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

2019
ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. Wang Qian
Mr. Zhou Jianzhong (appointed on 11 March 2019)
Mr. Liu Huijie (resigned on 14 June 2019)
Mr. Li Xiaobin (resigned on 11 March 2019)
Ms. Jia Dai (resigned on 13 February 2019)

Non-Executive Director

Mr. Cao Ye (appointed on 14 June 2019)

Independent Non-Executive Directors

Ms. Xiang Siying *(Chairlady)*
(appointed as the Chairlady on 11 March 2019)
Ms. Huang Mei
Mr. Chan Ping Kuen (appointed on 11 March 2019)
Mr. Cao Shiping (resigned on 11 March 2019)

AUDIT COMMITTEE

Ms. Huang Mei *(Chairlady)*
Ms. Xiang Siying
Mr. Chan Ping Kuen (appointed on 11 March 2019)
Mr. Cao Shiping (resigned on 11 March 2019)

REMUNERATION COMMITTEE

Ms. Xiang Siying *(Chairlady)*
Ms. Wang Qian
Ms. Huang Mei

NOMINATION COMMITTEE

Ms. Wang Qian *(Chairlady)*
Ms. Xiang Siying
Ms. Huang Mei

AUTHORISED REPRESENTATIVES

Ms. Xiang Siying
Mr. Yau Hong Chun

COMPANY SECRETARY

Mr. Yau Hong Chun

INDEPENDENT AUDITOR

BDO Limited
25th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

LEGAL ADVISERS

as to laws of Hong Kong Special Administrative Region ("Hong Kong")
Sidley Austin

as to laws of People's Republic of China (the "PRC")
Global Law Office

as to Cayman Islands laws
Conyers Dill & Pearman

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

In the PRC
No. 38 Guangchang Bei Road
Hami City
Xinjiang Uygur Autonomous Region
PRC

In Hong Kong
Room 2805, 28/F.
Harbour Centre
No. 25 Harbour Road
Wan Chai, Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

In the Cayman Islands
Codan Trust Company (Cayman) Limited
Cricket Square Hutchins
Drive P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

In Hong Kong
Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

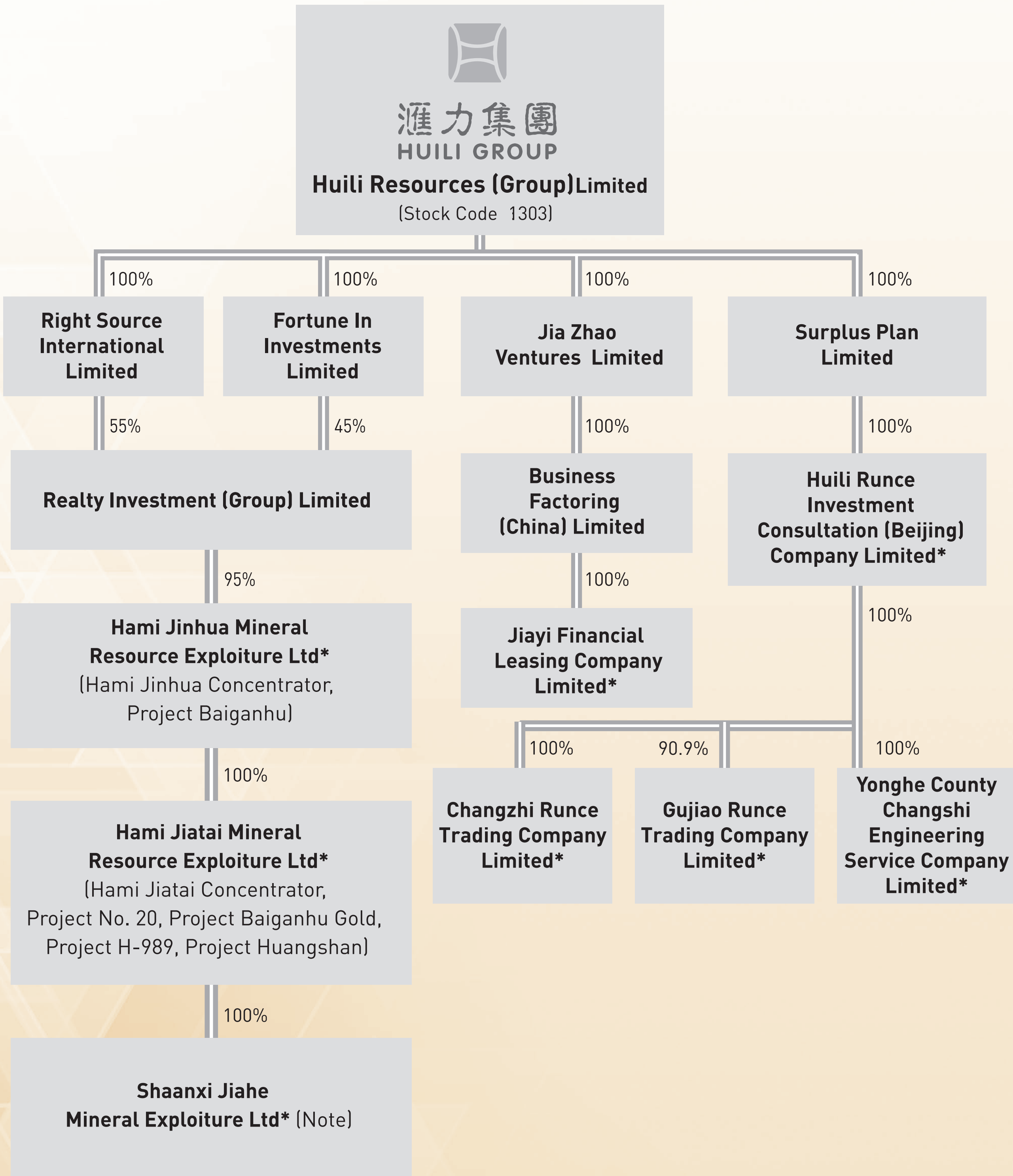
COMPANY WEBSITE

www.huili.hk

STOCK CODE

1303

PRINCIPAL SUBSIDIARIES OF THE GROUP



* For identification purposes only

Note: Shaanxi Jiahe Mineral Exploiture Ltd. was disposed in March 2020.

MINES INFORMATION

MINERAL RESOURCES AS OF 31 DECEMBER 2019 (Note 1)

Project name	Classification	Quantity (kt)	Ni metal (t)	Ni Grade (%)	Cu metal (t)	Cu Grade (%)
Project No. 20	Measured	–	–	–	–	–
	Indicated	1,330	9,430	0.71	3,150	0.24
	Inferred	1,260	8,660	0.69	3,160	0.25
	Sub-total	2,590	18,090	0.70	6,310	0.24
Project H-989	Measured	–	–	–	–	–
	Indicated	3,390	16,540	0.49	7,750	0.23
	Inferred	2,370	12,100	0.51	4,390	0.19
	Sub-total	5,760	28,640	0.50	12,140	0.21
Grand total	Measured	–	–	–	–	–
	Indicated	4,720	25,970	0.55	10,900	0.23
	Inferred	3,630	20,760	0.57	7,550	0.21
	Total	8,350	46,730	0.56	18,450	0.22

Project name	Classification	Quantity (kt)	Zn metal (t)	Zn Grade (%)	Pb metal (t)	Pb Grade (%)
Project Baiganhu	Measured	–	–	–	–	–
	Indicated	1,730	113,540	6.57	71,440	4.13
	Inferred	2,150	137,910	6.42	85,140	3.96
	Total	3,880	251,450	6.49	156,580	4.03

Project name	Classification	Quantity (kt)	Au Grade (g/t)	Au metal (t)
Project Huangjinmei (Note 2)	Measured	–	–	–
	Indicated	430	3.61	1.5
	Inferred	716	3.63	2.7
	Total	1,146	3.62	4.2

ORE RESERVES AS OF 31 DECEMBER 2019 (Note 1)

Project name	Classification	Quantity (kt)	Ni metal (t)	Ni Grade (%)	Cu metal (t)	Cu Grade (%)
Project No. 20	Proved	–	–	–	–	–
	Probable	1,099	7,071	0.64	2,362	0.21

Project name	Classification	Quantity (kt)	Zn metal (t)	Zn Grade (%)	Pb metal (t)	Pb Grade (%)
Project Baiganhu	Proved	–	–	–	–	–
	Probable	1,055	62,773	5.95	39,352	3.73

Note 1: The reports on mineral resources and ore reserves of the Project No. 20, Project H-989 and Project Baiganhu were prepared based on the independent technical report of Minacro-Mine Consult, an independent technical consultant, for determining mineral resources and ore reserves, while the report on mineral resources of the Project Huangjinmei was prepared based on Xinjiang Engineering & Research Institute of Nonferrous Metals Co., Ltd (新疆有色冶金設計研究院有限公司). The rounding of figures may result in minor computational discrepancies. Such discrepancies are deemed to be insignificant.

Note 2: Project Huangjinmei, which was held by Shaanxi Jiahe Mineral Exploiture Ltd., was disposal in March 2020.

EXPLORATION PERMITS

Project name	Type of ore under exploration	Exploration Area (km^2)	Permit expiry date (month/year)
Project Baiganhu Gold	Au	0.64	July 2018 (Note 1)
Project H-989	Cu, Ni	0.96	July 2018 (Note 1)
Project Huangshan	Cu, Ni	3.49	March 2019 (Note 1)

MINING PERMITS

Project name	Type of ore under exploration	Mining Area (km^2)	Permit expiry date (month/year)
Project No. 20	Cu, Ni	0.22	October 2019 (Note 1)
Project Baiganhu	Pb, Zn	0.96	September 2021
Project Huangjinmei	Au	0.12	February 2021 (Note 2)

Glossary:
Au: Gold
Cu: Copper
Ni: Nickel
Pb: Lead
Zn: Zinc

Note 1: The Group is in the progress of renewing these permits, in which applications of renewal have been made to the relevant government departments.

Note 2: Project Huangjinmei, which was held by Shaanxi Jiahe Mineral Exploiture Ltd., was disposal in March 2020.

CAPITAL EXPENDITURE AND EXPLORATION EXPENSES

The Group did not carry out any ore production during the years ended 31 December 2018 and 2019.

For the years ended 31 December 2018 and 2019, no capital expenditure was incurred for the development and mining activities.

For the years ended 31 December 2018 and 2019, no exploration expenses were charged to the consolidated statement of comprehensive income.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Huili Resources (Group) Limited (the "Company") and its subsidiaries (together the "Group") mainly participate in non-ferrous ore mining and processing. The diversified non-ferrous metal minerals covered by the Company's operations include nickel, copper, zinc and lead in Xinjiang Uyghur Autonomous Region ("Xinjiang"), the PRC and gold in Shaanxi province, the PRC.

The mining and exploration tenements and ore processing plants in Xinjiang are located close to the municipal city of Hami county, which is approximately 400 kilometers ("km") southeast of Urumqi, the capital of Xinjiang. Huangjinmei tenement, which is the Company's gold operation, is located 15 km by sealed road from the regional town of Jinchuan, Ningshan county. The town of Jinchuan is located approximately 140 km south of Xi'an city and is connected by the G210 state highway.

The Company's subsidiaries, Hami Jinhua Mineral Resource Exploiture Ltd* ("Hami Jinhua") and Hami Jiatai Mineral Resource Exploiture Ltd* ("Hami Jiatai"), own two mining permits and three exploration permits of non-ferrous metals in Xinjiang, the PRC. Another subsidiary of the Company, Shaanxi Jiahe Mineral Exploiture Ltd* ("Shaanxi Jiahe"), owns a mining permit of gold in Shaanxi province, the PRC.

The price of copper, nickel, zinc and lead demonstrated opposite moves during the year ended 31 December 2019 (the "Year"). The price of copper reached at its peak about March 2019, and then dropped gradually to its trough near September 2019 and fluctuated near the trough until there was a signal of rebound near the end of 2019. On the contrary, the price of lead declined to its bottom in May 2019, and increased gradually to its peak of the Year in October 2019 but subsequently dropped drastically to near the bottom again by December 2019 (Source: The London Metal Exchange).

On the other hand, the price of nickel and zinc fluctuated relatively less wildly than that of copper and lead. While the price of nickel increased from its low from the beginning of 2019 to its peak about September 2019 and then recorded a decline of around 30% within three months, the price of zinc only showed an increasing trend in the first quarter of 2019 and then dropped steadily and hit the rock bottom in the December 2019 (Source: The London Metal Exchange).

Since the Company is of the view that the commodities' price had not yet stabilised at a high enough level for the business segment to be profitable, the Group continued to temporarily suspend its mining activities and scheduled maintenance work during the Year, in order to extend the mine services lives and minimise the operating loss. This also allows the Group to preserve the value of the assets. The Group will closely monitor the window to restart its mines production and will also look for potential partners to jointly develop the mines in order to maximise their economic values.

Meanwhile, in view of the potentially long investment horizon of Shaanxi Jiahe and the adverse commodities market conditions that posted financial risks to the Group's overall operations and business portfolio, the Group, on 24 December 2019, entered into an agreement (the "Jiahe Disposal Agreement") with an independent third party to dispose the entire equity interests of Shaanxi Jiahe (the "Jiahe Disposal"). The Jiahe Disposal allowed the Group to better optimise its business portfolio from a risk management perspective, and offered an opportunity for the Group to exit at acceptable terms and reallocated its financial and management resources to other businesses of the Group with a view to generate better return. On 23 March 2020, completion of the Jiahe Disposal has taken place and Shaanxi Jiahe had ceased to be a subsidiary of the Company.

* For identification purpose only

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 ores. To meet new requirements of safety production, No. 20 Mine has to upgrade its lifting system before the production can be relaunched. Baiganhu Mine produces lead and zinc ores. The Group is assessing the possibility for the commencement of productions of both mines and will also look for potential partners to jointly develop the mines to capture the economic values of both mines.

Meanwhile, in December 2019, the Group entered into the Jiahe Disposal Agreement to dispose the entire equity interests of Shaanxi Jiahe, which held the mining permit of Mine 1 of Project Huangjinmei that produces gold ore, and completion of the Jiahe Disposal has taken place as at the date of this report.

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 mineralisation band and the ore deposit. Subject to the market condition and local requirements, the Group will devote reasonable resources and/or co-operate with any potential partners to carry out further exploration in order to enrich the resources and reserve bases.

In relation to the exploration right of Mine 2 of Project Huangjinmei, the Group, on 24 December 2019, entered into the Jiahe Disposal Agreement with an independent third party to dispose the entire equity interests of Shaanxi Jiahe, the subsidiary of the Group that owns Project Huangjinmei, and the Jiahe Disposal was completed as at the date of this report.

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 process the ore extracted from their deposits, and adopt a non-conventional 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 Services

On 11 December 2018, the Group entered into a loan agreement to provide a loan of Renminbi ("RMB") 100 million to an independent third party (the "Loan 1") and such loan was settled in December 2019. On 4 December 2019, the Group signed another loan agreement with an independent third party to provide a loan of RMB65 million (the "Loan 2"), interest bearing at 7% per annum for a term of 5 months, and may be extended for 19 months, and may thereafter further be extended for 12 months. Revenue of approximately RMB6.4 million (2018: RMB6.6 million) was generated by this segment during the Year.

Further details of the Loan 1 were disclosed in the announcements of the Company dated 11 December 2018, 8 October 2019 and 2 December 2019, and further details of the Loan 2 were disclosed in the announcement of the Company dated 4 December 2019.

Subsequent to the end of the Year and up to the date of this report, the Group entered into three separate loan agreements with three different independent third parties to provide three loans of RMB6 million each. Among the three loans, two carry a term of 36 months and one carries a term of 6 months, and all bear the interest of 7% per annum.

On 28 February 2020, upon the request of the borrower of the Loan 2 and under the approval of the board (the "Board") of directors (the "Director(s)") of the Company, the Loan 2 was extended for 31 months after the end of the current 5-month term (the "Extension"). Further details of the Extension were disclosed in the announcement of the Company dated 28 February 2020.

Engineering Services

The Group carried out the business of engineering and other related services in Shanxi province, the PRC through a wholly-owned subsidiary of the Company, Yonghe County Changshi Engineering Service Co., Ltd.* ("Changshi"). Changshi was incorporated in Shanxi province, the PRC on 29 January 2016 and was acquired by the Group in April 2017. It is principally engaged in petrol, natural gas, coalbed gas engineering and pre-drilling service. During the year ended 31 December 2018 (the "Prior Year"), in order to diversify the business risks associated with the uncertain economic conditions, the Group diversified into the trade in materials for oil and gas exploration, including fracturing sands and water, gas drilling equipment and valves. The Group decided to temporarily suspend this segment to concentrate its resources on the coal trading business, which was a new business segment established during the Year.

Trading Business

During the Year, the Group has commenced the coal trading business through two newly established indirectly owned subsidiaries, Changzhi Runce Trading Company Limited* ("Changzhi Runce") and Gujiao Runce Trading Company Limited* ("Gujiao Runce"). The customers of this business segment are mainly local coal traders and energy companies. This segment has contributed RMB85.8 million to the Group's revenue during the Year.

Update in relation to Shaanxi Jiahe

After the settlement of legal proceeding between Xiaoyi Dajieshan Coal Industry Company Limited* ("Xiaoyi Dajieshan") and Hami Jiatai, being the subsidiary of the Company that owned 100% equity interests of Shaanxi Jiahe, in relation to the disposal of the entire equity interests of Shaanxi Jiahe in December 2015, Shaanxi Jiahe was transferred back to Hami Jiatai on 22 May 2018 (further details as disclosed in the announcements of the Company dated 18 December 2015, 31 May 2018 and 17 August 2018).

Immediately after the transfer back of Shaanxi Jiahe and as at 31 December 2018, the Group carried out valuations to determine the fair value of the 100% equity interests in Shaanxi Jiahe at the date of transfer-back and the recoverable amount of the mining rights as at 31 December 2018 respectively, and have adopted the following assumptions:

(1) the title of the mining rights of Mine 2 will be transferred to Shaanxi Jiahe (the "Transfer") at no additional charges and will meet the legal requirements to commence commercial operation by the third quarter of 2020 ("Assumption 1"); and

(2) Shaanxi Jiahe's non-operating receivables due from certain independent third parties amounted to RMB17.8 million will be fully recoverable in the near future ("Assumption 2").

In connection with Assumption 1, while the Company had been discussing with the owner that currently holds the exploration right of Mine 2 (the "Current Owner") in relation to the Transfer, the Company also maintained an open discussion with interested purchasers on the disposal of Shaanxi Jiahe. On 24 December 2019, the Company entered into the Jiahe Disposal Agreement with an independent third party on the Jiahe Disposal, which was subsequently completed as at the date of this report. For further details of the Jiahe Disposal, please refer to the Company's announcements dated 4 November 2019 and 24 December 2019.

Regarding Assumption 2, the relevant parties in respect of the non-operating receivables and the non-operating payables of Shaanxi Jiahe have concluded a set-off arrangement for such receivables and payables in April 2019. Upon the execution of such agreement, the non-operating receivables and the non-operating payables of Shaanxi Jiahe have been respectively fully recovered and settled.

* For identification purpose only

RESULTS REVIEW

Revenue and Gross profit

During the Year, the revenue increased by almost two folds to approximately RMB93.6 million from approximately RMB32.8 million for the Prior Year. The increase was mainly attributable to the revenue generated from the trading of coals, which was a new business segment of the Group during the Year, of approximately RMB85.8 million, while offset by the decrease in revenue of RMB24.7 million, which was mainly attributable to the Group's engineering and other related services segment.

The cost of sales was approximately RMB90.3 million for the Year, as compared with the Prior Year of approximately RMB24.0 million, representing year on year increase of approximately 276%. The increase was mainly contributed by the new business segment, the trading of coals, during the Year.

The gross profit decreased by approximately 63% from approximately RMB8.8 million for the Prior Year to approximately RMB3.3 million for the Year. The decrease was mainly due to the shift of business focus of the Group to trading of coals which had lower profit margin during the Year.

During the Year, the Group continued to suspend the production plan of No.20 Mine, Baiganhu and Project Huangjinmei as the prices of non-ferrous metal minerals have not yet stabilised at a high enough level to make the business segment profitable. The Group will closely monitor the window to restart its mines production and will also look for cooperative partners to jointly develop the mines in order to maximise their economic values.

Administrative expenses

Administrative expenses for the Year, which included mainly depreciation charges, professional fees, staff costs and office overheads, amounted to approximately RMB21.1 million (2018: RMB28.3 million).

Other gains — net

Other gains for the Year of approximately RMB4.5 million (2018: RMB14.4 million) mainly represented the exchange gains of the financial assets that were denominated in the currency other than RMB.

Other operating gains/(losses)

Other operating gains of approximately RMB4.5 million was recorded during the Year, against other operating losses of approximately RMB27.4 million for the Prior Year. The other operating gains for the Year was mainly contributed by the reversal of the impairment losses on mining structures and mining rights of approximately RMB9 million as a result of increase in the commodities price, while the other operating losses for the Prior Year was mainly attributable to the impairment losses on mining structures and mining rights of approximately RMB24.1 million.

For more details, please refer to note 16 and 17 of the consolidated financial statements.

Finance income — net

Finance income of approximately RMB1.9 million (2018: RMB1.3 million) during the Year mainly represented interest income earned from the Group's cash at bank, netted by interest expenses.

Income tax (expense)/credit

During the Year, income tax expense was approximately RMB10.3 million, against the income tax credit of approximately RMB4.7 million for the Prior Year. It mainly represents the tax provision for operations in the PRC and deferred tax during the Year. No provision for profits tax in Hong Kong was made during the Year.

