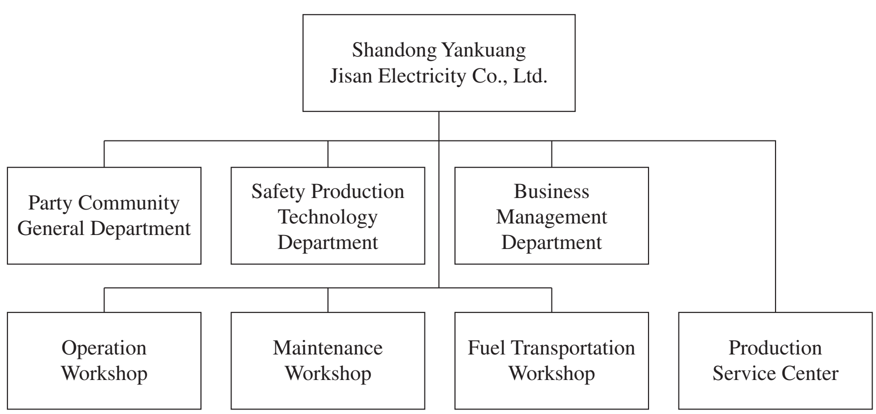
Jisan Electicity obtained the new "Power Business License" (license number: 1010617-00134) issued by the Shandong Regulatory Office of the National Energy Administration on 28 June 2017, with validity until 27 June 2037. According to the business license, the company can "engage in electric power business within the scope specified in this license", and the license category is power generation.

In terms of power generation equipment, Jisan Electricity is equipped with two generators and two boilers designed by Shandong Electric Power Engineering Consulting Institute: a generator set with an installed capacity of 2×135 MW, equipped with a 2×440T/H circulating fluidized bed boiler, and is designed to generate up to 2.3 billion kWh of electricity per year. The two generator sets of the company commenced production in July and August 2005, respectively, with a designed operation time of 30 years.

Before October 2016, Jisan Electricity was used as a self-supplied power plant of Yankuang Group, and all power generated was used for internal use of the group. In October 2016, Jisan Electricity officially entered into the "Electricity Purchase and Sales Contract" with State Grid Shandong Electric Power Company to realize grid-connected power generation. After grid-connection, Jisan Electricity's on-grid power supply business is divided into basic electricity and direct transaction electricity. The grid dispatching agency of State Grid Shandong Electric Power Company is responsible for unified dispatch. Among which, the basic electricity is sold to State Grid Shandong Electric Power Company, and electricity bills are settled on a monthly basis. According to the "Grid-connection Dispatching Agreement" and "Electricity Purchase and Sales Contract" entered into with State Grid Shandong Electric Power Company, and the "Grid-connection Agreement" signed with State Grid Jining Power Supply Company, the company organizes its power production in accordance with the planned power generation and monthly power generation decomposition plan issued by the Shandong Provincial Economic and Information Commission and the State Grid Shandong Electric Power Company based on the principle of "power determined by resources".

Regarding direct trading of electricity, the model is an important part of the new electricity reform in Shandong Province, that is, power generation companies that meet the access requirements and power sales companies or power users can negotiate electricity or participate in centralized bidding organized by power trading institutions to realize power transactions on the trading platform provided by the Shandong Electric Power Trading Center. After bilateral negotiated transactions or centralized bidding transactions, the trading platform releases the final transaction results and automatically generates an electronic contract. Jisan Electricity has actively participated in the reform of the power market in Shandong Province, and has gradually entered the direct trading power market after being connected to the grid. The power supply volume directly traded between Jisan Electricity and the purchaser is determined by the corresponding "Electricity Purchase and Sales Contract" under the unified dispatch of the grid dispatching agency. In terms of settlement, according to Articles 107 and 108 of the "Shandong Province Electric Medium and Long-term Trading Rules (Trial Implementation)", each market entity maintains the same electricity bill settlement and payment methods with grid companies. Power grid companies bear the risk of non-payment on the power user side to ensure the safety of transaction power funds. Therefore, just like basic electricity, the supply of direct transaction electricity of Jisan Electricity is also settled with State Grid Shandong Electric Power Company on a monthly basis.

5. Organizational structure and human resources



The institutional department under Shandong Yankuang Jisan Electricity Co., Ltd. consists of the Party Community General Department, Operation Management Department and Safety Production Technology Department, while the workshop (center) consists of the operation workshop, fuel transportation workshop, maintenance workshop and production service center (Armed Security Department), with 341 employees currently.

6. *Statements of Financial Position and Operating Results*

Statement of Financial Position

Unit: RMB (Ten Thousand)

Item	**2020.6.30**	**2019.12.31**	**2018.12.31**	**2017.12.31**
Current assets	159,410.98	163,965.82	148,893.10	152,668.19
Non-current assets	48,625.54	50,964.43	55,249.51	59,322.49
Of which: Long-term equity investments	–	–	339.47	760.50
Fixed assets	46,903.43	49,186.76	53,021.07	56,561.74
Intangible assets	1,722.11	1,777.67	1,888.96	2,000.25
Of which: Land use rights	1,722.11	1,777.67	1,888.96	2,000.25
Others	–	–	–	–
Total assets	208,036.52	214,930.25	204,142.61	211,990.68
Current liabilities	81,020.53	83,903.00	45,577.63	50,316.81
Non-current liabilities	68,938.48	76,691.12	108,010.05	111,525.79
Total liabilities	149,959.01	160,594.12	153,587.68	161,842.60
Net assets (Owners' equity)	58,077.51	54,336.13	50,554.93	50,148.08

Statement of Operating Results

Unit: RMB (Ten Thousand)

Item		January to June 2020	2019	2018	2017
I.	Operating income	17,124.80	42,972.41	45,501.65	42,886.95
	Less: Operating costs	9,389.38	31,013.49	36,594.03	33,618.90
	Business tax and surcharges	670.59	1,492.18	1,557.15	407.33
	Selling expenses	–	–	–	–
	Administrative expenses	1,703.50	3,873.71	3,741.88	3,144.42
	Finance costs	942.80	2,367.91	2,558.31	3,552.53
	Loss on impairment of credit	–	–	–	–
	Add: Investment gains	–	-313.44	-447.06	204.97
	Other gains	590.99	1,219.13	796.19	–
II.	Operating profit	5,009.52	5,130.80	1,399.40	2,368.74
	Add: Non-operating income	0.83	50.80	1.16	2.54
	Less: Non-operating expenses	–	5.11	12.67	28.35
III.	Total profit	5,010.34	5,176.49	1,387.89	2,342.93
	Less: Income tax expenses	1,279.75	1,369.26	538.55	77.86
IV.	Net profit	3,730.59	3,807.23	849.34	2,265.07

Note: Of the financial data set out in the tables above, the data of 2017-2019 and January to June 2020 have been audited by Zhongxingcai Guanghua Certified Public Accountants LLP which issued an unqualified audit report (Zhongxingcai Guanghua Shen Kuai Zi (2020) No. 316048).

(III) Other Valuation Report Users as Agreed in the Asset Valuation Entrustment Contract

According to the asset valuation entrustment contract, save for the client and the user who has the right to use the valuation report as regulated by national laws and regulations, there is no other user of the valuation report.

(IV) Relationship between the Client and the Appraised Entity

Yanzhou Coal Mining Company Limited, the client, and Shandong Yankuang Jisan Electricity Co., Ltd., the appraised entity, belong to the same ultimate controlling party – Yankuang Group Company Limited and the client intends to acquire the equity interests in the appraised entity.

II. VALUATION PURPOSE

According to "Summary of general manager work meeting of Yanzhou Coal Mining Company Limited (Issue 27)", Yanzhou Coal Mining Company Limited proposed to acquire the equity interests of Shandong Yankuang Jisan Electricity Co., Ltd., it is required to conduct evaluation on the involved total shareholders' equity of Shandong Yankuang Jisan Electricity Co., Ltd. in order to provide a value reference for the proposed acquisition.

III. VALUATION SUBJECT AND VALUATION SCOPE

(I) Valuation Subject

The valuation subject is the total value of shareholders' equity of Shandong Yankuang Jisan Electricity Co., Ltd.

(II) Valuation Scope

The valuation scope is the entire assets and liabilities of Shandong Yankuang Jisan Electricity Co., Ltd. reported on the valuation benchmark date including total assets with a carrying amount of RMB2,080,385,200, liabilities with a carrying amount of RMB1,499,590,100 and net assets (owners' equity) with a carrying amount of RMB580,775,100. The carrying amounts of various assets and liabilities are as follows:

Summary of Assets Valuation Reporting Form

Unit: RMB (Ten Thousand)

Item	**Carrying amount**
Current assets	159,410.98
Non-current assets	48,625.54
Including: Long-term equity investments	–
Fixed assets	46,903.43
Intangible assets	1,722.11
Including: Land use right	1,722.11
Others	–
Total assets	208,036.52
Current liabilities	81,020.53
Non-current liabilities	68,938.48
Total liabilities	149,959.01
Net assets (Owners' equity)	58,077.51

The client and the appraised entity have guaranteed that the entrusted evaluation object and the scope of evaluation are consistent with the evaluation object and evaluation scope involved in the economic behavior. In addition, it has been audited by Zhongxingcai Guanghua Certified Public Accountants LLP and an unqualified audit report (Zhongxingcai Guanghua Shen Hui Zi (2020) No. 316048) was issued.

IV. ASSESSED VALUE TYPE

Assessed value types include market value and value types other than market value. Value types other than market value generally include (but not limited to) investment value, in-use value, liquidation value, residual value, etc. The purpose of this valuation is to provide a value reference for equity acquisitions, and there are no special restrictions on market conditions. Therefore, market value is selected as the value type of this valuation. The market value mentioned in this asset valuation report refers to the estimated amount of the value of normal and fair transactions of the valuation target on the valuation benchmark date when the voluntary buyer and the voluntary seller act rationally without any coercion.

V. VALUATION BENCHMARK DATE

The valuation benchmark date for the valuation is 30 June 2020.

This valuation benchmark date is determined by the client and is consistent with the valuation base date agreed in the asset valuation entrustment contract.

VI. BASIS OF VALUATION

The basis of valuation on which this asset valuation was conducted includes the basis of economic activity, the basis of laws and regulations, the basis of valuation criteria, the basis of asset ownership as well as the pricing basis, as follows:

(I) Basis of Economic Activity

1. Summary of general manager work meeting of Yanzhou Coal Mining Company Limited (Issue 27)

(II) Basis of Laws and Regulations

1. Asset Valuation Law of the People's Republic of China (Decree No. 46 of the President of the People's Republic of China);

2. The State-owned Assets of Companies Law of the People's Republic of China (Decree No. 5 of the President of the People's Republic of China);

3. Company Law of the People's Republic of China (adopted at the 6th Session of the Standing Committee of the 13th National People's Congress on 26 October 2018);

4. Securities Law of the People's Republic of China (adopted at the 6th Meeting of the Standing Committee of the Ninth National People's Congress of the People's Republic of China on 29 December 1998 and amended for the second time at the 15th Session of the Standing Committee of the 13th National People's Congress on 28 December 2019);

5. Property law of the People's Republic of China (Decree No. 62 of the President of the People's Republic of China);

6. The Law of the Administration of Urban Real Estate of the PRC (The decision on amending the Land Management Law and Urban Real Estate Management Law was passed at the 12th meeting of the Standing Committee of the 13th National People's Congress on 26 August 2019. The decision was taken effect on 1 January 2020);

7. Enterprise Income Tax Law of the People's Republic of China (adopted at the 26th meeting of the 12th National People's Congress on 24 February 2017, the "Decision on Amending the Enterprise Income Tax Law of the People's Republic of China");

8. Administrative Measures for State-Owned Assets Assessment (State Council Order 1991 No. 91);

9. Detailed Rules for the Implementation of the Administrative Measures for State-Owned Assets Assessment (Guo Zi Ban Fa [1992] No. 36) issued by the former State Administration of State-owned Assets;

10. Notice on Opinions on Reforming the Administration and Management of Appraisal of State-owned Assets and Strengthening the Supervision and Management of Asset Appraisal (Guo Ban Fa [2001] No. 102);

11. Rules on Certain Issues Relating to the Appraisal of State-owned Assets (Ministry of Finance No.14 Order);

12. Notice of the Ministry of Finance on Issuance of Administrative Measures for Filing of State-owned Assets Valuation Project (Qi [2001] No. 802);

13. Interim Regulation on the Supervision and Administration of State-owned Assets of Enterprises (State Council No. 378 Order and Revision of State Council No. 588 Order);

14. Administration Measures for Supervision over Trading of State-owned Assets by Enterprises (SASAC and MOF No. 32 Order);

15. Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises (SASAC of the State Council 2005 No.12 Order);

16. Notice on Strengthening Management of Appraisal of State-owned Assets in Enterprises (SASAC Property [2006] No. 274);

17. Notice on the Audit of Valuation Report for State-owned Assets of Enterprises (SASAC Property [2009] No. 941);

18. Guidelines for the Filing for Recordation of the Valuation Projects of State-owned Assets of Enterprises (SASAC Property [2013] No. 64);

19. Decision to Abolish Interim Regulations on Business Tax of the PRC and Amend the Interim Regulations of the PRC on VAT (State Council No. 691 Order);

20. Detailed Rules for the Implementation of the Interim Regulations of the People's Republic of China on Value-added Tax (Ministry of Finance and State Administration of Taxation No. 50 Order, amended by Order No. 65 issued by Ministry of Finance and State Administration of Taxation in 2011);

21. Notice on Comprehensively Launching the Pilot Program for the Reform of Business Tax to VAT (Cai Shui [2016] No. 36);

22. Announcement on Deepening the Relevant Policies of VAT Reform (Announcement No. 39 of 2019 by the Ministry of Finance, State Administration of Taxation, and General Administration of Customs);

23. Land Administration Law of the People's Republic of China (the Decision on Amending the Land Management Law and the Urban Real Estate Management Laws was adopted at the 12th Meeting of the Standing Committee of the Thirteenth National People's Congress on 26 August 2019, and shall be implemented with effect from 1 January 2020);

24. Regulation on the Implementation of the Land Administration Law of the People's Republic of China (promulgated by Order No. 256 of the State Council on 27 December 1998, revised for the first time according to the Decision of the State Council on Abolishing and Amending Certain Administrative Regulations on 8 January 2011, and revised for the second time according to the Decision of the State Council on Amending Certain Administrative Regulations on 29 July 2014);

25. Interim Regulations of the PRC on Grant and Transfer of the Right to Use State-owned Urban Land (State Council No.55 Order);

26. Interim Regulations of the People's Republic of China on Land Use Tax in respect of Urban Land (promulgated by Order No. 17 of the State Council of the People's Republic of China on 27 September 1988, revised according to the Decision of the State Council on Amending the Interim Regulations of the People's Republic of China on Land Use Tax in respect of Urban Land on 31 December 2006 and amended in the Decision of the State Council on Amending Certain Administrative Regulations which was adopted in the 32nd Standing Meeting of the State Council on 4 December 2013);

27. Regulations for Valuation of Urban Land of National Standards of the PRC (GB/T18508-2014);

28. Regulations for Grading and Classification of Urban Land of National Standards of the PRC (GB/T18507-2014)

29. Classification of Land Utilisation Situations of National Standards of the PRC (GB/T21010-2017);

30. Regulations on the Implementation of the Enterprise Income Tax Law of the PRC (promulgated by Order No.512 of the State Council of the People's Republic of China on 6 December 2007 and revised for the first time according to the Decision of the State Council on Amending Certain Administrative Regulations on 23 April 2019);

31. Measures of Shandong Province for the Implementation of the Land Administration Law of the People's Republic of China (adopted at the tenth meeting of the Standing Committee of the Ninth People's Congress of Shandong Province on 22 August 1999 and amended on 25 November 2004 at the 11th meeting of the Standing Committee of the People's Congress of Shandong Province in relation to Decision on Amending Ten Local Regulations including the Regulations on the Management of the Talent Market of Shandong Province);

32. Measures on Assignment and Transfer of the Rights to the Use of the State-Owned Urban Land of Shandong Province (adopted at the 4th meeting of the Standing Committee of the Eighth Provincial People's Congress on 18 November 1993);

33. Updated Report on Urban Land Grading and Benchmark Land Premium of Jining City (effective from 1 January 2017);

34. Technical Specifications for Land Price Evaluation in relation to Grant of Rights to Use State-owned Construction Lands (Guo Tu Zi Ting Fa [2018] No. 4);

35. Other relevant laws and regulations.

(III) Basis of Valuation Criteria

1. Asset Valuation Standards (Cai Zi [2017] No. 43);

2. Code of Ethics for Assets Assessment (Zhong Ping Xie [2017] No. 30);

3. Asset Valuation Practicing Standards – Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);

4. Asset Valuation Practicing Standards – Asset Valuation Report (Zhong Ping Xie [2018] No. 35);

5. Asset Valuation Practicing Standards – Asset Valuation Method (Zhong Ping Xie [2019] No. 35);

6. Asset Valuation Practicing Standards – Contract on Asset Valuation Entrustment (Zhong Ping Xie [2017] No. 33);

7. Asset Valuation Practicing Standards – Asset Valuation Files (Zhong Ping Xie [2018] No. 37);

8. Asset Valuation Practicing Standards – Engagement of Experts and Relevant Reports (Zhong Ping Xie [2017] No. 35);

9. Asset Valuation Practicing Standards – Enterprise Value (Zhong Ping Xie [2018] No. 38);

10. Asset Valuation Practicing Standards – Intangible Assets (Zhong Ping Xie [2017] No. 37);

11. Asset Valuation Practicing Standards – Real Estates (Zhong Ping Xie [2017] No. 38);

12. Asset Valuation Practicing Standards – Machinery and Equipment (Zhong Ping Xie [2017] No. 39);

13. Asset Valuation Expert Guide No. 8 – Check and Verification in Asset Valuation (Zhong Ping Xie [2019] No. 39);

14. Asset Valuation Expert Guide No. 10 – Reasonable Performance of Asset Appraisal Procedures During the COVID-19 Epidemic Period (Zhong Ping Xie [2020] No. 6);

15. Guidelines to Evaluation Report of State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);

16. Guidelines for Business Quality Control of Asset Valuation Institutions (Zhong Ping Xie [2017] No. 46);

17. Guiding Opinions on Types of Value for the Appraisal of Assets (Zhong Ping Xie [2017] No. 47);

18. Guiding Opinions on Legal Ownership of Asset Valuation Object (Zhong Ping Xie [2017] No. 48);

(IV) Basis of Asset Ownership

1. Certificate for Use of State-owned Land;

2. Land use right assignment contract;

3. Major equipment purchase contracts, invoices, and relevant agreements, contracts;

4. Other ownership documents.

(V) Pricing Basis for the Valuation

1. Audit report Zhong Xing Cai Guang Hua Shen Kuai Zi (2020) No. 316048;

2. The asset valuation declaration form and income forecast statement provided by the appraised entity;

3. Notice on Including the Railroad Transport and Postal Industries as Pilot Locations for Business Tax to Value-added Tax Reforms (Cai Shui [2013] No. 106);

4. National Interbank Funding Center is authorized to issue the loan prime rate (LPR) announcement on 22 June 2020;

5. Grading and Appraisal Standards for the Conditions of Buildings (Cheng Zhu Zi [1984] No. 678);

6. Notice of National Development and Reform Commission on Further Liberalization of the Professional Service Fees for Construction Projects (Fa Gai Jia Ge [2015] No. 299);

7. Notice of Ministry of Finance on Issuing the Regulations on Construction Cost Management of Basic Construction Projects (Cai Jian [2016] No. 504);

8. Notice of Construction Bureau of Shandong Province on Continuing the Implementation of the Standards for the Cost Consultation Services of New Construction Projects (Lu Jia Fei Fa [2007] No. 205);

9. Notice of the Shandong Provincial Government on Issuing Certain Policies to Support the High-Quality Development of the Real Economy (Lu Zheng Fa [2018] No. 21);

10. Notice of the Department of Housing and Urban-Rural Development of Shandong Province on Adjusting the Value-Added Tax Rate Based on the Pricing of Construction Projects (Lu Jian Biao Zi [2019] No. 10);

11. Notice of Shandong Safety Production Management Association on the Publication of the "Guiding Price of Shandong Safety Evaluation Fees (Trial)" (Lu An Guan Xie Zi [2006] No. 4);

12. Provisions on Budget Preparation and Planning of Thermal Power Project Construction (2018 Edition);

13. Consumption Quota of Constructional Engineering of Shandong Province (2016), Consumption Quota of Installation Engineering of Shandong Province (2016), Price List of Constructional Engineering of Shandong Province (2019), Price List of Installation Engineering of Shandong Province (2019) and Shandong Province Construction Project Cost Project Composition and Calculation Rules (2016);

14. Project Cost Information of Jining City in June 2020;

15. Commonly Used Data and Coefficient Handbook for Asset Appraisal;

16. 2020 Price Inquiry System for Mechanical and Electrical Products (China Machine Press);

17. Financial information including original accounting statements, financial and accounting information, as well as relevant financial information such as agreements, contracts, invoices and audit reports provided by the enterprise;

18. Future operation plans, profit forecast and other information provided by the enterprise;

19. Feasibility study report of projects and other related information provided by the enterprise;

20. WIND information;

21. Raw material purchase contracts entered into between the enterprise and related entities;

22. The main building (structure) construction contracts and related agreements, project construction drawings, final financial reports, project budget (settlement) statements, original accounting vouchers and other materials provided by the enterprise;

23. Statistics, technical standards information as well as price information released by the State's relevant departments, together with price information collected by appraisers in the market and inquiries from equipment manufacturers;

24. Other related valuation information recorded and collected by appraisers from on-site survey;

25. Other information related to this asset valuation.

VII. VALUATION METHODS

(I) Introduction to Valuation Methods

Basic asset valuation methods for enterprise value appraisal include asset-based approach, income approach and market approach.

