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)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017 AND CONTINUED SUSPENSION OF TRADING

(1) ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The board of directors (the "Board") of Huili Resources (Group) Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2017, together with comparative figures for the previous financial year as follows:

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Revenue	3,4	**22,845**	25,588
Cost of sales	5	**(13,868)**	(23,943)
Gross profit		**8,977**	1,645
Distribution expenses	5	**–**	(56)
Administrative expenses	5	**(56,453)**	(33,161)
Other gains – net	6	**4,109**	347
Operating loss		**(43,367)**	(31,225)
Finance income	7	**493**	210
Finance costs	7	**(3,483)**	(3,000)
Finance costs – net	7	**(2,990)**	(2,790)

	Note	Year ended 31 December **2017** **RMB'000**	 2016 RMB'000
Loss before income tax		**(46,357)**	(34,015)
Income tax expense	8	**(1,829)**	(1,254)
Loss for the year		**(48,186)**	(35,269)
Loss attributable to:			
Equity holders of the Company	9	**(46,129)**	(34,615)
Non-controlling interests		**(2,057)**	(654)
		(48,186)	(35,269)
Loss per share attributable to the equity holders of the Company (expressed in RMB per share)			
– Basic and diluted	9	**(0.028)**	(0.022)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Loss for the year		**(48,186)**	(35,269)
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Available-for-sale financial assets			
– Change in value of available-for-sale financial assets		**–**	2,539
– Transferred to profit or loss upon disposal		**(5,057)**	–
Other comprehensive (loss)/income for the year, net of tax		**(5,057)**	2,539
Total comprehensive loss for the year		**(53,243)**	(32,730)
Attributable to:			
Equity holders of the Company		**(51,186)**	(32,076)
Non-controlling interests		**(2,057)**	(654)
Total comprehensive loss for the year		**(53,243)**	(32,730)

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December **2017** **RMB'000**	 2016 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**61,516**	60,729
Mining rights and exploration rights		**94,539**	99,300
Land use rights		**8,856**	9,099
Deferred tax assets		**2,823**	2,823
Refundable deposit		**–**	163,367
Restricted cash at banks		**2,648**	2,525
Other receivables and prepayments	10	**146,559**	109,123
Total non-current assets		**316,941**	446,966
Current assets			
Available for sale financial assets		**–**	114,825
Inventories		**3,045**	3,045
Trade receivables	11	**8,975**	100
Other receivables and prepayments	10	**171,834**	362,660
Cash and cash equivalents		**54,410**	8,970
Total current assets		**238,264**	489,600
Total assets		**555,205**	936,566
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	12	**137,361**	137,361
Share premium	12	**668,768**	668,768
Other reserves		**(12,168)**	(7,111)
Accumulated losses		**(302,225)**	(256,096)
		491,736	542,922
Non-controlling interests		**(1,080)**	977
Total equity		**490,656**	543,899

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
LIABILITIES			
Non-current liabilities			
Provision for close down, restoration and environmental costs		**3,233**	3,160
Deferred tax liabilities		**22,960**	24,548
Total non-current liabilities		**26,193**	27,708
Current liabilities			
Trade payables	13	**12,226**	1,318
Other payables and accruals		**21,029**	315,611
Income tax payable		**4,101**	2,005
Borrowings		**1,000**	46,025
Total current liabilities		**38,356**	364,959
Total liabilities		**64,549**	392,667
Total equity and liabilities		**555,205**	936,566

1 GENERAL INFORMATION

Huili Resources (Group) Limited ("the Company") was incorporated in the Cayman Islands on 19 February 2010 as an exempted company with limited liability under Companies Law (Cap 22, as amended and revised) of the Cayman Islands in preparation for a listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Listing") under the name of Realty Resources (Group) Limited. On 13 May 2010, the Company changed its name to Huili Resources (Group) Limited. The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited on 12 January 2012.

The Company is an investment holding company and its subsidiaries (collectively the "Group") are principally engaged in the mining, ore processing, sales of nickel, copper, lead and zinc products, financial service and engineering service in the People's Republic of China (the "PRC"). The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

The financial position and performance of the Group was particularly affected by the following events and transactions during the reporting period:

- The acquisition of Yonghe County Changshi Engineering Service Co., Ltd. ("Changshi"), a company principally engaged in providing engineering service for exploiting oil, natural gas, coal-bed methane and pre-drilling engineering services in Shanxi Province in the PRC. Further details are given in Note 14.

  Subsequent to the reporting period, Changshi is also engaged in trading of materials for oil and gas exploration.

- During the year ended 31 December 2017 and 2016, there has been no exploration, development or production activity related to the mineral operation.

These financial statements have been approved for issue by the Board of directors on 10 December 2018.

2 BASIS OF PREPARATION

(i) Compliance with HKFRS and HKCO

The consolidated financial statements of the Company have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance.

The preparation of consolidated financial statements in conforming with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the following:

- available-for-sale financial assets – measured at fair value.

(iii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to HKAS 12

- Disclosure initiative – Amendments to HKAS 7

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

The amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities.

(iv) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

HKFRS 9 Financial Instruments

Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

- Loans and receivables currently measured at amortised cost will continue with their classification and measurements upon the adoption of HKFRS 9, and

- equity instruments currently classified as available-for-sale ("AFS") for which a fair value through other comprehensive income ("FVOCI") election is available and hence there will be no change to the accounting for these assets. However, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings.

Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group expects it may result in earlier recognition of credit losses.

Date of adoption by the Group

This new standard must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

HKFRS 15 Revenue from Contracts with Customers

Nature of change

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact
Based on the assessment undertaken to date, the Group does not expect the adoption of HKFRS 15 would have a material impact over the Group's revenue recognition on revenue from mining products, engineering services and interest income.

Date of adoption by the Group
Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

HKFRS 16 Leases

Nature of change
HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact
The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB7,609,000. The Group estimates that approximately RMB2,944,000 of these relate to payments for short-term and low value leases which will be recognised on a straight-line basis as an expense in profit or loss.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Mandatory application date/Date of adoption by the Group
Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the Group's chief operating decision maker ("CODM") that are used to make strategic decisions. The CODM has been identified as the Company's Board of directors.

The CODM reviews the operating performance from a business perspective (i.e. mining, financial service and engineering service). The reportable operating segments derive their revenue primarily from mining, financial services and engineering services.

For the year ended 31 December 2016, the Group had two (Notes a and b) reportable segments:

(a) the "Mining" segment engages in the mining, ore processing and sales of nickel, copper, lead and zinc products through the Company's subsidiaries Hami Jinhua Mineral Resource Exploitation Limited ("Hami Jinhua") and Hami Jiatai Mineral Resource Exploitation Limited ("Hami Jiatai") in the PRC; and

(b) the "Financial service" segment engages in financial services through Jiayi Financial Leasing Company Limited ("Jiayi") in the PRC.

For the year ended 31 December 2017, the Group had three (Notes a, b and c) reportable segments:

(a) the "Mining" segment engages in the mining, ore processing and sales of nickel, copper, lead and zinc products through Hami Jiatai and Hami Jinhua in the PRC;

(b) the "Financial service" segment engages in financial services through Jiayi in the PRC; and

(c) the "Engineering service" segment engage in providing engineering services for exploiting oil, natural gas, coal-bed methane and pre-drilling engineering services and other related services through Changshi, which was acquired in April 2017 (Note 14), in the PRC.