Operating loss

The revenue and the corresponding operating results were manly contributed by the segments below, excluding corporate expenses, for the Year and the Prior Year.

	For the Year			For the Prior Year		
	Revenue	**Segment result**	**Operating Profit Margin**	**Revenue**	**Segment result**	**Operating profit margin**
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Trading of coals	85,823	585	0.7%	–	–	N/A
Interest income from financial services	6,369	6,258	98.3%	6,636	3,589	54.1%
Engineering and other related services	1,380	(2,590)	(187.7%)	26,140	329	1.3%
Mining	–	22,039	N/A	52	(51,170)	(98,403.8%)
	93,572	26,292	28.1%	32,828	(47,252)	(143.9%)

SIGNIFICANT INVESTMENTS HELD

There were no significant investments held as at 31 December 2019 and 2018.

MATERIAL ACQUISITIONS AND DISPOSALS

There were no material acquisitions and disposals during the Year.

LIQUIDITY AND FINANCIAL REVIEW

The Group financed its day to day operations by internally generated cash flows during the Year. Primary uses of funds during the Year was mainly the payment of operating expenses.

As at 31 December 2019, the Group had current assets of approximately RMB340.6 million (2018: RMB351.8 million) and current liabilities of approximately RMB43.8 million (2018: RMB58.9 million). The current ratios for the Group, being total current assets to total current liabilities, was 7.8 and 6.0 as at 31 December 2019 and 2018 respectively. As at 31 December 2019, there was no outstanding interest-bearing bank loan and other borrowings while as at 31 December 2018, there was an unsecured loan of RMB2.2 million which was interest bearing of 10% per annum.

As at 31 December 2019, the Group maintained bank and cash balances of approximately RMB218.2 million (2018: RMB167.9 million), and the restricted cash deposit of approximately RMB0.2 million (2018: RMB2.7 million).

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

FOREIGN EXCHANGE EXPOSURE

The Group's businesses are mainly conducted in RMB. The Group has not experienced any material difficulties with its operations or liquidity as a result of fluctuations in currency exchange rates during the Year. The Group currently has not engaged in hedging activities against foreign exchange exposure, as it believes that the cost associated with such hedging arrangements would exceed the benefits. However, management will continue to monitor the relevant circumstances and may take such measures if it deems prudent.

GEARING RATIO

Gearing ratio of the Group is calculated based on net debt divided by total capital. Net debt is calculated based on total borrowings (including current and non-current borrowings) less cash and cash equivalents. Total capital is calculated based on total equity plus net debt. As at 31 December 2019, the gearing ratio was 0% (2018: 0%).

CHARGES ON COMPANY'S ASSETS, COMMITMENTS AND CONTINGENT LIABILITIES

The Group had no contracted capital expenditure as at 31 December 2019 and 2018.

As at 31 December 2018, the future aggregate minimum lease payments under non-cancellable operating leases of various offices were approximately RMB4.9 million. Upon the application of HKFRS 16 from 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated balance sheet and there will be no commitments for future minimum lease payments under operating leases.

There was no charge on the Company's assets as at 31 December 2019 and 2018.

The Group may be subject to new environmental laws and regulations that may result in contingent liabilities for 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 and note 37 and 43 to the consolidated financial statements, the Group had no material contingent liability as at 31 December 2019 and 2018.

HUMAN RESOURCES AND SHARE OPTION SCHEME

As at 31 December 2019, the Group employed 32 employees (2018: 39). The total staff costs (including Directors' emoluments) for the year were approximately RMB8.9 million (2018: RMB9.6 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, lapsed or outstanding as at 31 December 2019.

FUTURE OUTLOOK AND PROSPECTS

Sentiments of both the capital market and businesses have been affected by the prospect of a prolonged trade war between China and the United States and the former's decelerating economic growth. Despite the ongoing Sino-United States trade war and China's decelerating economic growth have cast uncertainty over the prospect of the commodity market, the Group will continue to, while mitigating the risk associated with external economic and business risk, study the feasibility of resuming the productions for the mines owned by the Group with the expectation in capitalising on China's economic growth in the future.

During the Year, the Group has commenced trading of coals and will continue to devote reasonable resources into the existing business segment. Notably, the Group's new coal trading business has already contributed RMB85.8 million to the Group's revenue.

Currently, the Group is actively exploring the potential to fully utilise the Group's expertise and network in the industry through widening the scope of business of trading of coals. Apart from the existing businesses, the Group will also continuously seek for other opportunities to diversify the Group's businesses, both business segments and locations to reduce the business risks arising from the volatile commodities markets. This is part of the Group's ongoing move to strengthen its diverse businesses with the aim of broadening its income stream. It is also aimed to minimise the impact of the adverse commodities market conditions on the Group's overall business performance.

Looking ahead, the Company will do its best to carry out more active operations and explore opportunities for potential acquisition to capture the market opportunities in the PRC and other countries and to diversify the Group's business and broaden its revenue base.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On 6 January 2020, the Group entered into two loan agreements with two independent third parties to provide loans of RMB6 million. Both loans are interest bearing at 7% per annum for a term of 36 months.

On 17 January 2020, the Group entered into a loan agreement with an independent third party to provide a loan of RMB6 million, interest bearing at 7% per annum for a term of 6 months.

On 28 February 2020, upon the request of the borrower of the Loan 2 and under the approval of the Board, the Loan 2 was extended for 31 months after the end of the current 5-month term.

On 23 March 2020, the Company has completed the commence filing in relation to the change of shareholders of the Shaanxi Jiahe with the relevant authorities, and Jiahe Disposal was then completed.

Since January 2020, the outbreak of coronavirus disease ("COVID-19") has impact on the global business environment. Up to the date of this report, COVID-19 has not caused material financial difficulties to the Group. Depending on the development and spread of COVID-19 subsequent to the date of this report, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of this report. The Group will keep continuous attention on the situation of COVID-19 and react actively to its impact on the financial position and operating results of the Group.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Ms. Wang Qian (王茜)

Ms. Wang, aged 44, is an executive Director. She joined the Group in January 2016. She has over 15 years of experience in finance, investment and management area. From October 2001 to June 2002, Ms. Wang was employed by PricewaterhouseCoopers Consulting, a company principally engaged in the provision of management consulting services, where she served as a consultant and was primarily responsible for enterprise strategy and financial management consultation. Ms. Wang successively acted as a senior manager of the finance strategy & business development department at the US headquarters of Goodyear Tire & Rubber Company and the Asia-Pacific region Finance Director of Goodyear Engineered Products Company from July 2004 to March 2009, Goodyear's principal business is manufacturing tires and rubber products, where she was primarily in charge of mergers and acquisitions, and annual operation planning, as well as organising and supervising the financial activities for Asia Pacific region, After Goodyear Engineered Products Company was acquired by The Carlyle Group, Ms. Wang had led several acquisitions and restructuring projects. Since March 2009, Ms. Wang has served as the president of HIXIH Investment, a company principally engaged in the business of equity and securities investment, and Ms. Wang is primarily responsible for company management and investment business, She has accomplished and participated in several initial public offering projects in New York Stock Exchange, The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Shanghai Stock Exchange for companies in finance, energy and resources, culture industries. Ms. Wang received a certificate of Certified Public Accountant granted by the Accountancy Board in the USA in October 2005. Ms. Wang received her bachelor's degree of economics from the Central University of Finance and Economics in July 1998. Ms. Wang received her Master of Business Administration degree from the Carnegie Mellon University in the USA in May 2004.

Ms. Wang was appointed as an executive Director on 26 January 2016.

Mr. Zhou Jianzhong (周建忠)

Mr. Zhou, aged 46, has over 20 years of experience in the construction and engineering management field. Mr. Zhou joined the Group in May 2017 and is currently the legal representatives of Hami Jinhua, Hami Jiatai and Shaanxi Jiahe, responsible for general operations of the Company's mines in the PRC. From 2008 to 2017, Mr. Zhou held the position of the general manager and executive director of Shanxi Zi Feng Technology Company Limited* (山西紫峰科技有限公司) responsible for corporate management and technical services in respect of lands involved in various projects. During the period from 1998 to 2008, Mr. Zhou was an engineer at China Railway 17th Bureau Group Co., Ltd. (中鐵十七局集團建築公司). Mr. Zhou obtained a bachelor's degree in industrial and civil architecture from Hebei University of Architecture (河北建築科技學院) and certificate of completion of postgraduate course of Road and railway construction from 石家莊鐵道學院 (Shijiazhuang Tiedao University). Mr. Zhou is a constructor (一級建造師) recognized by the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部) in 2008.

Mr. Zhou was appointed as an executive Director on 11 March 2019.

* For identification purpose

NON-EXECUTIVE DIRECTOR

Mr. Cao Ye (曹野)

Mr. Cao Ye (曹野), aged 24, obtained a bachelor's degree in investment from the School of Banking and Finance, University of International Business and Economics (對外經濟貿易大學金融學院). He has extensive experience in investment and coal trading business. Since March 2015, he has held the position of the partner of 北京正略才誠資產管理有限公司 (Beijing Adfaith Xincheng Capital Co, Ltd.*) responsible for managing the fund that in acquisition, management and disposal of non-performing assets. Starting from November 2015, he has served as the assistant general manager of 山西昌盛鑫隆供應鏈管理服務有限公司 (Shanxi Changsheng Xinlong Supply Chain Service Co., Ltd.*), which is a coal trading company, to assist the general manager in developing business strategy and is in charge of the sales and marketing department of the company. Since November 2018, Mr. Cao has joined 博通能源銷售(寧波)有限公司 (Botong Energy Trading (Ningbo) Co., Ltd.*), which engages in coal trading business, as general manager and is mainly responsible for formulating the strategy of the company's business, overseeing the finance function of the company, and monitoring and coordinating the business development of the company's coal trading business

Mr. Cao was appointed as an non-executive Director on 14 June 2019.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Xiang Siying (項思英)

Ms. Xiang, aged 57, holds Bachelor's Degree in Agriculture Economics from China Agriculture University (now known as China Agriculture University) in 1986 and Master's Degree in Finance and Economics from Zhongnan University of Economics, Finance and Laws, China as well as The Research Institute of Finance and Economics of China in 1988. Ms. Xiang also holds a Master Degree in Business Administration from London Business School in 1999. She is a currently a consultant for CDH Investments ("CDH") and has had a long career in investment, banking and financial advisory services. From June 2010 to April 2016, Ms. Xiang had worked for CDH as an executive director; and before that from March 2004 to June 2010 she worked for China International Capital Corporation in its Direct Investment Department and Investment Banking Department as an executive director. Prior to returning China in early 2004, Ms. Xiang was an investment officer of Global Manufacturing and Service Department and East Asia and Pacific Department of International Finance Corporation ("IFC"), the World Bank Group, in Washington DC from August 1996 to March 2004, and before that Ms. Xiang was an investment analyst of IFC's representative office in China. From July 1988 to July 1991 Ms. Xiang served as an officer of Ministry of Agriculture China, in its Department of World Bank Agriculture Project Management and Department of Rural Reform Research and Farm Management. Ms. Xiang also held the position as the independent non-executive director of Titan Petrochemicals Group Limited, a company listed on the Stock Exchange with stock code 1192, from July 2015 to July 2018. Currently, Ms. Xiang has been the independent non-executive director of China Ocean Industry Group Limited, a company listed on the Stock Exchange with stock code 651 since May 2008.

Ms. Xiang was appointed as an independent non-executive Director on 6 September 2017 and was appointed as the chairlady of the Board on 11 March 2019.

* For identification purpose only

Ms. Huang Mei (黃梅)

Ms. Huang, aged 40, obtained a bachelor's degree in Management and a master degree in Accountancy from Tsinghua University. She is a member of the Chinese Institute of Certified Public Accountants. Ms. Huang has over 15 years' experience in accounting, auditing and corporate management. She has worked in PricewaterhouseCoopers Zhong Tian LLP, an international accounting firm, from August 2003 to July 2015. She has also been the financial controller of Alibaba Pictures Group Limited (a company listed on the Stock Exchange with stock code: 1060) from July 2015 to July 2018. Currently she is the chief financial officer of a startup company.

Ms. Huang was appointed as an independent non-executive Director on 19 October 2018.

Mr. Chan Ping Kuen (陳炳權)

Mr. Chan, aged 34, has over 10 years of experience in the mining and material trading industry. Mr. Chan is currently the trading director of Ares Asia Limited, being a company listed on the Stock Exchange (stock code: 645), is responsible for coal, iron ore and rice imports to China. From April 2011 to March 2013, Mr. Chan held the position of assistant manager of trading department in Best Power Holdings (HK) Ltd., responsible for trading of iron ore and coal. From February 2009 to January 2011, Mr. Chan joined Hangpo Investment (Macau) Group Co., Ltd. as the assistant trading manager, responsible for procurement and coal, iron ore and manganese trading transactions. Mr. Chan obtained a bachelor's degree in accounting from Jinan University in 2009.

Mr. Chan was appointed as an independent non-executive Director on 11 March 2019.

SENIOR MANAGEMENT

Mr. Huang Kenian (黃可年)

Mr. Huang, aged 44, is the vice president of the Company, He joined the Group since January 2008, and is responsible for direct investment and corporate finance. Mr. Huang holds a Bachelor degree in Economics from the Finance and Banking Institute of China (中國金融學院) (now University of International Business and Economics (對外經濟貿易大學). Mr. Huang has over 20 years experience in corporate finance and merge and acquisition field. During the period from November 2003 to October 2009, Mr. Huang served as a vice president of China Coal and Coke Investment Fund L.P. (the "Partnership") and China Coal and Coke Investment Holding Company Limited. He was one of responsible persons in charge of the foundation of the Partnership which established on 4 February 2005. His main responsibilities included due diligence work on target companies, preparation for business development plan and liaison with different professional parties. Mr. Huang involved in the investment in Fortune Dragon in mid of 2005. The Partnership exited its investment in Fortune Dragon in July 2008 with satisfactory return on investment. From January 2005 to July 2008, Mr. Huang worked as a general manager of capital market department in Fortune Dragon. During his tenure with Fortune Dragon, he successfully procured a fund raising exercise of USD160 million through an international bank for the investment of three coal mines in Shanxi in March 2006, led a task force of the initial public offerings of the company during the period from June 2006 to May 2007 and coordinated the deal of selling the company's interest in three coal mines to Shougang Fushan. Between 1998 to 2003, he worked in various companies, including Guofu Investment Management Co., Ltd. (國富投資管理有限公司), Beijing Xintong Media & Cultural Investment Co., Ltd. (北京信通傳之媒文化投資有限公司) and Beijing Jianhao Industrial Co., Ltd. (北京建昊實業有限公司).

Mr. Yau Hong Chun (邱康俊)

Mr. Yau, aged 34, joined the Group on 14 January 2019 and was appointed as the company secretary and the financial controller of the Company on 13 February 2019. Mr. Yau holds a Bachelor degree in Business Administration in Accounting from the Chinese University of Hong Kong. He is a fellow member of The Hong Kong Institute of Certified Public Accountants and the associate member of The Institute of Chartered Secretaries. Mr. Yau possesses over 10 years of experience in accounting, auditing and corporate field. Mr. Yau worked in international accounting firms for auditing, and then joined a HK listed group as finance manager in April 2014 and was then promoted to assistant financial controller in January 2019.

* *For reference only*

REPORT OF THE DIRECTORS

The directors (the "Directors") of Huili Resources (Group) Limited (the "Company") present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2019 (the "Year").

CORPORATE INFORMATION

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 "Stock Exchange") under the name of Realty Resources (Group) Limited. On 13 May 2010, the Company changed its name to Huili Resources (Group) Limited. The Company issued 250,000,000 ordinary new shares of HK$0.1 each at a subscription price of HK$1.7 per share pursuant to the public offering. The Company's shares including these new shares were listed on the main board of the Stock Exchange on 12 January 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the mining, ore processing and sales of gold, nickel, copper, lead and zinc products, trading of materials for oil and gas exploration and coals, and financial services in the People's Republic of China (the "PRC"), details of which are set out in note 39 to the consolidated financial statements. Save for commencement of the business in trading of coals, there were no significant changes in the nature of the Group's principal activities during the Year.

BUSINESS REVIEW

Details of business review, financial performance and future development of the Group's business are set out in the "Management Discussion and Analysis" from pages 8 to 14.

BOARD'S VIEW ON THE QUALIFIED OPINION

The Board, through the audit committee of the Company (the "Audit Committee"), noted that the consolidated financial statements of the Company for the Year had been subject to the qualified opinion (the "Qualified Opinion") of the auditor of the Company (the "Auditor"), on the basis as set out in the section headed "Basis of the Qualified Opinion" in the independent auditor's report ("Auditor's Report"). The matters which gave rise to the qualified opinion related to the assumptions adopted in the assessment of the carrying amounts of mining rights (the "Assumptions") as at 31 December 2018.

Having considered the information available to the Board as at the date of the annual report, including without limitation, the information provided by the management and the Company's PRC legal adviser in respect of Assumptions, the Assumptions continued to be valid continues during the Year. The Group, on 24 December 2019, entered into an agreement (the "Jiahe Disposal Agreement") with an independent third party to dispose the entire equity interests of Shaanxi Jiahe (the "Jiahe Disposal"), and on 23 March 2020, completion of the Jiahe Disposal has taken place. As thus, the assets and liabilities of Shaanxi Jiahe were classified as assets and liabilities held for sale in accordance with HKFRS 5 "Non-Current Assets Held For Sale and Discontinued Operations", as described in note 33 to the consolidated financial statements. Therefore, the Board is of the view that the Assumptions was no longer applicable as at 31 December 2019.

The Board, through the Audit Committee, further noted that the Auditor had difficulty in obtaining evidence which they considered sufficient and appropriate to assess the validity of the Assumptions and consequentially led to the Qualified Opinion. Thus, the Board did not express different view from that of the Auditor on the basis of the qualifications, as detailed below:

(1) the Auditor is unable to assess, as at 31 December 2018, the validity of the recoverable amount of the mining rights (the "Mining Rights") of Shaanxi Jiahe as at 31 December 2018 in which the Assumptions were adopted, and hence the assessment of the carrying value of the Mining Rights as at 31 December 2018 cannot be concluded. As such, any adjustment to the carrying amount of mining right as at 31 December 2018 found necessary would have an impact on the impairment provision on mining right for the Year;

(2) upon the entering of the Jiahe Disposal Agreement on 24 December 2019 with an independent third party to dispose of the entire equity interests in Shaanxi Jiahe, the assets and liabilities of Shaanxi Jiahe were classified as assets and liabilities held for sale in accordance with HKFRS 5 "Non-Current Assets Held For Sale and Discontinued Operations". In accordance with HKFRS 5, immediately before the initial classification of these assets and related liabilities as disposal group held for sale, all the assets and liabilities in the disposal group were remeasured under their respective accounting policies. Reversal of impairment loss of approximately RMB4,207,000 on the mining right was resulted and recognised. Upon the classification of the disposal group held for sale, a fair value loss on the disposal group of RMB9,191,000 was recognised for the Year. However, due to the reason as set out in (1), any adjustment to the reversal of impairment loss on the mining right found necessary would affect the fair value loss on the disposal group recognised; and

(3) the unresolved qualifications for the year ended 31 December 2018, which mainly arising from the results of the Assumptions adopted, was brought forward from last year, and thus had possible effect on the comparability of the current year's figures and the corresponding figures.

As a set-off arrangement for non-operating receivables and the non-operating payables of Shaanxi Jiahe has been concluded in April 2019 and the Jiahe Disposal has been completed on 23 March 2020, the Board is of the view that, except for the comparability of the figures for the year ending 31 December 2020 and the corresponding figures, any audit qualifications arising therefrom are expected not to be carried forward to the year ending 31 December 2020.

PRINCIPAL RISKS AND UNCERTAINTIES

There are various risks and uncertainties including business risks, operational risks, and financial risks that may have different levels of impact on the Group's financial performance, operations, business as well as future prospects.

For risks and uncertainties relating to the business and operation, certain projects of the Group have finite and relatively short estimated mine life and there are uncertainties to acquire new mining projects. The business and results of operations are also susceptible to volatility in commodity prices and economic cyclicality. In addition, as all the existing mining projects are located in the PRC, the Group's business, financial condition, results of operations and prospects are greatly affected by political, economic and legal developments and changes to government policies in the PRC. If any stricter regulations regarding the Group's operation or the mining industry are enacted in the future, business and operation of the Group may also be significantly impacted and there are uncertainties to renew the mining and exploration permits or obtain relevant approvals from the government.

The Group is also exposed to certain financial risk, including market risk (including foreign exchange risk, interest rate risk), credit risk and liquidity risk. Details of financial risks are set out in note 47 to the consolidated financial statements.

KEY FINANCIAL PERFORMANCE INDICATORS

An analysis of the Group's financial performance in terms of key indicators are set out in the section headed "Liquidity and Financial Review" under the "Management Discussion and Analysis" to this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to the long term sustainability of the environment and communities in which it operates.

The Group's operations are subject to a variety of PRC environmental laws and regulations, as well as local environmental regulations promulgated by local authorities on environmental protection. These laws and regulations govern a broad range of environmental matters, such as mining control, land rehabilitation, air emissions, noise control, discharge of wastewater and pollutants, waste disposal and radioactive element disposal control. The PRC government has taken an increasingly stringent stance on the adoption and enforcement of rigorous environmental laws and regulations, which could have a material adverse effect on financial condition and results of operations and could incur additional costs.

The Group was in compliance with all relevant PRC laws and regulations regarding environmental protection in all material respects and was not subject to any environmental claims, lawsuits, penalties or administrative sanctions during the Year. The Group is also committed to allocate operating and financial resources to ensure environment protection compliance as required by applicable PRC laws and regulations. As at 31 December 2019, the provision for close down, restoration and environmental costs was approximately RMB2.8 million (2018: RMB5.3 million), details of which are set out in note 31 to the consolidated financial statements.