The asset-based method for enterprise value appraisal, also known as the cost approach, refers to the valuation method that determines the value of a valuation subject by valuating the value of on-balance sheet and identifiable off-balance-sheet assets and liabilities based on the balance sheet of the appraised entity as at the valuation base date.

The income approach for enterprise value appraisal refers to the valuation method that determines the value of a valuation subject by capitalising or discounting the expected revenue. The specific methods commonly involved when using the income approach include the dividend discount method and the discounted cashflows method. The income approach is the assessment of the value of an enterprise by its profitability, which is based on the economics theory of expected utility.

The market approach for enterprise value appraisal refers to the valuation method that determines the value of a valuation subject by comparing the valuation subject with comparable listed companies or comparable transaction cases. There are two commonly used specific methods under the market approach, which are listed-company comparison and transaction-case comparison.

(II) Selection of Valuation Methods

The asset-based approach refers to the method of valuation, in which the value of the valuation target is determined by reasonable appraisal of the value of all on-and-off balance sheet assets and liabilities on the basis of the balance sheet. For the purpose of this valuation, the necessary information for adopting the asset-based approach could be provided by the appraised entity or collected by the appraisers externally, which allowed a comprehensive review and valuation on the assets and liabilities of the appraised entity. Therefore, the asset-based approach was adopted for this valuation.

The income approach is based on the expected utility theory of economics. In other words, from the perspective of the investors, the enterprise value lies in the future income expected to be generated for the enterprise. Despite the absence of the direct use of comparable in the actual market for stating the prevailing fair market value of the appraised entity, the income approach assesses the value of an asset by its expected profitability, which is the essential basis for determining the prevailing fair market value of the asset. As such, it can completely reflect the overall value of an enterprise and its valuation conclusion is more reliable and convincing. From the perspective of applicable conditions of the income approach, since the enterprise is profitable in its own right and the management of the appraised entity has provided the profit forecast for the future years, according to the historical operating data of the enterprise and the internal and external operating environment, the future level of profit of the enterprise can be reasonably forecasted. In addition, the risk of future income can be reasonably quantified. Hence, the income approach is applicable to this valuation.

The market approach refers to a valuation method that compares the valuation subject with a comparable listed company or comparable transaction case to determine the value of the valuation object. As the appraised entity is not a listed company, there are significant differences between the appraised entity and a listed company of the same industry in business structure, operation model, business scale, asset allocation and usage, company operation stage, growth potential, operation risk, financial risk, etc. In addition, since there are only few cases of transactions, acquisitions and mergers of comparable companies in the same industry in China close to the valuation benchmark date, it is difficult to obtain relevant reliable operating and financial data of comparable transaction cases, resulting in the impossibility to calculate an appropriate value ratio. Therefore, the market approach is not adopted for this valuation.

As a result, the asset-based approach and the income approach are selected for this valuation.

(III) Introduction to Assessment Approaches

Assets-based method

The asset-based approach used for assessing the value of an enterprise refers to the valuation method where the value of the valuation subject is determined on the basis of a reasonable valuation of various assets and liabilities of the enterprise based on its balance sheet as at the valuation benchmark date. The valuation process of various assets and liabilities is stated as follows:

1. Valuation of current assets and liabilities

Current assets of the appraised entity include monetary funds, notes receivable, accounts receivable, prepayments and other receivables; liabilities include accounts payable, staff remuneration payable, tax payable, other payables, non-current liabilities due within one year, long-term borrowings, bonds payable, long-term payables and deferred income tax liabilities.

(1) Monetary funds: comprising bank deposits, the assessed value of which is determined as the verified book value which is arrived at after checking is the verification of bank reconciliation statements, bank confirmations and others.

(2) Notes receivable: Notes receivable are commercial notes received by the enterprise from sale of electricity. All notes receivable examined in the appraisal are banker's acceptance bills. For notes receivable, the appraisers checked accounting records, reviewed the register of notes receivable, and carried out notes stocktaking. For some significant

notes receivable, they examined the original records including relevant sales contracts. After all of these are confirmed to be error-free, the carrying value is assessed value.

(3) Accounts receivable and other receivables: On the basis of verifying the correctness of various receivables, with the help of historical data and on-site investigations, the amount of arrears, the time and reason of arrears, amount recovery status, as well as the funds, creditability and operation and management status of the debtors, etc., were specifically analyzed.

Regarding the accounts receivable from related parties, we have not found conclusive evidence that the accounts receivable cannot be recovered, and the company has failed to provide effective evidence that the accounts receivable cannot be recovered in the future, so the risk of loss is not confirmed in this valuation. For accounts receivable from non-related parties that are individually identified as risk-free portfolios, the risk of loss is not recognized in this valuation, and the item of "bad debt provision" on the book is calculated as zero.

(4) Prepayments: The value is determined based on the value of the assets or rights that can be recovered from the corresponding goods. For the goods or rights that can be recovered, the carrying value after verification was used as assessed value.

(5) Liabilities: On the basis of inspection and verification, the assessed value is determined according to the actual liabilities and amount of liabilities that the appraised entity needs to bear after the assessment purpose is achieved.

2. Valuation of non-current assets

(1) Long-term equity investment

The long-term equity investment is mainly long-term equity investment in the two subsidiaries, all of which are non-controlled companies. The name of the investees and the valuation approaches are listed in the following table:

No.	Name of shareholder	Shareholding ratio	Valuation approach	Pricing method
1	Shandong Yankuang Lvyong Anodes Co., Ltd.	25%	Net book assets × shareholding ratio	Net book assets × shareholding ratio
2	Shandong Yankuang Carbon Products Co., Ltd.	25%	Net book assets × shareholding ratio	Net book assets × shareholding ratio

For long-term investment in non-controlled companies, the following valuation approaches are adopted:

(A) As at the valuation benchmark date, according to the 2017 to 2019 audit reports and accounting statements as at the valuation benchmark date of Shandong Yankuang Lvyong Anodes Co., Ltd. provided by the appraised entity, the owner's equity and net profit of Shandong Yankuang Lvyong Anodes Co., Ltd. as at and up to the valuation benchmark date amounted to RMB-58.9941 million and RMB-27.0215 million, respectively. The net profits of the investee in 2017 to 2019 recorded a year-on-year decrease, of which the amount of loss increased in 2018 and 2019 and the owner's equity has decreased year by year. In 2019, it was in a state of insolvency. According to the current operating conditions and market conditions of Shandong Yankuang Lvyong Anodes Co., Ltd., the possibility of turning losses into profit in the short term is remote. Therefore, this valuation of the long-term equity investment entity is confirmed as zero.

(B) As for Shandong Yankuang Carbon Products Co., Ltd., due to that the company is unable to continue operation, it is now dissolved and has been put into liquidation in accordance with the prescribed procedures. As at the valuation benchmark date, the company was in liquidation status, and the net book assets were negative. For this valuation, the value of the company is confirmed as zero.

(2) Buildings (structures)

The replacement cost method is mainly used for valuation. The replacement cost method refers to the idea of replacing the evaluated subject, taking the replacement cost as the basis for determining the value of the evaluated subject and deducting the relevant depreciation, to determine the evaluation method for evaluating the value of the subject. The calculation formula is:

Appraisal value = replacement cost (excluding tax) × integrated depreciation rate

Replacement cost (excluding tax) = construction and installation project cost (including tax) + upfront expenses and other expenses (including tax) + capital cost-deductible input VAT

1) Determination of replacement cost

① Determination of the cost of construction and installation engineering

During the evaluation work, the appraisers use different evaluation methods to determine the cost of construction and installation engineering of the buildings (structures) to be valued by investigating the physical conditions of the buildings (structures) to be valued and investigating the completeness of the construction contract, completion drawings, and project settlement materials. The general project cost is determined according to the actual situation of the buildings (structures) to be evaluated by using one of the methods of re-budgeting method, final accounts adjustment method, analog coefficient adjustment method, unilateral cost estimation index method or using several methods at the same time.

This assessment uses the following 3 methods to determine the construction and installation project cost of a building (structure):

Re-budgeting method: based on the construction contract, completion drawings, project settlement and other materials of the buildings (structures) to be evaluated, combined with the results of the on-site survey, to compile a list of engineering quantities, and calculate the cost of construction and installation engineering of the representative building (structure) on the valuation benchmark date of the assessment based on the prevailing budget quota and expenses quota of local construction, decoration and installation project.

Analogy coefficient adjustment method: through comparing the typical engineering cases with the buildings (structures) to be evaluated in the gross floor area, structure type, storey height, number of storeys, span, material, interior and exterior decoration, construction quality, application of repair and maintenance, refer to the labor cost, material expenses, and mechanical cost growth rate of a typical engineering case calculated by using the re-budgeting method, to obtain the cost of the construction and installation engineering of this type of building (structure) after adjusting the cost of construction and installation engineering of a typical engineering case.

Unilateral cost index estimation method: For some simple buildings (structures), the evaluator adopts unilateral cost indicators after comprehensive analysis, combined with previous experience in similar projects, to obtain the cost of construction and installation engineering of such buildings (structures).

② The upfront expenses and other expenses mainly include upfront consulting fees and survey and design fees, bidding agency service fees, management fees of construction unit, project cost consulting service fees, project supervision fees, environmental impact consulting fees, safety evaluation fees, etc. The calculated rates are as follows:

No.	Project or cost name	Calculation formula	Rate	Basis for charging
1	Upfront consultation fees and survey and design fees	Project cost × rate	3.00%	With reference to Fa Gai Jia Ge [2015] No. 299 to implement the adjusted market prices
2	Bidding agency service fee	Project cost × rate	0.11%	
3	Project supervision fee	Project cost × rate	1.50%	
4	Environmental impact consulting fees	Project cost × rate	0.04%	
5	Management fees of construction unit	Project cost × rate	1.55%	With reference to Cai Jian [2016] No.504, Provisions on Budget Preparation and Planning of Thermal Power Project Construction (2018 Edition)
6	Project cost consulting service fees	Project cost × rate	0.25%	With reference to Lu Jia Fei Fa [2007] No. 205 to implement the adjusted market prices
7	Safety evaluation fees	Project cost × rate	0.03%	With reference to Lu An Guan Xie Zi [2006] No. 4 to implement the adjusted market prices
Total		Cost of construction and installation engineering × 6.48%		

③ Capital cost

The capital cost is the financing cost of the funds occupied during the normal construction period of the building, and is the loan interest on the funds invested in the construction during the construction period. The capital cost is determined based on the reasonable construction period of this project, and the loan interest rate of the corresponding period on the valuation benchmark date based on the sum of the cost of construction and installation project and the previous period and other expenses. The calculation formula is as follows:

Capital cost = (cost of construction and installation project + upfront expenses and other expenses) × normal construction period × loan interest rate during normal construction period × 1/2

Note: On 22 June 2020, the National Interbank Lending Center is authorized to publish the loan prime rate (LPR): "The loan prime rate (LPR) on 22 June 2020 is: LPR for 1 year is 3.85%, LPR for over 5 years is 4.65%. The above LPRs are effective until the next LPR is issued." The reasonable construction period of this construction project is 3.00 years, so the selected loan interest rate for the construction period is based on the average of 4.25% of the LPR for 1 year of 3.85% and the LPR for over 5 years of 4.65%.

④ Determination of deductible input VAT

According to the "Notice on Comprehensively Launching the Pilot Program for the Reform of Business Tax to VAT" (Cai Shui [2016] No. 36) and the "Announcement on Deepening the Relevant Policies of VAT Reform" (Announcement No. 39 of 2019 by the Ministry of Finance, State Administration of Taxation, and General Administration of Customs), the general tax calculation method shall be applicable to the taxable activities of general taxpayers. The deductible input VAT is calculated as follows:

Deductible input VAT on the cost of construction and installation project = cost of construction and installation project (including tax) ÷ (1+9%) × 9%

Input VAT that can be deducted for upfront expenses and other expenses = upfront expenses and other expenses (including tax) ÷ (1+6%) × 6%

The management fee of the construction unit belongs to the expenses incurred by the enterprise itself and is not taxable.

The input tax amount of the interest paid by the taxpayer for purchasing loan services (occupying and borrowing other person's funds in various forms) and the interest nature expenditure shall not be deducted from the output tax amount.

2) Determination of integrated depreciation rate

① For high-value important buildings and structures, site survey depreciation rate and useful life-based depreciation rate are combined to determine integrated depreciation rate. The formula is as follows:

Integrated depreciation rate = survey depreciation × 60% + life-time depreciation rate × 40%

Of which:

Life depreciation rate (%) = (economic durability life -life used) / economic durability life × 100%

or:

Life depreciation rate = remaining useful life / (life used + remaining useful life) × 100%

The on-site survey depreciation rate refers to, after on-site survey, scoring the three parts of its structure, decoration, and equipment, respectively, filling in the on-site survey depreciation table, and calculating the survey depreciation rate one by one, checking the completion information of the main buildings (structures) item by item to understand their maintenance, renovation, and management over the years.

② For buildings (structures) with low unilateral cost and relatively simple structure, the depreciation rate shall be determined after being modified by using the life method based on the actual situation of the subject. The calculation formula is:

Depreciation rate (%) = (economic durability life -life used) / economic durability life × 100%

3) Calculation of Appraisal value

Assessed value = replacement cost × integrated depreciation rate

(3) Equipment assets

The equipment assets included in the scope of valuation include machinery and equipment and electronic equipment.

According to the purpose of this valuation, in accordance with the principle of continuous use, based on market prices, combined with the characteristics of equipment and the information collected, the replacement cost method is mainly used to evaluate equipment assets.

Assessed value = replacement value × integrated depreciation rate

1) Machinery and equipment

In this valuation, the machinery and equipment included in the scope of valuation include domestic equipment and non-standard equipment.

① Determination of replacement cost

Replacement cost = equipment purchase price + transportation and miscellaneous expenses + equipment foundation cost + installation and commissioning fee + upfront and other expenses + capital cost – deductible input VAT

For small equipment purchased sporadically and equipment that does not need to be installed, replacement cost = equipment purchase price + transportation and miscellaneous expenses – deductible input VAT. For some transportation and installation fees included in the equipment fee, the purchase price excluding tax is used as the replacement cost.

(A) Equipment purchase price

For equipment that is still in circulation in the current market, the purchase price of the equipment is directly determined according to the current market price; for equipment that has been eliminated, no longer produced by the manufacturer, and no longer circulated in the market, the purchase price is determined by comparing similar equipment with the evaluated equipment and comprehensively considering the differences in performance, technical parameters, use functions of the equipment.

(B) Transportation and miscellaneous expenses

For transportation and miscellaneous expenses, according to the price conditions selected at the time of equipment inquiry, if the purchase price of the equipment includes transportation and miscellaneous charges, it will no longer be calculated, otherwise, properly select the transportation and miscellaneous expense rate according to the transportation method and distance.

Transport mileage	Fee basis	Rate (%)	Transport mileage	Fee basis	Rate (%)
Within 100km	Equipment purchase price	1.0	Within 1000km	Equipment purchase price	2.8
Within 200km	Equipment purchase price	1.2	Within 1250km	Equipment purchase price	3.3
Within 300km	Equipment purchase price	1.4	Within 1500km	Equipment purchase price	3.8
Within 400km	Equipment purchase price	1.6	Within 1750km	Equipment purchase price	4.3
Within 500km	Equipment purchase price	1.8	Within 2000km	Equipment purchase price	4.8
Within 750km	Equipment purchase price	2.3	The rate will increase for every 250km over 2,000km	Equipment purchase price	0.5

(C) Equipment foundation cost

The equipment foundation cost is calculated by different installation rates depending on the features of the equipment on the basis of the purchase price and with reference to the industry charging standards, but it is no longer considered in the calculation of repeated replacement cost of equipment if separate equipment foundation is not needed or unified foundations have been built when constructing the buildings.

(D) Installation and commissioning fee

The charge is calculated on the basis of the purchase price on different installation rates with reference to the Manual of Common Methods and Parameters for Asset Valuation and the equipment industry quota depending on the features, weights and difficulty in installation of the equipment. For small equipment not requiring installation, installation and testing cost shall not be considered.

(E) Upfront expenses and other expenses

It refers to, in addition to the construction and installation engineering costs and the equipment installation engineering costs, the various expenses incurred during the entire construction period from the preparation to the completion of the project and the acceptance and delivery of the project, to ensure the smooth completion of the project construction and normal function after delivery. Details are set out in the table below:

No.	Project or cost name	Calculation formula	Rate	Basis for charging
1	Upfront consultation fees and survey and design fees	Equipment purchase price + installation cost + basic costs) × rate	3.00%	With reference to Fa Gai Jia Ge [2015] No. 299 to implement the adjusted market prices
2	Bidding agency service fee	Equipment purchase price + installation cost + basic costs) × rate	0.11%	With reference to Fa Gai Jia Ge [2015] No. 299 to implement the adjusted market prices
3	Management fees of construction unit	Equipment purchase price + installation cost + basic costs) × rate	1.55%	Cai Jian [2016] No.504, Provisions on Budget Preparation and Planning of Thermal Power Project Construction (2018 Edition);
4	Project cost consulting service fees	Equipment purchase price + installation cost + basic costs) × rate	0.25%	Lu Jia Fei Fa [2007] No. 205
5	Project supervision fee	Equipment purchase price + installation cost + basic costs) × rate	1.50%	With reference to Fa Gai Jia Ge [2015] No. 299 to implement the adjusted market prices
6	Environmental impact consulting fees	Equipment purchase price + installation cost + basic costs) × rate	0.04%	With reference to Fa Gai Jia Ge [2015] No. 299 to implement the adjusted market prices
7	Safety evaluation fees	Equipment purchase price + installation cost + basic costs) × rate	0.03%	With reference to Lu An Guan Xie Zi [2006] No. 4 to implement the adjusted market prices
8	Trial operation fees	Equipment purchase price + installation cost + basic costs) × rate	1%	Manual of Common Methods and Parameters for Asset Valuation
Total		7.48%		

(F) Capital cost

On 22 June 2020, the National Interbank Lending Center is authorized the People's Bank of China to publish the loan prime rate (LPR): LPR for 1 year is 3.85%, LPR for over 5 years is 4.65%. The above LPRs are effective until the next LPR is issued. The reasonable construction period of this construction project is 3 years, so the selected loan interest rate for the construction period is based on the average of 4.25% of the LPR for 1 year of 3.85% and the LPR for over 5 years of 4.65%. The calculation formula is as follows:

Capital cost = (equipment purchase price + transportation and miscellaneous costs + installation and commissioning costs + basic costs + trial operation fees+ other costs) × loan interest rate × (reasonable construction period ÷ 2)

(G) Deductible VAT

Pursuant to relevant regulations, the value-added tax is calculated at 13% for machinery and equipment, 9% for freight, basic costs and installation fees, and 6% for other expenses less deductible VAT, in which the trial operation fees, management fees of the construction unit and capital costs do not are not included in VAT calculation and are not deductible.

② Determination of integrated depreciation rate

For large-scale and key equipment, the survey depreciation rate and theoretical depreciation rate are determined by weight:

Integrated depreciation rate = survey depreciation rate × 0.6 + theoretical depreciation rate × 0.4

(A) Survey depreciation rate

The determination of survey depreciation rate is mainly based on the actual status of the enterprise's equipment. According to the technical status, working environment, and maintenance conditions, the equipment is scored item by item according to the actual on-site survey situation to determine the survey depreciation rate.

(B) Theoretical depreciation rate

The theoretical depreciation rate is determined according to the economic life of the equipment (or the remaining useful life) and the life used.

Theoretical depreciation rate = (economic life – life used) / economic life × 100%

For equipment whose service life exceeds the economic life, the following calculation formula is applicable:

Theoretical depreciation rate = remaining useful life / (life used + remaining useful life) × 100%

For equipment with low value, light structure, simple and normal usage, the depreciation rate is determined by the life method based on the service time, combined with the maintenance situation.

③ Determination of appraisal value

Appraisal value = replacement cost × integrated depreciation rate

2) Valuation of electronic equipment

① Determination of the replacement cost of electronic equipment

The electronic equipment mainly includes office air conditioners, printers, computers and surveillance system, which are delivered by distributors. The distributor is responsible for installation and commissioning. The replacement cost is directly determined by the market purchase price.

② Determination of depreciation rate

The depreciation rate of electronic and office equipment is mainly based on its integrated depreciation rate calculated by its economic life. For large-scale electronic equipment, the integrated depreciation rate is also determined with reference to its working environment and equipment operating conditions.

③ Determination of appraisal value

Appraisal value = replacement cost × depreciation rate

For electronic and office equipment that has been purchased at an earlier time and production has been discontinued and has no comparable prices, appraisal value is determined using market recovery price.

3) Valuation of scrapped equipment

For equipment that has been scrapped and has no continued value-in-use, the appraised value is determined according to the "net realizable value".

