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滙力集團
HUILI GROUP

Huili Resources (Group) Limited
滙力資源（集團）有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1303)

- (I) SUMMARY OF KEY FINDINGS OF INDEPENDENT INVESTIGATION;**
- (II) VIEWS OF THE BOARD AND THE SPECIAL INVESTIGATING COMMITTEE ON THE KEY FINDINGS OF THE INDEPENDENT INVESTIGATION;**
- (III) UPDATE ON FULFILLMENT OF RESUMPTION CONDITIONS; AND**
- (IV) CONTINUAL SUSPENSION OF TRADING OF SHARES**

The Board is pleased to announce that the Independent Investigation has been completed. This announcement sets out a summary of the key findings of the Independent Investigation and the views of the Board and the Special Investigating Committee on such findings.

Following completion of the Independent Investigation, one of the Resumption Conditions has been fulfilled.

Upon completion of the audit procedures by the Auditors relating to the findings of the Independent Investigation and other outstanding matters, the Company will arrange for the finalization and publication of the 2017 Annual Results together with the 2017 Annual Report as soon as practicable thereafter. Based on the Company's understanding of the latest developments and circumstances, it is currently expected that the 2017 Annual Results and the 2017 Annual Report will be published in around mid-September 2018.

Shareholders and potential investors of the Company should exercise caution when dealing in the Shares.

(I) SUMMARY OF THE KEY FINDINGS OF THE INDEPENDENT INVESTIGATION

References are made to announcements of the Company dated 27 March 2018, 30 April 2018, 31 May 2018, 8 June 2018, 15 June 2018, 17 July 2018 and 14 August 2018 (the “**Announcements**”). Unless otherwise stated, capitalised terms used in this announcement shall have the same meaning as those defined in the Announcements.

As disclosed in the Announcements, there has been a delay in the release of the 2017 Annual Results as the Auditors required more time to perform and complete their audit procedures in respect of the 2017 Annual Results.

The audit committee of the Company received a letter dated 19 March 2018 from the Auditors (the “**Auditors’ Letter**”) raising their concern on the Disposal (as defined below). The issues raised by the Auditors in the Auditors’ Letter included without limitation:

- (a) the recoverability of the balance of the consideration receivable by the Group in the sum of RMB52,600,000 for the Disposal;
- (b) the circumstances under which the purchaser of the Disposal purportedly made a part-payment of the consideration in the sum of RMB10,000,000;
- (c) whether the Company had taken appropriate action to recover the outstanding payment from the purchaser;
- (d) the financial position of the purchaser of the Disposal; and
- (e) whether there was any relationship between the First Payment (as defined below) and the payment by the Group to a an individual (“**Individual A**”) who was not an employee of the Group.

As further disclosed in the Announcements, the Board set up a Special Investigating Committee on 21 March 2018 to investigate the Disposal and address the issues raised by the Auditors. An independent investigation firm (the “**Independent Investigation Firm**”) was engaged by the Special Investigating Committee on 25 March 2018 to conduct an Independent Investigation into such matters.

The Board is pleased to announce that the Independent Investigation has been completed by the Independent Investigation Firm, and a summary of the key findings of the Independent Investigation is set out below:

A. Matters relating to the Disposal

Reference is made to the announcement of the Company dated 18 December 2015 in relation to the Disposal (the “**2015 Announcement**”), pursuant to which Hami Jiatai Mineral Resource Exploitation Limited* (哈密市佳泰礦產資源開發有限責任公司), a subsidiary of the Company, (“**Hami Jiatai**”) and Xiao Yi Da Jie Shan Coal Company Limited* (孝義市大捷山煤業有限公司) (“**DaJieShan**”) entered into an agreement (the “**Disposal Agreement**”) in relation to the disposal of 100% equity interest in Shaanxi Jiahe Mineral Exploitation Limited* (陝西佳合礦業開發有限公司) (the “**Target**”) and related debt by Hami Jiatai to DaJieShan for an aggregate consideration of RMB57,400,000.

Set forth below are the key findings of the Independent Investigation Firm in relation to the Disposal:

1) *Payment arrangement*

In respect of the consideration payable under the Disposal Agreement, the Group received the first payment in the amount of RMB4,800,000, which was remitted by an individual (“**Individual B**”) to the Group on 30 December 2015 (the “**First Payment**”). According to the notice issued by DaJieShan, such amount was the first tranche consideration paid by Individual B on behalf of DaJieShan.