In accordance with Rule 13.91 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the Company will publish an environmental, social and governance ("ESG") report within three months after the publication of this annual report in compliance with the provisions set out in the ESG Reporting Guide in Appendix 27 to the Listing Rules.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

The Group recognises the importance of compliance with regulatory requirements and the risk of noncompliance with the applicable rules and regulations. The Group's operations are mainly carried out in the PRC and Hong Kong while the shares of Company are listed on the Stock Exchange in Hong Kong. Hence, the Group shall comply with relevant laws and regulations in the PRC, Hong Kong and the respective places of incorporation of the Company and its subsidiaries. In addition, the Company is required to comply with the Listing Rules and other relevant regulations.

The Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group during the Year. There was no material breach of or non-compliance with the applicable laws and regulations by the Group for the Year.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

A full corporate governance report is set out on pages 29 to 37 of this annual report.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS AND OTHER STAKEHOLDERS

The Group understands the success of the Group's business depends on the support from its key stakeholders, including employees, customers, suppliers, banks, regulators and shareholders of the Company (the "Shareholder(s)"). There were no material and significant dispute between the Group and its key stakeholders that have a significant impact on the Group during the Year.

The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

RESULTS AND DIVIDENDS

The Group's loss for the Year set out in the consolidated statement of comprehensive income on page 45 and the state of affairs of the Group as at 31 December 2019 are set out in the consolidated balance sheet on pages 46 and 47.

The Directors do not recommend the payment of any dividend for the Year.

DISTRIBUTABLE RESERVES

The Company's distributable reserves consist of share premium and retained earnings, if any.

Under the Companies Law of the Cayman Islands, the share premium account is distributable to Shareholders if immediately following the date on which the Company proposes to distribute the dividend, the Company will be able to pay its debts as they fall due in the ordinary course of business. As at 31 December 2019, the Company had a reserve balance of approximately RMB261.6 million, representing share premium of approximately RMB668.8 million net of accumulated losses of approximately RMB407.2 million, available for distribution to the Shareholders.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 134. This summary does not form part of the audited consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital are set out in note 34 to the consolidated financial statements. There was no movement in the Company's share capital during the Year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a prorata basis to existing Shareholders.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to the Shareholders by reason of their holding of such securities.

PURCHASE, REDEMPTION OR SALE OF SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's share during the Year.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, sales to the Group's five largest customers accounted for 60.4% (2018: 97.6%) of the total sales for the Year and sales to the largest customer included therein amounted to 19.4% (2018: 41.4%) of the total sales. In 2019, the purchases from Group's five largest suppliers and the largest supplier accounted for 100.0% (2018: 96.6%) and 33.3% (2018: 31.1%) of the total purchases, which solely contributed by the Group's new trading of coals business during the Year, respectively.

None of the Directors or any of their respective close associates within the meaning of the Listing Rules, or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's above-mentioned customers and suppliers.

DIRECTORS

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

Executive Directors

Ms. Wang Qian
Mr. Zhou Jianzhong (appointed on 11 March 2019)
Mr. Liu Huijie (resigned on 14 June 2019)
Mr. Li Xiaobin (resigned on 11 March 2019)
Ms. Jia Dai (resigned on 13 February 2019)

Non-Executive Director

Mr. Cao Ye (appointed on 14 June 2019)

Independent non-executive Directors

Ms. Xiang Siying *(Chairlady)*
(appointed as the Chairlady on 11 March 2019)
Ms. Huang Mei
Mr. Chan Ping Kuen (appointed on 11 March 2019)
Mr. Cao Shiping (resigned on 11 March 2019)

In accordance with the Company's articles of association, (i) Directors appointed shall hold office until the forthcoming annual general meeting and eligible for re-election; and (ii) at each annual general meeting one-third of Directors shall retire from office by rotation. Ms. Wang Qian, Mr. Cao Ye and Ms. Huang Mei will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 15 to 18.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The remuneration of the Directors are determined by the remuneration committee of the Company with reference to the Directors' duties, responsibilities and performance and the results of the Group. Details of the Directors' remuneration are set out in the note 12 to the consolidated financial statements.

PERMITTED INDEMNITY

Pursuant to the articles of association of the Company, the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts provided that such indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the Directors.

The Company has arranged appropriate insurance cover in respect of relevant actions against its Directors during the Year.

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

As at 31 December 2019, none of the Directors or the chief executives of the Company had or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

No Director or his associate has engaged in any business which competes or is likely to compete directly or indirectly with that of the Group.

EQUITY LINKED AGREEMENTS

Details of the equity-linked agreements entered into during the Year or subsisting at the end of the Year are set out below:

Share Option Scheme

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of encouraging the eligible participants to work towards enhancing the value of the Company and Shareholders as a whole. Eligible participants of the Share Option Scheme include Directors, officers, employees and consultants of any member of the Group. The Share Option Scheme became effective on 16 December 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date (i.e. 15 December 2021).

Initially the maximum number of shares of the Company (the "Shares") which may be issued upon exercise of all share options to be granted under the Share Option Scheme or any other share option schemes adopted by the Company shall not exceed 100,000,000 Shares, being 10% of the aggregate of the Shares in issue as at the listing date. However the Company may refresh this 10% limit with Shareholders' approval provided that each such limit (as refreshed) may not exceed the 10% of the Shares in issue as at the date of the Shareholders' approval. The total number of Shares which may be issued upon exercise of all share options granted and yet to be exercised under the Share Option Scheme or any other share option schemes must not exceed 30% of the Shares in issue from time to time. As at the date of this report, 162,000,000 Shares are available for issue under the Share Option Scheme, representing 10% of the Shares in issue.

The maximum number of Shares issued and to be issued upon exercise of the share options granted to each participant under the Share Option Scheme in any 12 month period must not exceed 1% of the Shares in issue at any time. Any further grant of share options in excess of this limit is subject to Shareholders' approval. Each grant of share options to any Director, chief executives or substantial Shareholder of the Company (or any of their respective associates) shall be subject to the prior approval of the independent non-executive Directors (excluding any independent non-executive Director who is a proposed grantee of the share options). Where any grant of share options to a substantial Shareholder or an independent non-executive Director, or any of their respective associates, in excess of 0.1% of the Shares in issue or with an aggregate value (based on the closing price of the Shares at the date of grant) in excess of HK$5 million, within any 12 month period, are subject to Shareholders' approval in advance in a general meeting.

The amount payable on acceptance of an option is HK$1.00, which must be paid within 14 days from the date on which the letter containing the offer of option is delivered to that participant. The period within which the share options must be exercised will be specified by the Company at the time of grant. This period must expire no later than 10 years from the relevant date of grant. The Share Option Scheme does not contain the minimum period for which an option must be held before it can be exercised.

The exercise price of the share options is determined by the Directors, but will no less than the higher of (a) the closing price of the Shares on the date of grant; (b) the average closing price of the Shares for the five business days immediately preceding the date of grant; and (c) the nominal value of a Share on the date of grant.

The Company has not granted any share option under the Share Option Scheme during the Year. There was no outstanding share option as at 31 December 2019.

Saved as disclosed above, at no time during the Year, the Directors and chief executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for Shares (or warrants or debentures, if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.

CONTRACT OF SIGNIFICANCE

No contracts of significance in relation to the Group's business in which the Company or any of its subsidiaries, fellow subsidiaries and parent company was a party and in which a Director and the Director's connected party had a material interest, whether directly or indirectly, subsisted during or at the end of the Year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

PERSON WHO HAVE AN INTEREST IN SHARES AND UNDERLYING SHARES DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO

So far as was known to the Directors and the chief executive of the Company, as at 31 December 2019, the following persons (not being Directors or chief executive of the Company of which interests were disclosed above) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Nature of interests	Total interests in Shares	Approximate percentage of the Company's issued share capital
Sky Circle International Limited	Beneficial owner (Note 1)	412,592,702 (L)	25.47%
Mr. Guo Jianzhong	Interest in a controlled corporation and beneficial owner (Note 1)	454,958,702 (L)	28.08%
Affinitiv Mobile Ventures Ltd.	Beneficial owner (Note 2)	320,000,000 (L)	19.75%
China Huarong Asset Management Co., Ltd.	Interest in controlled corporations (Note 2)	320,000,000 (L)	19.75%
China Huarong Overseas Investment Holdings Co., Limited	Interest in controlled corporations (Note 2)	320,000,000 (L)	19.75%
Ministry of Finance of the People's Republic of China	Interest in controlled corporations (Note 2)	320,000,000 (L)	19.75%

Name	Nature of interests	Total interests in Shares	Approximate percentage of the Company's issued share capital
Sun Siu Kit	Interest in controlled corporations (Note 2)	320,000,000 (L)	19.75%
Huarong Zhiyuan Investment & Management Co., Ltd. (華融致遠投資管理有限責任公司)	Interest in controlled corporations (Note 2)	320,000,000 (L)	19.75%
Huarong Overseas Chinese Asset Management Co., Ltd. (華融華僑資產管理股份有限公司)	Interest in controlled corporations (Note 2)	320,000,000 (L)	19.75%
Guangdong Kam Fung Group Company Limited (廣東錦峰集團有限公司)	Interest in controlled corporations (Note 2)	320,000,000 (L)	19.75%
Legend Vantage Limited	Beneficial owner (Note 3)	188,638,883 (L)	11.64%
Mr. Li Guangrong	Interest in a controlled corporation (Note 3)	188,638,883 (L)	11.64%
Ms. Gao Miaomiao	Interest in a controlled corporation (Note 3)	188,638,883 (L)	11.64%

Remarks: (L): Long position; (S): Short position

Notes:

1. Mr. Guo Jianzhong is the legal and beneficial owner of the entire issued share capital of Sky Circle International Limited which holds 412,592,702 Shares. Mr. Guo also holds 42,366,000 Shares.

2. Affinitiv Mobile Ventures Ltd. is wholly-owned by China Huarong Overseas Investment Holdings Co., Limited which is wholly owned by Huarong Overseas Chinese Asset Management Co., Ltd. Huarong Zhiyuan Investment & Management Co., Ltd. and Guangdong Kam Fung Group Company Limited respectively held 51% and 40% of equity interests of Huarong Overseas Chinese Asset Management Co., Ltd.

   Huarong Zhiyuan Investment & Management Co., Ltd. is wholly owned by China Huarong Asset Management Co., Ltd., and Ministry of Finance of the People's Republic of China held 67.75% of equity interests of China Huarong Asset Management Co., Ltd.

   Guangdong Kam Fung Group Company Limited is wholly owned by Hong Kong Kam Fung Group Company Limited, which is wholly owned by Sun Siu Kit.

3. Each of Mr. Li Guangrong and Ms. Gao Miaomiao holds 50% of the issued share capital of Legend Vantage Limited.

Save as disclosed above, as at 31 December 2019, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and chief executive of the Company) who had an interests and/or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept under Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 50 to the consolidated financial statements.

AUDITORS

With effect from conclusion of the annual general meeting on 30 January 2019. PricewaterhouseCoopers retired as the auditors of the Company and BDO Limited was appointed as the auditors of the Company thereafter. The consolidated financial statements for both the years ended 31 December 2018 and 2019 have been audited by BDO Limited. BDO Limited will retire and, being eligible, offer themselves for re-appointment. A resolution for the reappointment of BDO Limited as auditors of the Company is to be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Xiang Siying
Chairlady

Hong Kong, 9 April 2020

REPORT ON CORPORATE GOVERNANCE

INTRODUCTION

Huili Resources (Group) Limited (the "Company") is committed to maintain a high standard of corporate governance and has taken appropriate steps to adopt and comply with the provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") during the year ended 31 December 2019 (the "Year") except for code provisions A.2.1, A.4.1 and A.6.7 of the Code as explained in this Corporate Governance Report (the "CG Report").

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.

SECURITIES TRANSACTIONS BY RELEVANT EMPLOYEES

The board of the Directors (the "Board") has also adopted a policy with no less exacting terms than the Model Code for the relevant employees of the Company (the "Relevant Employees") in respect of their dealings in securities of the Company. Having made specific enquiry with all Relevant Employees, each of them confirmed that this policy has been complied in full throughout the Year.

BOARD OF DIRECTORS

As at 31 December 2019, the Board comprises six Directors including two executive Directors, one non-executive Director and three independent non-executive Directors. At least one of the independent non-executive Directors possesses appropriate professional qualifications (or accounting or related financial management expertise) as required by the Listing Rules. The biographical details of the Directors are set out on pages 15 to 18 to this annual report.

The Board is principally accountable to the Shareholders and is responsible for the leadership and control of the Company and its subsidiaries (the "Group") including overseeing the Group's businesses, strategic directions, financial performance, setting objectives and business development plans, and monitoring the performance of the senior management.

The Board, with balance of skills and experience, meets regularly to formulate overall strategy, monitor business development as well as the financial performance of the Group and has formal procedures on matters for consideration and decision. The Board has delegated certain authorities to the senior management for the day-to-day management of the Group's operation.

The Directors have no financial, business, family or other material/relevant relationship among themselves.

The Board complied with Rule 3.10A of the Listing Rules to appoint at least one-third of its Directors as independent non-executive Directors. The Company has received the annual confirmation of independence from each of the independent non-executive Directors as required under Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors, namely Ms. Xiang Siying, Ms. Huang Mei and Mr. Chan Ping Kuen, to be independent of the Company during the Year.

The Board is also responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance; reviewing and monitoring the training and continuous professional development of Directors and senior management and the Company's policies and practices on compliance with legal and regulatory requirements, etc. It is also the practice of the Group to engage and consult financial advisors and legal advisors in conducting its various transactions and in its daily operations in order to ensure compliance with legal and regulatory requirements. The Group has also adopted the policy that all business transactions conducted by the Group must strictly comply with relevant laws and regulations. The Board reviews and monitors whether such policy and practices have been followed by the management and employees of the Group from time to time.

DIRECTORS' ATTENDANCE RECORD AT MEETINGS

Regular Board meetings are held at least four times a year to review the financial and operating results of the Group and to propose interim and final dividends, if appropriate. A meeting is also held as and when necessary to discuss significant matters. Sufficient notice of not less than 14 days has been given to all Directors for regular Board meetings and reasonable notice has been given for other meetings. All Directors are given an opportunity to include matters in the agenda for Board meetings and have access to the company secretary of the Company (the "Company Secretary") to ensure that all board procedures and all applicable rules and regulations are followed. The Board also enables Directors to seek independent professional advice at the Company's expense in appropriate circumstances.

Under code provision A.6.7 of the Code, independent non-executive directors and other non executive directors shall attend general meetings to gain and develop a balanced understanding of the views of shareholders. Mr. Cao Shiping and Ms. Xiang Siying, both being independent non-executive Directors, did not attend the annual general meeting of the Company on 30 January 2019 due to their other business commitments.

The attendance of each Director at the Board meetings, certain committee meetings and general meetings during the Year is as follows:

	Attended/Eligible to attend				
	Board meeting	**Audit committee meeting**	**Remuneration committee meeting**	**Nomination committee meeting**	**General meeting**
Executive Directors					
Ms. Wang Qian	22/23	N/A	4/4	4/4	2/2
Mr. Zhou Jianzhong (appointed on 11 March 2019)	21/21	N/A	N/A	N/A	1/1
Mr. Liu Huijie (resigned on 14 June 2019)	10/10	N/A	N/A	N/A	1/2
Mr. Li Xiaobin (resigned on 11 March 2019)	1/1	N/A	N/A	N/A	1/1
Ms. Jia Dai (resigned on 13 February 2019)	1/1	N/A	N/A	N/A	1/1
Non-Executive Director					
Mr. Cao Ye (appointed on 14 June 2019)	12/13	N/A	N/A	N/A	N/A
Independent Non-Executive Directors					
Ms. Xiang Siying *(Chairlady)* (appointed as the chairlady on 11 March 2019)	23/23	3/3	4/4	4/4	1/2
Ms. Huang Mei	22/23	3/3	4/4	4/4	2/2
Mr. Chan Ping Kuen (appointed on 11 March 2019)	20/21	2/2	N/A	N/A	1/1
Mr. Cao Shiping (resigned on 11 March 2019)	1/1	1/1	N/A	N/A	0/1

Remarks: N/A: Not applicable

ROLES AND RESPONSIBILITIES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the Year, Mr. Li Xiaobin was the chairman of the Company (the "Chairman") while the duties of chief executive officer has been taken up by other executive Directors and senior management of the Company. On 11 March 2019, Mr. Li, Xiaobin resigned as the executive Director and the Chairman, and Ms. Xiang Siying, an independent non-executive Director was then appointed as the chairlady of the Company (the "Chairlady").

TERMS OF NON-EXECUTIVE DIRECTORS

Under code provision A.4.1 of the Code, non-executive Directors should be appointed for a specific term, subject to re-election. Except for Ms. Huang Mei, who is not appointed for a specific term, all other non-executive Directors are appointed for a term of three years. All of the Directors (including the non-executive Directors) 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.

REMUNERATION OF SENIOR MANAGEMENT

The remuneration of the members of the senior management by band for the Year is set out below:

Remuneration bands	Number of persons
Up to HK$1,000,000 (up to RMB881,135 equivalents)	3

AUDIT COMMITTEE

The Company has established an audit committee ("Audit Committee") on 16 December 2011 with written terms of reference which are in line with the code provisions set out in the Code. The Audit Committee meets at least twice a year for reviewing the reporting of annual and interim results and other information to the Shareholders, and the effectiveness and objectivity of the audit process. Additional meetings may be held by the Audit Committee from time to time to discuss special projects or other issues which the Audit Committee considers necessary. The auditor of the Company (the "Auditor") may request a meeting if they consider that one is necessary. The Audit Committee also provides an important link between the Board and the Auditor in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the Auditor.

The Audit Committee comprises three independent non-executive Directors, namely Ms. Huang Mei (Chairlady of the Audit Committee), Ms. Xiang Siying and Mr. Chan Ping Kuen. Mr. Cao Shiping, a former independent non-executive Director, was a member of the Audit Committee and resigned on 11 March 2019. During the Year, the Audit Committee held three meetings.

The Audit Committee is also responsible for performing the functions set out in the code provision D.3.1 of the Code. During the Year, the Audit Committee had performed the works as follows:

1. reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management;

2. reviewed the Company's policies and practices on compliance with legal and regulatory requirements;

3. reviewed the code of conduct and compliance manual (if any) applicable to employees and Directors;

4. reviewed the compliance of the Listing Rules, and the Company's compliance with the Code and disclosure in this CG Report;

5. reviewed the reports from the Auditor, accounting principles and practices adopted by the Group in relation to the annual results for the year ended 31 December 2018 and the interim results for the six months ended 30 June 2019;

6. reviewed the financial reports for the year ended 31 December 2018 and for the six months ended 30 June 2019 and recommended the same to the Board for approval;

7. concurred with the Board regarding the selection, appointment, resignation or dismissal of the Auditor;

8. reviewed the Group's internal control based on the information obtained from the external risk management and internal control review advisor of the Company (the "IC Advisor") and Company's management and Audit Committee was of the opinion that there are adequate internal controls in place in the Group; and

9. reviewed the financial reporting system, compliance procedures, risk management and internal control systems (including the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function.

The Audit Committee has reviewed with the management and the Auditor, the audited consolidated financial statements of the Group for the Year. The Audit Committee reviewed the Group's audited results for the Year and recommended its adoption to the Board.

Audit Committee's view on the Qualified Opinion

The Audit Committee had a meeting with the Auditors to understand the assumptions ("Assumptions") adopted that gave rise to the qualified opinion as disclosed in the independent auditor's report (the "Auditor's Report") under "Basis of Qualified Opinion" (the "Qualified Opinion") and detailed in the section headed "Board's view on the Qualified Opinion" in the "Report of the Directors" and the Board's view on the Qualified Opinion. The Audit Committee also shared the views of the Board on both the Assumptions and the Qualified Opinion as discussed in page 19 and 20 of the Annual Report.

Having considered the current status of implementation of the measures by the Company as discussed in the section headed "Update in relation to Shaanxi Jiahe" on page 10 to this report (the "Measures"), the Audit Committee is of the view that the Measures are adequate for addressing the matters which may give rise to the Qualified Opinion set out in the section headed "Board's view on the Qualified Opinion", and except for the comparability of the figures for the year ending 31 December 2020 and the corresponding figures, any audit qualifications arising therefrom are expected not to be carried forward to the year ending 31 December 2020.

REMUNERATION COMMITTEE

A remuneration committee ("Remuneration Committee") of the Group was established on 16 December 2011 with written terms of reference in line with the Code. The responsibilities of the Remuneration Committee include considering and recommending to the Board the Group's remuneration policy and structure and reviewing and determining the remuneration packages of the Directors and senior management. The Directors were remunerated with reference to their respective duties and responsibility with the Company, the Company's performance and current market situation. Details of remunerations of the Directors for the Year are disclosed in note 12 to the consolidated financial statements.

The Remuneration Committee currently comprises two independent non-executive directors, Ms. Xiang Siying as chairlady of the Remuneration Committee and Ms. Huang Mei, and one executive director, Ms. Wang Qian. During the year, the Remuneration Committee held four meetings to review the Group's remuneration policy and structure and the remuneration packages of the Directors and senior management.

NOMINATION COMMITTEE

A nomination committee ("Nomination Committee") of the Group was established on 16 March 2011 with written terms of reference in line with the Code. The main responsibilities of the Nomination Committee include:

1. reviewing and recommending the structure, size, composition and skills mix of the Board at least annually;

2. identifying and nominating candidates to fill casual vacancies of Directors for the Board's approval;

3. assessing the independence of independent non-executive Directors; and

4. making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the chairman of the Board and the chief executives.