(4) Land use rights

According to Regulations for Valuation of Urban Land, the valuation standards that can be used in land valuation include income capitalisation approach, market comparison approach, cost approximation approach, hypothetical development approach and benchmark land price coefficient correction approach.

1) Unsuitable evaluation methods

As the land to be appraised is for industrial use and the development and construction have been completed, the hypothetical development approach and income capitalisation approach are not used in this valuation;

Cost approximation approach is generally applicable to the price evaluation of newly developed land. In applying the cost approximation approach to evaluated the land prices, in addition to have complete knowledge of the appraisal purpose, the definition of property rights, preconditions, and collection of adequate information, the standards and basis for determining various costs and expenses should be the main areas to be explained. As the valuation subject is not newly developed land and standards and basis for determining various costs and expenses various costs and expenses are difficult to obtain that it is impossible to determine the various expenses of the valuation subject, therefore, the cost approximation approach cannot be used in this valuation.

The land to be appraised is located in Rencheng District in Jining City. Despite the fact that the benchmark land price has been promulgated, it is not appropriate to use the benchmark land price coefficient correction approach in this valuation as the land price valuation benchmark date is 1 January 2016, more than 3 years have passed as at the valuation benchmark date and the valuation subject is located in the outer city-level area, which is not appropriate to use the benchmark land price coefficient correction approach for evaluation.

2) Appropriate evaluation methods

There are many recent transactions of similar land around the land to be appraised for reference. The land market is relatively mature, enough transaction cases can be collected in the same supply and demand circle, so it is appropriate to use the market comparison method for evaluation.

In view of this, the market comparison method is chosen for this evaluation.

(5) Other intangible assets

They are all purchased software. For externally-purchased software, the appraisers need to learn about the main functions and features of such software, verify materials such as the purchase contracts, invoices and payment vouchers for such software, and find out the market prices of such software by inquiring software suppliers or searching online. Such software's appraised value shall be determined based on the replacement price. For production software that has been obsoleted and no longer used on the valuation benchmark date, the appraisal value is confirmed as zero.

VIII. APPRAISAL PROCESS AND FINDINGS

Pan-China Assets Appraisal Co., Ltd. validated and reviewed the legal documents, accounting records and other relevant materials provided by the client, validated the property titles, inspected relevant assets on site and checked against the inventory of assets provided by the appraised entity, carried out necessary market research and transaction price comparisons, as well as financial analysis and forecast, among other necessary asset appraisal procedures, in accordance with asset appraisal standards, generally accepted accounting principles, relevant laws, regulations and requirements of the authorities, and by following the matters specified in the asset appraisal engagement contract concluded with the client. The asset appraisal process is detailed as follows:

1. Acceptance of engagement and preparations

(1) Pan-China Assets Appraisal Co., Ltd accepted the entrustment of the Client in July 2020 and engaged in this asset appraisal project. Upon taking the job, Pan-China Assets Appraisal Co., Ltd. held talks with the client over the purpose, subject and scope, valuation benchmark date of the appraisal, the nature of the assets to be assessed and other matters that are of significance to the asset appraisal proposal.

(2) An asset declaration breakdown form was tailored to the assets to be assessed. Main assets investigation form and profit and loss investigation form of main activities were designed. Some staff members of the client supporting the appraisal received training. An asset inventory and all investigation forms were completed.

(3) Design of the appraisal proposal

Depending on the nature of the assets to be assessed, the appraisal implementation plan was finalized, the appraisers were appointed and an on-site task force was put together.

(4) Preparation of appraisal documents

Traded prices of the assessed subjects, market prices of major raw materials, and property title proofs of the assessed subjects were gathered and collated.

The working period of this stage is from 14 July to 20 July 2020.

2. On-site inventory phase

(1) Truthfulness and legitimacy of the assessed subjects

The appraisers checked physical assets and monetary claims and debts against the statements of assets and liabilities provided by the client and the appraised entity in different ways to confirm truthfulness and accuracy of the assets and liabilities.

For monetary funds, we conduct investigations by consulting journals, reviewing bank statements and statements of bank reconciliation.

For claims and debts, the appraisers checked general ledgers and subsidiary ledgers, and randomly checked contracts and vouchers, to confirm truthfulness of the assets and liabilities.

For fixed assets, focused and general investigations were combined, with focus on buildings and structures, and important equipment. The appraisers consulted relevant engineering design and construction documents, contractor contracts, settlement documents, and equipment purchase contracts and invoices, to determine truthfulness of the assets.

For intangible assets, the appraisers reviewed the land grant contracts, state-owned land use rights certificates and purchase contracts and payment status for software, they also checked the subsidiary ledgers to determine its truthfulness.

(2) Investigation of actual state of the assets

On-site investigation for buildings: with the cooperation of the financial management personnel of the appraised entity and related fixed asset management personnel, the appraisers conducted on-site investigation of the assessed buildings one by one, and checked the names and locations, structural form and gross floor area of the buildings according to the declaration form and filled in the missing items and omissions in the asset declaration form according to the current asset status on the valuation benchmark date to achieve that accounts are consistent without omission and duplication. During the investigation, the appearance, number of floors, height, span, interior and exterior decoration, indoor facilities, current status of various components, basic conditions and maintenance and use of structures were also observed, and detailed observation records were made.

Focused and general investigations were combined to find out the state of the equipment, with focus on production machinery. Supported by the persons in charge of the equipment at the appraised entity, the appraisers reviewed the operation records of the equipment and checked the running status of the equipment on site. On the basis of investigation, key equipment investigation forms were completed.

For land use rights, the appraisers conducted on-site surveys, explored the four peripheries and surrounding environment, landscapes, facilities and geographical locations of land use right, and got detailed understanding of and conducted on-site surveys on general factors, regional factors and individual factors that affect land price, and completed the land use right status survey form.

(3) Investigation of value composition of physical assets and business development

The value composition of the assets was checked for appropriateness and compliance depending on the nature of the assets of the appraised entity. In particular, the truthfulness, accuracy, completeness and compliance of the carrying amount of fixed assets was examined. Relevant accounting vouchers, accounting books, final accounts and equipment purchase contracts were reviewed.

(4) Investigation of revenue and costs

To make preparations for future cashflow forecasts, profit/loss accounting data of relevant entities in prior years were collected for estimation and analysis; actual business performance, the composition of their revenue, costs and expenses and future trends of the valuated units and business were found out by interviews and other means.

By collecting relevant information, analyzes and forecasts of the market environment, future competition and development trend of various businesses of Shandong Yankuang Jisan Electricity Co., Ltd. has been conducted.

The working period of this stage is from 21 July to 2 August 2020.

3. Choice of appraisal approach, gathering of market intelligence and the process of estimation

The appraisers determined appraisal parameters and prices based on the work plan mapped out for the project in particular and the pricing principles and valuation models identified as appropriate in light of the actual situation, and then started appraising and estimating by reference to the historical data and future forecasts provided by the client.

4. **Summary of appraisal findings**

(1) Determination of appraisal results

According to the situation of the assessment site survey conducted by the appraisers of Pan-China Assets Appraisal Co., Ltd and the necessary market survey and calculation, the results of the asset-based approach and the income approach entrusted with the assessment of assets are determined.

(2) Analysis of valuation results and preparation of the appraisal report

The asset valuation report was drafted in compliance with the requirements of Pan-China Assets Appraisal Co., Ltd.. The valuation results and the relevant asset appraisal report went through three-level reviews by Pan-China Assets Appraisal Co., Ltd. and were confirmed to be error-free by the signatory asset appraiser. Then the project team finalized and delivered the report.

(3) Archiving of original documents

The working period of the abovementioned phases 3 and 4 is from 3 August to 6 September 2020.

IX. ASSUMPTIONS IN THE APPRAISAL

General assumptions:

1. Trade assumption: All assets to be appraised were assumed to be in the course of trading. The appraisers valued the assets according to simulated trade terms.

2. Open market assumption: Open market assumption is an assumption about the conditions of the market the assets are assumed to enter and about the degree of impact the assets are exposed to under such market conditions. An open market is defined as full-fledged and developed market conditions, a competitive market with willing buyers and sellers. In this market, buyers and sellers are on equal footing, have the opportunity and time to get sufficient market information, and are able to trade in a voluntary and sensible manner, free from any compulsory or restrictive conditions.

3. Continuous use assumption: The continuous use assumption is an assumption about the conditions of the market the assets are assumed to enter and about the state of the assets under such market conditions. First of all, the assets being appraised are in use. Secondly, hypothetically the assets in use will continue to be used. Under the continuous use assumption, the possibility of repurposing of the assets or optimal conditions of use are disregarded. Hence, the appraisal results are of limited usability.

4. Going concern assumption: The entire assets are taken as the subject of appraisal. As a business entity, the company will continue as a going concern in the external environment. During the validity period of the power business license, the enterprise continues to operate normally according to its business objective. The management is responsible and has the ability to take responsibilities; the business is legal and profitable, and thus sustainable.

This appraisal result is based on the above assumptions. Where the above assumptions are not established, it will have a significant impact on the valuation results, and the valuation results will generally be invalid.

X. APPRAISAL CONCLUSION

(I) Appraisal Conclusion with Asset-based Approach

Under the assumption of continuing operations on the valuation benchmark date date, the book value of total assets of Shandong Yankuang Jisan Electricity Co., Ltd. is RMB2,080,365,200, the book value of liabilities is RMB1,499,590,100, and the book value of net assets is RMB580,775,100.

According to the asset-based approach, the total assets after appraisal are RMB2,213,460,800, liabilities are RMB1,499,590,100, net assets are RMB713,870,700, representing an appreciation of RMB133,095,600, with a value-added rate of 22.92%.

Summary sheet of assessment results by asset-based approach

Unit: RMB (Ten Thousand)

Item	Carrying amount	Estimated value	Increase or decease	Value-added rate%
Current assets	159,410.98	159,410.98	–	–
Non-current assets	48,625.54	61,935.10	13,309.56	27.37
Of which: Long-term equity investments	–	–	–	–
Fixed assets	46,903.43	57,928.93	11,025.50	23.51
Intangible assets	1,722.11	4,006.17	2,284.06	132.63
Of which: Land use rights	1,722.11	4,004.29	2,282.18	132.52
Others	–	–	–	–
Total assets	208,036.52	221,346.08	13,309.56	6.40
Current liabilities	81,020.53	81,020.53	–	–
Non-current liabilities	68,938.48	68,938.48	–	–
Total liabilities	149,959.01	149,959.01	–	–
Net assets (Owners' equity)	58,077.51	71,387.07	13,309.56	22.92

Note: For details of the valuation conclusion, please refer to the Asset Valuation Reporting Form.

(II) Analysis of Valuation Results

The technical concept of asset-based approach is based on the valuation conclusions drawn after the enterprise's objectively existing assets and liabilities on the valuation benchmark date are evaluated one by one. It evaluates the fair market value of the assets from an asset replacement perspective and determines the overall value of the enterprise based on the present value of its assets, which enables report users to intuitively understand the value composition of the company's existing assets.

The asset-based approach can reflect the fair market value of the assets from an asset replacement perspective. We had conducted a comprehensive review and valuation on the assets and liabilities of the appraised entity in accordance with the actual situations of this valuation, and based on the detailed information on assets and liabilities provided by the appraised entity and any necessary information required for the asset-based approach and obtained externally by the appraisers, so relatively speaking, the results based on the asset-based approach are considered more reliable. Accordingly, the results based on the asset-based approach are chosen as the final appraisal conclusion. That is, on the premise of continuing operation on 30 June 2020, being the valuation benchmark date, the value of total shareholders' equity after appraisal of Shandong Yankuang Jisan Electricity Co., Ltd. is RMB713,870,700 representing an increase of RMB133,095,600 with a value-added rate of 22.92%.

(III) Final Determination of Appraisal Conclusion

After appraisal, and subject to the assumptions provided in this report, as at the valuation benchmark date of 30 June 2020, the total value of shareholders' equity of Shandong Yankuang Jisan Electricity Co., Ltd. was RMB713,870,700.

XI. SPECIAL NOTES

The appraiser of the company is incapable of evaluating and estimating the following items on their own. Notwithstanding the above, this may affect the conclusion. For this reason, it is essential for the user of the valuation report to pay particular attention to the followings.

(I) The "Appraisal value" in this report refers to our fair valuation opinions for the purposes listed in this report on the premise that the current use of the appraised assets remains unchanged and continues to operate during the forecast period, as well as on the basis of the status of the valuation benchmark date and the external economic environment, without being responsible for other uses.

(II) The appraisal conclusion in the report reflects the market value determined by the appraised entity according to the principle of open market under the purpose of this appraisal, without considering the relevant expenses and taxes to be borne by the assets in the process of property registration or ownership change, and without making any tax adjustment preparation for the value added of the assets appraisal. The appraisal conclusion shall not be deemed as a guarantee for the realizable price of the appraised object.

(III) The valuation conclusion in this report reflects the fair value of the Valuation subject based on the principle of open market for purpose of this valuation at the valuation benchmark date with no consideration of such matters as pledge, guarantee, litigation compensation, etc. which may be borne in the future and of the effect of additional payment by special transaction party.

(IV) This valuation report is made based on the materials provided by the client and the appraised entity, the truthfulness, legality and completeness of the information shall be the responsibility of the client and the appraised entity. The assets valuation institution and the assets appraisers shall assume legal liability for the valuation conclusion arrived at hereof.

(V) Premiums or discounts caused by factors such as controlling interest and minority interest have not been taken into consideration in the valuation results, nor the effect of the liquidity of the equity interest entrusted for valuation on the valuation results.

(VI) In case of changes in the amount of assets and pricing standards within the validity period of the appraisal conclusion, appropriate adjustments shall be made instead of direct use of the appraisal conclusion.

(VII) Significant use of expert work and relevant report:

The relevant financial data of the asset valuation has taken reference from an unqualified audit report (Zhongxingcai Guanghua Shen Kuai Zi (2020) No. 316048) issued by Zhongxingcai Guanghua Certified Public Accountants LLP.

(VIII) As of the valuation benchmark date, according to the resolution of the general meeting held on 30 November 2017: Shandong Yankuang Carbon Products Co., Ltd. is unable to continue its operation, the company is dissolved and put into liquidation in accordance with the prescribed procedures. The valuation of the long-term equity investment unit, Shandong Yankuang Carbon Products Co., Ltd., is based on the appraised value confirmed as zero. As of the valuation benchmark date, according to the 2017-2019 audit report and financial statements as at the valuation benchmark date of Shandong Yankuang Lvyong Anodes Co., Ltd. provided by the appraised entity, the owner's equity interest of Shandong Yankuang Lvyong Anodes Co., Ltd. on the benchmark date was RMB-58.9941 million, and the net profit was RMB-27.0215 million. The net profit of the investee for 2017-2019 has decreased year by year. Of which, loss was incurred in 2018 and 2019 and the amount of loss increased, while the owner's equity interest decreased year by year, and therefore, it was in a state of insolvency in 2019. According to the current operating conditions and market conditions of Shandong Yankuang Lvyong Anodes Co., Ltd., the possibility to turn losses into profit is remote in the short term. Therefore, the appraised value of the long-term equity investment unit, Shandong Yankuang Lvyong Anodes Co., Ltd., is based on the zero value confirmed as the appraised value.

(IX) Of the equipment assets covered by this valuation, 35 were scrapped machinery and equipment with an original book value of RMB16,015,043.71 and a net book value of RMB2,245,143.46; 5 were scrapped electronic equipment with an original book value of RMB524,990.00 and a net book value of RMB100,048.81. The above-mentioned scrapped assets have been confirmed by the appraised entity by way of sealing, and no approval of the relevant departments has been obtained as of the valuation benchmark date. For scrapped equipment assets, this valuation is based on the net realizable value. The original value of the scrapped equipment was RMB56,110.00 and the net appraised value was RMB56,110.00; the original value of the scrapped electronic equipment was RMB1,080.00 and the net appraised value was RMB1,080.00.

(X) In 2019, Shandong Yankuang Jisan Electricity Co., Ltd. (the lessee) entered into the "Sale and Leaseback Contract" (No. 2017PAZL(TJ)0044-ZL-01) with Ping An International Leasing (Tianjin) Co., Ltd. (the lessor). Some of the machinery and equipment included in the scope of this valuation are financial lease assets, and the property rights of the equipment are owned by Ping An International Leasing (Tianjin) Co., Ltd., and the lessee obtains the right to use the equipment from the lessor with a lease term of 60 months (From 23 January 2017 to 23 January 2022) divided into a total of 10 phases with the principal amount of RMB210,000,000.00. After the lessee has paid the rent in full, the lessor will issue the Ownership Transfer Certificate to the lessee, and the lessee will obtain the property rights of the equipment. The lessee has not paid all the rent as of the valuation benchmark date. The appraisers have not taken into consideration the impact of this matter in this valuation. The original book value of the equipment assets involved is RMB 297,450,376.92. Please refer to Asset Valuation Reporting Form for the specific asset details.

(XI) Incompleteness or defects in the ownership documents:

1) There are 41 buildings included in the scope of this valuation, with a gross floor area of 38,755.74 square meters. As of the valuation benchmark date, no Real Property Certificates has been applied for. In this regard, Shandong Yankuang Jisan Electricity Co., Ltd. has issued a letter of undertaking for building ownership certifying that the ownership of these buildings belongs to the company and there are no ownership disputes. Please refer to Asset Valuation Reporting Form for particulars of buildings and structures without certificates.

   For buildings that have not yet applied for a Real Estate Certificate, the gross floor area is mainly provided by the appraised entity based on facts, and the appraisers shall verify the buildings based on the relevant drawings and construction contracts provided by the enterprise in conjunction with on-site inspection. The valuation was carried under the prerequisite that the building ownership is clear from any disputes.

2) Intangible assets included in the scope of this valuation-1 land use right, with land area of 171,858.00 square meters and Certificate for the Use of State-owned Land No.: Ji Ning Guo Yong (2010) No. 0811100044. As of the valuation benchmark date, the land use right holder of the certificate is Jining No. III Coal Mine of Yanzhou Coal Mining Company Limited (hereinafter referred to as "Jining III"), and the change of registration of the real property certificate has not yet been completed.

   The parcel of land was acquired by Jining III by way of signing the "State-own Land Use Rights Grant Contract" with the Land and Resources Bureau of Rencheng District due to development needs in April 2002 and passed the construction land approval by the Shandong Provincial Government in December of the same year. A 2×135MW low-calorific value fuel power plant project is planned to be constructed on the land for Jining III. After the establishment of the Electric Aluminum Branch of Yankuang Group Company Limited (hereinafter referred to as the "Electric Aluminum Branch"), Jining III transferred the project (including land and buildings erected on it) to the Electric Aluminum Branch; in January 2005, Shandong Yankuang Jisan Electricity Co., Ltd. was established, and the Electric Aluminum Branch transferred the project (including land and above-ground buildings) to Jisan Electricity, and the relevant land transfer price has been paid by Jisan Electricity in full.

Shandong Yankuang Jisan Electricity Co., Ltd. has issued letter of undertaking certifying that the land is actually controlled and owned by Jisan Electricity and there are no ownership disputes. The valuation was carried under the prerequisite that the building ownership is clear from any disputes.

(XII) MATERIAL SUBSEQUENT EVENT

Since the outbreak of novel coronavirus epidemic in the country in January 2020, the nationwide prevention and control of the epidemic has continued. The epidemic has already affected the business operations and overall economic operations of some provinces, cities and industries, the thermal power industry is one of the industries most affected by COVID-19. The degree of impact will depend on the situation of epidemic prevention and control, duration and implementation of various adjustment and control policies. As of the date of issuance of the report, with prevention and control of COVID-19 in the PRC continuing to improve, industries in general gradually resumed operation.

In view of the current situation of COVID-19, as of the date of this report, apart from the above-mentioned matters that have been noted, we are still unable to determine any other impact of COVID-19 on the valuation conclusions of the appraised assets.

In addition, between the valuation benchmark date and the issue date of this valuation report, we have not found any events with significant impact on the valuation conclusion occurred in the appraised entity, and the client and the appraised entity have not clearly acknowledged the existence of major subsequent events through effective means.

(XIII) Limitations of asset appraisal procedures, handling methods and their impact on valuation conclusions:

1) In this valuation, the asset appraisers did not carry out technical tests on the technical parameters and performance of various equipment on the valuation benchmark date. The asset appraisers made a judgment through on-site investigation on the premise that the relevant technical data and operation records provided by the appraised entity are true and effective.

2) In this valuation, the asset appraisers did not carry out technical inspection on the concealed works and internal structures of various buildings (structures) which cannot be visually observed. The valuation conclusion of the buildings and structures was based on the assumption that the relevant project data provided by the appraised entity are true and effective through on-site inspection without using any inspection instruments.

(XIV) Nature and amount of guarantees and pledges and relationship with the valuation subject

1. Guarantees

1) On 25 April 2013, Huatai Assets Management Co., Ltd (Creditor) and Shandong Yankuang Jisan Electricity Co., Ltd. (Debtor) entered into the "Huatai-Yankuang Jisan Electricity Debt Investment Plan Investment Contract" (hereinafter referred to as the "Master Contract"), which provides: due to the construction and operation needs of the comprehensive energy utilization power generation project, the Debtor operates the project with funds raised from the Creditor and the investment principal shall not exceed RMB1,000 million.