Apart from the three reportable segments, other activities of the Group were mainly investment holdings which are not considered as an operating segment and therefore grouped as "Unallocated" for the purpose of financial statements disclosures.

The CODM assesses the performance of the operating segments based on operating profit. Interest income and expenditure at the level of Group are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

The segment information provided to the CODM for the reportable segments for each of the years ended and as at 31 December 2016 and 2017 is as follows:

	2017					2016			
	Mining	**Financial service**	**Engineering service**	**Unallocated**	**Total**	Mining	Financial service	Unallocated	Total
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December									
Segment Revenue									
– Mineral products	**–**	**–**	**–**	**–**	**–**	–	–	–	–
– Interest income from financial services	**–**	**10,163**	**–**	**–**	**10,163**	–	25,588	–	25,588
– Engineering Service and other related services	**–**	**–**	**12,682**	**–**	**12,682**	–	–	–	–
	–	**10,163**	**12,682**	**–**	**22,845**	–	25,588	–	25,588
Segment operating (loss)/profit	**(36,464)**	**8,366**	**6,385**	**–**	**(21,713)**	(13,096)	5,190	–	(7,906)
Unallocated operating loss (Note (a))	**–**	**–**	**–**	**(21,654)**	**(21,654)**	–	–	(23,319)	(23,319)
Operating (loss)/profit	**(36,464)**	**8,366**	**6,385**	**(21,654)**	**(43,367)**	(13,096)	5,190	(23,319)	(31,225)
Segment finance costs – net	**(50)**	**(1)**	**24**	**–**	**(27)**	39	(1)	–	38
Unallocated	**–**	**–**	**–**	**3,017**	**3,017**	–	–	2,752	2,752
Finance costs – net	**(50)**	**(1)**	**24**	**3,017**	**2,990**	39	(1)	2,752	2,790
Income tax (credit)/expense	**(1,588)**	**2,096**	**1,321**	**–**	**1,829**	(54)	1,308	–	1,254
Amortisation	**243**	**–**	**–**	**–**	**243**	243	–	–	243
Segment depreciation	**2,756**	**–**	**525**	**–**	**3,281**	3,581	–	–	3,581
Unallocated	**–**	**–**	**–**	**–**	**–**	–	–	4	4
Depreciation	**2,756**	**–**	**525**	**–**	**3,281**	3,581	–	4	3,585

	2017					2016			
	Mining RMB'000	Financial service RMB'000	Engineering service RMB'000	Unallocated RMB'000	Total RMB'000	Mining RMB'000	Financial service RMB'000	Unallocated RMB'000	Total RMB'000
Segment impairment									
– Non-current assets	6,137	-	-	-	6,137	–	–	–	–
– Other receivables	31,105	-	-	-	31,105	–	–	–	–
– Unallocated	-	-	-	600	600	–	–	–	–
Impairment	37,242	-	-	600	37,842	–	–	–	–
As at 31 December									
Segment assets	186,866	113,179	24,808	-	324,853	232,357	409,658	–	642,015
Unallocated assets (Note (b))	-	-	-	230,352	230,352	–	–	294,551	294,551
Total	186,866	113,179	24,808	230,352	555,205	232,357	409,658	294,551	936,566
Segment liabilities	39,733	6,463	14,583	-	60,779	40,965	304,213	–	345,178
Unallocated liabilities (Note (c))	-	-	-	3,770	3,770	–	–	47,489	47,489
Total	39,733	6,463	14,583	3,770	64,549	40,965	304,213	47,489	392,667

Notes:

(a) Unallocated operating losses mainly represented impairment of other receivables held by the Company and administrative and professional services expenses incurred by the Company for the year ended 31 December 2017 and consulting expenses incurred by the Company for the year ended 31 December 2016.

(b) Unallocated assets mainly represented other receivables and bank deposits held by the Company as at 31 December 2017 and available for sale financial assets, refundable deposit, and bank deposits held by the Company as at 31 December 2016.

(c) Unallocated liabilities as at 31 December 2017 mainly represented other payables and accruals and as at 31 December 2016 mainly represented long-term borrowings of the Company.

4 REVENUE

The Group's revenue represents (i) the net invoiced value of engineering service and other related services rendered to customers, after allowances for returns and trade discounts and net of tax and subcontracting charges for services; and (ii) interest income generated from financial services net of value-added tax and government surcharges.

Revenue recognised during the years ended 31 December 2017 and 2016 is as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Interest income from financial service	**10,163**	25,588
Engineering service and other related services	**12,682**	–
	22,845	25,588

5 EXPENSES BY NATURE

The following items have been charged to the operating loss for the years ended 31 December 2017 and 2016:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Borrowing cost of financial service	**1,773**	20,342
Depreciation	**3,281**	3,585
Amortisation	**243**	243
Impairment provision for mining assets and mining rights	**6,137**	–
Doubtful debt provision for other receivables	**31,705**	–
Employee benefit expenses	**12,218**	9,371
Office expenses and operating lease payments	**5,799**	7,165
Consulting and professional expenses	**4,950**	8,575
Loss on stock taking of raw materials	**–**	3,144
Auditor's remuneration		
– annual audit	**1,414**	1,259
– others	**375**	1,400
Transportation expenses	**1,198**	799
Electricity consumed	**73**	44
Others	**1,155**	1,233
Total cost of sales, distribution expenses and administrative expenses	**70,321**	57,160

6 OTHER GAINS – NET

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Net gains transferred from other comprehensive income upon the disposal of available-for-sale financial assets	**5,057**	–
Loss on disposal of available-for-sale financial assets	**(1,310)**	–
Bargain purchase (Note 14)	**523**	571
Losses on disposal of property, plant and equipment	**(484)**	–
Others	**323**	(224)
	4,109	347

7 FINANCE COSTS – NET

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Finance income		
Interest income	**493**	210
Finance costs		
Exchange losses – net	**(3,377)**	(1,631)
Interest expenses		
– Long-term borrowings	**–**	(1,299)
– Unwinding of discount – provision for close down, restoration and environmental costs	**(73)**	(70)
–Others	**(33)**	–
	(3,483)	(3,000)
Finance costs – net	**(2,990)**	(2,790)

8 INCOME TAX EXPENSE

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Current tax	**3,417**	1,308
Deferred tax	**(1,588)**	(54)
Income tax expense	**1,829**	1,254
Income tax expense is attributable to:		
Profit from continuing operations	**1,829**	1,254
Profit from discontinued operation	**–**	–
	1,829	1,254

The Company is an exempted company incorporated in the Cayman Islands and, as such, is not liable for taxation in the Cayman Islands on its non-Cayman Islands income.

The Group's subsidiaries incorporated in the BVI were not liable for taxation in the BVI on their non-BVI income.

The Group's subsidiaries in Hong Kong were subject to Hong Kong profits tax at a rate of 16.5% for each of the years ended 31 December 2017 and 2016.

The Group's subsidiaries in Mainland China were subject to the corporate income tax at a rate of 25% in accordance with the Corporate Income Tax Law of the PRC.

All the Group's subsidiaries in Hong Kong and the Mainland China except for Changshi and Jiayi did not have any assessable profit for the year ended 31 December 2017; and all the Group's subsidiaries in Hong Kong and the Mainland China except for Jiayi did not have any assessable profit for the year ended 31 December 2016.