According to the board diversity policy (further elaborated under the section headed "Board Diversity Policy") adopted by the Nomination Committee (the "Board Diversity Policy"), board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service etc. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service etc. The final decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee currently comprises one executive director, Ms. Wang Qian as chairlady of the Nomination Committee, and two independent non-executive directors, Ms. Xiang Siying and Ms. Huang Mei. During the Year, the Nomination Committee held four meetings to review the competence and nominate candidates to fill casual vacancies of Directors for the Board's approval, and to review the Board composition and the Board Diversity Policy.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for the Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the consolidated financial statements for the year ended 31 December 2019, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the consolidated financial statements on a going concern basis. The Directors are also responsible for keeping proper accounting records with reasonable accuracy for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The Board has not taken any different view from that of the Audit Committee regarding the selection, appointment, resignation or dismissal of Auditor.

Auditor's Responsibilities and Remuneration

An analysis of remuneration in respect of services provided by the Auditor, BOD Limited, is as follows.

	RMB'000
Audit services	1,260
Other non-audit services including but not limited to agree-upon- procedures	200

The statement of the Auditor regarding their reporting responsibilities is set out in the Independent Auditor's Report on pages 38 to 44 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the risk management and internal control systems of the Company and reviewing their effectiveness. The Board oversees the overall risk management of the Group and endeavors to identify, control impact of the identified risks and facilitate implementation of coordinated mitigating measures. During the Year, the Company has adopted and reviewed the effectiveness of the Group's internal control and risk management procedures which include the policies, procedures, monitoring and communication activities and standard of behavior established for safeguarding the interests of the Shareholders. The risk management and internal control systems of the Company aim to help achieving the Group's business objectives, safeguarding assets and maintaining proper accounting records for provision of reliable financial information. However, the design of systems is to provide reasonable, but not absolute, assurance against material misstatement in the financial statements or loss of assets and to manage, rather than eliminate, the risks of failure to achieve business objectives.

The processes used to identify, evaluate and manage significant risks by the Group are summarised as follows:

Risk Identification

- Identifies risks that may potentially affect the Group's business and operations.

RISK MANAGEMENT AND INTERNAL CONTROL (Continued)

Risk Assessment

- Assesses the risks identified by using the assessment criteria developed by the management; and
- Considers the impact and consequence on the business and the likelihood of their occurrence.

Risk Response

- Prioritises the risks by comparing the results of the risk assessment; and
- Determines the risk management strategies and internal control processes to prevent, avoid or mitigate the risks.

Risk Monitoring and Reporting

- Performs ongoing and periodic monitoring of the risk and ensures that appropriate internal control processes are in place;
- Revises the risk management strategies and internal control processes in case of any significant change of situation; and
- Reports the results of risk monitoring to the management and the Board regularly.

The Company does not have an internal audit function and is currently of the view that there is no immediate need to set up an internal audit function within the Group in light of the size, nature and complexity of the Group's business. It was decided that the Board would be directly responsible for internal control of the Group and for reviewing its effectiveness during the Year. In order to strengthen the risk management and internal control systems of the Group, the following measures are adopted:

- established one internal compliance officer (the "Internal Compliance Officer"), Mr. Ip Wing Wai ("Mr. Ip"), the former Company Secretary, chief financial controller of the Company, and Internal Compliance Officer. Mr. Ip resigned from such offices with effect from 13 February 2019. Mr. Yau Hong Chun ("Mr. Yau") was then appointed as the Company Secretary, the financial controller of the Company and the Internal Compliance Officer. Mr. Yau shall, take into consideration the information provided by the Company's IC Advisor, report to the Board directly from time to time to assist the Board in ensuring that operations of the Group are in compliance with applicable laws, rules and regulations, strengthen the existing internal control framework and recommend remedial plans to the Board should there be any internal control deficiencies;
- engaged a PRC legal advisor to provide advice to the Board and the Company Secretary on an ongoing basis in respect of all relevant PRC laws and regulations, including changes to such laws and regulations, which may affect business operations of the Group in the PRC;
- engaged a Cayman legal advisor to provide advice to the Board and the Company Secretary on an ongoing basis in respect of all relevant Cayman laws and regulations, including changes to such laws and regulations, which may affect the operations of the Company;
- engaged a HK legal advisor to advise the Company on an ongoing basis in respect of the Listing Rules and the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong); and
- engaged APAC Compliance Consultancy and Internal Control Services Limited as the IC Adviser to conduct the annual review of the risk management and internal control systems for the Year. Such review is conducted annually and cycles reviewed are under rotation basis. The scope of review was previously determined and approved by the Board through the Audit Committee. The IC Adviser has reported findings and areas for improvement to the Audit Committee and management. The Audit Committee are of the view that there are no material internal control defects noted. All recommendations from the IC Adviser are properly followed up by the Group to ensure that they are implemented within a reasonable period of time.

DIRECTORS' TRAINING

Each newly appointed Director has received comprehensive, formal and tailored induction on the first occasion of his appointment, so as to ensure that he has appropriate understanding of the business and operations of the Group and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements. There are also arrangements in place for providing continuing briefing and professional development to Directors at the Company's expenses whenever necessary. During the Year, the Company Secretary provided update on the Listing Rules updates from time to time, and the Directors were also provided materials and attended seminars to understand the latest regulatory development.

BOARD DIVERSITY POLICY

The Company recognises that increasing diversity at the Board level will support the attainment of the Company's strategic objectives and sustainable development. The Board and the Nomination Committee has adopted the Board Diversity Policy which sets out the approach to achieve and maintain diversity on the Board. Pursuant to the Board Diversity Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and other qualities. The Company also takes into consideration its own business model and specific needs from time to time in determining the optimal composition of the Board. Nomination Committee has considered measurable objectives based on four focus areas: gender, age, professional experience and ethnicity to implement the Board Diversity Policy. Such objectives will be reviewed from time to time to ensure their appropriateness and the progress made towards achieving those objectives will be ascertained. Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

DIRECTOR NOMINATION POLICY

Director nomination policy of the Group (the "Director Nomination Policy") is in place and sets out the procedures, process and criteria for identifying and recommending candidates for election to the Board. Mr. Zhou Jianzhong, Mr. Chan Ping Kuen and Mr. Cao Ye were nominated for directorship during the Year.

DIVIDEND POLICY

Policy on payment of dividend of the Company is in place setting out the factors in determination of dividend payment of the Company, the Company's long-term earning capacity and expected cash inflow and outflow, the frequency and form of dividend payments. The policy shall be reviewed periodically and submitted to the Board for approval if amendments are required.

The Board does not recommend any payment of dividend during the Year (2018: Nil).

COMPANY SECRETARY

Mr. Ip, the former Company Secretary, has resigned as the Company Secretary on 13 February 2019 and Mr. Yau was appointed as the Company Secretary thereafter. Mr. Yau has taken no less than 15 hours of relevant professional training during the Year.

Biographical detail of Mr. Yau is set out in the section headed "Profiles of Directors and Senior Management" in this annual report.

SHAREHOLDERS' RIGHTS

The Board is endeavour to maintain an on-going dialogue with Shareholders. The Company encourages the Shareholders to attend the general meetings and the chairmen of the Board and the board committees should attend the annual general meeting to answer questions.

Shareholders should direct their enquiries about their shareholdings to the Company's share registrar, Tricor Investor Services Limited. For any enquiries to the Board, shareholders may send written enquiries to the Company, for the attention of Company Secretary, by email to enquiry@huili.hk, fax to (852) 2840 0470 or mail to Room 2805, 28/F, Harbour Centre, No. 25 Harbour Road, Wanchai, Hong Kong.

In accordance with the requirements and procedures set out in the Articles of Association of the Company, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company. A Shareholder who wishes to propose a resolution to be considered at a general meeting must requisition the convening of a general meeting in accordance with the Company's Articles of Association. The objects of the meeting must be stated in the written requisition, which must be signed by the requisitionists and deposited for the attention of the Company Secretary at the address stated above.

INVESTOR RELATIONS

The Company believes that regular and timely communication with Shareholders helps Shareholders better understand the business and operation of the Company. To promote effective communication with the public, the Company maintains a website (www.huili.hk) on which comprehensive information about the Company's major businesses, press releases, notices, financial information, announcements, annual and interim reports and shareholders circulars are made available.

There was no change in the Company's constitutional documents during the Year.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF HUILI RESOURCES (GROUP) LIMITED
(Incorporated in the Cayman Islands with limited liability)

QUALIFIED OPINION

We have audited the consolidated financial statements of Huili Resources (Group) Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 45 to 133, which comprise the consolidated balance sheet as at 31 December 2019, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters 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 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards 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 40 to the consolidated financial statements, in May 2018, Hami Jiatai Mineral Resource Exploiture Limited ("Hami Jiatai"), a 95% indirectly owned subsidiary of the Company, acquired 100% equity interests in Shaanxi Jiahe Mineral Exploiture Limited ("Shaanxi Jiahe") from Xiaoyi Dajieshan Coal Industry Company Limited ("Xiaoyi Dajieshan") (referred to as "the Acquisition" in this report). The Acquisition was executed under the terms of the settlement agreement with Xiaoyi Dajieshan as settlement of the amount due from Xiaoyi Dajieshan. The consideration for the Acquisition, the assets acquired and liabilities assumed and their respective fair values at acquisition date are detailed in Note 40 to the consolidated financial statements.

We were the incoming auditor of the Group's consolidated financial statements for the year ended 31 December 2018. Included in the acquisition consideration was an amount due from Xiaoyi Dajieshan to the Group of gross carrying amount of RMB52,600,000 of which an impairment provision of approximately RMB30,041,000 was recognised at 1 January 2018 and at the date of the Acquisition. The Group estimated the amount of impairment loss on the amount due from Xiaoyi Dajieshan with reference to the fair value of 100% equity interests of Shaanxi Jiahe. In our audit work on the impairment provision as at 1 January 2018 and as at the acquisition date, the Company was unable to provide us with relevant documents and explanations to support the assumptions used in the estimation of fair value of 100% equity interests (the "Assumptions"). We were therefore unable to satisfy ourselves that the impairment provision as at the date of the Acquisition was free from material misstatement, and whether any additional provision or reversal of provision was found necessary for the year ended 31 December 2018. Any adjustment to the impairment provision on the amount due from Xiaoyi Dajieshan as at the acquisition date would affect the acquisition consideration and the resulted goodwill arising from the Acquisition.

Among the assets acquired in the Acquisition, there were mining right of fair value of approximately RMB15,320,000 and other receivables of fair value of approximately RMB18,231,000 as at acquisition date. In the estimation of these fair values, the directors of the Company have applied the Assumptions in the estimation. Due to the limitations in our scope of work on the Assumptions as detailed in the paragraph immediate above, we were unable to satisfy ourselves whether the fair values of the mining right and the other receivables as at acquisition date were free from material misstatements.

BASIS FOR QUALIFIED OPINION (Continued)

Due to the limitations on our work on the measurement of the acquisition consideration, the mining right and the other receivables, we were also unable to satisfy ourselves whether the goodwill arising from the Acquisition of approximately RMB1,115,000 was appropriately stated at the acquisition date.

During the year ended 31 December 2018, impairment losses of approximately RMB17,770,000 and RMB1,115,000 were recognised by the Group on the carrying amounts of the other receivables acquired and the goodwill relating to the Acquisition, respectively. Due to the limitations on our work on the acquisition date measurement of the other receivables acquired and the goodwill, we were unable to satisfy ourselves whether these impairment losses recognised for the year ended 31 December 2018 were free from material misstatements.

In respect of the mining right, an impairment loss of approximately RMB10,207,000 was recognised for the year ended 31 December 2018, reducing the carrying amount to approximately RMB5,113,000 as at 31 December 2018. In our audit of the recoverable amount estimation of the mining right, we were not provided with the relevant documents and explanation supporting the assumption made by the directors in their estimation of the recoverable amount. As a result, we were unable to satisfy ourselves whether the carrying amount of the mining right of RMB5,113,000 as at 31 December 2018 and the impairment provision of mining right of approximately RMB10,207,000 recognised for the year ended 31 December 2018 were fairly stated.

Due to the limitations on our scope of work mentioned above, we qualified our opinion on the Group's consolidated financial statements for the year ended 31 December 2018. The above limitations in our audit work remained unresolved in our audit of the Group's consolidated financial statements for the year ended 31 December 2019.

As detailed in Note 33 to the consolidated financial statements, on 24 December 2019, Hami Jiatai and an independent third party (the "Purchaser") entered into a sale and purchase agreement, pursuant to which Hami Jiatai has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the entire equity interests of Shaanxi Jiahe for a consideration of RMB10,000,000. The disposal was not complete and the Group retained its control over Shaanxi Jiahe as at 31 December 2019. The assets and liabilities of Shaanxi Jiahe were classified as assets and liabilities held for sale in accordance with HKFRS 5 "Non-Current Assets Held For Sale and Discontinued Operations". In accordance with HKFRS 5, immediately before the initial classification of these assets and related liabilities as disposal group held for sale, all the assets and liabilities in the disposal group were remeasured under their respective accounting policies. Reversal of impairment loss of approximately RMB4,207,000 on the mining right was resulted and recognised as mentioned in Note 16(b) to the consolidated financial statements. However, we were not provided with the relevant documents and explanation supporting the assumption made by the directors in their estimation of the recoverable amount. As a result, we were unable to satisfy ourselves whether an additional impairment loss or reversal of impairment loss is required and whether the amount of reversal of impairment loss was fairly stated.

Upon the classification of the disposal group as held for sale, a fair value loss on the disposal group of RMB9,191,000 was recognised for the year ended 31 December 2019. Any adjustment to the reversal of impairment loss on the mining right mentioned in the preceding paragraph found necessary would affect the fair value loss on the disposal group recognised.

Any adjustment to the carrying amount of mining right as at 31 December 2018 found necessary would have an impact on the reversal of impairment provision on mining right and fair value loss on the disposal group recognised for the year ended 31 December 2019. Our audit opinion is also modified for the possible effect of the above limitation in audit work on the comparability of the current period's figures and the corresponding figures.

BASIS FOR QUALIFIED OPINION (Continued)

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 are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information in the Annual Report

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. As described in the "Basis for Qualified Opinion" section above, we were unable to obtain sufficient appropriate evidence about the other receivables, mining right and fair value loss on the disposal group. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to these matters.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the "Basis for Qualified Opinion" section, we have determined the matters described below to be the key audit matters to be communicated in our report:

Impairment of the mining rights and mining structures

Refer to Note 5, Note 17 and Note 16 to the consolidated financial statements.

The mining rights and mining structures are the assets from Hami Jinhua Mineral Resource Exploiture Limited ("Hami Jinhua") and Hami Jiatai, which are subsidiaries of the Company with principal activity of mining, processing and sales of metal ore. Management appointed an independent valuer to carry out the valuation of the recoverable amounts of each of the cash-generating units ("CGUs") of Hami Jinhua and Hami Jiatai, whose assets included their mining rights, mining structures, land use rights and other property, plants and equipment as at 31 December 2019. The recoverable amounts were determined based on the value-in-use calculation of each of the CGUs. Consequently, management recognised accumulated impairment losses on mining rights and mining structures of Hami Jiatai in amount of RMB38,959,000 and RMB11,148,000 respectively, as at 31 December 2019.

KEY AUDIT MATTERS (Continued)

Impairment of the mining rights and mining structures (Continued)

The calculation of value-in-use involved significant management judgement with respect to the key assumptions, such as pre-tax discount rate, estimated metal price, timeline, production and inflation rate.

We identified the impairment of the mining rights and mining structures as a key audit matter due to the significance of the assets and the complexity of management judgements required in determining the impairment provision for the assets.

Our response:

Our procedures in relation to management's impairment assessment of the mining rights and mining structures as at 31 December 2019:

— Inquiring management and considering the impairment indicators to assess the scope within which impairment testing was performed;

— Inquiring with the independent valuer and assessing the appropriateness of the valuation model, in particular, discount rate, growth rate, and the budgeted gross margin, with the assistance of our internal valuation expert. We also assessed the competence and objectivity of the independent valuers;

— Challenging the reasonableness of the key assumptions based on our knowledge of the business and industry;

— Evaluating the assumptions, taking into account the historical accuracy of the Group's cash flow projection, by comparing the forecasts with the historical performance;

— Testing the mathematical accuracy of the calculation of the valuation models;

— Reconciling input data to supporting evidence, such as the forecast, production report, and considered the reasonableness; and

— Reviewing management's approval of production plan and interviewing management to assess the economic and technical feasibility of the production plan.

Impairment of provision of trade receivables, loan receivables and other receivables

Refer to Note 5, Note 23, Note 24 and Note 25 to the consolidated financial statements.

The measurement of expected credit loss in accordance with HKFRS 9 "Financial Instruments" requires the application of significant judgement and increase complexity. It includes the identification of exposures with a significant deterioration in credit quality, and assumptions used in the expected credit loss models (for exposures assessed individually or collectively), such as expected future cash flows and forward-looking factors.

We identified the measurement of impairment loss of financial assets under expected credit loss approach as a key audit matter due to the estimation of expected credit loss involves significant uncertainty inherent and judgements by management.

KEY AUDIT MATTERS (Continued)

Impairment of provision of trade receivables, loan receivables and other receivables (Continued)

Our response:

Our audit procedures in relation to the management's assessment for impairment of provision of trade receivables, loan receivables and other receivables as at 31 December 2019:

— Checking, on a sample basis, whether items in the trade receivables, loan receivables and other receivables ageing report were classified within the appropriate ageing bracket by comparing individual items in the report with the relevant supporting documents;

— Checking, on a sample basis, the past repayment history and historical write-off experience; and assessing customers' and debtors' creditworthiness by reference to their financial information, where available;

— Assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data, evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information and examining the actual losses recorded during the current financial year and assessing whether there was an indication of management bias when recognising loss allowances;

— Inspecting cash receipts from customers after the year-end relating to balances as at 31 December 2019, on a sample basis, to assess the reasonableness of the expected credit loss provided by management; and

— Reviewing the Group's assumptions on the expected future cash inflows arising from the trade receivables, loan receivables and other receivables based on the available market information.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are also responsible for overseeing the Group's financial reporting process. The audit committee of the Company (the "Audit Committee") assists the directors in discharging their responsibility in this regard.

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

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

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

BDO Limited
Certified Public Accountants

Alfred Lee
Practising Certificate Number P04960

Hong Kong, 9 April 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 RMB'000	2018 RMB'000
Revenue	6,7	**93,572**	32,828
Cost of sales		**(90,289)**	(24,012)
Gross profit		**3,283**	8,816
Administrative expenses		**(21,088)**	(28,306)
Expected credit losses on financial assets	47.1(b)	**(25,595)**	(16,955)
Reversal of expected credit losses on financial assets	47.1(b)	**27,532**	–
Other operating gains/(losses)		**4,498**	(27,386)
Other gains — net	8	**4,472**	14,350
Operating loss		**(6,898)**	(49,481)
Finance income	9	**2,380**	1,544
Finance costs	9	**(435)**	(288)
Finance income — net	9	**1,945**	1,256
Loss before income tax	10	**(4,953)**	(48,225)
Income tax (expense)/credit	14	**(10,283)**	4,695
Loss and total comprehensive loss for the year		**(15,236)**	(43,530)
Loss and total comprehensive loss for the year attributable to:			
Equity holders of the Company		**(16,013)**	(41,269)
Non-controlling interests		**777**	(2,261)
Loss and total comprehensive loss for the year		**(15,236)**	(43,530)
Loss per share attributable to the equity holders of the Company			
— Basic and diluted (RMB cents)	15	**(1.0)**	(2.5)

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2019

	Note	2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**51,611**	68,171
Mining rights and exploration rights	17	**90,752**	88,867
Right-of-use assets	37	**10,997**	–
Land use rights	18	**–**	8,613
Deferred tax assets	32	**–**	2,823
Restricted cash at banks	20	**247**	2,653
Total non-current assets		**153,607**	171,127
Current assets			
Inventories	21	**–**	3,019
Financial assets at fair value through other comprehensive income	22	**–**	2,300
Trade and bills receivables	23	**5,943**	11,358
Loan receivables	24	**64,535**	98,856
Other receivables and prepayments	25	**36,178**	68,381
Cash and cash equivalents	26	**218,238**	167,923
		324,894	351,837
Assets of a disposal group classified as held for sale	33	**15,669**	–
Total current assets		**340,563**	351,837
Total assets		**494,170**	522,964
LIABILITIES			
Current liabilities			
Trade payables	27	**1,803**	7,610
Other payables and accruals	28	**17,948**	43,890
Contract liabilities	29	**11,654**	–
Lease liabilities	37	**2,075**	–
Borrowings	30	**–**	2,200
Current tax liabilities		**4,603**	5,224
		38,083	58,924
Liabilities of a disposal group classified as held for sale	33	**5,669**	–
Total current liabilities		**43,752**	58,924
Net current assets		**296,811**	292,913

CONSOLIDATED BALANCE SHEET (CONTINUED)

AS AT 31 DECEMBER 2019

	Note	2019 RMB'000	2018 RMB'000
Non-current liabilities			
Lease liabilities	37	**708**	–
Provision for close down, restoration and environmental costs	31	**2,770**	5,307
Deferred tax liabilities	32	**21,626**	17,992
Total non-current liabilities		**25,104**	23,299
Total liabilities		**68,856**	82,223
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	34	**137,361**	137,361
Share premium	34	**668,768**	668,768
Other reserves	35	**(11,291)**	(12,168)
Accumulated losses	36	**(366,937)**	(349,856)
		427,901	444,105
Non-controlling interests		**(2,587)**	(3,364)
Total equity		**425,314**	440,741
Total equity and liabilities		**494,170**	522,964

The consolidated financial statements on pages 45 to 133 were approved by the board of directors on 9 April 2020 and were signed on its behalf.

