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SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO IMPAIRMENT OF ASSETS

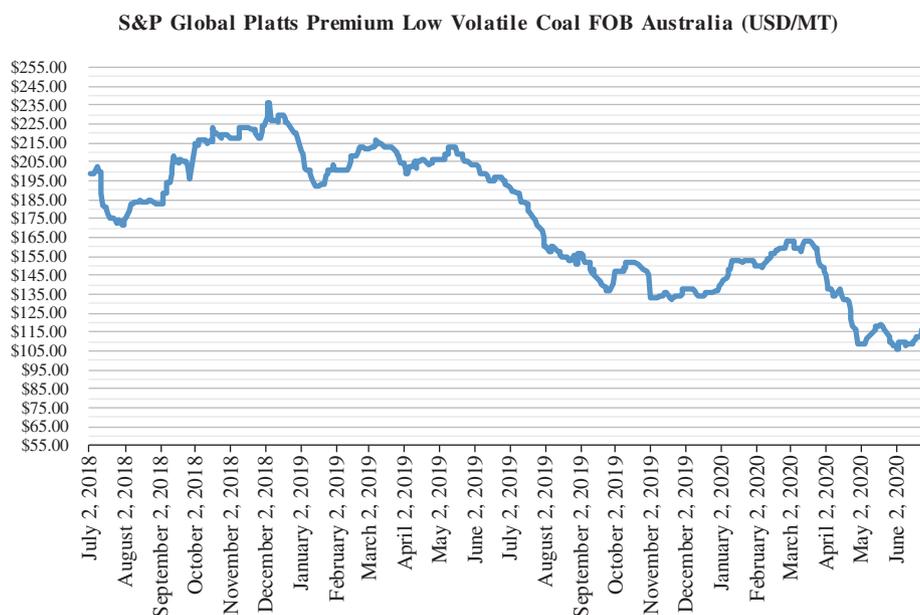
MANAGEMENT DISCUSSION AND ANALYSIS

Reference is made to the announcement of CST Group Limited (the “**Company**”) dated 29 June 2020 regarding its annual results for the year ended 31 March 2020 (the “**Announcement**”) and the annual report of the Company for the year ended 31 March 2020 (the “**Annual Report**”). As disclosed in the Announcement and the Annual Report, the Company recognised impairment loss on property, plant and equipment and right-of-use assets of approximately US\$93.85 million arising from the acquisition of the mining assets of Grande Cache coal mine. Unless otherwise stated, capitalised terms used herein shall have the same meaning as those used in the Annual Report.

Reasons for and the circumstances leading to the impairment loss

As disclosed in the announcement of the Company dated 13 May 2020, due to the impact of the outbreak of COVID-19 pandemic (the “**Outbreak**”) on the operation of the Canada coal mine (the “**Coal Mine**”), the Company has resolved to suspend its coal mining operations to ensure worker safety in accordance with applicable public health guidelines, and to prevent the Outbreak among the workforce at the mine and in the remote community of Grande Cache, the mine was placed into care and maintenance status. The Management is of the view that the suspension of the Coal Mine’s mining operations is temporary due to the ongoing significant constraints and challenges imposed by the COVID-19 pandemic. The duration of the suspension is yet to be ascertained at the moment due to the uncertainties brought by the COVID-19 pandemic. The Management is dedicated to overseeing all environmental responsibilities and compliance with the relevant protocols and procedures and will consider resuming the mining operations at the Coal Mine as and when the situation permits.

According to the Hong Kong Accounting Standard 36 “Impairment of Assets” (“**HKAS 36**”), the recoverable amount of an asset is required to be measured whenever there is an indication that the asset may be impaired. The continuing Outbreak caused the global steel demand significantly reduced and thus the demand for coking coal was adversely affected in steel-making industries. In around May 2020, in the course of discussion with the auditors regarding the audit matters for the year ended 31 March 2020 (“**FY2020**”), it came to the attention of the Management that the S&P Global Platts Premium Low Volatile Coal FOB Australia price remained at a level which was below the lower end of the price range of US\$145 to US\$165 per metric tonne used by the consultant in the Valuation Report dated 15 February 2018 (the “**Valuation Report**”) as included in the circular of the Company dated 8 March 2018 in relation to the acquisition of the Coal Mine. The movement of the price of the S&P Global Platts Premium Low Volatile Coal FOB Australia since July 2018 is as below:



Note:

- (1) The price of S&P Global Platts Premium Low Volatile Coal FOB Australia first dropped below US\$145 per metric tonne in September 2019 and fluctuated in the range of US\$130–US\$165 per metric tonne before it dropped to US\$108 per metric tonne at the end of May 2020.
- (2) The price of S&P Global Platts Premium Low Volatile Coal FOB Australia and the website of S&P Global Platts is <https://www.spglobal.com/platts/en/commodities/coal>.