The income tax on the Group's loss before income tax differs from the theoretical amount that would arise using the domestic tax rates applicable to results of the Group's entities is as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Loss before income tax	**(46,357)**	(34,015)
Tax calculated at domestic tax rates applicable to results in the respective countries	**(10,347)**	(4,487)
Tax effects of:		
– Expenses not deductible for tax purposes	**156**	493
– Utilisation of previously unrecognised tax losses	**(316)**	–
– Deductible temporary differences for which no deffered income tax asset recognised	**8,803**	1,119
– Tax losses for which no deferred income tax asset recognised	**3,533**	4,129
Income tax expense	**1,829**	1,254

9 LOSS PER SHARE

The basic loss per share is calculated by dividing:

- the loss attributable to the equity holders of the Company
- by weighted average number of ordinary shares in issue during the financial year.

	Year ended 31 December	
	2017	2016
Loss attributable to equity holders of the Company (RMB'000)	**(46,129)**	(34,615)
Adjusted weighted average number of shares in issue (in thousands)	**1,620,000**	1,590,000
Basic and diluted loss per share (RMB)	**(0.028)**	(0.022)

Diluted loss per share was equal to basic loss per share as there was no dilutive potential share outstanding for the each of the years ended 31 December 2017 and 2016.

10 OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Non-current assets:		
Other receivables		
– Amounts due from Warburg Energy Development Limited ("Warburg") (Note (a))	**113,123**	109,123
– Amounts due from Merit Progress Investments Limited (Note (b))	**33,436**	–
	146,559	109,123
Current assets:		
Other receivables		
– Amounts due from Merit Progress Investments Limited (Note (b))	**129,566**	–
– Amounts due from Xiaoyi Dajieshan Coal Industry Co. Ltd ("Xiaoyi Dajieshan") (Note (c))	**52,600**	52,600
– Amounts due from Shaanxi Jiatai Hengrun Mineral Resources Development Co. Ltd.("Shaanxi Jiatai") (Note (d))	**39,350**	39,350
– Amounts due from Mr. Wei Xing (Note (e))	**26,756**	26,756
– Amounts due from Shanxi Panorama Corporate Management Consulting Co., Ltd. ("Shanxi Panorama") (Note (f))	**–**	200,318
– Amounts due from Warburg (Note (g))	**–**	100,159
– Deductible VAT input	**2,107**	1,780
– Others (Note (h))	**17,782**	7,644
Subtotal	**268,161**	428,607
Less: impairment provision (Note (i))	**(98,127)**	(66,422)
	170,034	362,185
Advances to suppliers – third parties	**1,800**	475
	171,834	362,660

The carrying amounts of other receivables and prepayments (after netting off impairment) approximated their fair values. The balances were mainly denominated in RMB.

Notes:

(a) In December 2015, Jiayi granted a loan of RMB100 million to Warburg, which was unsecured bearing annual interest of 9% with a fixed term of 5 years. The loan was early repaid to the Group in January 2018 (Note 15(a)) while the interest receivable of approximately RMB10,493,000 was still outstanding as at date of this announcement mainly due to VAT invoices in respect of settlement of the interest receivable to be resolved by Jiayi. Considering (i) the aforesaid VAT invoices issues would be resolved by Jiayi at first quarter of 2019; and (ii) the financial position of Warburg as at 30 June 2018, the directors believe no provision is necessary for the interest receivable.

(b) The Group entered into a Memorandum of Terms (the "Memorandum") on 3 December 2015 and a series of Supplemental Terms (the "Supplementals") on 29 March 2016, 6 September 2016, 31 December 2016 and 30 June 2017 with three vendors in relation to a possible acquisition of the entire equity interest of China Green Energy Investment Limited (the "Target Company") at a total consideration of not more than US$ 150 million (equivalent to HK$1,170 million). The Target Company and its subsidiaries are principally engaged in exploration, development, production and sale of the coalbed methane in Shanxi Province. Pursuant to the Memorandum, the Group paid US$25 million (equivalent to RMB163,367,000) to the vendors in December 2015 as a refundable deposit for the exclusive negotiation rights from the date of the Memorandum to end of March 2016 (which was subsequently extended to end of December 2017 pursuant to the Supplementals). The earnest money was secured by the share charge in respect of all the shares of the vendors in favour of the Company. The said share charge is not yet registered in the register of Charges of the Target Company as at date of this announcement. In the event that no sale and purchase agreement is entered into or the possible acquisition does not proceed on or before 31 December 2017, the earnest money shall be refunded to the Company.

Two vendors have transferred their shares in the Target Company to Merit Progress Investments Limited ("Merit Progress"), the remaining vendor, which became the only legal and beneficial owner of the entire issued share capital of the Target Company as at 31 December 2017 and date of this announcement.

As at 31 December 2017, the acquisition did not proceed and the exclusive negotiation right was expired, the refundable deposit is reclassified to other receivables. HK$135 million (equivalent to RMB112,846,500) was collected subsequently by the Group as at date of this announcement (Note 15(a)). Pursuant to the letter received from Merit Progress in August 2018, Merit Progress will pay the remaining HK$60 million (equivalent to RMB50,154,000) by end of February 2019. Considering (i) the value of share charge provided by Merit Progress; (ii) the personal guarantee provided by the ultimate beneficial owner of Merit Progress; and (iii) the value of assets owned by the ultimate beneficial owner and respective associates of Merit Progress, the directors believe no provision is necessary for the remaining balance.

(c) The receivable due from Xiaoyi Dajieshan amounting to RMB52,600,000 arose from the disposal of Shaanxi Jiahe (the "Disposal"), which is engaged in exploration and production of gold in Shaanxi Province. In December 2015, the Group and Xiaoyi Dajieshan Coal Limited entered into an agreement (the "Disposal Agreement"), pursuant to which (i) Hami Jiatai sold 100% equity interests in Shaanxi Jiahe to Xiaoyi Dajieshan for a consideration of RMB48,000,000; (ii) payables of RMB9,400,000 due to the Company and its subsidiaries originally by Shaanxi Jiahe were assumed by Xiaoyi Dajieshan.

The transfer was completed in December 2015. Until 31 December 2015, the Group received RMB4,800,000 from Xiaoyi Dajieshan and the remaining balance of RMB52,600,000 was to be collected by the end of 2016 according to the agreement.

In February 2017, the Company, Hami Jiatai and Xiaoyi Dajieshan entered into a supplemental agreement, pursuant to which Xiaoyi Dajieshan would pay RMB10,000,000 in March 2017, while the due date of the remaining amount of RMB42,600,000 was extended to December 2017. Three bank acceptance notes with a total carrying amount of RMB10,000,000 were received from Xiaoyi Dajieshan in March 2017. Management subsequently noted in March 2018 that these three bank acceptance notes were forged.

As Xiaoyi Dajieshan had failed to settle the remaining balance of the consideration for the disposal in the amount of RMB52,600,000 despite repeated demands by the Company, on 29 January 2018, Hami Jiatai initiated a civil litigation against Xiaoyi Dajieshan in the Intermediate People's Court of Lvliang Municipality (the "Court") with a view to recovering the outstanding consideration for the Disposal together with default interest. On 14 March 2018, the litigation was filed at the Court.