Xiang Siying
Director

Zhou Jianzhong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to equity holders of the Company									
	Share capital RMB'000 (Note 34)	Share premium RMB'000 (Note 34)	Safety fund RMB'000 (Note 35)	Maintenance fund RMB'000 (Note 35)	Capital reserve RMB'000 (Note 35)	Statutory reserve RMB'000 (Note 35)	Accumulated losses RMB'000 (Note 36)	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2018	137,361	668,768	221	1,583	(13,972)	–	(308,587)	485,374	(1,103)	484,271
Loss for the year	–	–	–	–	–	–	(41,269)	(41,269)	(2,261)	(43,530)
Total comprehensive loss	–	–	–	–	–	–	(41,269)	(41,269)	(2,261)	(43,530)
At 31 December 2018	137,361	668,768	221	1,583	(13,972)	–	(349,856)	444,105	(3,364)	440,741
Impact on initial application of HKFRS 16 (Note 2(a)(i))	–	–	–	–	–	–	(191)	(191)	–	(191)
At 1 January 2019, restated	137,361	668,768	221	1,583	(13,972)	–	(350,047)	443,914	(3,364)	440,550
(Loss)/profit for the year	–	–	–	–	–	–	(16,013)	(16,013)	777	(15,236)
Appropriations to statutory reserves	–	–	–	–	–	877	(877)	–	–	–
Total comprehensive loss	–	–	–	–	–	877	(16,890)	(16,013)	777	(15,236)
At 31 December 2019	137,361	668,768	221	1,583	(13,972)	877	(366,937)	427,901	(2,587)	425,314

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 RMB'000	2018 RMB'000
Loss before income tax		**(4,953)**	(48,225)
Adjustments for:			
Depreciation of property, plant and equipment	16	**3,107**	3,490
Depreciation of right-of-use assets	10	**2,185**	–
Amortisation of land use rights	18	**–**	243
Loss/(gain) on disposal of property, plant and equipment	10	**53**	(167)
Finance costs	9	**435**	288
Finance income	9	**(2,380)**	(1,544)
Impairment loss on goodwill	19	**–**	1,115
Written off on inventories	10	**3,019**	–
Reversal of impairment loss on property, plant and equipment	16	**(2,153)**	–
Reversal of impairment loss on mining structures and mining rights	16,17	**(13,207)**	-
Impairment loss on property, plant and equipment	16	**1,671**	2,153
Impairment loss on mining structures and mining rights	16,17	**–**	24,118
Fair value loss on a disposal group classified as held for sale	33	**9,191**	-
Reversal of expected credit losses on financial assets	10	**(27,532)**	–
Expected credit losses on financial assets	10	**25,595**	16,955
Cash used in operations before working capital changes		**(4,969)**	(1,574)
Decrease in inventories		**–**	26
Decrease/(increase) in trade and bills receivables		**4,381**	(2,541)
Decrease in other receivables and prepayments		**9,218**	115,205
Decrease in trade and other payables and accruals		**(6,690)**	(5,276)
Increase in contract liabilities		**11,654**	–
Decrease/(increase) in restricted cash at banks		**2,406**	(5)
Decrease/(increase) in financial assets at fair value through other comprehensive income		**2,300**	(2,300)
Cash generated from operations		**18,300**	103,535
Income tax paid		**(1,892)**	(265)
Interest paid		**(95)**	–
Net cash generated from operating activities		**16,313**	103,270
Cash flows from investing activities			
Net cash inflow from acquisition of subsidiaries	40	**–**	2
Purchase of property, plant and equipment	16	**(361)**	(2,865)
Proceeds from disposal of property, plant and equipment		**1,097**	1,904
Interest received		**2,380**	1,544
Net cash generated from investing activities		**3,116**	585

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 RMB'000	2018 RMB'000
Cash flows from financing activities			
Loans to third parties		**(65,000)**	(100,000)
Repayment of loan from third parties		**100,000**	100,000
Proceeds from borrowings	44(b)	**–**	1,200
Repayment of borrowings	44(b)	**(2,200)**	–
Repayment of principal portion of lease liabilities	44(b)	**(2,007)**	–
Interest paid	44(b)	**(131)**	(175)
Net cash generated from financing activities		**30,662**	1,025
Net increase in cash and cash equivalents		**50,091**	104,880
Cash and cash equivalents at beginning of financial year		**167,923**	54,410
Exchange differences on cash and cash equivalents		**616**	8,633
Cash and cash equivalents at end of financial year		**218,630**	167,923
Analysis of the balances of cash and cash equivalents			
Cash and cash equivalents included in cash and cash equivalents	26	**218,238**	167,923
Cash and cash equivalents included in assets of a disposal group held for sale	33	**392**	–
Cash and cash equivalents at end of financial year		**218,630**	167,923

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at Room 2805, 28/F., Harbour Centre, No. 25 Harbour Road, Wan Chai, Hong Kong.

The Company is an investment holding company and its subsidiaries (collectively the "Group") are principally engaged in the mining, ore processing and sales of gold, nickel, copper, lead and zinc products, financial services, engineering and other related services and trading of coal in the People's Republic of China (the "PRC"). The principal activities of its subsidiaries are set out in Note 39.

The Group has commenced a new business related to trading of coal in the PRC during the year ended 31 December 2019.

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

These consolidated financial statements have been approved for issue by the board (the "Board") of directors (the "Director(s)") of the Company on 9 April 2020.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs — effective 1 January 2019

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features and Negative Compensation
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as described below, the adoption of the new/revised HKFRSs and an interpretation in the current year has had no material impact on the Group's financial position and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 (Continued)

HKFRS 16 — Leases

(i) Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 "Leases" ("HKAS 17"), HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease; HK(SIC)-Int 15 "Operating Leases — Incentives" and HK(SIC)-Int 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". From a lessee's perspective, almost all leases are recognised in the consolidated balance sheet as a right-of-use assets and a lease liabilities, with the narrow exception to this principle being for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (ii) to (iv) of this note.

The Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of accumulated losses at the date of initial application. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The following table summarises the impact of transition to HKFRS 16 on consolidated balance sheet as of 31 December 2018 to that of 1 January 2019 as follows (increase/(decrease)):

	RMB'000
Right-of-use assets	
Closing balance under HKAS 17 at 31 December 2018	**–**
— Carrying amount of land use rights at 31 December 2018 (Notes 18 and 37)	**8,613**
— Recognition of additional right-of-use assets under HKFRS 16 (Note 37)	**4,597**
Opening balance under HKFRS 16 at 1 January 2019	**13,210**

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 (Continued)

HKFRS 16 — Leases (Continued)

(i) Impact of the adoption of HKFRS 16 (Continued)

	RMB'000
Land use rights	
Closing balance under HKAS 17 at 31 December 2018	**8,613**
— Reclassification to right-of-use assets under HKFRS 16 (Notes 18 and 37)	**(8,613)**
Opening balance under HKFRS 16 at 1 January 2019	**–**
Lease liabilities	
Closing balance under HKAS 17 at 31 December 2018	**–**
— Recognition of additional lease liabilities under HKFRS 16 (Note 37)	**4,788**
Opening balance under HKFRS 16 at 1 January 2019	**4,788**
Accumulated losses	
Closing balance at 31 December 2018 as previously reported	**349,856**
Impact on initial application of HKFRS 16 (Note 36)	**191**
Opening balance under HKFRS 16 at 1 January 2019	**350,047**

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 as at 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated balance sheet as at 1 January 2019:

	RMB'000
Reconciliation of operating lease commitment to lease liabilities	
Operating lease commitments as of 31 December 2018	**4,902**
Less: future interest expenses	**(114)**
Total lease liabilities as of 1 January 2019	**4,788**

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the consolidated balance sheet as at 1 January 2019 is 3.42%.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 (Continued)

HKFRS 16 — Leases (Continued)

(ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset; and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee applies the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and accounted for all each lease component and any associated non-lease components as a single lease component for all leases.

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the consolidated balance sheet of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the consolidated balance sheet as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise leases which are short-term leases; and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 (Continued)

HKFRS 16 — Leases (Continued)

(iii) Accounting as a lessee (Continued)

Right-of-use asset

The right-of-use asset is recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use assets at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; and (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 (Continued)

HKFRS 16 — Leases (Continued)

(iv) Transition

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of accumulated losses at the date of initial application on 1 January 2019. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified as operating leases under HKAS 17 as if HKFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. For all these right-of-use assets, the Group has applied HKAS 36 "Impairment of Assets" at 1 January 2019 to assess if there was any impairment as on that date.

The Group has also applied the follow practical expedients: (i) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application on 1 January 2019 and accounted for those leases as short-term leases, and (ii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 January 2019.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease"; and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int 4.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 (Continued)

HK(IFRIC)-Int 23 — Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12 "Income Taxes" by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Amendments to HKFRS 9 — Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income ("FVOCI") if specified conditions are met — instead of at fair value through profit or loss ("FVTPL").

Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKFRS 3, Business Combinations

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKFRS 11, Joint Arrangements

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 11 which clarify that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition date fair value.

Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 (Continued)

Annual Improvements to HKFRSs 2015–2017 Cycle — Amendments to HKAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKFRS 3	Definition of a business[1]
Amendments to HKAS 1 and HKAS 8	Definition of material[1]

[1] Effective for annual periods beginning on or after 1 January 2020

Amendments to HKFRS 3 — Definition of a business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a "substantive process". Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of "outputs" and a "business" to focus on returns from selling goods and services to customers, rather than on cost reductions. An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to HKAS 1 and HKAS 8 — Definition of material

The amendments clarify the definition and explanation of "material", aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

3. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for financial assets at FVOCI, which are measured at fair value, and assets of a disposal group classified as held for sale which are measured at the lower of carrying amount and fair value less cost to sell as explained in the accounting policies set out below.

(c) Functional and presentation currency

The functional currency of the Company is RMB. The consolidated financial statements are presented in RMB since most of the companies comprising the Group are operating in RMB environment and the functional currency of the companies comprising the Group is RMB.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Principles of consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 4.2).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, consolidated balance sheet and consolidated statement of changes in equity respectively.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.2 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition-date fair value of any previous equity interest in the acquired entity.

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in the consolidated statement of comprehensive income as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as financial liabilities are subsequently remeasured to fair value with changes in fair value recognised in the consolidated statement of comprehensive income.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in the consolidated statement of comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's balance sheet, interests in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

4.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less accumulated impairment loss. Cost includes direct attributable costs of investments. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivables.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

4.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Company's Board that makes strategic decisions.

4.6 Goodwill

Goodwill is measured as described in Note 4.11. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

4.7 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the reporting period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7 Property, plant and equipment (Continued)

Depreciation of buildings, leasehold improvements, machinery and equipment, office equipment and others, and motor vehicles is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	20 years
Leasehold improvements	Over the remaining life of the leases but not exceeding 5 years
Machinery and equipment	10 years
Office equipment and others	3 to 7 years
Motor vehicles	4 to 6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Mining structures comprise the main and auxiliary mine shafts and underground tunnels. Depreciation of mining structures is provided to write off the cost of the mining structures using the unit-of-production method. Unit-of-production rate is based on reserves estimated to be recovered from existing facilities using current operating methods.

Construction in progress represents mainly mining structures on which construction work has not been completed. It is carried at cost which includes construction expenditures and other direct costs less any impairment losses. On completion, construction in progress is transferred to the appropriate categories of property, plant and equipment at cost. No depreciation is provided for construction in progress until they are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 4.11).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised within "other gains — net" in the consolidated statement of comprehensive income.

4.8 Land use rights (accounting policies applied until 31 December 2018)

Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses. Cost represents consideration paid for the rights to use the land and expenditure that is directly attributable to the acquisition. Amortisation of land use rights is calculated on a straight-line basis over its useful lives.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.9(A) Leases (accounting policies applied from 1 January 2019)

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the consolidated balance sheet as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases; and/or (ii) leases for which the underlying asset is of low-value. The Group has selected not to recognise right-of-use assets and lease liabilities for leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The right-of-use asset is recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability; (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use assets at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; and (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.9(B) Leases (accounting policies applied until 31 December 2018)

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

4.10 Mining rights and exploration rights

Mining rights are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation of mining rights is calculated to write off the cost less accumulated impairment losses over useful lives of the mines in accordance with the production plans and proved reserves of the mines on the unit-of-production method.

Exploration rights are stated at cost less accumulated impairment losses, if any. When it can be reasonably ascertained that exploration rights are capable of commercial production, exploration rights are transferred to mining rights which are subject to amortisation using unit-of-production method.

No amortisation is charged for exploration rights or mining rights if no ores was mined.

4.11 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

4.12 Financial instruments

(i) Financial assets

Classification

The Group classifies its financial assets in the following measurement categories:

— Financial assets at amortised cost; and

— Financial assets at FVOCI

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.12 Financial instruments (Continued)

(i) Financial assets (Continued)

Classification (Continued)

The classification is generally based on two criteria:

— the business model under which the financial asset is managed; and

— the contractual cash flow characteristics of the financial asset.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

The subsequent measurement of financial assets at amortised cost is as follows:

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the financial asset and the cash flow characteristics of the financial asset.

— Amortised cost: Financial assets that are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss.

— FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.12 Financial instruments (Continued)

(i) Financial assets (Continued)

Financial liabilities

The Group classifies its financial liabilities, depending on the purpose of which the liabilities were incurred. Financial liabilities at amortised cost initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade payables, other payables and accruals, lease liabilities and borrowings, are initially measured at fair value, net of directly attributable costs incurred and subsequently measured at amortised cost, using the effective interest method.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(ii) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(iii) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(iv) Derecognition

The Group derecognises a financial asset when, and only when the contractual rights to the cash flows from the financial asset expire, or the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

4.13 Impairment of financial assets

The Group assesses the expected credit losses ("ECLs") associated with its debt instruments carried at amortised cost (including trade and bills receivables, loan receivable, other receivables, restricted cash at banks and cash and cash equivalents) on a forward looking basis.

ECLs are a probability-weighted estimate of credit losses which are measured at the present value of all cash shortfalls (i.e. the difference between the cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive) over the expected life of the financial instrument. The maximum period to consider when measuring ECLs is the maximum contractual period over which the entity is exposed to credit risk.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.13 Impairment of financial assets (Continued)

ECLs are measured at the end of each reporting period to reflect changes in the debt instrument's credit risk since initial recognition. Any change in the amount of ECLs is recognised as an impairment gain or loss in profit or loss. Loss allowances for debt instruments measured at amortised cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

For trade and bills receivables, the Group applies a simplified approach to measure the loss allowances at an amount equal to lifetime ECLs. The Group has established a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the end of the reporting period.

For loan receivable and other receivables, the Group measures the loss allowances either based on 12-month ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group's loan receivables at amortised cost are considered to have low credit risk since there were no recent history of default of the debtor and they had good settlement record with the Group.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due for trade and other receivables and more than 30 days past due for loan receivables.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 365 days past due for trade and other receivables and more than 90 days past due for loan receivables.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowances) of the financial asset. For non credit-impaired financial assets, interest income is calculated based on the gross carrying amount.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.14 Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

All financial liabilities are measured at amortised cost. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the consolidated balance sheet.

The results of operations disposed of during the year are included in profit or loss up to the date of disposal.

4.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

4.16 Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.16 Revenue recognition (Continued)

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

— provides all of the benefits received and consumed simultaneously by the customer;

— creates or enhances an asset that the customer controls as the Group performs; or

— does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

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

(i) Sales of coals and mining products

Income from sales of coals and mining products is recognised at a point in time when the goods are delivered to customers and title has passed.

(ii) Engineering and other related services

Revenue from engineering and other related services fees are recognised when services are rendered.

(iii) Rental income

Rental income under operating leases is recognised on a straight-line basis over the term of the lease.

(iv) Interest income from financial services

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired receivables is recognised using the original effective interest rate.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.16 Revenue recognition (Continued)

(v) Other income

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Other rental income under operating leases is recognised on a straight-line basis over the term of the lease.

Contract assets and liabilities

A contract asset represents the Group's right to consideration in exchange for services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the considerations (including advances received from customers) exceeds the revenue recognised to date under the output method then the Group recognises a contract liability for the difference.

4.17 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

4.18 Borrowings and borrowing costs

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.19 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

4.20 Current and deferred income tax

The income tax expense or credit for the year is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amount will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.21 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional currency and Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in the consolidated statement of comprehensive income. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to other receivables and cash and cash equivalents are presented in the consolidated statement of comprehensive income on a net basis within other gains — net.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at FVTPL are recognised in the consolidated statement of comprehensive income as part of the fair value gain or loss and translation differences on non-monetary assets are recognised in other comprehensive income.

(iii) Group companies

The results and financial position of all group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the date of consolidated balance sheet;
- income and expenses are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to the income statement, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign operation and translated at the closing rate.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.22 Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related services, are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated balance sheet.

(ii) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly administered pension insurance plans on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

(iii) Housing benefits

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

4.23 Provisions

Provisions for close down, restoration and environmental costs are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.24 Contingent liability

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

4.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

4.26 Exploration and evaluation expenditure

Exploration and evaluation expenditure comprises costs which are directly attributable to: (i) researching and analysing existing exploration data; (ii) conducting geological studies, exploratory drilling and sampling; (iii) examining and testing extraction and treatment methods; and (iv) compiling pre-feasibility and feasibility studies. Exploration and evaluation expenditure also includes the costs incurred in the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

During the initial stage of a project, exploration and evaluation expenditure are expensed as incurred. Expenditure on a project after it has reached a stage at which there is a high degree of confidence in its viability is capitalised as property, plant and equipment if the project proceeds. If a project does not prove viable, all irrecoverable costs associated with the project are expensed in the consolidated statement of comprehensive income.

4.27 Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of key management personnel of the Group or the Company's parent.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.27 Related parties (Continued)

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(a) Provision for impairment of trade and bills receivables, loan receivables and other receivables

The impairment of trade and bills receivables, loan receivables and other receivables are assessed on lifetime and 12-month ECLs basis. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when performing impairment assessment of these financial assets, the assessments are done based on the Group's historical credit losses experience, existing market conditions as well as forward looking estimates at the end of each reporting period. The provision of ECLs is sensitive to changes in estimates. The information about the ECLs and the Group's trade and bills receivables, loan receivables and other receivables is disclosed in notes 23, 24, 25 and 47.1(b), respectively.

(b) Carrying value of non-current assets

The Group tests whether property, plant and equipment, land use rights, right-of-use assets and mining rights and exploration rights and goodwill have been impaired due to events or changes in circumstances which indicate that the carrying amount of the asset may exceed its recoverable amount, in accordance with accounting policies stated in Note 4.11. For the year ended 31 December 2019, there was net reversal of impairment loss of RMB13,689,000 (2018: impairment charge of RMB27,386,000) in aggregate on property, plant and equipment, mining rights and goodwill of the Group. The recoverable amounts of different CGUs to which the property, plant and equipment, land use rights, mining rights and mining structures and goodwill belong, have been determined based on value-in-use (the "VIU")calculations, with reference to the valuation reports prepared by independent valuers, using cash flow projections, financial budgets approved by management covering a five-year period and management's assumptions and estimates including forecast of selling price of nickel, copper, lead, zinc and gold, discount rates, time to resume production and inflation rate. Cash flows beyond the five-year period are assumed to be equal to the cash flows of year 2024 (2018: 2023) for CGUs without considering the inflation rate. The discount rates used in cash flow projections varied with different CGUs.

(c) Lease term and discount rate determination

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstance occurs which affects this assessment and that is within the control of the lessee.

The Group uses the lessee's incremental borrowing rates to discount future lease payments since interest rates implicit in the leases are not readily determinable. In determining the discounts rates for its leases, the Group refers to a rate that is readily observable as the starting point and then applies judgement and adjusts such observable rate to determine the incremental borrowing rate.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(d) Fair value measurement of financial instruments

The Group's financial assets at FVOCI of RMB2,300,000 as at 31 December 2018 are measured at fair values. The fair value measurement utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the "fair value hierarchy"):

Level 1: Quoted prices in active markets for identical items (unadjusted);
Level 2: Observable direct or indirect inputs other than Level 1 inputs; and
Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

(e) Classification of Shaanxi Jiahe Mineral Exploiture Limited ("Shaanxi Jiahe") as a disposal group held for sale

As disclosed in Note 33, the Group is committed to its plan to sell the entire equity interest of Shaanxi Jiahe. Considering the fact that the Group has entered into a sale and purchase agreement with an independent third party on 24 December 2019 and, as at 31 December 2019, the process in relation to the change of shareholders with the relevant government authorities was expected to be completed within 12 months from the end of reporting period, the Directors are satisfied that classifying Shaanxi Jiahe as held for sale as at 31 December 2019 is appropriate.

(f) Mineral reserves

Mine reserves are estimates of the quantity of product that can be economically and legally extracted from the mining site. In order to calculate the mine reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, production costs, transport costs, commodity demand and commodity prices. Estimating the quantity and/or grade of reserves requires the size, shape and depth of ore bodies or fields to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements and calculations to interpret the data. Should there be any change in economic assumptions and geological data that used to estimate mine reserves, impairment losses on the mining rights may arise.

(g) Extension of legal title of mining right

As stated in note 17(c) to the consolidated financial statements, the legal title of Hami Jiatai Mineral Resource Exploiture Limited ("Hami Jiatai")'s mining right has not yet been extended as at 31 December 2019. Despite the fact that the Group has not obtained the extension of relevant legal title, the Directors determine to continue to recognise the mining right on the grounds that they expect, based on the relevant legal opinion and opinion from relevant specialist, that the legal title being extended in future should have no major difficulties and the Group is in substance controlling the mine.

6. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the Group's CODM that are used to make strategic decisions. The CODM has been identified as the Company's Board.

The CODM reviews the operating performance from a business perspective (i.e. mining, financial services, engineering services and trading business). The reportable and operating segments derive their revenue primarily from mining, financial services, engineering and other related services and trading of coal respectively.

For the year ended 31 December 2019, the Group had four operating and reportable segments:

(a) the "Mining" segment engages in the mining, ore processing and sales of gold, nickel, copper, lead and zinc products through Hami Jiatai, Hami Jinhua Mineral Resource Exploiture Limited ("Hami Jinhua") and Shaanxi Jiahe (before classified as held for sale) in the PRC;

(b) the "Trading business" segment engages in trading of coal through Changzhi Runce Trading Company Limited ("Changzhi Runce") and Gujiao Runce Trading Company Limited ("Gujiao Runce") in the PRC;

(c) the "Financial services" segment engages in financial services through Jiayi Financial Leasing Company Limited ("Jiayi") in the PRC; and

(d) the "Engineering services" segment engages in providing engineering services for exploiting oil, natural gas, coal-bed methane and pre-drilling engineering services and other related services and trading of materials for oil and gas exploration through Yonghe County Changshi Engineering Service Company Limited ("Changshi") in the PRC.

During the year ended 31 December 2019, the Group commenced in the business of trading of coal, which became a new operating and reporting segment as "Trading business" of the Group.

For the year ended 31 December 2018, the Group had three operating and reportable segments:

(a) the "Mining" segment;

(b) the "Financial services" segment; and

(c) the "Engineering services" segment.

Apart from the above four operating and 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 consolidated financial statements disclosures.

The CODM assesses the performance of the operating segments based on operating results. 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.

6. SEGMENT INFORMATION (Continued)

(A) The segment information provided to the CODM for the reportable segments for each of the years ended and as at 31 December 2019 and 2018 is as follows:

	2019						2018				
	Mining RMB'000	Trading business RMB'000	Financial services RMB'000	Engineering services RMB'000	Unallocated RMB'000	Total RMB'000	Mining RMB'000	Financial services RMB'000	Engineering services RMB'000	Unallocated RMB'000	Total RMB'000
Year ended 31 December											
Segment Revenue											
– Sales of mining products	–	–	–	–	–	–	52	–	–	–	52
– Trading of coal	–	85,823	–	–	–	85,823	–	–	–	–	–
– Interest income from financial services	–	–	6,369	–	–	6,369	–	6,636	–	–	6,636
– Engineering and other related services	–	–	–	1,380	–	1,380	–	–	26,140	–	26,140
	–	85,823	6,369	1,380	–	93,572	52	6,636	26,140	–	32,828
Segment operating profit/(loss)	22,039	585	6,258	(2,590)	–	26,292	(51,170)	3,589	329	–	(47,252)
Unallocated operating loss (Note (a))	–	–	–	–	(33,190)	(33,190)	–	–	–	(2,229)	(2,229)
Operating (loss)/profit	22,039	585	6,258	(2,590)	(33,190)	(6,898)	(51,170)	3,589	329	(2,229)	(49,481)
Segment finance income	217	3	35	136	–	391	5	11	490	–	506
Unallocated	–	–	–	–	1,989	1,989	–	–	–	1,038	1,038
Finance income	217	3	35	136	1,989	2,380	5	11	490	1,038	1,544
Segment finance costs	(209)	–	–	(95)	–	(304)	(113)	–	(175)	–	(288)
Unallocated	–	–	–	–	(131)	(131)	–	–	–	–	–
Finance costs	(209)	–	–	(95)	(131)	(435)	(113)	–	(175)	–	(288)
Income tax expense/(credit)	9,012	29	1,227	15	–	10,283	(6,083)	925	463	–	(4,695)
Segment depreciation	2,417	–	–	696	–	3,113	2,223	–	1,160	–	3,383
Unallocated	–	–	–	–	2,179	2,179	–	–	–	107	107
Depreciation	2,417	–	–	696	2,179	5,292	2,223	–	1,160	107	3,490
Depreciation of property, plant and equipment	2,174	–	–	696	237	3,107	2,223	–	1,160	107	3,490
Depreciation of right-of-use assets	243	–	–	–	1,942	2,185	–	–	–	–	–
Amortisation of land use rights	–	–	–	–	–	–	243	–	–	–	243
Loss/(gain) on disposal of property, plant and equipment	–	–	–	53	–	53	–	–	(167)	–	(167)
(Reversal of)/impairment loss on property, plant and equipment	(2,153)	–	–	1,671	–	(482)	2,153	–	–	–	2,153
(Reversal of)/impairment loss on mining structures and mining rights	(13,207)	–	–	–	–	(13,207)	24,118	–	–	–	24,118

6. SEGMENT INFORMATION (Continued)

(A) (Continued)

	2019 Mining RMB'000	2019 Trading business RMB'000	2019 Financial services RMB'000	2019 Engineering services RMB'000	2019 Unallocated RMB'000	2019 Total RMB'000	2018 Mining RMB'000	2018 Financial services RMB'000	2018 Engineering services RMB'000	2018 Unallocated RMB'000	2018 Total RMB'000
Fair value loss on a disposal group classified as held for sale	9,191	-	-	-	-	9,191	–	–	–	–	–
Impairment loss on goodwill	-	-	-	-	-	-	1,115	–	–	–	1,115
Expected credit losses on financial assets	1,870	2	636	1,678	21,409	25,595	12,734	1,269	2,012	940	16,955
Reversal of expected credit losses on financial assets	(24,699)	-	(1,260)	(1,573)	-	(27,532)	–	–	–	–	–
Written off on inventories	3,012	-	-	7	-	3,019	–	–	–	–	–
Additions of non-current assets	-	-	-	340	21	361	30,468	–	726	1,287	32,481
As at 31 December											
Segment assets	170,357	32,772	99,487	8,465	-	311,081	174,883	113,045	27,201	–	315,129
Unallocated assets (Note (b))	-	-	-	-	183,089	183,089	–	–	–	207,835	207,835
Total	170,357	32,772	99,487	8,465	183,089	494,170	174,883	113,045	27,201	207,835	522,964
Segment liabilities	43,878	11,832	7,390	618	-	63,718	60,691	7,900	11,814	–	80,405
Unallocated liabilities (Note (c))	-	-	-	-	5,138	5,138	–	–	–	1,818	1,818
Total	43,878	11,832	7,390	618	5,138	68,856	60,691	7,900	11,814	1,818	82,223

Notes:

(a) Unallocated operating losses mainly represented expected credit losses on financial assets, exchange gain, administrative and professional services expenses incurred by the Company for the years ended 31 December 2019 and 2018.

(b) Unallocated assets mainly represented other receivables and bank deposits as at 31 December 2019 and 2018.

(c) Unallocated liabilities mainly represented other payables and accruals as at 31 December 2019 and 2018.

6. SEGMENT INFORMATION (Continued)

(B) Disaggregation of revenue

In the following table, revenue is disaggregated by primary geographical markets, major products and service lines and timing on revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segment.

For the year ended 31 December 2019

	Mining RMB'000	Trading business RMB'000	Financial services RMB'000	Engineering services RMB'000	Total RMB'000
Primary geographical markets					
The PRC	–	85,823	6,369	1,380	93,572
Major products and services					
Trading of coal	–	85,823	–	–	85,823
Financial services	–	–	6,369	–	6,369
Engineering and other related services	–	–	–	1,380	1,380
	–	85,823	6,369	1,380	93,572
Timing of revenue recognition					
At a point in time	–	85,823	–	–	85,823
Transferred over time	–	–	6,369	1,380	7,749
	–	85,823	6,369	1,380	93,572

6. SEGMENT INFORMATION (Continued)

(B) Disaggregation of revenue (Continued)

For the year ended 31 December 2018

	Mining RMB'000	Financial services RMB'000	Engineering services RMB'000	Total RMB'000
Primary geographical markets				
The PRC	52	6,636	26,140	32,828
Major products and services				
Mining products	52	–	–	52
Financial services	–	6,636	–	6,636
Engineering and other related services	–	–	26,140	26,140
	52	6,636	26,140	32,828
Timing of revenue recognition				
At a point in time	52	–	24,512	24,564
Transferred over time	–	6,636	1,628	8,264
	52	6,636	26,140	32,828

6. SEGMENT INFORMATION (Continued)

(C) Geographic information

The following table provides an analysis of the Group's revenue from customers and non-current assets other than financial instruments and deferred tax assets ("Specified non-current assets").

	Revenue from external customers (by customer location)		Specified non-current assets (by location of asset)	
	2019 RMB'000	2018 RMB'000	**2019 RMB'000**	2018 RMB'000
The PRC	**93,572**	32,828	**149,772**	164,471
Hong Kong Special Administrative Region, the PRC ("Hong Kong")	**–**	–	**3,588**	1,180
	93,572	32,828	**153,360**	165,651

(D) Information about major customers

		Year ended 31 December	
	Segment	**2019 RMB'000**	2018 RMB'000
Customer A	Trading business	**18,159**	–
Customer B	Trading business	**10,619**	–
Customer C	Trading business	**10,177**	–
Customer D	Engineering services	**–**	13,603
Customer E	Engineering services	**–**	6,304
Customer F	Financial services	**–**	5,907
Customer G	Engineering services	**–**	4,605

The revenue contributed by the above major customers are attributable to the trading business segment for the year ended 31 December 2019, and those are attributable to financial services segment and engineering services segment for the year ended 31 December 2018.

7. REVENUE

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

Revenue recognised during the years ended 31 December 2019 and 2018 is as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Trading of coal	**85,823**	–
Interest income from financial services	**6,369**	6,636
Engineering and other related services	**1,380**	26,140
Sales of mining products	**–**	52
	93,572	32,828

The following table provides information about trade receivables and contract liabilities from contracts with customers.

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Receivables	**133**	–
Contract liabilities (Note 29)	**11,654**	–

The contract liabilities mainly relate to the advance consideration received from customers.

The Group has applied the practical expedient to its sales contracts for trading of coal and therefore the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for trading of coal that had an original expected duration of one year or less.

8. OTHER GAINS — NET

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Foreign exchange gain, net (Note 10)	**3,634**	12,086
Rental income from lease of a factory production line	**–**	1,000
(Loss)/gain on disposal of property, plant and equipment (Note 10)	**(53)**	167
Others	**891**	1,097
	4,472	14,350

9. FINANCE INCOME — NET

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Finance income		
Interest income	**2,380**	1,544
Finance costs		
Interest expenses		
— Interest on lease liabilities	**(131)**	–
— Interest on borrowings	**–**	(175)
— Unwinding of discount — provision for close down, restoration and environmental costs (Note 31)	**(209)**	(113)
— Others	**(95)**	–
	(435)	(288)
Finance income — net	**1,945**	1,256

10. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging/(crediting):

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Cost of inventories recognised as expense	**84,866**	20,257
Written off on inventories (Note 21)	**3,019**	–
Depreciation of property, plant and equipment (Note (a)) (Note 16)	**3,107**	3,490
Depreciation of right-of-use assets (Note (b))	**2,185**	–
Total minimum lease payments for leases previously classified as operating leases under HKAS 17 (Note 37)	**–**	3,178
Amortisation of land use rights (Note 18)	**–**	243
Loss/(gain) on disposal of property, plant and equipment (Note 8)	**53**	(167)
Reversal of impairment loss on property, plant and equipment (Note (c)) (Note 16)	**(2,153)**	–
Reversal of impairment loss on mining structures and mining rights (Note (c)) (Notes 16 and 17)	**(13,207)**	–
Impairment loss on property, plant and equipment (Note (c)) (Note 16)	**1,671**	2,153
Impairment loss on mining structures and mining rights (Note (c)) (Notes 16 and 17)	**–**	24,118
Fair value loss on a disposal group classified as held for sale (Note (c)) (Note 33)	**9,191**	–
Impairment loss on goodwill (Note (c)) (Note 19)	**–**	1,115
Expected credit losses on financial assets (Note 47.1(b))	**25,595**	16,955
Reversal of expected credit losses on financial assets (Note 47.1(b))	**(27,532)**	–
Interest on lease liabilities (Note 37)	**131**	–
Short-term leases expenses (Note 37)	**359**	–
Employee costs (Note 11)	**8,933**	9,619
Auditor's remuneration		
— annual audit	**1,260**	1,200
— others	**200**	1,000
Foreign exchange gain, net (Note 8)	**(3,634)**	(12,086)

Notes:

(a) Included in cost of sales and administrative expenses in the consolidated statement of comprehensive income.

(b) The Group has initially applied HKFRS 16 using the cumulative effect approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The net book amount of the land use rights is also identified as a right-of-use asset. After initial recognition of right-of-use assets at 1 January 2019, the Group as lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases and amortisation of land use rights on a straight-line basis over the lease term. Under this approach, the comparative information has not been restated. See Note 2(a). It is included in administrative expenses in the consolidated statement of comprehensive income.

(c) Included in other operating gains for the year ended 31 December 2019 and other operating losses for the year ended 31 December 2018 in the consolidated statement of comprehensive income.

11. EMPLOYEE COSTS

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Staff costs (including directors' emoluments (Note 12)) comprise:		
Wages and salaries	**8,426**	9,060
Contributions to pension plans (Note (a))	**419**	286
Housing benefits (Note (b))	**20**	68
Welfare and other expenses	**68**	205
	8,933	9,619

Notes:

(a) The amount represented the Group's contributions to the defined contribution pension plans organised by the relevant municipal and provincial governments at a rate of 20% of the basic salary of permanent employees in the PRC.

(b) The amount represented the Group's contributions to government-sponsored housing funds at a rate of 5% of the basic salary of permanent employees in the PRC.

12. DIRECTORS' EMOLUMENTS

For the year ended 31 December 2019:

Emoluments in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:

	Directors' fee RMB'000	Salaries, allowances, and benefits in kind RMB'000	Employer's contributions to a retirement benefit scheme RMB'000	Total RMB'000
Mr. Li Xiaobin (Note (a))	104	–	–	104
Ms. Jia Dai (Note (b))	38	–	–	38
Mr. Liu Huijie (Note (c))	106	–	–	106
Mr. Cao Shiping (Note (d))	21	–	–	21
Ms. Xiang Siying (Note (e))	446	–	–	446
Ms. Wang Qian	–	–	–	–
Ms. Huang Mei (Note (f))	106	–	–	106
Mr. Zhou Jianzhong (Note (g))	–	482	16	498
Mr. Cao Ye (Note (h))	174	–	–	174
Mr. Chan Ping Kuen (Note (i))	85	–	–	85

12. DIRECTORS' EMOLUMENTS (Continued)

For the year ended 31 December 2018:

Emoluments in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:

	Directors' fee RMB'000	Salaries, allowances, and benefits in kind RMB'000	Employer's contributions to a retirement benefit scheme RMB'000	Total RMB'000
Mr. Li Xiaobin (Note (a))	1,180	–	–	1,180
Ms. Jia Dai (Note (b))	303	–	–	303
Mr. Liu Huijie (Note (c))	303	–	–	303
Mr. Cao Shiping (Note (d))	101	–	–	101
Ms. Sun Zhili (Note (j))	81	–	–	81
Ms. Xiang Siying (Note (e))	101	–	–	101
Ms. Wang Qian	–	–	–	–
Ms. Huang Mei (Note (f))	20	–	–	20

Notes:

(a) Mr. Li Xiaobin resigned as executive director and chairman of the Company on 11 March 2019.

(b) Ms. Jia Dai resigned as executive director on 13 February 2019.

(c) Mr. Liu Huijie resigned as executive director on 14 June 2019.

(d) Mr. Cao Shiping resigned as independent non-executive director on 11 March 2019.

(e) Ms. Xiang Siying was appointed as independent non-executive director on 6 September 2017 and as chairlady of the Company on 11 March 2019.

(f) Ms. Huang Mei was appointed as non-executive director on 19 October 2018.

(g) Mr. Zhou Jianzhong was appointed as executive director on 11 March 2019.

(h) Mr. Cao Ye was appointed as non-executive director on 14 June 2019.

(i) Mr. Chan Ping Kuen was appointed as independent non-executive director on 11 March 2019.

(j) Ms. Sun Zhili resigned as independent non-executive director on 19 October 2018.

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The non-executive directors' emoluments shown above were mainly for their services as directors of the Company. The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

During the current and prior years, none of the directors waived or agreed to waive any remuneration and there were no emoluments paid by the group to any of the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

13. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include two (2018: one) directors whose emoluments are reflected in the analysis shown in Note 12. The emoluments payable to the remaining three (2018: four) individuals during the year are as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Basic salaries, allowances and benefits in kind	**2,408**	2,244

The emoluments fell within the following bands:

	Number of individuals	
	2019	2018
Emolument bands (in HK dollars)		
Nil to HK$1,000,000 (Nil to RMB881,135 equivalents)	**3**	3
HK$1,000,001–HK$1,500,000 (RMB881,135 equivalents–RMB1,321,702 equivalents)	**–**	1

During the current and prior years, none of the five highest paid individuals waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

14. INCOME TAX EXPENSE/(CREDIT)

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Current tax	**1,271**	1,388
Deferred tax (Note 32)	**9,012**	(6,083)
Income tax expense/(credit)	**10,283**	(4,695)

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 British Virgin Islands ("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 2019 and 2018.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No.7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of other group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The two-tiered profits tax rates regime is applicable to a nominated qualifying entity in the Group for its annual period beginning on or after 1 January 2018.

Enterprise income tax ("EIT") arising from the PRC for the year was calculated at 25% (2018: 25%) of the estimated assessable profits of subsidiaries operating in the PRC during the year. According to the EIT, the taxable income of an enterprise shall be the total revenue of such enterprise, deducted by any non-assessable revenue, exempted revenue, other deductions and amount of offsetting any accumulated tax losses.

14. INCOME TAX EXPENSE/(CREDIT) (Continued)

The income tax expense/(credit) 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	
	2019	2018
	RMB'000	RMB'000
Loss before income tax	**(4,953)**	(48,225)
Tax on loss before income tax, calculated at the rates applicable to the tax jurisdictions	**(393)**	(10,940)
Tax effects of:		
— Expenses not deductible for tax purposes	**6,754**	4,475
— Income not taxable for tax purposes	**(7,926)**	(2,292)
— Effect of tax exemptions granted to PRC subsidiaries	**(180)**	–
— Derecognition of deferred tax asset	**5,225**	–
— Tax effect of deductible temporary differences not recognised	**2,298**	–
— Tax effect of tax losses not recognised	**4,505**	4,062
Income tax expense/(credit)	**10,283**	(4,695)

15. LOSS PER SHARE

The basic loss per share is calculated by dividing:

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

	2019	2018
	RMB'000	RMB'000
Loss for the year attributable to equity holders of the Company	**(16,013)**	(41,269)

	Number of shares '000	Number of shares '000
Weighted average number of ordinary shares in issue	**1,620,000**	1,620,000
Basic and diluted loss per share (RMB cents)	**(1.0)**	(2.5)

Diluted loss per share was equal to basic loss per share as there was no basic and no potential share outstanding for the each of the years ended 31 December 2019 and 2018.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Office equipment and others RMB'000	Motor vehicles RMB'000	Mining structures RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2018								
Opening net book amount	18,032	–	5,071	100	3,595	3,126	31,592	61,516
Acquisition of a subsidiary (Note 40)	–	–	–	–	–	–	14,296	14,296
Additions	–	1,287	726	–	–	–	852	2,865
Depreciation (Note (a), Note 10)	(1,808)	(107)	(690)	(43)	(842)	–	–	(3,490)
Impairment loss (Note (b))	–	–	–	–	–	(3,126)	(2,153)	(5,279)
Disposal	–	–	(1,737)	–	–	–	–	(1,737)
Closing net book amount	16,224	1,180	3,370	57	2,753	–	44,587	68,171
As at 31 December 2018								
Cost	35,281	1,287	25,157	527	11,017	14,393	46,740	134,402
Accumulated depreciation	(19,057)	(107)	(21,787)	(470)	(8,264)	(1,243)	–	(50,928)
Accumulated impairment loss (Note (b))	–	–	–	–	–	(13,150)	(2,153)	(15,303)
Net book amount	16,224	1,180	3,370	57	2,753	–	44,587	68,171
Year ended 31 December 2019								
Opening net book amount	**16,224**	**1,180**	**3,370**	**57**	**2,753**	**–**	**44,587**	**68,171**
Additions	**–**	**361**	**–**	**–**	**–**	**–**	**–**	**361**
Depreciation (Note (a))	**(1,806)**	**(263)**	**(337)**	**(33)**	**(668)**	**–**	**–**	**(3,107)**
Impairment loss (Note (b))	**–**	**(318)**	**–**	**(9)**	**(1,344)**	**–**	**–**	**(1,671)**
Reversal of impairment loss (Note (b))	**–**	**–**	**–**	**–**	**–**	**2,002**	**2,153**	**4,155**
Classified as held for sale (Note 33)	**–**	**–**	**–**	**–**	**–**	**–**	**(15,148)**	**(15,148)**
Disposal	**–**	**–**	**(627)**	**–**	**(523)**	**–**	**–**	**(1,150)**
Closing net book amount	**14,418**	**960**	**2,406**	**15**	**218**	**2,002**	**31,592**	**51,611**
As at 31 December 2019								
Cost	**35,281**	**1,648**	**24,432**	**527**	**10,168**	**14,393**	**31,592**	**118,041**
Accumulated depreciation	**(20,863)**	**(370)**	**(22,026)**	**(503)**	**(8,606)**	**(1,243)**	**–**	**(53,611)**
Accumulated impairment loss (Note (b))	**–**	**(318)**	**–**	**(9)**	**(1,344)**	**(11,148)**	**–**	**(12,819)**
Net book amount	**14,418**	**960**	**2,406**	**15**	**218**	**2,002**	**31,592**	**51,611**

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes:

(a) Depreciation of property, plant and equipment has been charged to cost of sales and administrative expenses as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Cost of sales	**2,081**	2,455
Administrative expenses	**1,026**	1,035
Total depreciation	**3,107**	3,490

(b) Impairment assessment

The copper, nickel, zinc and lead market, being the core businesses of Hami Jiatai and Hami Jinhua, have been experiencing continuous depression since 2009. Although there was a sign of recovery of the market, the price of copper and nickel still fluctuated wildly during the year ended 31 December 2019. As such, the Company decided to delay production schedule of the Group's mining operations and will continue to study the possibility of the commencement of production in responses to the change in the market conditions.