On 10 March 2017, DaJieShan presented three bank drafts in the total amount of RMB10,000,000 to the Group, purportedly for the payment of the second tranche consideration for the Disposal. However, as the ex-employee of the Group (the “**Relevant Employee**”) responsible for the matter indicated that he was occupied by various matters at the time when the bank drafts were provided to the Group and DaJieShan also requested the Relevant Employee to bank in the bank drafts at a later time due to some conflicts with its suppliers, the Relevant Employee had not arranged for the deposit of the bank drafts in time. Subsequently, the representative of DaJieShan (the “**Purchaser Representative**”) admitted that the three bank drafts were unauthentic, and he was aware of it before he presented them to the Group.

2) *Litigation against DaJieShan*

The Group made a claim against DaJieShan for the outstanding consideration payable under the Disposal Agreement and damages for breach of contract.

In March 2018, Hami Jiatai initiated a legal proceeding against DaJieShan for the outstanding consideration payable under the Disposal Agreement. Pending the commencement of the said legal proceedings, the Group also sent repeated demands to DaJieShan subsequently. However, taking into consideration of the potential higher legal costs of prolonged litigation proceedings and the low probability of recovering the remaining consideration from DaJieShan in light of its financial status, the Group considered that the Settlement would be in the best interests of the Group. On 22 May 2018, the Court issued a civil mediation order, pursuant to which Hami Jiatai and DaJieShan reached the Settlement as follows:

- (a) the entire equity interest of the Target, together with the sale debt of RMB3,100,000 due from the Target to Hami Jiatai which were then assigned to DaJieShan, shall be returned to Hami Jiatai, pursuant to which DaJieShan shall cease to be entitled to any right to such equity interest and sale debt;
- (b) the RMB4,800,000 paid by DaJieShan to Hami Jiatai as part of the consideration for the Disposal shall be retained by Hami Jiatai as liquidated damages; and
- (c) save as otherwise, no further damages will be payable by DaJieShan to Hami Jiatai as a result of the Settlement.

Further, according to the two debt settlement agreements entered into between the Group and DaJieShan dated 31 May 2018, DaJieShan agreed to re-assign the relevant debts in the aggregate amount of RMB6,300,000 to the Group, and pursuant to which DaJieShan shall cease to be entitled to any right to such debts. Details of the Settlement were also disclosed in the Company's announcement dated 31 May 2018.

B. Other matters

The following matters were also set out in the report of the Independent Investigation:

1) Relationships between the Group, DaJieShan and Warburg Energy

The Purchaser Representative was a director of a company called Warburg Energy Development Limited*(北京中海沃邦能源投資有限公司) (“**Warburg Energy**”), which was a subsidiary of DaJieShan from May 2012 to November 2012.

The Group and Warburg Energy had negotiations during the period between 2015 and 2017 in relation to a merger and acquisition project. Such project had not materialized as at the date of the report of the Independent Investigation. Three employees of Warburg Energy joined the Group as directors in April 2017.

2) Other transactions

As mentioned above, the First Payment was remitted by Individual B to the Group on 30 December 2015 in connection with the Disposal. At the same time, it was discovered that:

- (a) there was an outgoing payment in the amount of RMB4,000,000 from the Group to another individual (“**Individual C**”) in September 2016 and there was an incoming payment in the amount of RMB4,000,000 from Individual C to the Group in January 2017. The reason for and nature of the payments were not recorded;
- (b) there was an outgoing payment in the amount of RMB5,000,000 from the Group to Warburg Energy in February 2016 and there was an incoming payment in the amount of RMB5,000,000 from Warburg Energy to the Group in June 2016. The reason for and nature of the payments were not recorded; and
- (c) there are no findings indicating that there is any relationship between the First Payment and the receivable in the amount of RMB4,800,000 due from Individual A.

3) Limitations encountered during the Independent Investigation

The Independent Investigation was subject to various limitations, including (a) the limitation to obtain electronic data for certain former and existing employees of the Company; and (b) the limitation to obtain certain underlying documentation in relation to the Target and bank advices for several transactions entered into by a subsidiary of the Company.

(II) VIEWS OF THE BOARD AND THE SPECIAL INVESTIGATING COMMITTEE ON THE KEY FINDINGS OF THE INDEPENDENT INVESTIGATION

The Special Investigating Committee has reviewed the key findings of the Independent Investigation. Having considered the information available to the Special Investigating Committee, including without limitation, the 2015 Announcement, the Announcements and discussions with and information provided by the Independent Investigation Firm and the Company's legal adviser, the Special Investigating Committee is of the view that:

- (a) the Independent Investigation Firm had performed appropriate and comprehensive procedures with respect to Independent Investigation;
- (b) the Disposal was a legally binding transaction under PRC laws and the Company had complied with the applicable reporting requirements under the Listing Rules;
- (c) the Group received part of the consideration pursuant to the terms of the Disposal Agreement (as supplemented); and it is noted that the Group has reached the Settlement with DaJieShan and recouped its losses from the Disposal;
- (d) the Group should improve its financial management functions and the Relevant Employee shall bear the responsibility for not having discovered earlier that the bank drafts were unauthentic;
- (e) it is not aware of any information which shows that DaJieShan or Warburg Energy was a connected person (as defined in Chapter 14A of the Listing Rules) of the Company as at the date of the Disposal Agreement or as at the date of the Settlement; and
- (f) it agrees with the findings of the Independent Investigation Firm that there is no information showing any relationship between the First Payment and the receivable from Individual A.