On 22 May 2018, the Court issued a civil mediation order, pursuant to which Hami Jiatai and Xiaoyi Dajieshan have reached an agreement for full settlement of the outstanding receivable by the following means: (i) the entire equity of Shaanxi Jiahe together with the debts in the amount of RMB3,100,000 due from Shaanxi Jiahe to Hami Jiatai which were then assigned by Hami Jiatai to Xiaoyi Dajieshan shall be transferred back to Hami Jiatai; and (ii) the amount of RMB4,800,000 paid by Xiaoyi Dajieshan to Hami Jiatai as part of the consideration for the Disposal shall be retained by Hami Jiatai as penalty.

As the relevant regulatory filings with the local commerce bureau in relation to the Disposal have yet to be completed, no further filing with the local regulatory bodies is required in relation to the transfer of the entire equity interests of Shaanxi Jiahe from Xiaoyi Dajieshan back to Hami Jiatai. Immediately after the settlement, Shaanxi Jiahe became an indirect 95%-owned subsidiary of the Company.

In addition, on 31 May 2018, the Group and Xiaoyi Dajieshan entered into certain debt settlement agreements, pursuant to which Xiaoyi Dajieshan agreed to assign to the Company and Huili Runce its rights over certain receivables due by Shaanxi Jiahe. As a result, the Company and Huili Runce assumed receivables due by Shaanxi Jiahe of RMB4,000,000 and RMB2,300,000 respectively, and Xiaoyi Dajieshan ceased to be entitled to any right to these receivables since then.

In respect of certain matters relating to the Disposal (including, but not limited to, receipt of three forged bank acceptance notes by the Group), the Directors set up a special investigating committee on 21 March 2018, and an independent investigation firm (the "Independent Investigation Firm") was engaged by the special investigating committee to conduct an independent investigation into such matters.

Pursuant to the investigation report prepared by the Independent Investigation Firm, the Group received the first payment of RMB4,800,000 as the first tranche consideration, which was remitted by an individual on behalf of Xiaoyi Dajieshan to the Group on 30 December 2015 according to the notice issued by Xiaoyi Dajieshan. On 10 March 2017, Xiaoyi Dajieshan presented three bank acceptance notes 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 acceptance notes were provided to the Group and Xiaoyi Dajieshan also requested the Relevant Employee to bank in the bank acceptance notes at a later time due to some conflicts with its suppliers, the Relevant Employee had not arranged for the deposit of the bank acceptance notes in time. Subsequently, the representative of Xiaoyi Dajieshan (the "Purchaser Representative") admitted that the three bank acceptance notes were forged, and he was aware of it before he presented them to the Relevant Employee. It is also noted that the Purchaser Representative is also a director of Warburg, which was a subsidiary of Xiaoyi Dajieshan from May 2012 to November 2012.

Based on the above and other findings of the investigation report, the special investigating committee is of the view that the Disposal was a legally binding transaction under PRC laws and the Company had complied with the applicable reporting requirements under the Listing Rules.

The impairment assessment of amount due from Xiaoyi Dajieshan of RMB52,600,000 was made with reference to the fair value of equity interests of Shaanxi Jiahe because the equity interest in Shaanxi Jiahe was transferred back to the Group by Xiaoyi Dajieshan upon the aforesaid settlement arrangements as stated above. Management appointed an independent valuer to carry out an assessment of the business enterprise value ("BEV") of Shaanxi Jiahe, which is determined based on the value-in-use calculation using cash flow projections of Shaanxi Jiahe and by reference to its management accounts at 31 December 2017.

The cash flow projections were prepared based on financial budgets approved by management and management's assumptions and estimates including forecast of ores reserve available for extraction, selling prices of gold and silver, discount rate, time to commence commercial production and inflation rate on the cash generating units of Shaanxi Jiahe.

- The ores reserve available for extraction include those for Mine 1 and Mine 2 of Project Huangjinmei. Currently Shaanxi Jiahe only owns the mining right of Mine 1. Pursuant to agreements with a third party, that third party has agreed to endeavour to cause the current owner of the mining right of Mine 2 to transfer that mining right to Shaanxi Jiahe without additional charges. It is assumed that Shaanxi Jiahe is able to secure the mining right of Mine 2 and fulfil the legal requirements for commercial operation by 30 September 2020.

- The discount rate used in measuring value-in-use was 16%, which is pre-tax and reflects the specific risk relating to the business, after adjustment of probability of success.

- The projected prices of gold and silver used are derived from the forecasts disclosed in Bloomberg.

- Commercial production is expected to commence in 2020 and 3% is adopted in the forecast as the estimated inflation rate.

In addition, the management accounts of Shaanxi Jiahe included significant non-operating receivables due from and non-operation payables due to same group of certain third parties. Management assumed that Shaanxi Jiahe could fully collect all non-operating receivables and would settle the non-operation payables in full in the near future. The management also assumed that payables to the Company, Hami Jiatai and Huili Runce in total of RMB9,400,000 will be settled by Shaanxi Jiahe during the forecast period.

According to the valuation report, the fair value of 100% equity interests of Shaanxi Jiahe was valued at RMB13,159,000 as at 31 December 2017. On this basis, the Group set aside an impairment provision of RMB30,041,000 against the receivables due from Xiaoyi Dajieshan of RMB52,600,000 at 31 December 2017, being the difference between carrying amount of receivable balance (RMB52,600,000) and the aggregated amount of the fair value of 100% equity interest of Shaanxi Jiahe (RMB13,159,000) and amount due by Shaanxi Jiahe to the Group (RMB9,400,000).

(d) The balance mainly represented prepayment of RMB23,500,000 for acquisition of Shaanxi Jiarun which was lapsed on 30 September 2013, proceeds of RMB8,350,000 receivable from Shaanxi Jiatai arising from disposal of plant, property and equipment and advances of RMB7,500,000 to Shaanxi Jiatai, a company owned by Mr. Wei Xing. The balance was fully impaired because of dispute between Shaanxi Jiatai and the Group in 2014 and 2015.

(e) In 2013 and 2014, the Company, Geo-Tech Resources Group Investment Limited and Mr. Wei Xing entered into a framework agreement and supplemental agreements in relation to the possible acquisitions of gold mines and mining processing plants in the Republic of Ghana. Pursuant to the agreements, the Company paid earnest money of RMB10,000,000 (equivalent to HK$12,500,000) in 2013 and HK$20,000,000 (equivalent to RMB15,621,000) in 2014 to Mr. Wei Xing in consideration of the grant of the exclusive negotiation rights.

Until 31 December 2015, full provision had been provided against the receivables because of the expiration of the negotiation rights due to dispute between Mr. Wei Xing and the Group.

(f) Jiayi and Shanxi Panorama entered into an agreement pursuant to which Jiayi granted a loan of RMB200 million to Shanxi Panorama in March 2016 bearing annual interest of 9%. The loan matured on 31 January 2017 and was collected in January 2017 by the Group.

(g) In January 2016, Jiayi entered into a secured loan agreement with Warburg. According to which, Jiayi granted loan of RMB300 million to Warburg secured by the pledge of certain of its gas properties. The loan bearing annual interest of 9% with fixed term of 13 months, of which RMB200 million was repaid in March 2016. The remaining loan of RMB100 million was repaid to the Group in January 2017.

(h) The balances as at 31 December 2016 and 2017 mainly represented receivables from third parties, which were unsecured, interest free and had no fixed terms of repayment. An impairment of RMB1,980,000 was recognised as the debtors' default in payment.