In light of the above, management appointed independent valuers to carry out a review of the recoverable amount of its goodwill, mining structures and mining rights, land use rights and property, plant and equipment belonging to these CGUs as at 31 December 2019 and 2018.

For the year ended 31 December 2019

Based on the valuation of the recoverable amounts of the CGUs of Hami Jiatai's and Hami Jiahua's CGUs as at 31 December 2019 by the independent valuer appointed by management, a reversal of impairment losses on mining structures and mining rights of Hami Jiatai's of RMB2,002,000 and RMB6,998,000 (Note 17(b)), respectively, were recognised as the result, which was mainly due to the significant increase in nickel prices during the year ended 31 December 2019. For the year ended 31 December 2019, the recoverable amounts of Hami Jiatai's and Hami Jiahua's CGUs were determined based on VIU calculations using cash flow projections based on financial budgets approved by management covering a five-year period from 2020 to 2024 and management's assumptions and estimates (see Note 17(b)).

During the year ended 31 December 2019, Hami Jiatai, entered into a sale and purchase agreement (the "Disposal Agreement") with an independent third party (the "Purchaser"), pursuant to which Hami Jiatai has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the entire equity interests of Shaanxi Jiahe (the "Disposal Subsidiary") for the consideration of RMB10,000,000 (See Note 33). Immediately before the initial classification of Shaanxi Jiahe as held for sale, the carrying amounts of property, plant and equipment and mining rights and explorations rights were remeasured. Based on the valuation of the recoverable amount of the Shaanxi Jiahe's CGUs of by the independent valuer appointed by management, a reversal of impairment losses on property, plant and equipment and mining rights and explorations of RMB2,153,000 and RMB4,207,000 (Note 17(b)), respectively, were recognised as the result, which was mainly due to the increase in gold prices during the year ended 31 December 2019. The recoverable amount of CGUs was determined based on VIU calculations using cash flow projection based on financial budgets approved by management covering a five-year period from 2020 to 2024 and management's assumptions and estimates (Note 17(b)).

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes: (Continued)

(b) Impairment assessment (Continued)

The Group also performed an impairment assessment on property, plant and equipment of the Group's other operating and reportable segments each of which represents a CGU. Based on the assessment, an impairment loss of approximately RMB1,671,000 was recognised for the year ended 31 December 2019 to Changshi's property, plant and equipment due to the suspension of engineering services. The recoverable amounts of these property, plant and equipment using VIU calculations were determined by cash flow projection, based on financial budgets approved by management covering a five-year period from 2020 to 2024, management's assumptions and estimates, a discount rate of 10% and growth rate of 3%. The recoverable amount based on VIU as at 31 December 2019 was determined to be zero.

All of the reversal of impairment loss and impairment losses on property, plant and equipment, mining structures and mining rights were recognised in other operating gains for the year ended 31 December 2019.

For the year ended 31 December 2018

Based on the valuation of the recoverable amounts of the Hami Jiatai's and Hami Jinhua's CGUs as at 31 December 2018 by the independent valuer appointed by management, impairment losses on mining structures and mining rights of Hami Jiatai of RMB3,126,000 and RMB10,785,000 (Note 17(b)), respectively, were recognised as a result, which was mainly due to the decrease in nickel prices during the year ended 31 December 2018.

During the year ended 31 December 2018, the Company appointed an independent valuer to carry out a review of the recoverable amount of Shaanxi Jiahe, being CGU of the Project Huangjinmei, which resulted in the recognition of impairment losses on goodwill, property, plant and equipment and mining rights of RMB1,115,000 (Note 19), RMB2,153,000 and RMB10,207,000 (Note 17(b)), respectively.

For the year ended 31 December 2018, the recoverable amounts of the above CGUs were determined based on VIU calculations using cash flow projection, based on financial budgets approved by management covering a five-year period from 2019 to 2023 and management's assumptions and estimates (Note 17(b)).

All of the impairment losses on goodwill, property, plant and equipment, mining structures and mining rights were recognised in other operating losses for the year ended 31 December 2018.

17. MINING RIGHTS AND EXPLORATION RIGHTS

	2019			2018		
	Mining rights RMB'000	**Exploration rights RMB'000**	**Total RMB'000**	Mining rights RMB'000	Exploration rights RMB'000	Total RMB'000
Year ended 31 December						
Opening net book amount	**88,867**	**–**	**88,867**	94,539	–	94,539
Acquisition of a subsidiary (Note 40)	**–**	**–**	**–**	15,320	–	15,320
Amortisation charge (Note (a))	**–**	**–**	**–**	–	–	–
Impairment loss (Note 16(b))	**–**	**–**	**–**	(20,992)	–	(20,992)
Reversal of impairment loss (Note 16(b))	**11,205**	**–**	**11,205**	–	–	–
Classified as held for sale (Note 33)	**(9,320)**	**–**	**(9,320)**	–	–	–
Closing net book amount	**90,752**	**–**	**90,752**	88,867	–	88,867
At 31 December						
Cost	**133,523**	**–**	**133,523**	148,843	–	148,843
Accumulated amortisation	**(3,812)**	**–**	**(3,812)**	(3,812)	–	(3,812)
Accumulated impairment loss	**(38,959)**	**–**	**(38,959)**	(56,164)	–	(56,164)
Net book amount (Note (c))	**90,752**	**–**	**90,752**	88,867	–	88,867

Notes:

(a) Mining rights are amortised using the unit-of-production method based on reserves estimated to be recovered from existing facilities using current operating methods. The mining rights were not amortised during the years ended 31 December 2019 and 2018 as the Group did not carry out any mining activities during the years. There is no exploration and evaluation expenditure incurred during the years ended 31 December 2019 and 2018.

(b) Impairment assessment

The Group has mines in Xinjiang Uyghur Autonomous Region and Shaanxi province, the PRC with diversified non-ferrous metal minerals that include nickel, copper, lead, zinc and gold. Hami Jiatai has one mining right, Hami Jinhua has one mining right and three exploration rights and Shaanxi Jiahe has one mining right as at 31 December 2019 and 2018.

Each CGU's recoverable amount has been determined using the VIU method. VIU has been determined using a discounted cash flow model during the years ended 31 December 2019 and 2018.

In determining the value assigned to each key assumption, management has used external sources of information and utilised the expertise of external consultants to validate entity specific assumptions.

17. MINING RIGHTS AND EXPLORATION RIGHTS

Notes: (Continued)

(b) (Continued)

Hami Jiatai's CGUs

For the calculation of the recoverable amount of Hami Jiatai, the key assumptions include the nickel and copper selling prices, which were estimated based on the current market prices of RMB113,450 (2018: RMB89,450) per tonne and RMB49,020 (2018: RMB48,220) per tonne, respectively, determined with reference to available public information in the PRC; and the growth rates of forecast selling prices, which were estimated with reference to the market consensus on forecast prices of the relevant commodities ore and sourced from the Bloomberg which were 9.3%, 1.6% and -3.2% from 2020 to 2022 (2018: 1%, 3.6% and 5.7% from 2019 to 2021) and 1.1%, 1.4% and -1.3% from 2020 to 2022 (2018: 1%, 4.8% and 1.6% from 2019 to 2021), respectively. The forecasted selling prices are then assumed to remain constant after 2022 (2018: remained constant after 2021) and production costs increased with annual inflation rate of 3% (2018: 3%). The production volume was estimated with reference to the PRC Technical Report conducted by Xinjiang Engineering & Research Institute of Nonferrous Metals Company Limited.

The inflation rate over the expected life of the mines (which sourced from International Monetary Fund ("IMF")) of 3% (2018: 3%) and the discount rate of 22% (2018: 20%) were also applied in the valuation model. Considering the existing conditions of both commodities' markets and the mine's conditions, the Group expected the production will commence in 2021. The recoverable amount based on VIU for Hami Jiatai as at 31 December 2019 was determined to be RMB27,100,000 (2018: RMB12,000,000).

Hami Jinhua's CGUs

For the calculation of the recoverable amount of Hami Jinhua, the key assumptions include the lead and zinc selling prices, which were estimated based on the current market prices of RMB15,100 (2018: RMB18,600) per tonne and RMB18,090 (2018: RMB21,880) per tonne respectively, which were with reference to available public information in the PRC; and the growth rate of forecast selling price, which were reference to the market consensus on forecast price of the relevant commodities ore and sourced from the Bloomberg which were -0.6%, 0% and -7.5% from 2020 to 2022 (2018: -4.5%, -1.5% and 5.6% from 2019 to 2021) and -7.4%, 0.1% and -8% from 2020 to 2022 (2018: -5.1%, -2.8% and 7.2% from 2019 to 2021), respectively. The forecast selling price then remained constant after 2022 (2018: remained constant after 2021) and production cost increased with annual inflation rate of 3% (2018: 3%). The production volume was estimated with reference to the PRC Technical Report that was conducted by Xinjiang Engineering & Research Institute of Nonferrous Metals Company Limited.

The inflation rate over the expected life of the mines (which sourced from IMF) of 3% (2018: 3%) and the discount rate 23% (2018: 27%) were also applied in the valuation model. Considering the existing conditions of both commodities' markets and the mine's condition, the Group expected the production will commence in 2021. The recoverable amount for the Hami Jinhua based on VIU as at 31 December 2019 was determined to be RMB174,300,000 (2018: RMB309,600,000).

Shaanxi Jiahe's CGUs

In respect of the calculation of the recoverable amount of Shaanxi Jiahe immediately before classification as held for sale during the year ended 31 December 2019 and as at 31 December 2018, the key assumptions include the gold price (which were reference to the market consensus on forecast price of the relevant commodities ore and sourced from the Bloomberg) ranging RMB344 (2018: RMB279) per gram in 2020 (2018: 2019) to RMB403 (2018: RMB307) per gram in 2029 (2018: 2028). The annual growth rate of gold price was estimated to be 2% from 2023 to 2029 (2018: 0.8% from 2022 to 2028). The inflation rate over the expected life of the mines (which sourced from IMF) of 3% (2018: 3%) and the discount rate of 17% (2018: 17%) were also applied in the valuation model. The recoverable amount for Shaanxi Jiahe based on VIU immediately before classification as held for sale during the year ended 31 December 2019 and as at 31 December 2018 were determined to be RMB24,468,000 and RMB18,108,000, respectively.

(c) As at 31 December 2019, the carrying amount of mining right amounted to approximately RMB6,998,000 for which relevant legal title have not yet been extended. At the date of approval of these consolidated financial statements, the application for obtaining the extension of aforesaid legal title is still in progress.

18. LAND USE RIGHTS

	2019 **RMB'000**	2018 RMB'000
Year ended 31 December		
Opening net book amount	**8,613**	8,856
Reclassification to rights-of-use assets upon initial application of HKFRS 16 (Notes 2(a)(i) and 37)	**(8,613)**	-
Restated at 1 January 2019	**–**	–
Amortisation charge (Note 10)	**–**	(243)
Closing net book amount	**–**	8,613
At 31 December		
Cost	**–**	11,136
Accumulated amortisation	**–**	(2,523)
Net book amount	**–**	8,613

All land use rights of the Group locate in the Mainland China and have the remaining land use rights periods ranging from 36 to 39 years as at 31 December 2018.

19. GOODWILL

The amount of goodwill capitalised as an asset recognised in the consolidated balance sheet, arising from business combinations, is as follows:

	2018 RMB'000
Year ended 31 December	
Opening net book amount	–
Acquisition of a subsidiary (Note 40)	1,115
Impairment loss (Note 10, 16(b))	(1,115)
Closing net book amount	–
At 31 December	
Cost	1,115
Accumulated impairment loss	(1,115)
Net book amount	–

For the purpose of impairment testing, goodwill is allocated to the CGU of Shaanxi Jiahe under mining segment. Valuations were carried out by the valuer to assess the recoverable amount of the goodwill arising from the acquisitions.

The recoverable amount of the CGU of Shaanxi Jiahe as at 31 December 2018 was determined based on VIU calculation using cash flow projections, based on financial budgets approved by management covering a five-year period from 2019 to 2023 and management's assumptions and estimates, followed by an extrapolation of expected cash flow at the zero growth rate which did not exceed the long-term growth rate for the business in which the CGU operates, and a discount rate of 17% per annum. The discount rate used was pre-tax and reflected specific risks relating to the CGU. Shaanxi Jiahe incurred loss for the year ended 31 December 2018 and the Directors of the Company considered the goodwill arising from the acquisition of Shaanxi Jiahe should be impaired. An impairment loss on the goodwill of RMB1,115,000 was recognised in the consolidated statement of comprehensive income for the year ended 31 December 2018.

20. RESTRICTED CASH AT BANKS

	2019 RMB'000	2018 RMB'000
Restricted cash at banks	**247**	2,653

Note:

Restricted cash at banks represented the guarantee deposits for environmental recovery.

21. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	–	1,268
Semi-finished goods	–	1,746
Finished goods	–	5
	–	3,019

Raw materials mainly included consumables, semi-finished goods mainly included raw ores. As at 31 December 2019, written off on inventories of approximately RMB3,019,000 (2018: Nil) was recognised.

Movement in the provision for written off amount in respect of inventories during the year is as follows:

	2019 RMB'000	2018 RMB'000
Balance at 1 January	–	–
Written off on inventories recognised during the year	3,019	–
Balance at 31 December	3,019	–

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 RMB'000	2018 RMB'000
Bills receivables (Note (a))	–	2,300

Note:

(a) The balance represents bank acceptance notes with maturity periods of within one year. They were classified as financial assets at FVOCI as they were held for the purposes of both collecting contractual cash flows and selling the financial assets.

23. TRADE AND BILLS RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**2,835**	11,516
Less: ECLs of trade receivables (Note (b))	**(1,141)**	(158)
Trade receivables, net (Note (a))	**1,694**	11,358
Bills receivables (Note (c))	**4,300**	–
Less: ECLs of bills receivables	**(51)**	–
Total trade and bills receivables, net	**5,943**	11,358

Notes:

(a) At 31 December 2019 and 2018, the ageing analysis of the trade receivables after ECLs recognised based on invoice date were as follows:

	2019 RMB'000	2018 RMB'000
Up to 3 months	**132**	3,664
3 to 6 months	**–**	4,079
6 to 12 months	**1,562**	–
Over 12 months	**–**	3,615
	1,694	11,358

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 management. Based on communications with the customers, the trade receivables net of provisions as at the end of the reporting period are expected to be settled during the year ended 31 December 2020.

(b) As at 31 December 2019, loss allowance of approximately RMB1,141,000 (2018: RMB158,000) were made against the gross amount of trade receivables.

(c) Bills receivables represent unconditional orders in writing issued by customers of the Group for completed sale orders which entitle the Group to collect a sum of money from banks. The bills are non-interest bearing and have a maturity from three months to one year. As at 31 December 2019, loss allowance of approximately RMB51,000 (2018: Nil) were made against the gross amount of bills receivables.

(d) Movement in the loss allowance amount in respect of trade and bills receivables during the year is as follows:

	2019 RMB'000	2018 RMB'000
Balance at 1 January (Note 47.1(b))	**158**	104
Reversal of ECLs recognised during the year (Note 47.1(b))	**(158)**	–
ECLs recognised during the year (Note 47.1(b))	**1,192**	54
Balance at 31 December (Note 47.1(b))	**1,192**	158

24. LOAN RECEIVABLES

	2019 RMB'000	2018 RMB'000
Loans to third parties (Notes (a) and (b) and Note 47.1(b))	**65,000**	100,000
	65,000	100,000
Less: ECLs of loan receivables (Note (c) and Note 47.1(b))	**(465)**	(1,144)
	64,535	98,856

Notes:

(a) On 11 December 2018, Jiayi, one of the subsidiaries of the Group entered into a loan agreement (the "Loan Agreement 1") and a bank custodian agreement (the "Bank Custodian Agreement") with Shenzhen Sanjiu Danfeng Bailu Hotel Commonweal Co., Ltd. * ("Danfeng"), an independent third party, to provide a loan of RMB100,000,000 for a term of 3 months, which is extendable for not more than 6 months, bearing annual interest of 7%. During the year ended 31 December 2019, Danfeng extended the Loan Agreement 1 to 11 September 2019. The loan was fully repaid on 2 December 2019 with the interest income of RMB6,055,000 recognised during the year ended 31 December 2019.

(b) On 4 December 2019, Runxi Energy Technology (Shanghai) Company Limited ("Runxi Energy"), one of the subsidiaries of the Group, entered into a loan agreement (the "Loan Agreement 2") and a mortgage agreement with Beijing Fengwo Technology Company Limited* ("Beijing Fengwo"), an independent third party, to provide a loan of RMB65,000,000, interest bearing at 7% per annum for a term of 5 months. Beijing Fengwo has pledged its properties located in Beijing, the PRC, with fair value higher than the loan principal amount. On 28 February 2020, the Board approved the extension of the term of the loan to Beijing Fengwo of RMB65,000,000 to 5 December 2022 (in respect of RMB45,000,000 drawn down on 5 December 2019) and 6 December 2022 (in respect of RMB20,000,000 drawn down on 6 December 2019).

* The English names referred herein represent management's best effort at translating the Chinese names of these companies as no English names have been registered

(c) Movement in the loss allowance amount in respect of loan receivables during the year is as follows:

	2019 RMB'000	2018 RMB'000
Balance at 1 January (Note 47.1(b))	**1,144**	1,049
Reversal of ECLs on loan receivable recognised during the year (Note 47.1(b))	**(1,144)**	–
ECLs on loan receivable recognised during the year (Note 47.1(b))	**465**	95
Balance at 31 December (Note 47.1(b))	**465**	1,144

25. OTHER RECEIVABLES AND PREPAYMENTS

	2019 RMB'000	2018 RMB'000
Other receivables		
— Amount due from Warburg Energy Development Limited ("Warburg") (Note (a))	–	10,493
— Amount due from Merit Progress Investments Limited ("Merit Progress") (Note (b))	22,349	52,705
— Amount due from Shaanxi Jiatai Hengrun Mineral Resources Development Co., Ltd. * ("Shaanxi Jiatai") (Note (c))	32,480	47,618
— Amount due from Mr. Wei Xing (Note (d))	29,054	28,548
— Interest income receivable from Danfeng (Note (e))	–	403
— Interest income receivable from Beijing Fengwo (Note (e))	333	–
— Amount due from Shaanxi Mining Garner Co., Ltd. ("Shaanxi Garner") (Note (f))	–	9,502
— Deductible input value-added-tax ("VAT")	2,134	2,139
— Others (Note (g))	10,506	7,792
Subtotal	96,856	159,200
Less: Provision of impairment losses on other receivables (Notes (h), (k))	(93,227)	(92,019)
	3,629	67,181
Advances to suppliers — third parties (Note (j))	32,549	1,200
Total other receivables and prepayments, net	36,178	68,381

* The English names referred herein represent management's best effort at translating the Chinese names of these companies as no English names have been registered.

25. OTHER RECEIVABLES AND PREPAYMENTS (Continued)

Notes:

(a) In December 2015, Jiayi granted a loan of RMB100,000,000 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 while the interest receivable of RMB10,493,000 was fully settled in March 2019.

(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 (the "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$150,000,000 (equivalent to approximately RMB980,202,000). The Target Company and its subsidiaries are principally engaged in exploration, development, production and sale of the coalbed methane in the Shaanxi province, the PRC. Pursuant to the Memorandum, the Group paid US$25,000,000 (equivalent to approximately 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 the end of March 2016 (which was subsequently extended to the 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 to be registered in the register of charges of the Target Company as at the date of the consolidated financial statements was authorised for issues. Pursuant to the Memorandum and the Supplementals, 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 subsequently transferred their shares in the Target Company to Merit Progress, the remaining vendor, which became the only legal and beneficial owner of the entire issued share capital of the Target Company since then.

The acquisition did not proceed and the exclusive negotiation right was expired, and the refundable deposit was therefore reclassified to other receivables as at 31 December 2019 and 2018. As at 31 December 2019, the outstanding balance from Merit Progress was HK$25,000,000 (equivalent to approximately RMB22,349,000) (2018: HK$60,000,000 (equivalent to approximately RMB52,705,000)), of which HK$35,000,000 (equivalent to approximately RMB30,356,000) was collected by the Group during the year ended 31 December 2019. Pursuant to a letter received from Merit Progress in July 2019, Merit Progress should settle the remaining balance of HK$25,000,000 (equivalent to approximately RMB22,349,000) by the end of December 2019. No further settlement was made before 31 December 2019 and after the end of the reporting period up to the date of this report. The Directors considered that the default risk is high and thus, an impairment provision of RMB22,349,000 was recognised as the debtor had defaulted in repayment during the year ended 31 December 2019 (2018: RMB941,000).