After further discussion with the auditors in regard to the indication of impairment of value of the Coal Mine according to HKAS 36, the Management considered that the aforesaid factors are indicators that the value of the Coal Mine may be required to be impaired. The Management conducted an impairment assessment and determined the recoverable amount of the Coal Mine as at 31 March 2020 accordingly.

Details of the impairment assessment of assets

The Company, consistent with the valuation method used in the Valuation Report and having considered that cost approach is not applicable to development projects and market approach would not be representative of the value since there were no other comparable sales in the region, used the discounted cash flow approach to calculate the recoverable amount of the mining assets of the Coal Mine.

In determining the recoverable amount of the Coal Mine as at 31 March 2020, the Management used certain major inputs and key assumptions, details of which are stated below:

Major inputs/ key assumptions	Value used in the Valuation Report	Value used for the FY2020 internal calculation and basis of determination	Reason for the change
Projected production volume of the Coal Mine	43.7 million metric tonnes	41.9 million metric tonnes The projected production volume is determined based on the detailed life-of-mine plans and the development plans.	No material change in value used. The decrease in projected production volume was due to the fact that CST Coal has mined approximately 2.3 million metric tonnes run-of-mine (“ROM”) coking coal since its commencement of operation to 31 March 2020 and approximately 0.5 million metric tonnes of ROM coking coal were added to the projected production volume due to in-pit blasting sampling and updates in geological modelling.

Major inputs/ key assumptions	Value used in the Valuation Report	Value used for the FY2020 internal calculation and basis of determination	Reason for the change
Long-term price of coking coal	US\$145–US\$165 per metric tonne	US\$125 per metric tonne for 2021–2024 and US\$120 per metric tonne for 2025–2038	The change was due to the decrease in the expected future coking coal price.
		<p>The long-term price of coking coal is determined by the Management with reference to</p> <p>i) the May 2020 edition of Energy & Metal Consensus Forecasts (available for subscription at https://www.consensuseconomics.com/download/energy-and-metals-price-forecasts/), which publishes surveys covering the prices for more than 40 key energy and metal;</p> <p>and ii) an adjustment made thereon by the Management in light of the quality of coal from the Coal Mine.</p>	

Major inputs/ key assumptions	Value used in the Valuation Report	Value used for the FY2020 internal calculation and basis of determination	Reason for the change
Long-term exchange rate between United States Dollar and Canadian Dollar	US\$1:C\$1.25	US\$1:C\$1.39 The long-term exchange rate between United States Dollar and Canadian Dollar is determined with reference to the average exchange rate between the said currencies for March 2020.	No material change in value used. The change in exchange rate was due to the change in market conditions of the two currencies.
Discount rate	10% post-tax discount	12% pre-tax discount (which is equivalent to 10% post-tax discount) The discount rate was determined i) after taken into consideration that the cost of equity and the project risk factors were similar to those analysed at the time of the Valuation Report; and ii) with reference to HKAS 36 whereby the Company is required to use a pre-tax discount rate for the purpose of valuation.	No material change in value used. As requested by the Hong Kong auditors of the Company, the Management adopted 12% pre-tax discount, which is equivalent to 10% post-tax discount used in the Valuation Report.

Major inputs/ key assumptions	Value used in the Valuation Report	Value used for the FY2020 internal calculation and basis of determination	Reason for the change
Growth Rate	NIL	NIL	Not applicable
		The adoption of Nil growth rate is consistent with the Valuation Report which used the Coal reserves only for valuation purposes.	

As shown above, there were no material changes in the value of inputs or key assumptions adopted in the impairment testing as compared to those used in the Valuation Report except that the long-term price of coking coal was adjusted downward which led to the decline in forecast revenue for the period between 2021 and 2038 of the Coal Mine. In accordance with the aforesaid impairment testing, as the carrying value of the Coal Mine as at 31 March 2020 of approximately US\$369.78 million exceeds the recoverable amount of approximately US\$281.68 million, an impairment loss for property, plant and equipment and right-to-use assets in the amount of approximately US\$93.85 million was recognised in profit or loss, after taken into account of an adjustment of exchange difference recognised in exchange reserve of approximately US\$5.8 million.

The above additional information does not affect other information contained in the Announcement or the Annual Report and save for those disclosed above, all other information contained in the Announcement and the Annual Report remains unchanged.

By Order of the Board
CST Group Limited
Chiu Tao
Executive Director and Chairman

Hong Kong, 20 August 2020

As at the date of this announcement, the board of the Company comprises (i) Mr. Chiu Tao (Chairman), Mr. Hui Richard Rui, Mr. Lee Ming Tung, Mr. Kwan Kam Hung, Jimmy, Mr. Tsui Ching Hung and Mr. Wah Wang Kei, Jackie as executive directors of the Company; and (ii) Mr. Yu Pan, Ms. Ma Yin Fan and Mr. Leung Hoi Ying as independent non-executive directors of the Company.