Further, the Special Investigating Committee takes the view that there are no other facts or circumstances which are suggestive that the other matters raised in the report of the Independent Investigation Firm (as detailed in the paragraph headed "B. Other matters" above) relating to the Disposal.

The Group has taken various measures to protect the Group against losses that might arise from the Disposal. Such measures include but are not limited to the following:

- (a) the Group has repeatedly chased DaJieShan for the outstanding payments under the Disposal Agreement. The Group eventually took legal action against DaJieShan and the parties reached the Settlement pursuant to which the Group retrieved the assets from DaJieShan and obtained liquidated damages; and
- (b) the Group has reviewed the adequacy and effectiveness of the Group's risk management and internal control systems and has engaged a third party risk management and internal control review adviser to conduct annual review of the risk management and internal control systems including the payment and bills receipts systems of the Group. The Group will strive to improve its accounting, internal audit and financial reporting functions and will strive to ensure that the qualifications and experience of the relevant staff performing such functions will be adequate.

As a result of the Independent Investigation and subject to any further procedures that the Auditors may require to complete their audit procedures in respect of the 2017 Annual Results, the Special Investigating Committee is of the view that the issues raised by the Auditors in the Auditors' Letter should have been addressed to the extent necessary for the Auditors to perform and complete their audit procedures in respect of the 2017 Annual Results and to issue its report on the consolidated financial statements of the Company for the year ended 31 December 2017.

The Board shared the above views of the Special Investigating Committee towards the findings of the Independent Investigation and is also of the view that the issues raised by the Auditors in the Auditors' Letter should have been addressed to the extent necessary for the Auditors to perform and complete their audit procedures in respect of the 2017 Annual Results and to issue its report on the consolidated financial statements of the Company for the year ended 31 December 2017. The Board also noted that the details of the Disposal Agreement as set out in the report by the Independent Investigation Firm are consistent with the relevant information relating to the Disposal as set out in the 2015 Announcement and the Announcements.

The Group reserves its rights to claim and take actions against any entity and/or individuals in connection with the same.

(III) UPDATE ON FULFILLMENT OF RESUMPTION CONDITIONS

On 8 June 2018, the Company received a letter from the Stock Exchange pursuant to which the Stock Exchange has imposed the following Resumption Conditions on the Company:

- (a) complete an appropriate independent investigation to address the audit issues identified by the Auditors;
- (b) publish the outstanding financial results under the Listing Rules and address any audit qualifications; and
- (c) inform the market of all material information for shareholders and investors to appraise the Company's position, including the implications of the audit issues identified by the Auditors to the Group's assets, financial and operational position.

Following completion of the Independent Investigation, the first Resumption Condition has been fulfilled.

Upon completion of the audit procedures by the Auditors relating to the findings of the Independent Investigation and other outstanding matters, the Company will arrange for the finalization and publication of the 2017 Annual Results together with the 2017 Annual Report as soon as practicable thereafter. Based on the Company's understanding of the latest developments and circumstances, it is currently expected that the 2017 Annual Results and the 2017 Annual Report will be published in around mid-September 2018.

The Company will make further announcement(s) relating to any further material development of the above and to inform the shareholders and potential investors of the Company on the date of the rescheduled meeting of the Board to approve the 2017 Annual Results and the 2017 Annual Report as and when appropriate. The Company will also inform the market of all material information for the shareholders and potential investors of the Company to appraise the Company's position as and where appropriate.

(IV) CONTINUAL SUSPENSION OF TRADING OF SHARES

As a result of the delay in publication of the 2017 Annual Results and the requirements of Rule 13.50 of the Listing Rules, trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 am on 28 March 2018, pending the publication of the 2017 Annual Results, and will remain suspended until further notice.

Shareholders and potential investors of the Company should exercise caution when dealing in the Shares.

By Order of the Board
Huili Resources (Group) Limited
Li Xiaobin
Chairman

Hong Kong, 17 August 2018

As at the date of this announcement, the executive Directors are Mr. Li Xiaobin, Ms. Wang Qian, Mr. Liu Huijie and Ms. Jia Dai and the independent non-executive Directors are Mr. Cao Shiping, Ms. Sun Zhili and Ms. Xiang Siying.

* for identification purpose