On 21 January 2015, Huatai Asset Management Co., Ltd. and Shandong Yankuang Jisan Electricity Co., Ltd. entered into the "Huatai-Yankuang Jisan Electricity Debt Investment Plan Supplementary Contract" (hereinafter referred to as the "Supplementary Contract") as an integral part of the Master Contract.

The above-mentioned Master Contract and Supplementary Contract are guaranteed by Yankuang Group Company Limited as the guarantor for joint and several liabilities, which are unconditional and irrecoverable. The scope of the guarantee responsibility includes the following Creditor's rights that Huatai Asset Management Co., Ltd. is entitled under the Master Contract and the Supplementary Contract: the investment principal provided by Huatai Asset Management Co., Ltd. and investment income, liquidated damages and compensation of damages of the debt investment plan and all cost incurred in the realization of creditor's rights. The term of the guarantee responsibility is two years from the date of maturity of all the due but unpaid investment principal and investment income under the Master Contract. For details, please refer to the Guarantee Letter and Guarantee Confirmation Letter signed by Yankuang Group Company Limited (Guarantor) in 2013 and January 2015.

2) In 2017, Yankuang Group Company Limited (Guarantor) and Ping An International Leasing (Tianjin) Co., Ltd. (Beneficiary) entered into the "Guarantee Contract" (Contract number: 2017PAZL(TJ)0044-BZ-01) in Shanghai, which provides as follows: "In order to ensure the effective fulfillment of the Sale and Leaseback Contract No.: 2017PAZL(TJ)0044-BZ-01) entered into between Shandong Yankuang Jisan Electricity Co., Ltd. (Lessee) and the Beneficiary, the Guarantor is willing to provide the Beneficiary with irrevocable joint and several liabilities, that the Lessee will perform its obligation to pay rent and other payments under the lease contract. The main debts guaranteed under this contract is of the same type as the main creditor's right

under the lease contract. The guarantee provided by the Guarantor under this contract is an irrevocable joint liability guarantee. The guarantee period under this contract is two years from the date of signing the contract to the expiry date of performance of the main debt under the lease contract."

2. Pledges

On 5 November 2019, Shandong Yankuang Jisan Electricity Co., Ltd. (Debtor or Pledger) and Western Trust Co., Ltd. (Trustee or Pledgee) entered into the " Western Trust · Jisan Electricity 2019 First Phase of Property Trust Receivables Pledge Agreement (Agreement Number: [2019-148-0002]), which provides: "in order to ensure the effective fufillment of the Loan Agreement entered into between Yankuang Group Company Limited (Client or Creditor) and Shandong Yankuang Jisan Electricity Co., Ltd. with the amount of RMB 531,600,000 on 28 October 2019, Western Trust · Jisan Electricity 2019 First Phase of Property Trust Receivables Pledge Agreement with number: [2019-148-1001] entered into between Yankuang Group Company Limited and Western Trust Co., Ltd. on 5 November 2019(hereinafter referred to as the " Pledge Agreement") and Debt Confirmation Agreement entered into between the Creditor, Debtor and Client, the Pledger (Debtor) is willing to use its electricity fee income during a specific period as pledge to provide pledge guarantees for the main creditor's rights held by the Pledgee under the Loan Agreement, Pledge Agreement and Debt Confirmation Agreement, and the Pledgee agreed to the Pledger to provide the aforementioned pledge guarantee. The pledge is a continuing guarantee and shall continue to be fully effective until the guaranteed debt is paid off in full. " In order to ensure the effective establishment of the right of pledge, the Pledgee and the Pledger entered into the Receivable Pledge Registration Agreement numbered [2019-148-0007].

This valuation has not considered the impact of the above-mentioned guarantee and pledge related matters on the valuation conclusion. Report users are advised to pay attention to such notes.

(XV) Deficiencies in the economic activity corresponding to the asset valuation that may have a material effect on the appraisal conclusion:

None.

XII. RESTRICTIONS ON THE USE OF ASSET APPRAISAL REPORT

(I) The valuation report may only serve the purpose of appraisal stated herein;

(II) The asset appraisal institution and the appraiser will not be held liable or take the consequences, in case the client or other users of the valuation report fail to comply with the relevant laws, administrative regulations and use the report for other purposes than what is stated herein;

(III) Any institution and individual shall not use the report on asset appraisal other than the client, other report users stated in the commission contract for asset appraisal, and report users in compliance with laws and administrative regulations;

(IV) The user of the asset valuation report should correctly understand the appraisal conclusion, which is not equal to the achievable price of the appraisal object, and the appraisal conclusion should not be considered as a guarantee for the achievable price of the appraisal object;

(V) The valuation report shall be submitted to the state-owned assets supervision and administration authorities or the competent business department for examination. The report shall not be used until after being put on file;

(VI) All (or perhaps any) of the valuation report may be extracted, quoted or disclosed, subject to examination by the appraisal institution, unless otherwise stated in the laws, regulations and entrusted by the corresponding party;

(VII) The appraisal conclusion disclosed in this valuation report is valid only for the corresponding economic behavior of the project, and the validity period of the asset appraisal conclusion is one year from the valuation benchmark date, that is, from 30 June 2020 to 29 June 2021. When the appraisal target is hit within the term, the appraisal conclusion shall be a useful guideline on the value, subject to adjustments subsequent to the benchmark date of assets appraisal (but is necessary to be adjusted for the postponement of the valuation benchmark date). Assets shall be reappraised if the one-year limit is exceeded.

XIII. REPORTING DATE OF ASSET APPRAISAL

The asset valuation report date is 6 September 2020, which is the date when the appraisal conclusion is formed.

Asset appraisal institution: Pan-China Assets Appraisal Co., Ltd

Legal representative:

Asset appraiser: Sun Shengnan

Asset appraiser: Wang Nannan

6 September 2020

G. SUMMARY OF THE ASSET VALUATION REPORT ON INFORMATION CENTER

(Summary of the Report)

ASSET VALUATION REPORT ON THE MARKET VALUE OF THE RELEVANT ASSETS AND LIABILITIES OF THE INFORMATION CENTER OF YANKUANG GROUP COMPANY LIMITED INVOLVED IN THE PROPOSED ACQUISITION OF THE ASSETS AND LIABILITIES HELD BY THE INFORMATION CENTER OF YANKUANG GROUP COMPANY LIMITED BY YANZHOU COAL MINING COMPANY LIMITED

Tian Xing Ping Bao Zi (2020) No. 1258

To Yanzhou Coal Mining Company Limited

Pan-China Appraisal Co., Ltd is engaged by the Company to appraise the market value of the assets and liabilities held by the Information Center of Yankuang Group Company Limited involved in the proposed acquisition of the assets and liabilities held by the Information Center of Yankuang Group Company Limited by Yanzhou Coal Mining Company Limited as at 30 June 2020 following necessary valuation procedures using the cost approach and income approach based on principles of independence, objectivity and fairness in accordance with the requirements of relevant laws, administrative regulations and asset valuation standards. The asset valuation is reported as follows.

I. THE CLIENT, TITLE HOLDING UNIT AND OTHER VALUATION REPORT USERS AS AGREED IN THE ASSET VALUATION ENTRUSTMENT CONTRACT

(I) Overview of the Client

Company name:	Yanzhou Coal Mining Company Limited (“Yanzhou Coal”)
Registered address:	No. 298, South Fushan Road, Zoucheng City
Legal representative:	Li Xiyong
Registered capital:	Renminbi Forty Billion Nine Hundred Twelve Million Sixteen Thousand Only
Type of company:	Limited liability company (Taiwan, Hong Kong, Macao and domestic joint ventures, listed)
Date of establishment:	25 September 1997
Operating period:	long term

Scope of business:	selection and sale of coal (among others, the export of coal should be made through companies with coal export right according to the existing state regulations); outbound investment using the company's own fund and investment consulting; commission business; transportation of goods through self-owned railway within the mining area; transportation of goods through highway; operation of ports; manufacture, sale, lease, repair, installation and dismantlement of machinery and equipment in the mining area; production and sale of other mining materials; sale and lease of electronic equipment and sale of parts; leasing of construction mechanical equipment; sale of metallic materials, electronic products, construction materials, timber and rubber products; production and sale of cold patch, soap, anchoring agent and coat; composition of mining, science and technological services; mining rescue technology services; property development within the mining areas, property leasing and provision of services such as dining and accommodation; production and sale of coal residual stones as construction materials; sale of coke, iron ore and nonferrous metals; import and export of goods and technology; warehousing (excluding hazardous chemicals); automobile repairs; labour dispatch; property management service, landscaping; sewage treatment; heat supply; industrial tourism; corporate internal staff training (skills training for first aid team members, manufacturing technology training, safety training); measurement examination, physical and chemical inspection, non-destructive testing, analytical testing, manufacturing safety testing and inspection; corporate management; corporate management consulting; corporate planning and design; market investigation; economic and trade consulting; technology promotion, technology services; sale of lubricating oil, lubricating grease, chemical raw material and chemical engineering products (excluding dangerous chemical products), coat, labour protection products, spinning products, cultural and educational products, plastic products, instruments and apparatuses, cement and fire-resistant materials and products. General contracting of mining engineering and construction; contracting of mechanical and electrical engineering construction; sales of coal-water slurry. (Items which need approvals according to the laws shall be subject to the approvals of relevant authorities before operation activities can be carried out.)

Yanzhou Coal Mining Company Limited held the 2018 Annual General Meeting, the second class meeting of the holders of A shares for the year 2019 and the second class meeting of the holders of H shares for the year 2019 on 24 May 2019, considering and approving "The Proposal regarding the grant of general mandate to the Board to repurchase H shares of the Company". Yanzhou Coal started to exercise the general mandate on repurchase of H shares on 4 May 2020, with a total of 14 times of repurchases of H shares and an aggregate of 52,016,000 H shares repurchased. The registered capital of the Company changed from RMB 4,912.0160 million to RMB4,860.0000 million, and corresponding change of business registration has not been made yet.

(II) Overview of the Title holding unit

1. General information

The Information Center of Yankuang Group Company Limited is a department of Yankuang Group Company Limited and not an independent legal entity. An overview of Yankuang Group Company Limited is as follows:

Company name:	Yankuang Group Company Limited
Registered address:	No. 298, Fushan South Road, Zoucheng City
Legal representative:	Li Xiyong
Registered capital:	Renminbi Seven Billion Seven Hundred Sixty Nine Million Two Hundred Thousand Only
Date of establishment:	12 March 1996
Operating period:	long term

Scope of business:	Foreign investment, management and operation with own funds; investment advisory; periodical publication; installation, opening and maintenance of cable radio and television, as well as sales of equipment; value-added telecommunication services within the approved scope of license; contracting foreign construction projects compatible with strength, scale and performance within the approved scope of the external contracting projects qualification certificate, and the provision of labor required to implement the aforementioned foreign projects; (the following operations are limited to branches only): coal mining, washing and sales; comprehensive utilization of thermal power, heating and power generation waste heat; road transportation; timber processing; installation and maintenance of water and heating pipes; restaurants and hotels; extraction and sales of water; geological prospecting, mining, smelting, processing, sales and technical services of gold, precious metal and non-ferrous metal. Advertising business; sales of mechanical and electrical products, clothing, textiles and rubber products; import and export business within the scope of filing; landscaping; lease of houses, land and equipment; coal, coal chemical and coal-fire aluminum technology development services; production and sales of construction materials and ammonium sulfate (white crystalline powder); manufacturing, installation, maintenance and sales of mining equipment, electromechanical equipment, complete sets of equipment and spare parts; decoration; installing, maintenance and sales of electrical equipment, processing and sales of general parts and mechanical parts; sewage treatment and sales of reclaimed water; real estate development and property management; sales of daily necessities, handicrafts, metal materials and gas equipment; railway cargo (provided in the area) transportation. (Items which need approvals according to the laws shall be subject to the approvals of relevant authorities before operation activities can be carried out.)

2. History

Yankuang Group Information Center was formerly the communication and computing center of Yankuang Group Company Limited established in October 1994. It has been independently accounted for since January 1995 and renamed as Information Center in May 2007. In June 2012, Information Center was renamed as Information Technology Center and managed by the management team of the Group, providing services to members of the Group. In March 2014, the Information Technology Center was renamed as Information Management Center and was an organisation directly under Yankuang Group Company Limited. In February 2016, the Information Management Center was renamed as Information Center and has become one of the management service centers of Yankuang Group Company Limited and being managed as a company directly under the Group.

3. Overview of major assets

The major assets of Information Center are current assets and non-current assets, a summary of which is as follows:

Current assets mainly include: monetary funds, accounts receivable, other receivables and inventories; non-current assets are mainly fixed assets and intangible assets, and fixed assets are mainly vehicles and electronic equipment, and the vehicles and electronic and office equipment were purchased externally by the Information Center of Yankuang Group Company Limited with clear property right; intangible assets are mainly software purchased by the enterprise externally.

4. Overview of the major businesses

The core business of the Information Center of Yankuang Group Company Limited is providing dedicated network telephone, network access and digital TV services for all units of the Group and employees and their families in the mines; development, construction and maintenance of customised and dedicated information system for all units of the Group.

5. Organisational structure and human resources

The Information Center of Yankuang Group Company Limited has 321 employees and 28 internal organisations, of which: there are 8 management departments, 4 basic application departments, 8 headquarters information stations and 8 outside information stations. The particulars of which are as follows:

(1) Management departments (85 persons)

Include: General Department, Finance Department, Operation Management Department, Information Management Department, Big Data Engineering Department, Technical Management Department, Marketing Department and Dispatching Room.

(2) Basic application departments (88 persons)

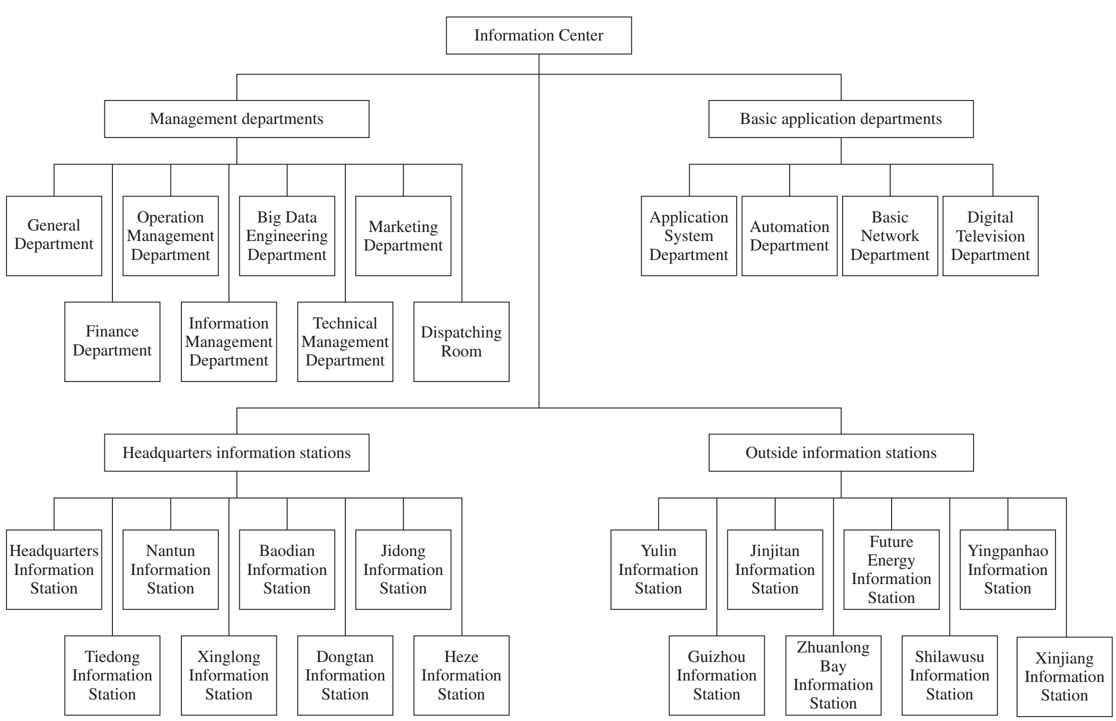
Include: Application System Department, Automation Department, Basic Network Department and Digital Television Department.

(3) Headquarters information stations (100 persons)

Include: Headquarters Information Station, Tiedong Information Station, Nantun Information Station, Xinglong Information Station, Baodian Information Station, Dongtan Information Station, Jidong Information Station and Heze Information Station.

(4) Outside information stations (48 persons)

Include: Yulin Information Station, Guizhou Information Station, Jinjitan Information Station, Zhuanlong Bay Information Station, Future Energy Information Station, Shilawusu Information Station, Yingpanhao Information Station and Xinjiang Information Station.



6. *Statements of Financial Position and Operating Results*

Statement of Financial Position

Unit: RMB (Ten Thousand)

Item	31 December 2017	31 December 2018	31 December 2019	30 June 2020
Current assets	17,498.64	18,355.85	18,418.06	18,986.13
Non-current assets	8,747.95	8,156.80	7,836.66	6,998.93
Of which: Long-term equity investments	–	–	–	–
Investment properties	–	–	–	–
Fixed assets	8,421.58	7,847.52	7,574.17	6,759.83
Construction in progress	–	–	–	–
Intangible assets	326.37	309.28	262.49	239.10
Of which: land use rights	–	–	–	–
Deferred income tax assets	–	–	–	–
Total assets	**26,246.59**	**26,512.65**	**26,254.72**	**25,985.07**
Current liabilities	17,715.53	16,492.13	15,762.87	14,151.78
Non-current liabilities	664.89	674.60	893.80	851.05
Total liabilities	**18,380.42**	**17,166.73**	**16,656.67**	**15,002.83**
Owner's equity	**7,866.17**	**9,345.92**	**9,598.04**	**10,982.24**

Statement of Operating Results

Unit: RMB (Ten Thousand)

Item	2017	2018	2019	January to June 2020
I. Operating income	11,833.82	14,085.11	14,330.16	6,439.18
Less: Operating costs	5,281.29	7,334.52	8,594.63	3,678.47
Business tax and surcharges	84.65	47.01	45.52	28.25
Selling expenses	–	–	–	–
Research and development expenses	795.23	953.80	918.38	54.97
Administrative expenses	2,061.75	2,202.03	2,791.65	1,049.93
Finance costs	-51.77	-88.85	32.37	87.76
Add: Other gains	49.18	42.15	42.15	21.07
Loss on impairment of credit	–	–	–	-0.65
II. Operating profit	3,711.86	3,678.75	1,989.76	1,560.22
Add: Non-operating income	15.04	1.00	0.37	9.53
Less: Non-operating expenses	–	–	–	–
III. Total profit	3,726.90	3,679.75	1,990.13	1,569.76
Less: Income tax expenses				
IV. Net profit	3,726.90	3,679.75	1,990.13	1,569.76

Note: The above data have been audited by Zhongxingcai Guanghua Certified Public Accountants LLP which has issued an unqualified audit report (Zhongxingcai Guanghua Shen Kuai Zi (2020) No. 316054).

(III) Other Valuation Report Users as Agreed in the Asset Valuation Entrustment Contract

According to the asset valuation entrustment contract, except the client and the user who has the right to use the valuation report as prescribed by national laws and regulations, there is no other user of the valuation report.

(IV) Relationship between the client and the title holding unit

Yanzhou Coal, the client, proposed to acquire the assets and liabilities held by the Information Center of Yankuang Group Company Limited. The ultimate controller of both Yanzhou Coal and the Information Center is Yankuang Group Company Limited. Yankuang Group Company Limited holds directly and indirectly approximately 56.01% of the equity interests of Yanzhou Coal while the Information Center is a department of Yankuang Group Company Limited.

II. VALUATION PURPOSE

According to "Summary of general manager work meeting of Yanzhou Coal Mining Company Limited (Issue 27)", Yanzhou Coal Mining Company Limited proposed to acquire the assets and liabilities held by the Information Center of Yankuang Group Company Limited, and it is required to conduct evaluation on the assets and liabilities held by the Information Center of Yankuang Group Company Limited, in order to provide a value reference for the economic activity.

III. VALUATION SUBJECT AND VALUATION SCOPE

(I) Valuation Subject

The valuation subject is the market value of the assets and liabilities held by the Information Center of Yankuang Group Company Limited.

(II) Valuation Scope

The valuation scope is the audited relevant assets and liabilities of the Information Center of Yankuang Group Company Limited on the valuation benchmark date including total assets with a carrying amount of RMB259,850,600, liabilities with a carrying amount of RMB150,028,300 and net assets with a carrying amount of RMB109,822,300. The carrying amounts of various assets and liabilities are shown in the table below:

Summary of Assets Valuation Reporting Form

Unit: RMB (Ten Thousand)

Item	**Carrying amount**
Current assets	18,986.13
Non-current assets	6,998.93
Including: Long-term equity investments	–
Investment properties	–
Fixed assets	6,759.83
Construction in progress	–
Intangible assets	239.10
Land use rights	–
Others	–
Total assets	25,985.06
Current liabilities	14,151.78
Non-current liabilities	851.05
Total liabilities	15,002.83
Net assets	10,982.23

The client and the title holding unit have undertaken that the entrusted valuation object and valuation scope are consistent with the valuation object and valuation scope involved in the economic activity, and have been audited by Zhongxingcai Guanghua Certified Public Accountants LLP, which issued an unqualified audit reports (Zhongxingcai Guanghua Kuai Zi (2020) No. 316054).