(i) As of 31 December 2017, other receivables of RMB98,127,000 (2016: RMB66,422,000) were impaired. Except for the provision for amount due from Xiaoyi Dajieshan (RMB30,041,000) was resulted from the valuation of equity interests of Shannxi Jiahe (Note 10(c)), the remaining provision for other receivable (RMB68,086,000) was mainly the provision for the amount due from Shannxi Jiatai (RMB39,350,000) and provision for the amount due from Mr. Wei Xing (RMB26,856,000), these balances provision were fully provided due to dispute among the Group, Shannxi Jiatai and Mr. Wei Xing.

11 TRADE RECEIVABLES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Trade receivables (Note (a))	**8,975**	100
Less: Provision for impairment of trade receivables	**–**	–
Trade receivables – net	**8,975**	100

At 31 December 2017 and 2016, the ageing analysis of the trade receivables based on invoice date were as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Up to 3 months	**3,597**	–
3 to 6 months	**5,378**	–
Over 12 months	**–**	100
	8,975	100

Note (a): The Group's trading terms with its customers are mainly on credit. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by the management. The trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, were not impaired. Based on communications with these customers, it is expected these receivables will be settled by end of 2018.

12 SHARE CAPITAL AND SHARE PREMIUM

	Authorised Shares of HK$0.1 each
As at 31 December 2016 and 2017	5,000,000,000

	Number of Share (Thousands)	Share capital RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2016	1,500,000	127,362	577,878	705,240
– Proceeds from shares issued (Note (a))	120,000	9,999	90,890	100,889
At 31 December 2016 and 2017	1,620,000	137,361	668,768	806,129

Notes:

(a) The Group issued 120,000,000 shares in March 2016 at the price of HK$1.01 per share as consideration for acquisition of Jia Zhao Ventures Ltd and its subsidiaries.

13 TRADE PAYABLES

Trade payables are analysed as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
– Third parties	**12,226**	1,318

The carrying amounts of trade payables are considered to be the same as their fair values, due to their short-term nature. The balances are denominated in RMB.

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
0 – 90 days	**6,507**	18
91 – 180 days	**3,158**	–
180 – 365 days	**1,261**	–
Over 365 days	**1,300**	1,300
	12,226	1,318

14 BUSINESS COMBINATION

(a) Summary of acquisition

On 27 April 2017, the Group acquired 100% of the equity interests in Changshi, a company principally engaged in providing engineering service for exploiting oil, natural gas, coal-bed methane and pre-drilling engineering services in Shanxi Province in the PRC. After the acquisition, Changshi became a directly owned subsidiary of the Group.

The following table summarises the consideration, the amounts of the assets acquired and liabilities, and the debts acquired at the acquisition date.

	27 April 2017 RMB'000
Total purchase consideration	–
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and banks	764
Receivables	15,276
Property, plant and equipment	3,316
Payables	(18,833)
Total identifiable net assets	523
Gains on bargain purchase (Note 6)	(523)

(b) Purchase consideration – cash inflow

	27 April 2017 RMB'000
Inflow of cash to acquire business, net of cash acquired	–
– cash paid for acquisition-related costs	–
– cash and banks in subsidiary acquired	764
Net cash inflow on the acquisition	764

15 EVENTS OCCURRING AFTER BALANCE SHEET DATE

a. Collection of other receivables

Other receivables of RMB103,000,000 in relation to loan and partial of interest due from Warburg (Note 10(a)) were early repaid to the Group in January 2018.

Other receivables of HK$135,000,000(equivalent to RMB112,846,500) due from Merit Progress Investments Limited in relation to the refundable deposit (Note 10(b)) was collected back as at date of this announcement.

b. Provision of loan facility to Jinzhong JinSheng Agricultural Development Co. Ltd.("Jinsheng")

On 19 January 2018, Jiayi entered into the Loan Agreement with Jinsheng and the Guarantor, Mr. Tian Zhifeng, who is the chairman of Jinsheng. Pursuant to the agreement, Jiayi agreed to provide to Jinsheng a revolving loan facility in the aggregate principal amount of up to RMB100,000,000 for a term of 18 months. The Guarantor shall guarantee Jinsheng's obligations under the Loan Agreement.

The amount of RMB100,000,000 has been lent to Jinsheng by Jiayi in January 2018. The loan was repaid in December 2018.

c. Settlement with Xiaoyi Dajieshan and transferred back of Shaanxi Jiahe to the Group

On 22 May 2018, Hami Jiatai and Xiaoyi Dajieshan have reached an agreement for full settlement of the outstanding receivable, which include the entire equity of Shaanxi Jiahe shall be transferred back to Hami Jiatai from Xiaoyi Dajieshan (Note 10(c)).

As no further filing with the local regulatory bodies is required in relation to the transfer of the entire equity interest, immediately after the settlement, Shaanxi Jiahe became an indirect 95%-owned subsidiary of the Company.

The following table summarises the consideration, the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	22 May 2018 RMB'000
Total purchase consideration	13,159
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and Cash equivalents	2
Constructions in progress	14,296
Mining rights and exploration rights	15,320
Trade and other receivables	18,231
Other long-term assets	349
Payables to third parties	(25,639)
Payables to the Company and its subsidiaries	(9,400)
Deferred tax liability	(1,115)
Total identifiable net assets	12,044
Goodwill	1,115

	22 May 2018 RMB'000
Inflow of cash to acquire business, net of cash acquired	
– cash consideration	–
– cash and banks in subsidiary acquired	2
Cash inflow on the acquisition	2

EXTRACTS OF THE INDEPENDENT AUDITOR'S REPORT

The following is the extract of the independent auditor's report from PricewaterhouseCoopers, the external auditor of the Company, on the Group's consolidated financial statements for the year ended 31 December 2017:

Our qualified opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Qualified Opinion

As described in Note 16 (c) to the consolidated financial statements (Note 10(c) in this result announcement), the Group had an outstanding receivable of RMB52,600,000 due from Xiaoyi Dajieshan Coal Industry Co., Ltd. ("Xiaoyi Dajieshan") as at 31 December 2017. Such a receivable arose since 2015 when the Group sold its 100% equity interest in a subsidiary called Shaanxi Jiahe Mining Co., Ltd. ("Shaanxi Jiahe") to Xiaoyi Dajieshan (the "Disposal"). Because Xiaoyi Dajieshan failed to repay the outstanding receivable of RMB52,600,000 according to the agreed repayment schedules, the Group initiated a civil litigation against Xiaoyi Dajieshan in January 2018 in a court in the People's Republic of China to recover the outstanding receivable. In May 2018 the relevant court issued a civil mediation order, and the two parties entered into a number of agreements, pursuant to which both parties agreed, among others, that the 100% equity interest in Shaanxi Jiahe would be transferred back to the Group as a consideration for full settlement of the outstanding receivable of RMB52,600,000.

The transfer of the 100% equity interest in Shaanxi Jiahe was completed in May 2018. In order to assess whether there was any impairment of the receivable from Xiaoyi Dajieshan as at 31 December 2017, the Group appointed an independent valuer to ascertain the fair value of the 100% equity interest in Shaanxi Jiahe. The valuation was conducted based on the value-in-use calculations using cash flow projections of Shaanxi Jiahe and by reference to its management accounts at 31 December 2017. As described in Note 16 (c) to the consolidated financial statements, based on the results indicated in the valuation report the Group set aside an impairment provision of RMB 30,041,000 against the receivable balance.