IV. ASSESSED VALUE TYPE

Assessed value types include market value and value types other than market value. Value types other than market value generally include (but are not limited to) investment value, in-use value, liquidation value, residual value, etc. The purpose of this valuation is to provide a value reference for the transfer of relevant assets and liabilities, and there are no special restrictions on market conditions. Therefore, market value is selected as the value type of this valuation. The market value mentioned in this asset valuation report refers to the estimated amount of the value of normal and fair transactions of the valuation target on the valuation benchmark date when the voluntary buyer and the voluntary seller act rationally without any coercion.

V. VALUATION BENCHMARK DATE

The valuation benchmark date for the valuation is 30 June 2020.

This valuation benchmark date is determined by the client and is consistent with the valuation base date agreed in the asset valuation entrustment contract.

VI. BASIS OF VALUATION

The basis of valuation on which this asset valuation was conducted includes the basis of economic activity, the basis of laws and regulations, the basis of valuation criteria, the basis of asset ownership as well as the pricing basis, as follows:

(I) Basis of Economic Activity

Summary of general manager work meeting of Yanzhou Coal Mining Company Limited (Issue 27).

(II) Basis of Laws and Regulations

1. Asset Valuation Law of the People's Republic of China (Decree No. 46 of the President of the People's Republic of China);

2. The State-owned Assets of Companies Law of the People's Republic of China (Decree No. 5 of the President of the People's Republic of China);

3. Company Law of the People's Republic of China (revised 2018);

4. Property law of the People's Republic of China;

5. Enterprise Income Tax Law of the People's Republic of China (amended 2019);

6. Administrative Measures for State-Owned Assets Assessment (State Council Order 1991 No. 91);

7. Detailed Rules for the Implementation of the Administrative Measures for State-Owned Assets Assessment (Guo Zi Ban Fa [1992] No. 36) issued by the former State Administration of State-owned Assets;

8. Notice on Opinions on Reforming the Administration and Management of Appraisal of State-owned Assets and Strengthening the Supervision and Management of Asset Appraisal (Guo Ban Fa [2001] No. 102);

9. Rules on Certain Issues Relating to the Appraisal of State-owned Assets (Ministry of Finance No.14 Order);

10. Interim Regulation on the Supervision and Administration of State-owned Assets of Enterprises (State Council 2003 No. 378 Order);

11. Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises (SASAC of the State Council 2005 No.12 Order);

12. Administration Measures for Supervision over Trading of State-owned Assets by Enterprises (SASAC and MOF of the State Council 2016 No. 32 Order);

13. Notice on Strengthening Management of Appraisal of State-Owned Assets in Enterprises (SASAC Property [2006] No. 274);

14. Guidelines for the Filing for Recordation of the Valuation Projects of State-owned Assets of Enterprises (SASAC Property [2013] No. 64);

15. Regulations on the implementation of the Enterprise Income Tax Law of the People's Republic of China (promulgated by Order No. 512 on 6 December 2007 of the State Council of the People's Republic of China, amended for the first time according to the Decision of the State Council on Amending Some Administrative Regulations on 23 April 2019);

16. Provisional Regulations on Value-added Tax of the People's Republic of China (promulgated by Order No. 691 of the State Council of the People's Republic of China on 19 November 2017);

17. Regulations for the Implementation of the Provisional Regulations on Value-added Tax of the People's Republic of China (Order No. 65 issued by the Ministry of Finance and the State Administration of Taxation);

18. Notice on Comprehensively Launching the Pilot Program for the Reform of Business Tax to VAT issued by the Ministry of Finance and the State Administration of Taxation (Cai Shui [2016] No. 36);

19. Vehicle Purchase Tax Law of the People's Republic of China (Decree No. 19 of the President of the People's Republic of China).

20. The Ministry of Commerce, the Development and Reform Commission, the Ministry of Public Security, and the Ministry of Environmental Protection 2012 Order No. 12 "Regulations on Compulsory Scrapping Standards for Motor Vehicles";

21. Securities Law of the People's Republic of China (amended 2019);

22. Other relevant laws and regulations.

(III) Basis of Valuation Criteria

1. Asset Valuation Basic Standards (Cai Zi [2017] No. 43);

2. Code of Ethics for Assets Assessment (Zhong Ping Xie [2017] No. 30);

3. Asset Valuation Practicing Standards – Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);

4. Asset Valuation Practicing Standards – Asset Valuation Report (Zhong Ping Xie [2018] No. 35);

5. Asset Valuation Practicing Standards – Contract on Asset Valuation Entrustment (Zhong Ping Xie [2017] No. 33);

6. Asset Valuation Practicing Standards – Asset Valuation Files (Zhong Ping Xie [2018] No. 37);

7. Asset Valuation Practicing Standards – Asset Valuation Methods (Zhong Ping Xie [2019] No. 35);

8. Asset Valuation Expert Guidelines No. 8 – Check and Verification in Asset Valuation (Zhong Ping Xie [2019] No. 39);

9. Asset Valuation Practicing Standards – Machinery and Equipment (Zhong Ping Xie [2017] No. 39);

10. Asset Valuation Practicing Standards – Intangible Assets (Zhong Ping Xie [2017] No. 37);

11. Guidelines to Evaluation Report of State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);

12. Guidelines for Business Quality Control of Asset Valuation Institutions (Zhong Ping Xie [2017] No. 46);

13. Guiding Opinions on Types of Value for the Appraisal of Assets (Zhong Ping Xie [2017] No. 47);

14. Guidance on Legal Ownership of Asset Valuation Object (Zhong Ping Xie [2017] No. 48);

(IV) Basis of Asset Ownership

1. Motor vehicle driving permit;

2. Major equipment purchase contracts, invoices, and relevant agreements, contracts;

3. Other ownership documents.

(V) Pricing Basis for the Valuation

1. The asset valuation declaration form and income forecast statement provided by the title holding unit;

2. National Interbank Funding Center is authorized to issue the loan market price rate (LPR) announcement on 22 June 2020;

3. Information from WIND Information;

4. Price directory of mechanical products 2020 published by China Machine Press;

5. Manual of Common Methods and Parameters for Asset Valuation by China Machine Press;

6. Materials such as accounting invoices and purchase contract provided by the title holding unit;

7. Relevant online price inquiry;

8. Price information collected by appraiser through market inquiries and inquiries from equipment manufacturers;

9. Future annual business plan, etc. provided by the enterprise;

10. Sales and operation contracts between the enterprise and relevant entities;

11. Other related valuation information recorded and collected by appraisers from on-site survey;

12. Financial information including original accounting statements, audit report, financial, accounting and operation information, as well as relevant agreements, contracts, invoices provided by the title holding unit;

13. Statistical data, technical standard data and price information data released by relevant state departments, as well as relevant price inquiry data and price parameter data collected by our company.

VII. VALUATION METHODS

(I) Introduction to Valuation Methods

Basic asset valuation methods include cost approach, income approach and market approach.

The cost approach for asset valuation, also known as asset-based approach, refers to the valuation method that determines the value of a valuation subject by reasonably appraisal of the value of on-balance sheet and off-balance sheet assets and liabilities based on the balance sheet of the appraised entity as at the valuation benchmark date.

The income approach for asset valuation refers to the valuation method that determines the value of a valuation subject by capitalising or discounting the expected revenue. The specific methods commonly involved when using the income approach include the dividend discount method and the discounted cashflows method. The income approach is the assessment of the value of an enterprise by the profitability of the appraised entity, which is based on the economics theory of expected utility.

The market approach for asset valuation refers to the valuation method that determines the value of a valuation subject by comparing the valuation subject with comparable listed companies or comparable transaction cases. There are two commonly used specific methods under the market approach, which are listed-company comparison and transaction-case comparison.

(II) Selection of Valuation Methods

The cost approach refers to the method of valuation, in which the value of the valuation target is determined by reasonable appraisal of the value of all on-balance sheet and off-balance sheet assets and liabilities of the appraised entity. For the purpose of this valuation, the necessary information for adopting the cost approach could be provided by the title holding unit and could also be collected by the appraisers externally, which allowed a comprehensive review and valuation on the assets and liabilities of the title holding unit. Therefore, the cost approach was adopted for this valuation.

The income approach is based on the expected utility theory of economics. In other words, from the perspective of the investors, the value of the appraised entity lies in the future income expected to be generated. Despite the absence of the direct use of comparable in the actual market for stating the prevailing fair market value of the appraised entity, the income approach assesses the value of an asset by its expected profitability, which is the essential basis for determining the prevailing fair market value of the asset. As such, it can completely reflect the overall value of the appraised entity and its valuation conclusion is more reliable and convincing. From the perspective of applicable conditions of the income approach, since the title holding unit is profitable in its own right and its has provided the profit forecast for the future years, according to the historical operating data and the internal and external operating environment, its future level of profit can be reasonably forecasted. In addition, the risk of future income can be reasonably quantified. Hence, the income approach is applicable to this valuation.

The market approach refers to the valuation method that determines the value of a valuation subject by comparing the valuation subject with comparable listed companies or comparable transaction cases. As the appraised entity is not a legal entity, and there are few purchase and sale, acquisition and merger cases of comparable listed enterprises in the PRC in the same industry, with the same business structure, operation model, size, asset allocation and utilisation, around the time of the enterprise's operation, it is difficult to obtain operational and financial data of reliable and comparable transactions and the value ratios could not be appropriately calculated, therefore the market approach is not used in this valuation.

Therefore, cost approach and income approach are selected for this valuation.

(III) Introduction to Assessment Approaches

Cost approach

The cost approach used in the asset valuation refers to the valuation method where the value of the valuation subject is determined on the basis of a reasonable valuation of various assets and liabilities of the appraised entity based on its balance sheet as at the valuation benchmark date. The valuation process of various assets and liabilities is stated as follows:

1. Valuation of current assets and liabilities

Current assets of the title holding unit include monetary funds, accounts receivable, other receivables and inventories; while liabilities include current liabilities and non-current liabilities, and current liabilities include accounts payable, contract liabilities, staff remuneration payable, tax payable, other payables and other current liabilities, and non-current liabilities include long-term payables and other non-current liabilities.

(1) Monetary funds include bank deposits, and the assessed value of which was determined as the verified book value which was arrived at after verification of bank reconciliation statements and bank confirmations.

(2) Accounts receivable and other receivables: On basis of an inerrable verification of the receivables, by means of data of the title holding unit as well as on-site investigation and understanding of the situation, the appraisers will conduct a concrete analysis of the amount of sums, arrears of time and causes in connection thereof, amount recovery status, as well as the funds, creditability and operation and management status of the debtors, etc. and the audited book balance after deduction of evaluated risk of loss will be taken as the appraised value of the accounts receivable. The evaluated risk of loss is identified individually and determined using the final aging method. No risk of loss will be recognised for receivables with related parties, employee petty cash and insurance and provident fund withheld and paid. The aging category is determined in accordance with the following principles: If there is economic operation incurred as at a particular year in respect of a customer's account receivables, all balances of that customer's account receivables will be deemed as belonging to the age of that year. The appraised risk of loss will be determined by multiplying the receivables of each age group with the corresponding risk of loss rate. The corresponding risk of loss rate of each aging category is as follows:

Aging	**Risk of loss rate (%)**
Within 1 year (including 1 year)	5
1–2 years (including 2 years)	10
2–3 years (including 3 years)	20
3–4 years (including 4 years)	30
4–5 years (including 5 years)	40
More than 5 years	50

Through inquiring relevant personnel of the title holding unit, presented in the other receivables is a total sum of RMB100,000.00 owed by Jining Telecom Lutong Co., Ltd.（濟寧電信魯通有限公司） and Shandong Coal Industry Information Computing Center（山東省煤炭工業信息計算中心）which has an age of over 10 years and the two entities no longer exist as at the valuation benchmark date. The possibility of future collection is extremely small and its risk of loss is evaluated individually. The risks of loss of other receivables are determined using the final aging method. All bad debt provisions are evaluated as 0.

(3) Inventories

The inventories included in the scope of valuation include raw materials.

For raw materials purchased, as the book unit price basically reflects the prevailing market price, the change of price as of the valuation benchmark date is very small. Thus, the verified book value is taken as the appraised value in this valuation.

(4) Liabilities: On the basis of inspection and verification, the appraisal value is determined according to the actual liabilities and amount of liabilities that the appraised entity needs to bear after the assessment purpose is achieved.

2. *Valuation of non-current assets*

(1) Equipment assets

Such machineries and equipment are mainly evaluated using the replacement cost method. The replacement cost method of machineries and equipment evaluation is a method to determine the evaluated value of the machineries and equipment through estimating the replacement cost of new machineries and equipment, and then deducting physical depreciation, functional depreciation and economic depreciation, or based on the integrated depreciation rate. The replacement cost of equipment generally includes all reasonable direct and indirect costs for repurchasing or constructing a new asset with the same function as the evaluated subject, such as the purchase price of the equipment, transportation costs, basic equipment costs, installation and commissioning costs, upfront and other expenses, capital costs, etc. The calculation formula used in this assessment is:

Assessed value = replacement value × integrated depreciation rate

1) Appraisal of the vehicles

① According to the characteristics of the vehicles declared, market approach is adopted to evaluate vehicles which have been purchased at earlier time.

A Definition and basic principles of market approach

Basic meaning: it is a method based on the principle of substitution, under which the appraised vehicle is compared to market transactions of similar vehicles which occurred recently and made adjustments for relevant factors to arrive at the price of the appraised vehicle on the valuation benchmark date.

Market approach is based on the principle of substitution, thus it is realistic and convincing. Market approach is suitable for evaluation of assets with frequent transactions in regions with a more developed market.

B Basic formula of market approach

Recent transactions are selected from the second-hand vehicle trading market which are within the same scope of supply and demand as the appraised object, and have strong relevance and substitutability. Analysis, comparison and adjustment are made for factors which affect the market price of second-hand vehicles such as useful life, mileage, surveyed vehicle condition and transaction price based on the conditions of the appraised object and the comparable transactions to arrive at the market price of the appraised vehicle. The calculation formula is as follows:

Benchmark price = comparable transaction price x correction factor of vehicle service life x correction factor of vehicle mileage x correction factor of surveyed vehicle condition x correction factor of transaction price

Assessed value of vehicle using market approach = average benchmark price = Σ (Corrected vehicle unit prices)/number of comparable transactions

② For vehicles with continued production and normal market sales, replacement cost method is used for valuation

A. Vehicle replacement cost

Vehicle replacement cost comprises purchase price, vehicle purchase tax and other appropriate expenses (such as vehicle examination fee, plate license fee and handling charges). The purchase price is mainly determined with reference to latest trade prices of comparable models. The calculation formula is as follows:

Vehicle replacement cost = vehicle purchase price + vehicle purchase tax + other appropriate expenses – deductible input VAT

B. Determination of integrated depreciation rate

For depreciation rate of transportation vehicles, the method of integrated depreciation rate is adopted. The calculation formula is as follows:

Integrated depreciation rate = theoretical depreciation rate × 40% + survey depreciation rate × 60%

Life depreciation rate = (specified life – life used)/ specified life × 100%

Mileage depreciation rate = (specified mileage – accumulated mileage)/specified mileage × 100%

The theoretical depreciation rate uses the lower of life depreciation rate and mileage depreciation rate.

As the life limit for scrapping small passenger cars has been cancelled under the New Standards for Mandatory Scrapping of Motor Vehicles (Decree No. 12, issued by the Ministry of Finance, the NDRC, the Ministry of Public Security and the Ministry of Environmental Protection in 2012), the calculation formula for the depreciation rate of small passenger cars is as follows:

Integrated depreciation rate = mileage depreciation rate x 40% + survey depreciation rate x 60%

Mileage depreciation rate = (specified mileage – accumulated mileage)/specified mileage × 100%

Survey depreciated rate is scored according to on-site survey.

C. Determination of assessed value of vehicles

Assessed value = vehicle replacement cost x integrated depreciation rate

2) Appraisal of electronic and office equipment

① Determination of the replacement cost

For electronic equipment that is still in circulation in the market, it is directly determined according to the current market price; for equipment that no longer produced, no longer circulated and does not have a market price, the purchase price is determined by comparing similar equipment with the evaluated equipment and comprehensively considering the differences in performance, technical parameters, use functions of the equipment. Expenses and capital cost are not considered for such equipment and the calculation formula is as follows:

Replacement cost = purchase price ÷ (1 + applicable VAT rate)

② Determination of depreciation rate

The depreciation rate of electronic and office equipment is mainly based on its integrated depreciation rate calculated by its economic life. For equipment not exceeding its economic useful life, or exceeding economic life but still being used normally, the depreciation rate is calculated according to its remaining useful life and the calculation formula is:

Life depreciation rate = remaining useful life ÷ (life used + remaining useful life) × 100%

③ Determination of the assessed value

A Assessed value = replacement cost × depreciation rate

B For electronic equipment that has exceeded its economic life, its production has been discontinued and has no comparable prices, the assessed value is mainly determined using the market method by inquiring about the second-hand transaction price.

(2) Intangible assets – others

Included in the Intangible assets – other intangible assets are outsourced software.

1) Software in use: the appraisers checked relevant purchase contracts, software technical description, payment documents, etc. and made necessary examination of their completeness and truthfulness. Price inquiry is then made. There is no useful life limit for the intangible assets of the title holding unit and the assessed value is determined using prices from market inquiry.

2) Disabled software: disabled software include mobile terminal application system, operation procedure management platform software and integrated running and dispatching intelligent management and control software. As communicated with and understood from relevant personnel by the appraised entity, the above software is no longer used as of the valuation benchmark date, does not bring income to the enterprise and has no market value. The assessed value is nil.

VIII. APPRAISAL PROCESS AND FINDINGS

Pan-China Assets Appraisal Co., Ltd. validated and reviewed the legal documents, accounting records and other relevant materials provided by the client, validated the property titles, inspected relevant assets on site and checked against the inventory of assets provided by the appraised entity, carried out necessary market research and transaction price comparisons, as well as financial analysis and forecast, among other necessary asset appraisal procedures, in accordance with asset appraisal standards, generally accepted accounting principles, relevant laws, regulations and requirements of the authorities, and by following the matters specified in the asset appraisal engagement contract concluded with the client. The asset appraisal process is detailed as follows:

1. Acceptance of engagement and preparations

(1) Pan-China Assets Appraisal Co., Ltd accepted the entrustment of the Client in June 2020 and engaged in this asset appraisal project. Upon taking the job, Pan-China Assets Appraisal Co., Ltd. held talks with the client over the purpose, subject and scope, valuation benchmark date of the appraisal, the nature of the assets to be assessed and other matters that are of significance to the asset appraisal proposal.

(2) An asset declaration breakdown form was tailored to the assets to be assessed. Main assets investigation form and profit and loss investigation form of main activities were designed. Some staff members of the Client supporting the appraisal received training. An asset inventory and all investigation forms were completed.

(3) Design of the appraisal proposal

Depending on the nature of the assets to be assessed, the appraisal implementation plan was finalized, the appraisers were appointed and an on-site task force was put together.

(4) Preparation of appraisal documents

Traded prices of the assessed subjects, market prices of major raw materials, and property title proofs of the assessed subjects were gathered and collated.

The working period of this stage is from 28 June to 30 June 2020.

2. On-site inventory phase

(1) Truthfulness and legitimacy of the assessed subjects

The appraisers checked physical assets and monetary claims and debts against the statements of assets and liabilities provided by the client and the title holding unit in different ways to confirm truthfulness and accuracy of the assets and liabilities.

For monetary funds, we conduct investigations by consulting journals, reviewing bank statements and statements of bank reconciliation.

For claims and debts, the appraisers checked general ledgers and subsidiary ledgers, and randomly checked contracts and vouchers, to confirm truthfulness of the assets and liabilities.

For inventories, the appraisers checked entry, exit and custody accounting system and regular inventory system, grasped the inventory turnover situation, randomly checked raw materials, work in progress and finished products and issued letters for shipped goods.

For fixed assets, focused and general investigations were combined, with focus on important equipment. The appraisers checked relevant equipment purchase contracts and invoices, to determine truthfulness of the assets.

For intangible assets, the appraisers checked the software purchase contract and payment status and checked subsidiary ledgers, to confirm their authenticity.

(2) Investigation of actual state of the assets

Focused and general investigations were combined to find out the state of the equipment, with focus on production machinery. Supported by the persons in charge of the equipment at the title holding unit, the appraisers reviewed the operation records of the equipment and checked the running status of the equipment on site. On the basis of investigation, key equipment investigation forms were completed.

(3) Investigation of value composition of physical assets and business development

The value composition of the assets was checked for appropriateness and compliance depending on the nature of the assets of the appraised entity. In particular, the truthfulness, accuracy, completeness and compliance of the carrying amount of fixed assets were examined. Relevant accounting vouchers, accounting books and equipment purchase contracts were reviewed.

(4) Investigation of the production and operation situation of revenue and costs of title holding unit

To make preparations for future cash flow forecasts, profit/loss accounting data of the title holding unit in prior years were collected for estimation and analysis; actual business performance, the composition of its revenue, costs and expenses and future trends of the entity were found out by interviews and other means.

By collecting relevant information, this paper analyzes and forecasts the market environment, future competition and development trend of various businesses of the title holding unit.

The working period of this stage is from 1 July to 8 July 2020.

3. Choice of appraisal approach, gathering of market intelligence and the process of estimation

The appraisers determined appraisal parameters and prices based on the work plan mapped out for the project in particular and the pricing principles and valuation models identified as appropriate in light of the actual situation, and then started appraising and estimating by reference to the historical data and future forecasts provided by the title holding unit.

4. Summary of appraisal findings

(1) Determination of appraisal results

According to the situation of the assessment site survey conducted by the appraisers of Pan-China Assets Appraisal Co., Ltd and the necessary market survey and calculation, the results of the cost approach and the income approach entrusted with the assessment of assets are determined.

(2) Analysis of appraisal results and preparation of the valuation report

The asset valuation report was drafted in compliance with the requirements of Pan-China Assets Appraisal Co., Ltd. The appraisal results and the relevant asset valuation report went through three-level reviews by Pan-China Assets Appraisal Co., Ltd. and were confirmed to be error-free by the signatory asset appraiser. Then the project team finalized and submitted the report.

IX. ASSUMPTIONS MADE IN THE APPRAISAL

General assumptions:

1. Trade assumption: All assets to be appraised were assumed to be in the course of trading. The appraisers valued the assets according to simulated trade terms.

2. Open market assumption: Open market assumption is an assumption about the conditions of the market the assets are assumed to enter and about the degree of impact the assets are exposed to under such market conditions. An open market is defined as full-fledged and developed market conditions, a competitive market with willing buyers and sellers. In this market, buyers and sellers are on equal footing, have the opportunity and time to get sufficient market information, and are able to trade in a voluntary and sensible manner, free from any compulsory or restrictive conditions.

3. Continuous use assumption: The continuous use assumption is an assumption about the conditions of the market the assets are assumed to enter and about the state of the assets under such market conditions. First of all, the assets being appraised are in use. Secondly, hypothetically the assets in use will continue to be used. Under the continuous use assumption, the possibility of repurposing of the assets or optimal conditions of use are disregarded. Hence, the appraisal results are of limited usability.

4. Going concern assumption: The entire assets of the appraised entity are taken as the subject of appraisal. As a business entity, the appraised entity will continue as a going concern in the external environment. The management of the appraised entity is responsible and has the ability to take responsibilities; the business of the appraised entity is legal and profitable, and thus sustainable.

According to the requirements of evaluating the assets with the cost approach and the income approach, the appraisers determined that these assumptions are valid on the valuation benchmark date, and the corresponding valuation conclusions were derived based on these assumptions. If there are material changes in the future economic environment or other assumption conditions are not justified, the valuation results will incur significant changes.

X. APPRAISAL CONCLUSION

(I) Appraisal Conclusion with Cost Approach

Under the assumption of continuing operations on the valuation benchmark date, the book value of total assets, the book value of liabilities and the book value of net assets of the Information Center of Yankuang Group Company Limited were RMB259,850,600, RMB150,028,300 and RMB109,822,300, respectively.

According to the cost approach, the total assets after appraisal amounted to RMB268,796,200; liabilities were RMB149,000,000; net assets were RMB119,796,200, and the appraised appreciation was RMB9,973,900, representing an appreciation rate of 9.08%.

Summary sheet of assessment results by cost approach

Unit: RMB (Ten Thousand)

Item	Book value	Appraised value	Changes	Appreciation rate %
Current assets	18,986.13	18,982.38	-3.75	-0.02
Non-current assets	6,998.93	7,897.24	898.31	12.83
Including: Long-term equity investment	–	–	–	
Investment properties	–	–	–	
Fixed assets	6,759.83	7,389.35	629.52	9.31
Construction in Progress	–	–		
Intangible assets	239.10	507.89	268.79	112.42
Land use rights	–	–	–	
Others	–	–	–	
Total assets	**25,985.06**	**26,879.62**	**894.56**	**3.44**
Current liabilities	14,151.78	14,151.78	–	–
Non-current liabilities	851.05	748.22	-102.83	-12.08
Total liabilities	**15,002.83**	**14,900.00**	**-102.83**	**-0.69**
Net assets	**10,982.23**	**11,979.62**	**997.39**	**9.08**

Note: Please refer to the Asset Valuation Reporting Form for details of the appraisal conclusion.

(II) Final Determination of Appraisal Conclusion

The cost approach reflects the fair market value of assets from the perspective of asset replacement. As all assets and liabilities of the title holding unit are replaceable in a competitive market, the cost approach appraisal can reflect the actual cost of replacing relevant assets and liabilities.

For the purpose of this appraisal, the title holding unit provided detailed information about its assets and liabilities, and the appraisers also collected external data deemed necessary to the cost approach. We conducted a full inspection and appraisal of its assets and liabilities. In comparison, the appraisal conclusion derived from the cost approach is more reliable. Therefore, this appraisal adopts the appraisal results derived from cost approach as the final conclusion.

That is: on the premise of continuing operations on the valuation benchmark date, being 30 June 2020, the appraised value of the relevant assets and liabilities of the Information Center of Yankuang Group Company Limited was RMB119,796,200, and the appraised appreciation was RMB9,973,900, representing an appreciation rate of 9.08%.

XI. SPECIAL NOTES

The appraiser of the company is incapable of evaluating and estimating the following items on their own. Notwithstanding the above, this may affect the conclusion. For this reason, it is essential for the user of the valuation report to pay particular attention to this.

(I) The "Appraisal value" in this report refers to our fair valuation opinions for the purposes listed in this report on the premise that the current use of the appraised assets remains unchanged and continues to operate, as well as on the basis of the status of the valuation benchmark date and the external economic environment, without being responsible for other uses.

(II) The appraisal conclusion in the report reflects the market value determined by the appraised entity according to the principle of open market under the purpose of this appraisal, without considering the relevant expenses and taxes to be borne by the assets in the process of property registration or ownership change, and without making any tax adjustment preparation for the value added of the assets appraisal. The appraisal conclusion shall not be deemed as a guarantee for the realizable price of the appraised object.

(III) In case of changes in the amount of assets and pricing standards within the term of appraisal conclusion, moderate adjustments shall be made, instead of the direct use thereof.

(IV) In this appraisal, the asset appraiser did not carry out technical tests on the technical parameters and performance of various equipment on the valuation benchmark date. The asset appraiser made a judgment through on-site investigation on the premise that the relevant technical data and operation records provided by the title holding unit are true and effective.

(V) Three outsourced software packages are included in the scope of this appraisal as intangible assets which were no longer used by the title holding unit as of the valuation benchmark date, for which certifying document was issued. The appraised value of such disabled software is nil. The disabled software packages are listed in the table below:

No.	Name	Date of acquisition	Original entry value	Book value	Remark
1	Mobile terminal application system	2011/8/1	307,000.00	–	Disabled
2	Operation procedure management platform software	2011/8/1	120,000.00	–	Disabled
3	Integrated running and dispatching intelligent management and control software	2016/12/1	209,401.72	134,365.00	Disabled

(VI) 556 items of electronic equipment included in the scope of appraisal, including network switch, ADSL broadband access machine, video server, convergence switching equipment, data network system, etc. (see Fixed Assets – Machinery and Equipment Valuation Schedule for details), were pending retirement. The title holding unit has issued relevant description and the appraised value of equipment pending retirement was determined based on its net recyclable value.

(VII) The office used by the Information Center of Yankuang Group Company Limited is owned by Yankuang Group Company Limited and the area used by Information Center is approximately 2,459 square meters. Information Center has not entered into any lease agreement with Yankuang Group Company Limited nor paid any rent for it.

(VIII) In this appraisal, it is assumed that relevant assets are transacted as a whole and assessed on price exclusive of input tax.

XII. RESTRICTIONS ON THE USE OF ASSET VALUATION REPORT

(I) The valuation report may only serve the purpose of appraisal stated herein;

(II) The asset appraisal institution and the appraiser will not be held liable or take the consequences, in case the client or other users of the valuation report fail to comply with the relevant laws, administrative regulations and use the report for other purposes than what is stated herein;

(III) Any institution and individual shall not use the report on asset appraisal other than the client, other report users stated in the commission contract for asset appraisal, and report users in compliance with laws and administrative regulations;

(IV) The user of the asset valuation report should correctly understand the appraisal conclusion, which is not equal to the achievable price of the appraisal object, and the appraisal conclusion should not be considered as a guarantee for the achievable price of the appraisal object;

(V) The valuation report shall be submitted to the state-owned assets supervision and administration authorities or the competent business department for examination. The report shall not be used until after being put on file;

(VI) All (or perhaps any) of the valuation report may be extracted, quoted or disclosed, subject to examination by the appraisal institution, unless otherwise stated in the laws, regulations and agreed by the corresponding party;

(VII) The appraisal conclusion disclosed in this valuation report is valid only for the corresponding economic behavior of the project, and the validity period of the asset appraisal conclusion is one year from the valuation benchmark date, that is, from 30 June 2020 to 29 June 2021. When the appraisal target is hit within the term, the appraisal conclusion shall be a useful guideline on the value, subject to adjustments subsequent to the benchmark date of assets appraisal. Assets shall be reappraised if the one-year limit is exceeded.

XIII. REPORTING DATE OF ASSET APPRAISAL

The asset valuation report date is 6 September 2020, which is the date when the asset appraisal conclusion is formed.

Asset appraisal institution: Beijing Pan-China Assets Appraisal Co., Ltd

Legal representative:

Asset appraiser: Sun Shengnan

Asset appraiser: Wang Nannan

6 September 2020

A. MANAGEMENT DISCUSSION AND ANALYSIS ON SHAANXI FUTURE ENERGY GROUP

The following performance discussion of Shaanxi Future Energy Group should be read in conjunction with the historical financial information for the three financial years ended 31 December 2019 and for the six months ended 30 June 2020 set forth in the accountants' report, the text of which is set out in Appendix II A of this circular.

Business overview

Shaanxi Future Energy is located in the north area of Yuheng Industrial Park, Yulin City, Shaanxi Province, and was formed initially by Yankuang Group Company Limited, Yanzhou Coal Mining Company Limited and Shaanxi Yanchang Petroleum (Group) Co., Ltd. at an equity interest ratio of 50%: 25%: 25%. It was incorporated in Shaanxi Provincial Administration for Industry and Commerce on 25 February 2011, with a registered capital RMB5.4 billion. The company is principally engaged in the production and sales of indirect coal liquefaction products and supporting coal products.

Revenue

For the three years ended 31 December 2017, 2018 and 2019, the revenue of Shaanxi Future Energy Group amounted to approximately RMB6,519,141,000, RMB6,564,897,000 and RMB8,751,970,000, respectively. The revenue remained stable for 2017 and 2018. The increase in revenue for 2019 was mainly due to increase in production volume.

For the six months ended 30 June 2019 and 2020, the revenue of Shaanxi Future Energy Group amounted to approximately RMB4,032,867,000 and RMB4,156,146,000 respectively, which showed no material fluctuation.

Operating costs

For the three years ended 31 December 2017, 2018 and 2019, the operating costs of Shaanxi Future Energy Group amounted to approximately RMB3,876,637,000, RMB4,362,666,000 and RMB5,337,437,000, respectively. The increase in operating costs for 2018 was mainly due to increase in the production costs of chemical products. The increase in operating costs for 2019 was mainly due to increase in revenue.

For the six months ended 30 June 2019 and 2020, the operating costs of Shaanxi Future Energy Group amounted to approximately RMB2,433,850,000 and RMB2,686,002,000 respectively. The increase was mainly due to increase in revenue.

Gross profit and gross profit margin

For the three years ended 31 December 2017, 2018 and 2019, the gross profit generated from the operations of Shaanxi Future Energy Group amounted to approximately RMB2,642,504,000, RMB2,202,231,000 and RMB3,414,533,000, respectively. The corresponding gross profit margins were 40.5%, 33.5% and 39.0%, respectively. The decrease in gross profit and gross profit margin for 2018 was mainly due to increase in production costs of chemical products. The increase in gross profit and gross profit margin for 2019 was mainly due to increase in products' selling prices.

For the six months ended 30 June 2019 and 2020, the gross profit generated from the operations of Shaanxi Future Energy Group amounted to approximately RMB1,599,017,000 and RMB1,470,144,000 respectively. The corresponding gross profit margins were 39.6% and 35.4% respectively. The decrease in gross profit and gross profit margin was mainly due to the negative impact on products' selling prices arising from the COVID-19 outbreak in 2020.

Total comprehensive profit for the year/period

For the three years ended 31 December 2019, the total comprehensive profit of Shaanxi Future Energy Group amounted to approximately RMB1,680,915,000, RMB1,370,955,000 and RMB2,386,234,000, respectively. The decrease in total comprehensive profit for 2018 was mainly due to decrease in gross profit and decrease in other income. The increase in total comprehensive profit for 2019 was mainly due to increase in gross profit, increase in other income and decrease in finance costs.

For the six months ended 30 June 2019 and 2020, the total comprehensive profit of Shaanxi Future Energy Group amounted to approximately RMB1,100,951,000 and RMB1,059,581,000 respectively. The decrease was mainly due to the negative impact on products' selling prices arising from the COVID-19 outbreak in 2020.

General Information of assets and liabilities

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the total assets of Shaanxi Future Energy Group amounted to approximately RMB22,014,387,000, RMB20,510,499,000, RMB20,006,701,000 and RMB20,867,324,000, respectively. The decrease in total assets as at 31 December 2018 was mainly due to decrease in trade and bills receivables. The decrease in total assets as at 31 December 2019 was mainly due to decrease in loan receivable and trade and bills receivables. The increase in total assets as at 30 June 2020 was mainly due to increase in inventories, prepayments and other receivables and cash and cash equivalents.

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the total liabilities of Shaanxi Future Energy Group amounted to approximately RMB12,895,930,000, RMB10,021,087,000, RMB8,812,355,000 and RMB8,613,397,000, respectively. The decrease in total liabilities as at 31 December 2018 was mainly due to decrease in trade and bills payables, accruals and other payables and loans. The decrease in total liabilities as at 31 December 2019 was mainly due to decrease in loans. The decrease in total liabilities as at 30 June 2020 was mainly due to decrease in loans.

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the respective gearing ratios of Shaanxi Future Energy were: 110.6%, 73.1%, 58.7% and 49.0%.

Liquidity and capital resources

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the current assets of Shaanxi Future Energy Group amounted to approximately RMB4,965,151,000, RMB2,926,390,000, RMB2,250,066,000 and RMB3,175,284,000, respectively. Among which, cash and cash equivalents amounted to approximately RMB541,304,000, RMB614,772,000, RMB1,342,667,000 and RMB1,849,182,000 respectively, accounting for 10.9%, 21.0%, 59.7% and 58.2% of current assets, respectively. Accounts receivable amounted to approximately RMB2,424,740,000, RMB406,997,000, RMB59,401,000 and RMB94,623,000 respectively, accounting for 48.8%, 13.9%, 2.6% and 3.0% of current assets, respectively. Prepayments, other receivables and other assets amounted to approximately RMB1,999,107,000, RMB1,904,621,000, RMB847,998,000 and RMB1,231,479,000 respectively, accounting for 40.3%, 65.1%, 37.7% and 38.8% of current assets, respectively.

Liquidity ratios (current assets divided by current liabilities) were 0.9, 0.8, 0.6 and 0.9, respectively.

Foreign exchange risks

As the principal business of Shaanxi Future Energy Group is domiciled in the PRC and denominated in RMB, Shaanxi Future Energy Group is not exposed to foreign exchange risks.

Contingent liabilities

As at 30 June 2017, 2018, 2019 and 2020, Shaanxi Future Energy Group had no significant contingent liabilities.

Future plans for material investments or capital assets

As at the Latest Practicable Date, Shaanxi Future Energy Group has no plans in relation to significant investments or capital assets.

Employees and remuneration policy

As at 30 June 2020, the total number of employees of Shaanxi Future Energy Group was 2,296. Shaanxi Future Energy Group determines employee remuneration with reference to market level as well as personal qualifications, experience, skills, performance and contributions. Shaanxi Future Energy Group reviews the remuneration and benefits policies, and employee's personal performance on a regular basis to ensure employees are fairly rewarded.

Outlook

Through the implementation of the "Three Steps in Five Years" development plan, Shaanxi Future Energy Group will achieve continuous international leadership in key core technologies, the overall technology of coal and coal chemical sectors will reach the industry leading level so as to become the pioneer and the forerunner of industry standards in the fields of coal liquefaction and coal mining to lead the development of the enterprise with strong scientific and technological creativity, and build the first high-end energy and chemical base of Yankuang Group in the Shaanxi and Inner Mongolia region with integrated development of coal and oil.

B. MANAGEMENT DISCUSSION AND ANALYSIS ON FINE CHEMICAL

The following performance discussion of Fine Chemical should be read in conjunction with the historical financial information for the three financial years ended 31 December 2019 and for the six months ended 30 June 2020 set forth in the accountants' report, the text of which is set out in Appendix II B of this circular.

Business overview

The company is principally engaged in the sale of iron-based catalysts and sodium nitrate. Among which, the catalysts are customized products solely sold to Shaanxi Future Energy & Chemicals Co., Ltd. for indirect coal liquefaction projects.

Revenue

For the three years ended 31 December 2017, 2018 and 2019, the revenue of Fine Chemical amounted to approximately RMB184,461,000, RMB189,098,000 and RMB219,128,000, respectively. The revenue remained stable for 2017 and 2018. The increase in revenue for 2019 was mainly due to increase in production volume.

For the six months ended 30 June 2019 and 2020, the revenue of Fine Chemical amounted to approximately RMB112,156,000 and RMB83,552,000, respectively. The decrease was mainly due to the negative impact from the COVID-19 outbreak in 2020.

Operating costs

For the three years ended 31 December 2017, 2018 and 2019, the operating costs of Fine Chemical amounted to approximately RMB141,771,000, RMB157,655,000 and RMB164,427,000, respectively. The increase in operating costs for 2018 and 2019 was mainly due to increase in revenue.

For the six months ended 30 June 2019 and 2020, the operating costs of Fine Chemical amounted to approximately RMB84,876,000 and RMB59,840,000, respectively. The decrease in operating cost was mainly due to decrease in revenue.

Gross profit and gross profit margin

For the three years ended 31 December 2017, 2018 and 2019, the gross profit generated from the operations of Fine Chemical amounted to approximately RMB42,690,000, RMB31,443,000 and RMB54,701,000, respectively. The corresponding gross profit margins were 23.1%, 16.6% and 25.0%, respectively. The decrease in gross profit and gross profit margin for 2018 was mainly due to decrease in products' selling prices. The increase in gross profit and gross profit margin for 2019 was mainly due to increase in products' selling prices.

For the six months ended 30 June 2019 and 2020, the gross profit generated from the operations of Fine Chemical amounted to approximately RMB27,280,000 and RMB23,712,000. The corresponding gross profit margins were 24.3% and 28.4%, respectively. The decrease was mainly due to the negative impact from the COVID-19 outbreak in 2020.

Total comprehensive profit for the year/period

For the three years ended 31 December 2017, 2018, 2019, the total comprehensive profit of Fine Chemical amounted to approximately RMB18,288,000, RMB8,297,000 and RMB29,042,000, respectively. The decrease in total comprehensive profit for 2018 was mainly due to decrease in gross profit and increase in general and administrative expenses. The increase in total comprehensive profit for 2019 was mainly due to increase in gross profit and decrease in general and administrative expenses.

For the six months ended 30 June 2019 and 2020, the total comprehensive profit of Fine Chemical was approximately RMB16,491,000 and RMB9,982,000, respectively. The decrease was mainly due to the negative impact from the COVID-19 outbreak in 2020.

General Information of assets and liabilities

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the total assets of Fine Chemical amounted to approximately RMB263,390,000, RMB230,160,000, RMB237,596,000 and RMB242,059,000, respectively. The decrease in total assets as at 31 December 2018 was mainly depreciation charge for property, plant and equipment, decrease in inventories and trade and bills receivables. The increase in total assets as at 31 December 2019 was mainly due to increase in trade and bills receivable. The increase in total assets as at 30 June 2020 was mainly due to increase in trade and bills receivables and cash at banks.

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the total liabilities of Fine Chemical amounted to approximately RMB147,700,000, RMB110,617,000, RMB89,011,000 and RMB83,492,000, respectively. The decrease in total liabilities as at 31 December 2018 was mainly due to decrease in accruals and other payables. The decrease in total liabilities as at 31 December 2019 was mainly due to decrease in trade and bills payables. The decrease in total liabilities as at 30 June 2020 was mainly due to decrease in loan.

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the respective gearing ratios of Fine Chemical were: N/A, N/A, 47.1% and 37.8%, representing a low gearing ratio and a very stable financial situation.

Liquidity and capital resources

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the current assets of Fine Chemical amounted to approximately RMB43,950,000, RMB31,331,000, RMB60,538,000 and RMB77,652,000, respectively. Among which, cash and cash equivalents amounted to approximately RMB3,427,000, RMB441,000, RMB2,259,000 and RMB6,458,000 respectively, accounting for 7.8%, 1.4%, 3.7% and 8.3% of current assets, respectively. Accounts receivable amounted to approximately RMB12,067,000, RMB6,695,000, RMB39,147,000 and RMB53,149,000 respectively, accounting for 27.5%, 21.4%, 64.7% and 68.4% of current assets, respectively. Prepayments, other receivables and other assets amounted to approximately RMB28,456,000, RMB24,195,000, RMB19,132,000 and RMB18,045,000 respectively, accounting for 64.7%, 77.2%, 31.6% and 23.3% of current assets, respectively.

Liquidity ratios (current assets divided by current liabilities) were 0.3, 0.3, 0.7 and 0.9, respectively.