There are various significant judgments and assumptions adopted in the valuation as described in Note 16 (c) to the consolidated financial statements (Note 10(c) in this result announcement). However, the management was unable to provide sufficient and appropriate evidences for us to assess the following key assumptions that are essential to determine the fair value of the 100% equity interest in Shaanxi Jiahe:

- whether the title of the mining rights of Mine 2 will be transferred to Shaanxi Jiahe at no additional charges and, if so, whether Mine 2 will meet the legal requirements to commence commercial operation by 30 September 2020; and

- whether Shaanxi Jiahe's non-operating receivables due from certain independent third parties amounted to RMB17,770,000 will be fully recoverable in the near future.

There were no alternative procedures that we could perform to satisfy ourselves with respect to the validity of the above two key assumptions. Consequently, we were unable to assess the recoverable amount of the receivable from Xiaoyi Dajieshan as at 31 December 2017, and to determine whether any adjustment to the impairment provision against the receivable from Xiaoyi Dajieshan at 31 December 2017 was necessary.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Company mainly participates in non-ferrous ore mining and processing. The diversified non-ferrous metal minerals covered by the Company's operation include nickel, copper, zinc and lead in Xinjiang province, the People's Republic of China (the "PRC"). The mining and exploration tenements and ore processing plants in Xinjiang are located close to the municipal city of Hami, which is approximately 400 km south east of Urumqi, the capital of Xinjiang Uygur Autonomous Region.

The Company's subsidiaries Hami Jinhua Mineral Resource Exploitation Limited ("Hami Jinhua") and Hami Jiatai Mineral Resource Exploitation Limited ("Hami Jiatai"), own two mining permits and three exploration permits in Xinjiang. The prices of copper, nickel, zinc and lead turned around in 2016 and fluctuated at relatively stable level in 2017. The Group still deferred the mining activities and scheduled maintenance work in order to extend the mine services lives and preserve the value of the assets during the year. The Group has also been actively studying and preparing a feasible re-launching production plan.

To diversify the business activities and broaden the revenue base of the Group, on 10 March 2017, a wholly-owned subsidiary of the Company entered into a sale and purchase agreement to acquire 100% equity interest of Yonghe County Changshi Engineering Service Company Limited ("Changshi"). Changshi is principally engaged in engineering service for exploiting oil and gas in Shanxi Province, the PRC. Such acquisition was completed on 27 April 2017.

On 6 September 2016, the Company entered into a framework agreement in relation to a possible acquisition over an upstream natural gas project in Shanxi Province, the PRC. Such framework agreement has been expired during the year. The Group continues to explore acquisition opportunities with promising return in order to expand and diversify its business and to enhance the investment return.

Mining Permits

Hami Jinhua and Hami Jiatai hold two mining permits, namely No. 20 Mine and Baiganhu Mine. No. 20 Mine produces copper and nickel ore. Further exploration and study of the deep ore deposit on the west of Shaft 6 had been considered. To meet new requirements of safety production, No. 20 Mine is to upgrade its lifting system before the production relaunching. Baiganhu Mine produces lead and zinc ore. Further exploration and study of ore bodies had been considered. It plans to set up the underground production systems and facilities for safety production before the production initiation.

Exploration Permits

Hami Jiatai holds three exploration permits in Xinjiang namely Baiganhu Gold, Huangshan and H-989, with minerals covering gold, nickel and copper. Preliminary exploration and/or drilling plans for such tenements had been considered. Hami Jiatai had conducted some exploration at Baiganhu Gold tenement, and identified the preliminary mineralization band and the ore deposit. Subject to the market condition and local requirements, the Group will devote reasonable resources to carry out further exploration in order to enrich the resources and reserve base.

Ore Processing Plants

Hami Jiatai operates a copper-nickel ore processing plant and Hami Jinhua owns a lead-zinc ore processing plant. Both plants were set up to treat ore extracted from the deposits, and adopt a nonconventional flotation circuit. The throughput capacity of both plants is 1,500 tons per day respectively. Nickel, copper, lead and zinc concentrates are separated and recovered from ore processing for sale. Hami Jiatai and Hami Jinhua did not carry out any mining and processing activities during the year.

Financial Service

The financial service in the PRC was carried out by the Company's wholly-owned subsidiary Jiayi Financial Leasing Company Limited ("Jiayi"). Such business generated revenue of approximately RMB 10.2 million (2016: RMB25.6 million) for the year ended 31 December 2017.

On 19 January 2018, Jiayi entered into the loan agreement to provide to a company, an independent third party, a revolving loan facility in the aggregate principal amount of up to RMB100 million with interest rate of 7% per annum for a term of 18 months. The loan was repaid in December 2018. Further details of the loan agreement were disclosed in the announcement of the Company dated 19 January 2018.

Engineering Service

The Group commenced business of engineering service and other related services in Shanxi Province, the PRC through Changshi which generated revenue of approximately RMB12.7 million (2016: nil) during the year. Changshi was incorporated in Shanxi Province, PRC on 29 January 2016 and is principally engaged in petrol, natural gas and coalbed gas engineering and pre-drilling service. During the year, Changshi completed several engineering services covering well-zone earthwork, gas-station road construction, pile driving, surface water conservation and platform building project. Changshi had an engineering team of 10 staff to provided technical guidance, contract workers arrangement, area coverage coordination and mechanical equipments supply in these services. Changshi also provided well gas testing service and leased out construction vehicles during the year.

In 2018, Changshi is also engaged in trading of materials for oil and gas exploration including fracturing sands and water, gas drilling equipments and valves.

Transfer back of Shaanxi Jiahe

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, 14 August 2018 and 17 August 2018 (the "Announcements"). Unless otherwise stated, capitalised terms used in this announcement shall have the same meaning as those defined in the Announcements.

The Disposal and the Settlement

On 18 December 2015, Hami Jiatai and Xiaoyi Dajieshan entered into the disposal agreement in relation to the disposal of the entire equity interest of Shaanxi Jiahe, which is principally engaged in mining, ore processing and sale of gold products in the PRC, and the right to the entire debts in the aggregate amount of RMB9.4 million due from Shaanxi Jiahe to the Group for an aggregate consideration of RMB57.4 million (the "Disposal"). Following receipt of the First Payment of RMB4.8 million by the Group, the Disposal was completed in December 2015. In February 2017, the Company, Hami Jiatai and Xiaoyi Dajieshan entered into a supplemental agreement to extend the payment deadline of the balance of consideration for the Disposal to 31 December 2017.

Despite considerable effort was put by the Group in demanding for repayment, Xiaoyi Dajieshan had failed to settle the balance of consideration for the Disposal in the amount of RMB52.6 million. Therefore, in March 2018, Hami Jiatai initiated a legal proceeding against Xiaoyi 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 Xiaoyi Dajieshan. However, taking into consideration of the potential higher legal costs of prolonged litigation proceedings and the low probability of recovering the remaining consideration from Xiaoyi 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 Xiaoyi Dajieshan has reached the settlement that the entire equity of Shaanxi Jiahe together with the debts of RMB3.1 million due from Shaanxi Jiahe shall be transferred back to Hami Jiatai, and the RMB4.8 million paid by Xiaoyi Dajieshan to Hami Jiatai as part of the consideration for the disposal shall be retained by Hami Jiatai as liquidated damages (the ”Settlement”). Further, on 31 May 2018, the Group and Xiaoyi Dajieshan also entered into the debt settlement agreements, pursuant to which Xiaoyi Dajieshan agreed to re-assign the debts of RMB6.3 million to the Group.