Foreign exchange risks

As the principal business of Fine Chemical is domiciled in the PRC and denominated in RMB, Fine Chemical is not exposed to foreign exchange risks.

Contingent liabilities

As at 30 June 2017, 2018, 2019 and 2020, Fine Chemical had no significant contingent liabilities.

Future plans for material investments or capital assets

As at the Latest Practicable Date, Fine Chemical has no plans in relation to significant investments or capital assets.

Employees and remuneration policy

As at 30 June 2020, the total number of employees of Fine Chemical was 135. Fine Chemical determines employee remuneration with reference to market level as well as personal qualifications, experience, skills, performance and contributions. Fine Chemical reviews the remuneration and benefits policies, and employee's personal performance on a regular basis to ensure employees are fairly rewarded.

Outlook

The iron-based catalysts sales business of Fine Chemical is mainly to provide customized sales services to Shaanxi Future Energy. In the context of a favorable policy environment and accelerated technological innovation, the coal chemical industry has shown a significant recovery trend. Fine Chemical will actively cooperate with Shaanxi Future Energy and increase the production output of catalysts to meet the procurement needs of Shaanxi Future Energy.

C. MANAGEMENT DISCUSSION AND ANALYSIS ON LUNAN CHEMICAL

The following performance discussion of Lunan Chemical should be read in conjunction with the historical financial information for the three financial years ended 31 December 2019 and for the six months ended 30 June 2020 set forth in the accountants' report, the text of which is set out in Appendix II C of this circular.

Business overview

Lunan Chemical is a chemical enterprise specializing in chemical production and scientific research and development. Its main products include: acetic acid, ethyl ester, butanol, polyformaldehyde, acetic anhydride and trioxane.

Revenue

For the three years ended 31 December 2017, 2018 and 2019, the revenue of Lunan Chemical amounted to approximately RMB4,079,409,000, RMB6,356,124,000 and RMB6,310,350,000, respectively. The increase in revenue for 2018 was mainly due to an increase in production volume. The revenue remained stable for 2019.

For the six months ended 30 June 2019 and 2020, the revenue of Lunan Chemical amounted to approximately RMB2,915,584,000 and RMB2,603,067,000 respectively. The decrease was mainly due to the negative impact from the COVID-19 outbreak in 2020.

Operating costs

For the three years ended 31 December 2017, 2018 and 2019, the operating costs of Lunan Chemical amounted to approximately RMB3,295,343,000, RMB5,167,736,000 and RMB5,385,883,000, respectively. The increase in operating costs for 2018 and 2019 was mainly due to an increase in revenue.

For the six months ended 30 June 2019 and 2020, the operating costs of Lunan Chemical amounted to approximately RMB2,456,355,000 and RMB2,437,362,000 respectively. The decrease was mainly due to a decrease in revenue.

Gross profit and gross profit margin

For the three years ended 31 December 2017, 2018 and 2019, the gross profit generated from the operations of Lunan Chemical amounted to approximately RMB784,066,000, RMB1,188,388,000 and RMB924,467,000, respectively. The corresponding gross profit margins were 19.2%, 18.7% and 14.7%, respectively. The increase in gross profit for 2018 was mainly due to an increase in production volume. The decrease in gross profit and gross profit margin for 2019 was mainly due to a decrease in product's selling prices and an increase in production costs. The gross profit margin remained stable for 2017 and 2018.

For the six months ended 30 June 2019 and 2020, the gross profit generated from the operations of Lunan Chemical amounted to approximately RMB459,229,000 and RMB165,705,000 respectively. The corresponding gross profit margins were 15.8% and 6.4% respectively. The decrease was mainly due to the negative impact from COVID-19 outbreak in 2020.

Total comprehensive profit for the year/period

For the three years ended 31 December 2017, 2018 and 2019, the total comprehensive profit of Lunan Chemical amounted to approximately RMB139,049,000, RMB385,203,000 and RMB394,310,000, respectively. The increase in total comprehensive profit for 2018 was mainly due to an increase in gross profit and a decrease in selling and distribution expenses and finance costs. The total comprehensive profit for 2019 remained stable.

For the six months ended 30 June 2020, the total comprehensive loss of Lunan Chemical amounted to approximately RMB28,341,000 while the total comprehensive profit amounted to approximately RMB224,252,000 for the six months ended 30 June 2019. The total comprehensive loss was mainly due to the negative impact from COVID-19 outbreak in 2020.

General Information of assets and liabilities

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the total assets of Lunan Chemical amounted to approximately RMB8,542,938,000, RMB8,799,130,000, RMB9,359,892,000 and RMB9,811,094,000, respectively. There was no material fluctuation of total assets between 31 December 2017 ad 31 December 2018. The increase in total assets as at 31 December 2019 was mainly due to an increase in property, plant and equipment, intangible assets and prepayment and other receivables.

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the total liabilities of Lunan Chemical amounted to approximately RMB7,725,728,000, RMB4,026,717,000, RMB3,907,998,000 and RMB4,249,404,000, respectively. The decrease in total liabilities as at 31 December 2018 was mainly due to a decrease in borrowings. The total liabilities as at 31 December 2019 remained stable. The increase in total liabilities as at 30 June 2020 was mainly due to an increase in trade and bills payables and accruals and other payables.

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the respective gearing ratios of Lunan Chemical were: 431.2%, 64.2%, 53.3% and 47.8%, representing a low gearing ratio and a very stable financial situation.

Liquidity and capital resources

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the current assets of Lunan Chemical amounted to approximately RMB4,268,199,000, RMB2,740,499,000, RMB2,467,047,000 and RMB2,552,417,000, respectively. Among which, cash and cash equivalents amounted to approximately RMB1,595,975,000, RMB566,251,000, RMB233,713,000 and RMB502,131,000 respectively, accounting for 37.4%, 20.7%, 9.5% and 19.7% of current assets, respectively. Accounts receivable amounted to approximately RMB481,591,000, RMB1,035,357,000, RMB987,043,000 and RMB837,737,000 respectively, accounting for 11.3%, 37.8%, 40.0% and 32.8% of current assets, respectively. Prepayments, other receivables and other assets amounted to approximately RMB2,190,633,000, RMB1,138,891,000, RMB1,246,291,000 and RMB1,212,549,000 respectively, accounting for 51.3%, 41.5%, 50.5% and 47.5% of current assets, respectively.

Liquidity ratios (current assets divided by current liabilities) were 0.7, 1.3, 0.8 and 0.7, respectively.

Foreign exchange risks

As the principal business of Lunan Chemical is domiciled in the PRC and its transactions are denominated in RMB, Lunan Chemical is not exposed to foreign exchange risks.

Contingent liabilities

As at 30 June 2017, 2018, 2019 and 2020, Lunan Chemical had no significant contingent liabilities.

Future plans of significant investments or capital assets

As at the Latest Practicable Date, Lunan Chemical has no plans in relation to significant investments or capital assets.

Employees and remuneration policy

As at 30 June 2020, the total number of employees of Lunan Chemical was 3,005. Lunan Chemical determines employee remuneration with reference to market level as well as personal qualifications, experience, skills, performance and contributions. Lunan Chemical reviews the remuneration and benefits policies, and employee's personal performance on a regular basis to ensure its employees are fairly rewarded.

Outlook

Lunan Chemical is the core area of Yankuang Group's coal chemical business. It will become a leading demonstration area for the conversion from old to new kinetic energy, a production base for high-end chemical products and an innovation and development pioneer area in Shandong through accelerating the development of large-scale, high-end, park-based and terminal-oriented as well as promoting the integrated development of chemicals. By enhancing and optimizing Lunan Chemical, accelerating the transformation from traditional chemical to high-end chemical through reform and upgrading, the Group strives to become the national leading innovation coal-based new material enterprise.

D. MANAGEMENT DISCUSSION AND ANALYSIS ON CHEMICAL EQUIPMENT

The following performance discussion of Chemical Equipment should be read in conjunction with the historical financial information for the three financial years ended 31 December 2019 and for the six months ended 30 June 2020 set forth in the accountants' report, the text of which is set out in Appendix II D.

Business overview

The company is principally engaged in the manufacture of non-standard pressure vessels, and the manufacture of four major types of products of heat exchangers, separation vessels, reaction vessels and storage vessels, as well as environmental-friendly boilers.

Revenue

For the three years ended 31 December 2017, 2018 and 2019, the revenue of Chemical Equipment amounted to approximately RMB27,539,000, RMB39,189,000 and RMB52,907,000, respectively. The increase in revenue from 2017 to 2019 was mainly due to an increase in sales of relevant products to customers.

For the six months ended 30 June 2019 and 2020, the revenue of Chemical Equipment amounted to approximately RMB25,171,000 and RMB33,555,000 respectively. The increase in revenue was mainly due to an increase in sales to Shaanxi Future Energy and Lunan Chemical.

Operating costs

For the three years ended 31 December 2017, 2018 and 2019, the operating costs of Chemical Equipment amounted to approximately RMB25,150,000, RMB36,387,000 and RMB47,351,000, respectively. The increase in operating costs from 2017 to 2019 was mainly due to an increase in revenue.

For the six months ended 30 June 2019 and 2020, the operating costs of Chemical Equipment amounted to approximately RMB22,390,000 and RMB29,912,000. The increase in operating costs was mainly due to an increase in sales to Shaanxi Future Energy and Lunan Chemical.

Gross profit and gross profit margin

For the three years ended 31 December 2017, 2018 and 2019, the gross profit generated from the operations of Chemical Equipment amounted to approximately RMB2,389,000, RMB2,802,000 and RMB5,556,000, respectively. The corresponding gross profit margins were 8.7%, 7.1% and 10.5%, respectively. The increase in gross profit from 2017 to 2019 was mainly due to an increase in sales of relevant products to customers. The decrease in gross profit margin in 2018 was mainly due to an increase in production costs. The increase in gross profit margin in 2019 was mainly due to a decrease in production costs.

For the six months ended 30 June 2019 and 2020, the gross profit generated from the operations of Chemical Equipment was approximately RMB2,781,000 and RMB3,643,000 respectively. The corresponding gross profit margins were 11.0% and 10.9% respectively.

Total comprehensive (loss)/profit for the year/period

For the three years ended 31 December 2019, the total comprehensive (loss)/profit of Chemical Equipment amounted to approximately RMB(137,000), RMB312,000 and RMB5,339,000, respectively. The increase in total comprehensive profit for 2019 was mainly due to an increase in gross profit and a decrease in general and administrative expenses. The increase in total comprehensive profit for 2018 was mainly due to an increase in gross profit and other income.

For the six months ended 30 June 2019 and 2020, the total comprehensive profit of Chemical Equipment amounted to approximately RMB3,989,000 and RMB1,605,000.

General Information of assets and liabilities

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the total assets of Chemical Equipment amounted to approximately RMB49,152,000, RMB53,999,000, RMB85,907,000 and RMB86,689,000, respectively. The increase in total assets as at 31 December 2018 was mainly due to an increase in inventories and trade and bills an receivables. The increase in total assets as at 31 December 2019 was mainly due to increase in property, plant and equipment, prepayment and other receivables and cash and cash equivalents. The total assets remained stable as at 30 June 2020.

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the total liabilities of Chemical Equipment amounted to approximately RMB121,528,000, RMB126,063,000, RMB30,322,000 and RMB26,340,000, respectively. There was no material fluctuation in total liabilities between 31 December 2017 and 2018. The decrease in total liabilities was mainly due to a decrease in accruals and other payables. The total liabilities remained stable as at 30 June 2020.

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the respective gearing ratios of Chemical Equipment were: N/A, N/A, 1.4% and 1.3%, representing a continuous improving financial situation.

Liquidity and capital resources

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the current assets of Chemical Equipment amounted to approximately RMB29,090,000, RMB35,281,000, RMB52,125,000 and RMB53,992,000, respectively. Among which, cash and cash equivalents amounted to approximately RMB55,000, RMB1,950,000, RMB12,660,000 and RMB10,176,000 respectively, accounting for 0.2%, 5.5%, 24.3% and 18.8% of current assets, respectively. Accounts receivable amounted to approximately RMB20,060,000, RMB22,049,000, RMB22,072,000 and RMB27,477,000 respectively, accounting for 69.0%, 62.5%, 42.3% and 50.9% of current assets, respectively.

Prepayments, other receivables and other assets amounted to approximately RMB8,975,000, RMB11,282,000, RMB17,393,000 and RMB16,339,000 respectively, accounting for 30.8%, 32.0%, 33.4% and 30.3% of current assets, respectively.

Liquidity ratios (current assets divided by current liabilities) were 0.2, 0.3, 1.8 and 1.9, respectively.

Foreign exchange risks

As the principal business of Chemical Equipment is domiciled in the PRC and denominated in RMB, Chemical Equipment is not exposed to foreign exchange risks.

Contingent liabilities

As at 30 June 2017, 2018, 2019 and 2020, Chemical Equipment had no significant contingent liabilities.

Significant investments, material acquisition and disposal

As at the Latest Practicable Date, Chemical Equipment has no plans in relation to significant investments or capital assets.

Employees and remuneration policy

As at 30 June 2020, the total number of employees of Chemical Equipment was 104. Chemical Equipment determines employee remuneration with reference to market level as well as personal qualifications, experience, skills, performance and contributions. Chemical Equipment reviews the remuneration and benefits policies, and employee's personal performance on a regular basis to ensure employees are fairly rewarded.

Outlook

Chemical Equipment is committed to building a first-class high-end chemical equipment manufacturing enterprise in the industry with the level of design technology, product processing and manufacturing capabilities and quality management system. It has equipped with the ability to process products with high value-added characteristic materials and mastered the proprietary manufacturing technology of various series of products, which forms the core competitiveness. The processing capability and profitability have reached the advanced level within the industry.

E. MANAGEMENT DISCUSSION AND ANALYSIS ON TRADING COMPANY

The following performance discussion of Trading Company should be read in conjunction with the historical financial information for the three financial years ended 31 December 2019 and for the six months ended 30 June 2020 set forth in the accountants' report, the text of which is set out in Appendix II E.

Business overview

The main business of the company is based on the coal chemical production demand from Yankuang Group and its subsidiaries and the coal chemical market demand in the surrounding areas. It is principally engaged in procurement and supply business of chemical raw materials for coal chemical segment companies of the Yankuang Group, sales of the methanol, polyformaldehyde, ethyl acetate and liquid ammonia, as well as the provision of corresponding logistics and trade.

Revenue

For the three years ended 31 December 2017, 2018 and 2019, the revenue of Trading Company amounted to approximately RMB11,127,075,000, RMB10,217,082,000 and RMB7,170,375,000, respectively. The decrease in revenue from 2017 to 2019 was mainly due to a decrease in sales volume.

For the six months ended 30 June 2019 and 2020, the revenue of Trading Company amounted to approximately RMB3,387,403,000 and RMB3,388,079,000 respectively. There was no material fluctuation of revenue.

Operating costs

For the three years ended 31 December 2017, 2018 and 2019, the operating costs of Trading Company amounted to approximately RMB11,076,378,000, RMB10,166,211,000 and RMB7,129,874,000, respectively. The decrease in operating costs was mainly due to a decrease in revenue.

For the six months ended 30 June 2019 and 2020, the operating costs of Trading Company amounted to approximately RMB3,354,835,000 and RMB3,361,272,000. There was no material fluctuation in operating costs.

Gross profit and gross profit margin

For the three years ended 31 December 2017, 2018 and 2019, the gross profit generated from the operations of Trading Company amounted to approximately RMB50,697,000, RMB50,871,000 and RMB40,501,000, respectively. The corresponding gross profit margins were 0.5%, 0.5% and 0.6%, respectively. Gross profit remained stable during the periods.

For the six months ended 30 June 2019 and 2020, the gross profit generated from the operations of Trading Company amounted to approximately RMB32,568,000 and RMB26,807,000 respectively. The corresponding gross profit margins were 1.0% and 0.8% respectively. The decrease was mainly due to the negative impact on products' selling prices arising from the COVID-19 outbreak.

Total comprehensive profit for the year/period

For the three years ended 31 December 2017, 2018 and 2019, the total comprehensive profit of Trading Company amounted to approximately RMB24,663,000, RMB20,422,000 and RMB17,723,000, respectively. The decrease in total comprehensive profit for 2018 was mainly due to a decrease in other income, an increase in general and administrative expenses. The decrease in total comprehensive profit for 2019 was mainly due to an increase in selling and distribution expenses and income tax expenses.

For the six months ended 30 June 2019 and 2020, the total comprehensive profit of Trading Company amounted to approximately RMB18,432,000 and RMB9,012,000. The decrease was mainly due to the negative impact on products' selling prices arising from the COVID-19 outbreak.

General Information of assets and liabilities

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the total assets of Trading Company amounted to approximately RMB1,393,089,000, RMB579,427,000, RMB547,396,000 and RMB704,417,000, respectively. The decrease in total assets as at 31 December 2018 was mainly due to a decrease in inventories, trade and bills receivables, prepayments and other receivables and cash and cash equivalents. The decrease in total assets as at 31 December 2019 was mainly due to a decrease in inventories and cash and cash equivalents. The increase in total assets as at 30 June 2020 was mainly due to an increase in cash and cash equivalents.

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the total liabilities of Trading Company amounted to approximately RMB1,205,968,000, RMB377,460,000, RMB327,706,000 and RMB474,833,000, respectively. The decrease in total liabilities as at 31 December 2018 was mainly due to a decrease in trade and bills payables, accruals and other payables and loans. The decrease in total liabilities as at 31 December 2019 was mainly due to a decrease in trade and bills payables. The increase in total liabilities as at 30 June 2020 was mainly due to an increase in trade and bills payables and tax payables.

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the respective gearing ratios of Trading Company were: 106.9%, N/A, N/A and N/A, representing a low gearing ratio and a very stable financial situation.

Liquidity and capital resources

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the current assets of Trading Company amounted to approximately RMB1,387,056,000, RMB573,729,000, RMB542,154,000 and RMB699,320,000, respectively. Among which, cash and cash equivalents amounted to approximately RMB380,280,000, RMB296,771,000, RMB233,855,000 and RMB386,066,000 respectively, accounting for 27.4%, 51.7%, 43.1% and 55.2% of current assets, respectively. Accounts receivable amounted to approximately RMB366,247,000, RMB231,475,000, RMB274,324,000 and RMB278,947,000 respectively, accounting for 26.4%, 40.3%, 50.6% and 39.9% of current assets, respectively. Prepayments, other receivables and other assets amounted to approximately RMB640,529,000, RMB45,483,000, RMB33,975,000 and RMB34,307,000 respectively, accounting for 46.2%, 8.0%, 6.3% and 4.9% of current assets, respectively.

Liquidity ratios (current assets divided by current liabilities) were 1.2, 1.5, 1.7 and 1.5, respectively.

Foreign exchange risks

As the principal business of Trading Company is domiciled in the PRC and its transactions are denominated in RMB, Trading Company is not exposed to foreign exchange risks.

Contingent liabilities

As at 30 June 2017, 2018, 2019 and 2020, Trading Company had no significant contingent liabilities.

Future plans of significant investment or capital assets

As at the Latest Practicable Date, Trading Company has no plans in relation to significant investments or capital assets.

Employees and remuneration policy

As at 30 June 2020, the total number of employees of Trading Company was 119. Trading Company determines employee remuneration with reference to market level as well as personal qualifications, experience, skills, performance and contributions. Trading Company reviews its remuneration and benefits policies, and employee's personal performance on a regular basis to ensure employees are fairly rewarded.

Outlook

As a professional marketing unit of Yankuang Group's chemical segment, Trading Company, through integration of resources, based on a solid energy and chemical industry foundation, and relying on the industrial planning of the chemical sector, exerts the synergistic effect of unified purchase and unified marketing, fully consolidates the advantageous resources of the industrial chains and supply chains and persists in market-orientation to further enhance the competitiveness of enterprises.

F. MANAGEMENT DISCUSSION AND ANALYSIS ON JISAN ELECTRICITY

The following performance discussion of Jisan Electricity should be read in conjunction with the historical financial information for the three financial years ended 31 December 2019 and for the six months ended 30 June 2020 set forth in the accountants' report, the text of which is set out in Appendix II F.

Business overview

Jisan Electricity is principally engaged in the business of low-calorific value fuel thermal power generation, sales of electricity to the State Grid and supply of heat to Jisan Coal Mine.

Revenue

For the three years ended 31 December 2017, 2018 and 2019, the revenue of Jisan Electricity amounted to approximately RMB428,870,000, RMB455,016,000 and RMB429,724,000, respectively. The fluctuation in revenue from 2017 to 2019 was mainly due to changes in production volume.

For the six months ended 30 June 2019 and 2020, the revenue of Jisan Electricity amounted to approximately RMB228,990,000 and RMB171,248,000 respectively. The decrease was mainly due to a decrease in production volume.

Operating costs

For the three years ended 31 December 2017, 2018 and 2019, the operating costs of Jisan Electricity amounted to approximately RMB340,262,000, RMB381,512,000 and RMB325,057,000, respectively. The fluctuation in revenue from 2017 to 2019 was mainly due to changes in production costs, mainly coal.

For the six months ended 30 June 2019 and 2020, the operating costs of Jisan Electricity amounted to approximately RMB 176,869,000 and RMB100,600,000. The decrease was mainly due to a decrease in production costs, mainly coal.

Gross profit and gross profit margin

For the three years ended 31 December 2017, 2018 and 2019, the gross profit generated from the operations of Jisan Electricity amounted to approximately RMB88,608,000, RMB73,504,000 and RMB104,667,000, respectively. The corresponding gross profit margins were 20.7%, 16.2% and 24.4%, respectively. The fluctuation in gross profit from 2017 to 2019 was mainly due to changes in production volume and production costs, mainly coal.

For the six months ended 30 June 2019 and 2020, the gross profit generated from the operations of Jisan Electricity amounted to approximately RMB52,121,000 and RMB70,648,000 respectively. The corresponding gross profit margins were 22.8% and 41.3% respectively. The increase in gross profit and gross profit margin was mainly decrease in production costs, mainly coal.

Total comprehensive profit for the year/period

For the three years ended 31 December 2017, 2018 and 2019, the total comprehensive profit of Jisan Electricity amounted to approximately RMB22,651,000, RMB8,754,000 and RMB37,812,000, respectively. The decrease in total comprehensive profit for 2018 was mainly due to decrease in gross profit. The increase in total comprehensive profit for 2019 was mainly due to increase in gross profit.

For the six months ended 30 June 2019 and 2020, the total comprehensive profit of Jisan Electricity amounted to approximately RMB19,692,000 and RMB37,306,000 respectively. The increase was mainly due to increase in gross profit and other income.

General Information of assets and liabilities

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the total assets of Jisan Electricity amounted to approximately RMB2,119,906,000, RMB2,041,426,000, RMB2,149,303,000 and RMB2,080,364,000, respectively. The decrease in total assets as at 31 December 2018 was mainly due to depreciation charge for 2018 and decrease in prepayments and other receivables. The increase in total assets as at 31 December 2019 was mainly due to increase in trade and bills receivables and cash and cash equivalents. The decrease in total assets as at 30 June 2020 was mainly due to decrease in cash and cash equivalents.

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the total liabilities of Jisan Electricity amounted to approximately RMB1,618,426,000, RMB1,535,877,000, RMB1,605,942,000 and RMB1,499,589,000, respectively. The decrease in total liabilities as at 31 December 2018 was mainly due to decrease in trade and bills payables, accruals and other payables and lease liabilities. The increase in total liabilities as at 31 December 2019 was mainly due to increase in debentures. The decrease in liabilities as at 30 June 2020 was mainly due to decrease in trade and bills payables, debentures and lease liabilities.

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the respective gearing ratios of Jisan Electricity were: 278.9%, 262.4%, 280.4% and 249.5% representing a low gearing ratio and a very stable financial situation.

Liquidity and capital resources

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the current assets of Jisan Electricity amounted to approximately RMB1,526,682,000, RMB1,488,930,000, RMB1,639,658,000 and RMB1,594,108,000, respectively. Among which, cash and cash equivalents amounted to approximately RMB54,687,000, RMB49,965,000, RMB133,982,000 and RMB11,000 respectively, accounting for 3.6%, 3.4%, 8.2% and 0% of current assets, respectively. Accounts receivable amounted to approximately RMB46,453,000, RMB52,835,000, RMB66,874,000 and RMB51,221,000 respectively, accounting for 3.0%, 3.5%, 4.1% and 3.2% of current assets, respectively. Prepayments, other receivables and other assets amounted to approximately RMB1,425,542,000, RMB1,386,130,000, RMB1,438,802,000 and RMB1,542,876,000 respectively, accounting for 93.4%, 93.1%, 87.7% and 96.8% of current assets, respectively.

Liquidity ratios (current assets divided by current liabilities) were 3.0, 3.3, 2.0 and 2.0, respectively.

Foreign exchange risks

As the principal business of Jisan Electricity is domiciled in the PRC and denominated in RMB, Jisan Electricity is not exposed to foreign exchange risks.

Contingent liabilities

As at 30 June 2017, 2018, 2019 and 2020, Jisan Electricity had no significant contingent liabilities.

Significant investments, material acquisition and disposal

As at the Latest Practicable Date, Jisan Electricity has no plans in relation to significant investments or capital assets.

Employees and remuneration policy

As at 30 June 2020, the total number of employees of Jisan Electricity was 343. Jisan Electricity determines employee remuneration with reference to market level as well as personal qualifications, experience, skills, performance and contributions. Jisan Electricity reviews the remuneration and benefits policies, and employee's personal performance on a regular basis to ensure employees are fairly rewarded.

Outlook

The production output of Jisan Electricity has been relatively stable in recent years. In the future, it is planned to be incorporated as heat source enterprises into some regions in Jining City to further expand its business scope, continuously and steadily reduce costs and improve efficiency, and maintain cost advantages.

G. MANAGEMENT DISCUSSION AND ANALYSIS ON INFORMATION CENTER

The following performance discussion of Information Center should be read in conjunction with the historical financial information for the three financial years ended 31 December 2019 and for the six months ended 30 June 2020 set forth in the accountants' report, the text of which is set out in Appendix II G.

Business overview

The Information Center is currently the functional department of Yankuang Group's informatization business, capable of providing mine informatization system development and construction and maintenance services, as well as communications, network and digital TV services.

Revenue

For the three years ended 31 December 2017, 2018 and 2019, the revenue of Information Center amounted to approximately RMB118,338,000, RMB140,851,000 and RMB143,302,000, respectively. The increase in revenue for 2018 was mainly due to an increase in system maintenance services. There was no material fluctuation in revenue for 2019.

For the six months ended 30 June 2019 and 2020, the revenue of Information Center amounted to approximately RMB61,888,000 and RMB64,392,000 respectively. There was no material fluctuation in revenue.

Operating costs

For the three years ended 31 December 2017, 2018 and 2019, the operating costs of Information Center amounted to approximately RMB53,659,000, RMB73,815,000 and RMB86,402,000, respectively. The increase in operating costs for 2018 and 2019 was mainly due to an increase in staff and materials costs.

For the six months ended 30 June 2019 and 2020, the operating costs of Information Center amounted to approximately RMB29,448,000 and RMB37,067,000 respectively . The increase in operating costs was mainly due to an increase in staff and materials costs.

Gross profit and gross profit margin

For the three years ended 31 December 2017, 2018 and 2019, the gross profit generated from the operations of Information Center amounted to approximately RMB64,679,000, RMB67,036,000 and RMB56,900,000, respectively. The corresponding gross profit margins were 54.7%, 47.6% and 39.7%, respectively. The fluctuation in gross profit and gross profit margin from 2017 to 2018 was mainly due to changes in selling prices for services and related products.

For the six months ended 30 June 2019 and 2020, the gross profit generated from the operations of Information Center amounted to approximately RMB32,440,000 and RMB27,325,000 respectively. The corresponding gross profit margin were 52.4% and 42.4% respectively. The fluctuation in gross profit and gross profit margin from 2017 to 2018 was mainly due to changes in selling prices for services and related products.

Total comprehensive profit for the year/period

For the three years ended 31 December 2019, the total comprehensive profit of Information Center amounted to approximately RMB37,270,000, RMB36,798,000 and RMB19,901,000, respectively. There was no material fluctuation in total comprehensive profit from 2017 to 2018. The decrease in total comprehensive profit for 2019 was mainly due to a decrease in gross profit and an increase in administrative expenses and finance costs.

For the six months ended 30 June 2019 and 2020, the total comprehensive profit of Information Center amounted to approximately RMB20,728,000 and RMB15,698,000 respectively. The decrease was mainly due to a decrease in gross profit and an increase in finance costs.

General Information of assets and liabilities

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the total assets of Information Center amounted to approximately RMB262,466,000, RMB265,126,000, RMB262,549,000 and RMB259,851,000, respectively. There was no material fluctuation in total assets from 31 December 2017 to 30 June 2020.

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the total liabilities of Information Center amounted to approximately RMB183,804,000, RMB171,666,000, RMB166,568,000 and RMB150,028,000, respectively. The decrease in total liabilities from 31 December 2018 to 30 June 2020 was mainly due to a decrease in accruals and other payables.

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the respective gearing ratios of Information Center were: N/A, N/A, N/A and N/A, representing a low gearing ratio and a very stable financial situation.

Liquidity and capital resources

As at 31 December 2017, 2018 and 2019, and 30 June 2020, the current assets of Information Center amounted to approximately RMB174,986,000, RMB183,558,000, RMB184,182,000 and RMB189,862,000, respectively. Among which, cash and cash equivalents amounted to approximately RMB84,528,000, RMB131,563,000, RMB119,410,000 and RMB130,274,000 respectively, accounting for 48.3%, 71.7%, 64.8% and 68.6% of current assets, respectively. Accounts receivable amounted to approximately RMB89,988,000, RMB51,281,000, RMB64,338,000 and RMB58,331,000 respectively, accounting for 51.4%, 27.9%, 34.9% and 30.7% of current assets, respectively. Prepayments, other receivables and other assets amounted to approximately RMB470,000, RMB714,000, RMB434,000 and RMB1,257,000 respectively, accounting for 0.3%, 0.4%, 0.3% and 0.7% of current assets, respectively.

Liquidity ratios (current assets divided by current liabilities) were 1.0, 1.1, 1.2 and 1.3, respectively.

Foreign exchange risks

As the principal business of Information Center is domiciled in the PRC and its transactions are denominated in RMB, Information Center is not exposed to foreign exchange risks.

Contingent liabilities

As at 30 June 2017, 2018, 2019 and 2020, Information Center had no significant contingent liabilities.

Future plans of significant investments or capital assets

As at the Latest Practicable Date, Information Center has no plans in relation to significant investments or capital assets.

Employees and remuneration policy

As at 30 June 2020, the total number of employees of Information Center was 321, respectively. Information Center determines employee remuneration with reference to market level as well as personal qualifications, experience, skills, performance and contributions. Information Center reviews its remuneration and benefits policies, and employee’s personal performance on a regular basis to ensure employees are fairly rewarded.

Outlook

The Information Center will seize the opportunity of the digital transformation of Yankuang Group to promote in-depth integration of informatization and main business, enhance the automation and intelligence level of factories and mining enterprises while realizing the rapid transformation and upgrading of the information industry of Yankuang Group, and further promoting the development of strategic emerging industries of the subsidiaries of Yankuang Group.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTEREST

Shareholding of Directors, chief executives and supervisors of the Company

As at the Latest Practicable Date, save as disclosed below, none of the Directors, chief executives or supervisors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Hong Kong Stock Exchange.

Name	Title	Number of A Shares held as at the Latest Practicable Date *(Shares)*
Li Xiyong	Director, Chairman of the Board	10,000
Wu Xiangqian	Director	10,000
Gu Shisheng	Supervisor, Chairman of the Supervisory Committee	12,800

All the interests disclosed above represent long position in the A Shares.

Share Incentive Mechanism to the Directors, Supervisors and Senior Management

Unit: Shares

Name	Title	Number of options held
Wu Xiangqian	Director	320,000
Liu Jian	Director	260,000
Zhao Qingchun	Director	260,000
He Jing	Director	260,000
Wang Ruolin	Director	150,000
Qin Yanpo	Supervisor	120,000
Su Li	Supervisor	150,000
Xiao Yaomeng	Senior Management	150,000
Gong Zhijie	Senior Management	260,000
Wang Peng	Senior Management	150,000
Li Wei	Senior Management	150,000
Wang Chunyao	Senior Management	150,000
Jin Qingbin	Senior Management	260,000
Total	/	2,640,000

Note: As Mr. Qin Yanpo and Mr. Su Li are now the Supervisors of the Company, the Company will forfeit and cancel the share options held by them in due course according to the share option incentive scheme.

As at the Latest Practicable Date, Mr. Li Xiyong, Mr. Wu Xiangqian and Mr. Gu Shisheng are directors or employees of Yankuang Group, a company having an interest in the Company's Shares which are required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse changes in the financial or operating position of the Group since 31 December 2019, being the date to which the latest published audited accounts of the Group were made up.

4. CONSENTS AND QUALIFICATIONS OF EXPERTS

The following is the qualification of the experts who have given opinion or advice which is contained in this circular:

Name	Qualification
Donvex Capital Limited	a corporation licensed to carry on type 6 (advising on corporate finance) regulated activities under the SFO
Beijing Pan-China Assets Appraisal Co., Ltd.	Qualified independent valuer in the PRC
Crowe (HK) CPA Limited	Hong Kong Certified Public Accountant
John T. Boyd Company	Competent Person

Each of the experts referred to above have given and have not withdrawn their written consent to the issue of this circular with the inclusion of their letter or statements and references to their names in the form and context in which they appear.

As at the Latest Practicable Date, each of the above experts are not beneficially interested in the share capital of any member of the Group nor did they have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the above experts did not have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019 (being the date to which the latest published audited financial statements of the Group were made up).

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any existing or proposed service contract that the Group can terminate without compensation within one year (other than statutory compensation).

6. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any interest, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019 (being the date to which the latest published audited financial statements of the Group were made up).

As at the Latest Practicable Date, none of the Directors or supervisors of the Company was materially interested in any existing contract or arrangement at the Latest Practicable Date which is significant in relation to the business of the Group.

7. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective associates (as defined under the Hong Kong Listing Rules) had any interests in the businesses, other than being a Director, which compete or are likely to compete, either directly or indirectly, with the businesses of the Group (as would be required to be disclosed under Rule 8.10 of the Hong Kong Listing Rules if they were controlling shareholders of the Company).

8. LITIGATION

As at the Latest Practicable Date, the Group was involved in 13 litigation cases and 1 arbitration cases, among which 12 were contractual disputes (4 cases as plaintiff, 6 cases as defendant, 1 case as jointly liable party and 1 case as third party) and 2 were in relation to commercial instruments (1 case as plaintiff and 1 case as defendant). Please refer to p.35 to p.44 of the 2020 Interim Report of the Company for further details.

As far as the Directors are aware, save as disclosed above (details of which can be found on pages 35 to 44 of the 2020 Interim Report of the Company), none of the members of the Group was at present engaged in any other litigation or claim or arbitration of material importance (including any litigation or claims that may have any material influence on rights to explore or mine) and there was no other litigation or claim of material importance (including any litigation or claims that may have any material influence on rights to explore or mine) known to the Directors to be pending or threatened against any member of the Group as at the Latest Practicable Date.

9. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not entered into in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this circular which are or may be material:

(i) On 1 April 2019, Shaanxi Future Energy entered into the "100,000 tons per year Fischer-Tropsch Wax Finishing Project Cooperation Agreement" with Beijing Jiangyou Weichuang Petrochemical Co., Ltd.（北京江油偉創石油化工有限公司）to establish Shaanxi Future Clean Chemical Co., Ltd. ("Shaanxi Future Clean Chemical"). Shaanxi Future Energy subscribes to the registered capital of RMB14.7 million, accounting for 51% of the registered capital of Shaanxi Future Clean Chemical.

(ii) On 30 August 2019, Yankuang Group Finance Co., Ltd., a non-wholly owned subsidiary of the Company, entered into Financial Service Agreement with Yankuang Group, pursuant to which Yankuang Group Finance Co., Ltd. can provide deposit services, comprehensive credit facility services and miscellaneous financial services to Yankuang Group Members, with effect from 1 January 2020 and will expire on 31 December 2022.

(iii) On 3 September 2019, Shaanxi Future Energy entered into the "Shareholders Agreement in relation to Yulin Yuyang District Coal Mine Drainage Water Environmental Treatment Co., Ltd." with 10 other coal mining enterprises to jointly establish Yulin Yuyang District Coal Mine Drainage Water Environmental Treatment Co., Ltd.（榆林市榆陽區煤礦疏乾水環境治理有限公司）("Drainage Water Company"). Shaanxi Future Energy invested RMB165.06 million, accounting for 15.48% equity interests in the Drainage Water Company.

(iv) On 1 November 2019, the Company Inner Mongolia Haosheng Coal Mining Company Limited ("Haosheng Company"), Xibu New Era Evergy Investment Joint-stock Company ("Xibu Company") and other Shareholders entered into the Capital Increase Agreement, pursuant to which Xibu Company will increase the capital of Haosheng Company by RMB2,742,460,000.

(v) On 4 December 2019, the Company entered into the Capital Increase Agreement with Yankuang Group and Shanghai Zhongqi Futures Company Limited ("Shanghai Zhongqi"), pursuant to which the respective considerations paid for the capital increase by the Company and Yankuang Group are RMB324 million (in which RMB200 million will be accounted for the increased registered capital of Shanghai Zhongqi) and RMB648 million (in which RMB400 million will be accounted for the increased registered capital of Shanghai Zhongqi), respectively.

(vi) On 4 December 2019, Qingdao Duanxin Asset Management Company Limited ("Qingdao Duanxin"), a wholly-owned subsidiary of the Company, entered into the Share Transfer Agreement with Yankuang Group, pursuant to which, Qingdao Duanxin agreed to purchase and Yankuang Group agreed to sell 100% equity interests in Qingdao Shenglong at a consideration of RMB53,397,700.

(vii) On 30 December 2019, Zhongyin Financial Leasing Company Limited ("Zhongyin Financial Leasing"), a wholly-owned subsidiary of the Company, entered into the Finance Lease Framework Agreement with Yankuang Group, pursuant to which Zhongyin Financial Leasing has agreed to provide finance leasing services to Yankuang Group Members during the period from 1 January 2020 to 31 December 2020.

(viii) On 27 March 2020, Yancoal International (Holding) Company Limited ("Yancoal International"), a wholly-owned subsidiary of the Company, entered into the Equity Interest Transfer Agreement with ALYK (H.K.) Limited, a wholly-owned subsidiary of Yankuang Group, pursuant to which Yancoal International agreed to sell and ALYK (H.K.) Limited agreed to purchase 100% equity interests in Yancoal International Trading Co., Limited and Yancoal International (Singapore) Pte. Ltd. at a consideration of RMB78,630,500 and RMB72,040,700, respectively.

(ix) On 27 March 2020, YancoalMoolarben, a wholly-owned subsidiary of Yancoal Australia Limited (a controlled overseas subsidiary of the Company) and an indirect subsidiary of the Company (as Buyer), Yancoal Australia (as guarantor), Moolarben Coal Mines Pty Ltd ("MCM") (wholly-owned subsidiary of Yancoal Australia and an indirect subsidiary of the Company) and SojitzMoolarben Resources Pty Ltd ("Sojitz") (as Seller) entered into the Joint Venture Interest Sale Deed, pursuant to which the Buyer agreed to purchase Sojitz's 10% interest in the Moolarben Coal Joint Venture for a purchase price of A$300 million (subject to adjustment). Yancoal Australia (through MCM) currently owns an 85% of interest in the Moolarben Coal Joint Venture.

(x) Transaction Agreement.

Save as disclosed above, no material contract (not a contract entered into in the ordinary course of business) has been entered into by any member of the Enlarged Group within two years immediately preceding the issue of this circular.

10. MISCELLANEOUS

(i) As at the Latest Practicable Date, the Directors of the Company are Mr. Li Xiyong, Mr. Wu Xiangqian, Mr. Liu Jian, Mr. Zhao Qingchun, Mr. He Jing and Mr. Wang Ruolin, and the independent non-executive Directors of the Company are Mr. Tian Hui, Mr. Zhu Limin, Mr. Cai Chang and Mr. Poon Chiu Kwok.

(ii) As at the Latest Practicable Date, the registered office and principal place of business of the Company is at 298 South Fushan Road, Zoucheng, Shandong Province, the PRC.

(iii) The H Share registrar of the Company in Hong Kong is Hong Kong Registrars Limited, which is located at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(iv) As at the Latest Practicable Date, Mr. Jin Qingbin is the company secretary of the Company and Ms. Leung Wing Han Sharon is the joint company secretary of the Company.

Mr. Jin Qingbin is a senior accountant, a senior economist and MBA. He obtained the qualification for the board secretary of listed companies in Shanghai Stock Exchange in November 2008. Mr. Jin Qingbin graduated from Missouri State University.

Ms. Leung Wing Han Sharon is a fellow member of the Hong Kong Institute of Chartered Secretaries, a senior member of the Chartered Governance Institute (formerly known as the Institute of Chartered Secretaries and Administrators), and a senior member of the Association of Chartered Certified Accountants in the United Kingdom and a member of the Hong Kong Institute of Certified Public

Accountants. She holds a bachelor's degree in law and a bachelor's degree in business administration (accounting) as well as a master's degree in international corporate and finance law.

(v) Unless the context otherwise requires, all references to times in this circular refer to Hong Kong times.

(vi) The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.

11. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Herbert Smith Freehills at 23rd Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including the date of the EGM:

(i) Articles of Association of the Company;

(ii) annual reports for the three years ended 31 December 2017, 2018 and 2019, and the interim report for the six months ended 30 June 2020 of the Company;

(iii) a copy of the Transaction Agreement;

(iv) letter from the Independent Board Committee, the full text of which is set out in this circular;

(v) letter from the Independent Financial Adviser, the full text of which is set out in this circular;

(vi) the audited financial information of the Target Group and Target Assets, full text of which is set out in Appendix II;

(vii) the unaudited pro forma financial information of the Enlarged Group, full text of which is set out in Appendix III;

(viii) the Competent Person's Report and Competent Person's Valuation Report, full text of which are set out in Part A and Part B of Appendix IV, respectively;

(ix) summary of the asset valuation report on each of the Target Companies and Target Assets, full text of which is set out in Appendix VI;

(x) the letters of consent set out in the section "Consent and Qualifications of Experts" of this Appendix;

(xi) the material contracts set out in the section "Material Contracts" of this Appendix; and

(xii) this circular.