Immediately after the Settlement, Shaanxi Jiahe became an indirect 95%-owned subsidiary of the Company and Xiaoyi Dajieshan ceased to be entitled to any right to the aforementioned debts.

Details of the Disposal and the Settlement were disclosed in the announcements of the Company dated 18 December 2015, 31 May 2018 and 17 August 2018.

Valuation and Impairment

Following transferred back of Shaanxi Jiahe, the Company engaged an independent technical adviser in the PRC to produce a technical report in relation to the reserves, feasibility study and production plan of the gold mine, namely Huangjinmei Mine, operated by Shaanxi Jiahe. The Company also appointed an independent valuation firm to carry out a review of the business enterprise value (“BEV”) of Shaanxi Jiahe in order to assess the amount of impairment necessary to be provided for the outstanding receivable from Xiaoyi Dajieshan. The BEV of Shaanxi Jiahe is determined based on the value-in-use calculation using cash flow projections and the management account of Shannxi Jiahe as at 31 December 2017.

The cash flow projections have taken into account that: (i) based on the technical report, advice from the PRC legal counsel and the interview by the Company and the Auditors with the representative of the Shaanxi Provincial Department of Land Resources, the Company targets to complete the title transfer of exploration rights of Mine 2 of Huangjinmei to Shaanxi Jiahe as soon as practicable and Mine 2 will be able to meet the legal requirement to commence production by the third quarter of 2020; (ii) considering the amount of non-operating payables of Shaanxi Jiahe to a group of common parties outweighs its non-operating receivables from the same group of common parties, the Company considers that no impairment is required for the said non-operating receivables; and (iii) amount due from Shaanxi Jiahe to the Group of RMB9.4 million will be fully repaid by Shaaxi Jiahe.

Valuation result of the BEV of Shaanxi Jiahe as at 31 December 2017 was approximately RMB13.2 million and thus impairment on amounts due from Xiaoyi Dajieshan of approximately RMB30 million, being the difference between the BEV minus the intragroup balances of RMB9.4 million and the outstanding amount due from Xiaoyi Dajieshan of RMB52.6 million, was recognised for in the income statement in the year of 2017. Details of the assumptions and results of the independent valuation are disclosed in note 10(c) of this announcement.

The Company will take the following proactive measures to safeguard the assets of Shaanxi Jiahe, including without limitation, (i) to maintain contact and hold meetings with the relevant parties to discuss and resolve any potential technical issues of the title transfer of the said exploration rights and settlement of non-operating receivables and payables of Shaanxi Jiahe and to keep track of the progress of the above; (ii) to engage mine construction company or identify potential cooperative parties to jointly develop Project Huangjinmei as and when appropriate; and (iii) to consider any potential offers from interested buyers for the disposal of Shaanxi Jiahe if the terms are commercially viable and such disposal is in the interests of the Company and the shareholders as a whole. The Company will re-assess the value of assets of Shaanxi Jiahe based on the latest development of the above.

The Independent Investigation

In respect of the receipt of three unauthentic bank acceptances by the Group for settlement of consideration for the Disposal, the board of directors of the Company (the "Board") set up the special investigating committee on 21 March 2018 to investigate the Disposal and address other issues raised by the Company's auditors. The Independent Investigation Firm was engaged by the special investigating committee to conduct the independent investigation into such matters. Details of the key findings of the independent investigation have been disclosed in the Company's announcement dated 17 August 2018.

Based on the findings of the independent investigation, the special investigating committee is of the view that the Disposal was a legally binding transaction under the PRC laws and the Company had complied with the applicable reporting requirements under the Listing Rules. Further, the Board believes that 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: (i) the Group has repeatedly chased Xiaoyi Dajieshan for the outstanding payments under the Disposal. The Group eventually took legal action against Xiaoyi Dajieshan and the parties reached the settlement pursuant to which the Group retrieved the assets from Xiaoyi Dajieshan and obtained liquidated damages; and (ii) 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. Meanwhile, the Group reserves its rights to claim and take actions against any entity and/or individuals in connection with the same.

RESULTS REVIEW

Revenue and gross profit

For the year ended 31 December 2017, the Group carried out financial service and engineering service (2016: financial service) and recorded revenue of RMB22.8 million (2016: RMB25.6 million), representing a decrease of 11% compared with last year, primarily due to decrease in income from financial service business. During the year, revenue generated from engineering service and other related services amounted to RMB12.7 million (2016: nil). Cost of sales of RMB13.9 million (2016: RMB23.9 million) represented mainly the impairment loss on mining rights and mining assets of Hami Jiatai of RMB6.1 million as detailed below during the year (2016: borrowing cost of financial service). Gross profit margin for financial service and engineering service for the year was 82.6% (2016: 20.5%) and 77.3% (2016: nil) respectively.

For the year ended 31 December 2017 and 2016, the Group engaged an independent valuer to carry out a review of the recoverable amounts of its assets including the mining rights, land use rights, properties, plants and equipments. Impairment loss on mining rights, land use rights, or property, plant and equipment of Hami Jiatai of RMB6.1 million (2016: nil) was recognised during the year after taking into consideration of the valuation results of the independent valuer. The recoverable amount is determined based on the value-in-use calculation using cash flow projections, based on financial budgets approved by management and management's assumptions and estimates including forecast of selling prices of nickel and copper, discount rates, time to restart production and inflation rate on the cash generating unit of Hami Jiatai. There was no material change in the valuation methodology adopted during the year.

The key assumptions and parameters taken into account in the valuation of mining rights and mining assets of Hami Jiatai mainly include:

– The discount rate used in measuring value-in-use was 21% (2016: 21%), which is pre-tax and reflects the specific risk relating to the business;
– The price of nickel/copper used is derived from the forecast of Bloomberg;
– The production is expected to restart in 2020;
– 3% (2016: 3%) is adopted as inflation rate.

Though metal prices have rebound from its preceding low level, they were still below breakeven and thus the Group further delayed its production plan of Mine No.2 and Baiganhu. As a result, impairment loss on certain mining assets was made during the year. The Group will be closely monitoring the window to restart its mines production and will also look for cooperative partners to jointly develop the mines in order to maximize their economic values.

Administrative expenses

Administrative expenses for the year amounted to RMB56.5 million (2016: RMB33.2 million). They included mainly depreciation and amortization charges, consulting fees, staff costs, office overheads and a provision of RMB30 million (2016: nil) made for receivable from Xiaoyi Dajieshan in relation to the Disposal as detailed above.

Other gains/(losses) – net

Other gains for the year of approximately RMB4.1 million (2016: RMB0.3 million) mainly represented net gains transferred from other comprehensive income upon the disposal of the investment fund of approximately RMB5.1 million (2016: nil) and bargain purchase in respect of acquisition of Changshi of approximately RMB0.5 million (2016: acquisition of Jia Zhao Ventures Limited of RMB0.6 million) netting off against loss on disposal of the investment fund of approximately RMB1.3 million (2016: nil) during the year.

Finance costs – net

Finance cost for the year of approximately RMB3 million (2016: RMB2.8 million) mainly represented foreign exchange losses of approximately RMB3.5 million (2016: RMB1.6 million) during the year. In 2016, interest for long term borrowing of approximately RMB1.3 million was recognised. No such interest was recorded during the year.

Income tax expense

Income tax expense for the year was approximately RMB1.8 million (2016: RMB1.3 million), mainly representing current taxation arising from operations of Jiayi and Changshi (2016: Jiayi) of approximately RMB3.4 million (2016: RMB1.3 million).

Loss attributable to the equity holders of the Company

Loss attributable to equity holders of the Company for the year was approximately RMB46.1 million (2016: RMB34.6 million). The increase of loss was primarily due to the provision for receivables from Xiaoyi Dajieshan of approximately RMB30 million as stated above during the year.

SIGNIFICANT INVESTMENTS HELD

There were no significant investments held as at 31 December 2017.

As at 31 December 2016, the Group held investment in a fund, which was a limited partnership focusing on mining and natural resources industries and has been classified as an available-for-sale financial instrument in the consolidated balance sheet of the Group, of approximately RMB114.8 million. The fund has been early terminated by the general partner in its sole discretion pursuant to terms of the limited partnership agreement in December 2016. Accordingly, the general partner has in its sole discretion caused the fund to make the final distribution to all Class B limited partnership interests (i.e., the Company) in February 2017. Net proceeds of approximately HK$76.9 million (equivalent to RMB68 million) was fully collected after netting off against the long-term borrowings of approximately HK$51.5 million (equivalent to RMB46 million).

MATERIAL ACQUISITIONS AND DISPOSALS

Save as acquisition of Changshi as detailed above, there were no other material acquisitions and disposals during the year.

LIQUIDITY AND FINANCIAL REVIEW

The Group financed its day to day operations by internally generated cash flow and net proceeds from disposal of investment fund of approximately RMB68 million during the year. Primary uses of funds during the year was mainly payment of operating expenses.

As at 31 December 2017, current assets of approximately RMB238.3 million (2016: RMB489.6 million) were comprised of inventories of RMB3.0 million, trade receivables of RMB 9 million, other receivables and prepayments of RMB171.8 million and cash and cash equivalents of RMB 54.4 million. Current liabilities of approximately RMB38.4 million (2016: RMB365.0 million) were mainly comprised of trade payables of RMB 12.2 million, other payables and accruals of RMB21 million, income tax payable of RMB 4.1 million and borrowings of RMB1 million. Current ratios, being total current assets to total current liabilities, were 6.21 as at 31 December 2017 (2016: 1.34).

As at 31 December 2017, there was no outstanding interest-bearing bank loan (2016: nil). As at 31 December 2017, there was a unsecured loan of RMB1 million (2016: nil) which was interest bearing of 10% per annum. As at 31 December 2016, borrowings of HK$50,000,000 (equivalent to RMB44,726,000) together with interest payable of HK$1,452,000 (equivalent to RMB1,299,000) were classified as current portion of long-term borrowings. There were no such borrowings as at 31 December 2017.

The Group conducted its continuing operational business transactions mainly in Renminbi and Hong Kong dollars. The Group did not arrange any forward currency contracts for hedging purposes.

GEARING RATIO

Gearing ratio of the Group is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings) less cash and cash equivalents. Total capital is calculated as total equity plus net debt. As at 31 December 2017, the gearing ratio was 0% (2016: 6.38%).

CHARGES ON COMPANY'S ASSETS, COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2017, the Group had no contracted capital expenditure (2016: nil).

As at 31 December 2017, the future aggregate minimum lease payments under non-cancellable operating leases of various offices were approximately RMB 7.6 million (2016: RMB4.7million).

There was no charge on the Company's assets as at 31 December 2017 (2016: Nil).

The Group may be subject to new environmental laws and regulations that may impose contingencies upon the Group in the future. The Group may also be subject to the effect of under-insurance on future accidents incurred by the employees. Such (i) new environmental laws and regulations; and (ii) under insurance on the employees may impose costs and liabilities on the Group.

Save as disclosed above, as at 31 December 2017, the Group had no material contingent liability (2016: nil).

HUMAN RESOURCES AND SHARE OPTION SCHEME

As at 31 December 2017, the Group employed 58 employees (2016: 45). The total staff costs (including directors' emoluments) for the year were approximately RMB12.2 million (2016: RMB9.4 million). The salaries of employees largely depend on their job nature, performance and length of service with the Group. The directors' remuneration is determined with reference to salaries paid by comparable companies, experience, responsibilities and performance of the Group. Discretionary bonuses are also available to the Group's employees depending on the overall performance of the Group. In addition to the basic remuneration, the Group also provides employees with employees benefits, including pension, medical scheme and other applicable social insurance as required by the applicable laws and regulations. Apart from regular on-job training, the Group provides training to new employees including an introduction to relevant regulations and general safety awareness and a workshop specific training to the work area and the role of individual within the workshop. Directors and employees, among others, are entitled to participate in the share option scheme at the discretion of the board. No share option was granted/ exercised and outstanding as at 31 December 2017.

FUTURE OUTLOOK

In view of recovery of global base metal markets, the Group continues to study and prepare a feasible re-launching production plan for the mines owned by the Group. The Group is also devoting reasonable resources into the existing financial service and engineering service business in order to maintain a balanced income growth. To catch the market opportunities, the Company plans to carry out more active operation and acquisition in the coming years to diversify the Group's business and broaden its revenue base.

DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year of 2017.

PURCHASE, REDEMPTION OR SALE OF SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's share during the year ended 31 December 2017.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance and has taken appropriate steps to adopt and comply with the provisions of its Code on Corporate Governance Practices (the "Code") which adopted practices that meet the requirements set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of the Hong Kong Limited (the "Listing Rules") during the year, with the following exception:

Under provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election. All independent non-executive directors of the Company were not appointed for a specific term but all of them are subject to retirement by rotation in accordance with the Articles of Association of the Company. The Board considers that sufficient measures were taken to ensure the corporate governance practices of the Company are not less than those in the Code.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model code") as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the directors. Having made specific enquiry of all directors, the directors confirm that they have complied with the required standard as set out in the Model Code during the year.

AUDIT COMMITTEE

The audit committee under the Board of the Company was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process, risk management and internal controls. The audit committee comprises the three independent non-executive directors of the Company. The audit committee has reviewed the annual results for the year ended 31 December 2017.

PROCEDURES ON PRELIMINARY RESULTS ANNOUNCEMENT BY INDEPENDENT AUDITOR

PricewaterhouseCoopers, the Company's independent auditor, had performed procedures in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures Regarding Financial Information" and with reference to Practice Note 730 (Revised) "Guidance for Auditors Regarding Preliminary Announcements of Annual Results" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by HKICPA and consequently no assurance has been expressed by PricewaterhouseCoopers on this preliminary results announcement.

(2) CONTINUED SUSPENSION OF TRADING

As a result of the delay in publication of the annual results of the Group for the year ended 31 December 2017 (the "2017 Annual Results") and the interim results of the Group for the six months ended 30 June 2018 (the "2018 Interim 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 the 2018 Interim Results and the fulfilment of resumption conditions imposed by the Stock Exchange as set out in the announcement of the Company dated 8 June 2018.

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

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

Hong Kong, 10 December 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. Xiang Siying and Ms. Huang Mei.