(c) The balance as at 31 December 2018 mainly represented prepayment of RMB23,500,000 for acquisition of Shaanxi Jiarun Mining Development Co., Ltd. ("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 RMB15,768,000 to Shaanxi Jiatai, a company owned by Mr. Wei Xing, an independent third party. RMB8,268,000 was impaired for the year ended 31 December 2018 and the remaining balances had been impaired in previous years because of dispute between Shaanxi Jiatai and the Group in 2014 and 2015.

Pursuant to a set-off agreement entered between Shaanxi Jiahe and Hami Jiatai, both subsidiaries of the Company, Shaanxi Garner, Beijing Jiatai Hengrun Investment Co., Ltd.* ("Beijing Jiatai"), and Shaanxi Jiatai, all are owned by Mr. Wei Xing, and Mr. Wei Xing dated 29 April 2019 (the "Set-off Agreement"), approximately RMB15,138,000 of the balance as at 31 December 2018 was used to offset against the certain amounts payable to Mr. Wei Xing and Beijing Jiatai. Accordingly, a reversal of impairment loss of RMB15,138,000 was accounted for in the year ended 31 December 2019.

(d) 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 approximately HK$12,500,000) in 2013 and HK$20,000,000 (equivalent approximately to RMB15,621,000) in 2014 to Mr. Wei Xing in consideration of the grant of the exclusive negotiation rights.

Full provision of impairment had been provided in previous years against the receivables because of the expiration of the negotiation rights due to dispute between Mr. Wei Xing and the Group.

(e) As at 31 December 2018, the interest income receivable represented to the accrued interest from the loan granted to Danfeng in December 2018 (Note 24(a)). The interest receivable was fully settled on 2 December 2019.

As at 31 December 2019, the interest income receivable represented the accrued interests from the loan granted to Beijing Fengwo in December 2019 (Note 24(b)). Pursuant to the terms of the Loan Agreement 2, the interest amount would be settled at the expired date of the loan.

25. OTHER RECEIVABLES AND PREPAYMENTS (Continued)

Notes: (Continued)

(f) The balance as at 31 December 2018 mainly represented advances of RMB9,502,000 to Shaanxi Garner, a company owned by Mr. Wei Xing. Full provision of impairment was provided for the year ended 31 December 2018.

Pursuant to the Set-off Agreement as mentioned in Note 25(c), the balance was used to offset against certain payables to Mr. Wei Xing and Beijing Jiatai. Accordingly, a reversal of impairment loss of RMB9,502,000 was accounted for in the year ended 31 December 2019.

(g) The balances as at 31 December 2019 and 2018 mainly represented receivables from third parties, which were unsecured, interest free and had no fixed terms of repayment. An impairment provision of approximately RMB9,174,000 as at 31 December 2019 (2018: approximately RMB5,293,000) was recognised due to the debtors' default in payment.

(h) As at 31 December 2019, the provision of impairment loss on other receivables mainly included (i) Shaanxi Jiatai of RMB32,480,000 (2018: approximately RMB47,618,000); (ii) provision for the amount due from Mr. Wei Xing of approximately RMB29,054,000 (2018: RMB28,548,000); (iii) Nil (2018: advances of RMB9,502,000 to Shaanxi Garner); and (iv) amount due from Merit Progress of approximately RMB22,349,000 (2018: approximately RMB941,000).

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

(j) The balance as at 31 December 2019 mainly represented the deposits paid to suppliers for trading of coal business (2018: Nil).

(k) Movement in the loss allowance amount in respect of other receivables during the year is as follows:

	2019 RMB'000	2018 RMB'000
Balance at 1 January (Note 47.1(b))	92,019	103,359
Written off of other receivables (Note 47.1(b))	–	(30,041)
Reversal of ECLs on other receivables recognised during the year (Note 47.1(b))	(26,230)	–
ECLs recognised during the year (Note 47.1(b))	23,938	16,806
Exchange realignment (Note 47.1(b))	3,500	1,895
Balance at 31 December (Note 47.1(b))	93,227	92,019

26. CASH AND CASH EQUIVALENTS

	2019 RMB'000	2018 RMB'000
Cash on hand	3	106
Current deposits with banks	218,235	167,817
Cash and cash equivalents	218,238	167,923

26. CASH AND CASH EQUIVALENTS (Continued)

Balances can be analysed as follows:

	2019 RMB'000	2018 RMB'000
Denominated in:		
— RMB	**39,134**	10,276
— HK$	**179,023**	157,643
— United States dollars	**81**	4
	218,238	167,923

Notes:

(a) The bank deposits were interest bearing at rates based on bank deposit rates as agreed with banks. The weighted average effective interest rate on deposits ranged from 1.09% to 2.05% per annum as at 31 December 2019 (2018: 0.05% to 1.7%).

(b) Deposits denominated in RMB were deposited with banks in the PRC. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

(c) The deposits were mainly placed with reputable banks for which the credit risk is considered remote.

27. TRADE PAYABLES

Trade payables are analysed as follows:

	2019 RMB'000	2018 RMB'000
Third parties	**1,803**	7,610

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.

27. TRADE PAYABLES (Continued)

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

	2019 RMB'000	2018 RMB'000
0–90 days	–	1,290
91–180 days	–	4,247
181–365 days	–	464
Over 365 days	1,803	1,609
	1,803	7,610

28. OTHER PAYABLES AND ACCRUALS

	2019 RMB'000	2018 RMB'000
Other payables (Note (a))	4,353	30,196
Salary and welfare payables	5,649	5,805
Accrued taxes other than income tax (Note (b))	7,946	7,889
	17,948	43,890

Notes:

(a) Other payables are analysed as follows:

	2019 RMB'000	2018 RMB'000
Other payables		
— Amount due to Mr. Wei Xing (Note (i))	184	5,011
— Amount due to Beijing Jiatai (Note (ii))	130	18,380
— Third parties (Note (iii))	4,039	6,805
	4,353	30,196

(i) Amount due to Mr. Wei Xing was interest free and unsecured, and had no fixed terms of repayment. It has been offset against certain receivables from Shaanxi Jiatai and Shaanxi Garner during the year ended 31 December 2019 (see Note 25(c) and 25(f)).

(ii) Amount due to Beijing Jiatai, a company owned by Mr. Wei Xing, was interest free and unsecured, and had no fixed terms of repayment. It has been offset against certain receivables from Shaanxi Jiatai and Shaanxi Garner during the year ended 31 December 2019 (see Note 25(c) and 25(f)).

(iii) Other payables to third parties mainly included payables of equipment purchasing costs, service charges payable and advances from third parties as at 31 December 2019 and 2018.

28. OTHER PAYABLES AND ACCRUALS (Continued)

Notes: (Continued)

(b) Accrued taxes other than income tax are analysed as follows:

	2019 RMB'000	2018 RMB'000
VAT	**3,371**	3,301
Resource tax	**284**	284
Resource compensation fee	**4,269**	4,269
Others	**22**	35
	7,946	7,889

(c) The carrying amounts of other payables approximated their fair values.

29. CONTRACT LIABILITIES

	2019 RMB'000	2018 RMB'000
Contract liabilities arising from sale of goods:		
Trading of coal (Note 7)	**11,654**	–

Typical payment terms which impact on the amount of contract liabilities are as follows:

Sale of goods

As noted above, the Group receives deposit on sales of coal, which remains as a contract liability until such time as the coals are delivered to the customers.

Movements in contract liabilities

	2019 RMB'000	2018 RMB'000
Balance as at 1 January	**–**	–
Increase in contract liabilities as a result of billing in advance of trading activities	**11,654**	–
Balance at 31 December	**11,654**	–

30. BORROWINGS

	2019 RMB'000	2018 RMB'000
Loans from committees of Dongzheng and other villages (Note (a))	–	2,200

Note:

(a) The unsecured loans from the committees of Dongzheng and other villages was with interest bearing of 10% per annum. The amounts were fully settled in January 2019.

31. PROVISION FOR CLOSE DOWN, RESTORATION AND ENVIRONMENTAL COSTS

	2019 RMB'000	2018 RMB'000
At beginning of year	5,307	3,233
Acquisition of a subsidiary (Note 40)	–	1,961
Classified as held for sale (Note 33)	(2,746)	–
Unwinding of discount (Note 9)	209	113
At end of year	2,770	5,307

A provision is recognised for the present value of costs to be incurred for the restoration of the tailings dam and mining structures which has been determined by management based on their past experience and best estimate of future expenditure by discounting the expected expenditures to their net present value. However, in so far as the effect of the land and the environment from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to revision in the future. The amounts provided in relation to close down, restoration and environmental clean up costs are reviewed at least annually based upon the facts and circumstances available at the time and the provisions are remeasured accordingly.

32. DEFERRED INCOME TAX

	2019 RMB'000	2018 RMB'000
Deferred tax assets:		
— Deferred tax assets to be recovered after more than 12 months	–	2,823
Deferred tax liabilities:		
— Deferred tax liabilities to be recovered after more than 12 months	**(21,572)**	(17,938)
— Deferred tax liabilities to be recovered within 12 months	**(54)**	(54)
	(21,626)	(17,992)
Deferred tax liabilities, net	**(21,626)**	(15,169)

	2019 RMB'000	2018 RMB'000
At beginning of year	**15,169**	20,137
Acquisition of a subsidiary (Note (a)), (Note 40)	–	1,115
Classified as held for sale (Note 33)	**(2,555)**	–
Charged/(credited) to the consolidated statement of comprehensive income (Note 14)	**9,012**	(6,083)
At end of year	**21,626**	15,169

Note (a): The amount arose from the deferred liabilities of approximately RMB3,517,000 arising from the valuation surplus of the mining rights and exploration rights upon the acquisition of Shaanxi Jiahe, and offset by the deferred tax assets of approximately RMB2,402,000 arising from the tax losses of Shaanxi Jiahe.

The movements in deferred tax assets and liabilities for each of the years ended 31 December 2019 and 2018, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred tax assets

	Depreciation and others RMB'000
At 1 January 2018, 31 December 2018 and 1 January 2019	2,823
Charged to the consolidated statement of comprehensive income	(2,823)
At 31 December 2019	–

No deferred income tax assets were recognised for tax losses, provisions and accruals as at 31 December 2019 and 2018 as there is uncertainty on whether the unused tax losses, provisions and accruals can be utilised in the foreseeable future.

32. DEFERRED INCOME TAX (Continued)

The Group did not recognise deferred income tax assets of approximately RMB7,307,500 (2018: RMB6,990,500) in respect of tax losses incurred by the PRC companies, in aggregate amounting to approximately RMB29,230,000 (2018: RMB27,962,000), and the expiry dates are as follows.

	2019 RMB'000	2018 RMB'000
Expiry date		
2019	**–**	6,609,000
2020	**4,827,000**	4,827,000
2021	**7,479,000**	7,479,000
2022	**3,452,000**	3,452,000
2023	**5,595,000**	5,595,000
2024	**7,877,000**	–
Total	**29,230,000**	27,962,000

The Group did not recognise deferred tax assets in respect of tax losses of approximately RMB15,367,000 (2018: RMB16,141,000) arising in Hong Kong, BVI and Cayman Islands companies, subject to the agreement of tax bureau in relevant regions, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

The Group did not recognise deferred income tax assets of RMB256,000 (2018: RMB706,000) in respect of provisions and accruals that are available for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax liabilities

	Valuation surplus of acquired assets upon business combination RMB'000
At 1 January 2018	22,960
Acquisition of a subsidiary (Note 40)	1,115
Credited to the consolidated statement of comprehensive income (Note 14)	(6,083)
At 31 December 2018 and 1 January 2019	17,992
Classified as held for sale (Note 33)	(2,555)
Charged to the consolidated statement of comprehensive income	6,189
At 31 December 2019	21,626

33. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

On 24 December 2019, Hami Jiatai and the Purchaser entered into the Disposal Agreement, in which Hami Jiatai has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Disposal Subsidiary at the consideration of RMB10,000,000. The Directors considered that the disposal of the Disposal Subsidiary allows the Group to better optimise its business portfolio from a risk management perspective, and offers an opportunity for the Group to exit at acceptable terms and reallocate its financial and management resources to other businesses of the Group with a view to generate better return to the shareholders of the Company.

As at 31 December 2019, the Group retained the control over Shaanxi Jiahe as the entire equity interests were not yet transferred to the Purchaser. The Disposal subsidiary was classified as held for sale as at 31 December 2019 due to the fact that the Directors considered the sale is expected to complete within 12 months from the end of reporting period.

The following major classes of assets and liabilities relating to the disposal group have been classified as held for sale in the consolidated balance sheet.

	RMB'000
Cash and cash equivalents	392
Property, plant and equipment (Note 16)	15,148
Mining rights and exploration rights (Note 17)	9,320
Assets of a disposal group classified as held for sale before written down to fair value less costs to sell	24,860
Less: Fair value loss on a disposal group classified as held for sale (Note 10)	(9,191)
Assets a of disposal group classified as held for sale	15,669
Payables to third parties	368
Provision for close down, restoration and environmental costs (Note 31)	2,746
Payables to the Company and its subsidiaries	18,634
Deferred tax liabilities (Note 32)	2,555
Total liabilities of a disposal group classified as held for sale	24,303
Less: Payables to the Company and its subsidiaries	(18,634)
Liabilities of a disposal group classified as held for sale	5,669

Upon the classification of the disposal group as held for sale, a fair value loss on the disposal group of RMB9,191,000 was recognised in the other operating gains in the consolidated statement of comprehensive income from continuing operations for the year ended 31 December 2019, after measuring the disposal group at the lower of their carrying amounts and fair value less costs to sell.

The fair value less costs to sell of Shaanxi Jiahe was determined based on the consideration mutually agreed between the Purchaser and Hami Jiatai in the Disposal Agreement. This is a non-recurring fair value measurement.

Shaanxi Jiahe contributed RMB18,272,000 profit to the Group's operating loss. Together with the impairment loss detailed above, the cumulative income related to the disposal group held for sale was RMB9,081,000 for the year ended 31 December 2019.

Shaanxi Jiahe does not constitute a discontinued operation as it does not represent a major line of business or geographical area of operation.

As of the date of this report, the process in relation to the change of shareholders of Shaanxi Jiahe with the relevant government authorities has been completed (see Note 50).

34. SHARE CAPITAL AND SHARE PREMIUM

	Authorised shares of HK$0.1 each
As at 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	5,000,000,000

	Number of share (Thousands)	**Share capital** RMB'000	**Share premium** RMB'000	**Total** RMB'000
As at 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	1,620,000	137,361	668,768	806,129

35. OTHER RESERVES

	Safety fund RMB'000 Note (a)	**Maintenance fund** RMB'000 Note (b)	**Capital reserve** RMB'000 Note (c)	**Statutory Reserve** RMB'000 Note 36(a)	**Total** RMB'000
At 1 January 2018, 31 December 2018, 1 January 2019	221	1,583	(13,972)	–	(12,168)
Appropriation from accumulated losses	–	–	–	877	877
At 31 December 2019	221	1,583	(13,972)	877	(11,291)

Notes:

(a) Pursuant to certain regulations issued by the State of Administration of Work Safety, the Group is required to set aside an amount to a safety fund at RMB8 per tonne of raw ore mined. The fund can be used for improvements of safety at the mines, and not available for distribution to shareholders. Upon incurring qualifying safety expenditure, an equivalent amount is transferred from safety fund to retained earnings. There were no appropriation to the safety funds for the years ended 31 December 2019 and 2018 as no ore was mined.

(b) Pursuant to certain regulations issued by the State of Administration of Work Safety and the Ministry of Finance of the PRC, the Group is required to set aside an amount to a maintenance fund calculated based on a rate of RMB18 per tonne of raw ore mined.

The fund can be used for improvement of mining structures, and is not available for distributions to shareholders. Upon incurring qualifying capital expenditure, an equivalent amount is transferred from maintenance fund to retained earnings. There were no appropriation to the maintenance fund for the years ended 31 December 2019 and 2018 as no ore was mined.

(c) Capital reserve represented the difference between the existing book values of net assets of the group companies comprising the Group as at the date of group reorganisation (the "Reorganisation") which was recognised as part of the deemed cost of investment in subsidiaries upon the Reorganisation and the share capital of Right Source International Limited ("Right Source") and Fortune In Investments Limited ("Fortune In").

36. ACCUMULATED LOSSES

	2019 RMB'000	2018 RMB'000
Accumulated losses at beginning of year	**(349,856)**	(308,587)
Initial application of HKFRS 16 (Note 2(a)(i))	**(191)**	–
Restated accumulated losses at beginning of year	**(350,047)**	(308,587)
Loss for the year	**(16,013)**	(41,269)
Appropriation from accumulated losses (Note (a))	**(877)**	–
Accumulated losses at end of year	**(366,937)**	(349,856)

Notes:

(a) In accordance with the PRC Company Law and the PRC subsidiaries' Articles of Association, the PRC subsidiaries are required to transfer 10% of the profit after taxation determined in accordance with PRC generally accepted accounting principles to the statutory reserve until the balance reaches 50% of the paid-up capital. Such reserve can be used to reduce any losses incurred or to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital. For the year ended 31 December 2019, except three of the PRC subsidiaries has appropriated RMB877,000 (2018: Nil), others have reported losses and no appropriation to the statutory reserve (2018: Nil).

(b) The Directors did not propose any payment of dividends to the Company's shareholders for the years ended 31 December 2019 and 2018.

37. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

HKFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see Note 2(a). The accounting policies applied subsequent to the date of initial application, 1 January 2019, as disclosed in Note 4.9(A).

Nature of leasing activities (in the capacity as lessee)

The Group leases certain properties in the jurisdictions from which it operates. Under the property leases the periodic rent is fixed over the lease term.

31 December 2019	**Lease contracts Number**	**Fixed payments RMB'000**
Property leases with fixed payments	**1**	**2,138**

37. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (Continued)

RIGHT-OF-USE ASSETS

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	31 December 2019 RMB'000	1 January 2019 RMB'000
Ownership interests in leasehold land carried at depreciated cost with remaining lease term of:		
— Between 10 and 50 years (Notes 2(a)(i) and 18)	8,370	8,613
Office premises leased for own use, carried at depreciated cost (Note 2(a)(i))	2,627	4,597
	10,997	13,210

LEASE LIABILITIES

For the year ended 31 December 2019	Office premises RMB'000
Recognition of lease liabilities upon adoption of HKFRS 16 on 1 January 2019 (note 2(a)(i))	4,788
Interest expense (Notes 10 and 44(b))	131
Lease payments (Note 44(b))	(2,138)
Foreign exchange movements (Note 44(b))	2
	2,783

Future lease payments are due as follows:

As at 31 December 2019	Minimum lease payments RMB'000	Interest RMB'000	Present value RMB'000
Not later than one year	2,138	63	2,075
Later than one year and not later than two years	713	5	708
Later than two years and not later than five years	–	–	–
Later than five years	–	–	–
	2,851	68	2,783

37. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (Continued)

LEASE LIABILITIES (Continued)

As at 1 January 2019	Minimum lease payments RMB'000	Interest RMB'000	Present value RMB'000
Not later than one year	2,138	133	2,005
Later than one year and not later than two years	2,138	63	2,075
Later than two years and not later than five years	713	5	708
Later than five years	–	–	–
	4,989	201	4,788

Note: The Group has initially applied HKFRS 16 using the cumulative effect approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated. See Note 2(a) for further details about transition.

The present value of future lease payments are analysed as:

	31 December 2019 RMB'000	1 January 2019 RMB'000
Current liabilities	**2,075**	2,005
Non-current liabilities	**708**	2,783
	2,783	4,788

	2019 RMB'000
Short term lease expense (Note 10)	**359**
Aggregate undiscounted commitments for short term leases	**42**

37. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (Continued)

Operating leases — lessee

The Group leases certain office premises in Hong Kong and the PRC. The terms of property leases vary from city to city, although they all tend to be tenant repairing with rent reviews every 1 to 3 years. The lease payments recognised as an expenses are as follows:

The lease payments recognised as an expenses are as follows:

	2019 RMB'000	2018 RMB'000
Minimum leases payments	359	3,178

The total future minimum lease payments are due as follows:

	2019 RMB'000	2018 RMB'000
Not later than one year	42	2,101
Later than one year and no later than five years	–	2,801
	42	4,902

Operating leases — lessor

Certain properties may have been vacated prior to the end of the lease term. Where possible the Group always endeavours to sub-lease such vacant space on short-term lets.

The minimum rent receivables under non-cancellable operating leases are as follows:

	2019 RMB'000	2018 RMB'000
Within one year	–	1,267
Later than one year and not later than five years	–	3,600
	–	4,867

38. BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY

	Note	2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**961**	1,180
Right-of-use assets		**2,627**	–
Investments in subsidiaries	39	**124,798**	126,647
Total non-current assets		**128,386**	127,827
Current assets			
Other receivables and prepayments from third parties		**892**	51,695
Other receivables and prepayments from subsidiaries		**96,320**	97,018
Cash and cash equivalents		**178,608**	154,697
Total current assets		**275,820**	303,410
Total assets		**404,206**	431,237
LIABILITIES			
Current liabilities			
Other payables		**2,357**	1,818
Other payable to a subsidiary		**149**	147
Lease liabilities		**2,075**	–
Total current liabilities		**4,581**	1,965
Non-current liabilities			
Lease liabilities		**708**	–
Total liabilities		**5,289**	1,965
EQUITY			
Share capital	34	**137,361**	137,361
Share premium	34	**668,768**	668,768
Accumulated losses	(a)	**(407,212)**	(376,857)
Total equity		**398,917**	429,272
Total equity and liabilities		**404,206**	431,237

38. BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY (Continued)

The balance sheet of the Company was approved by the Board on 9 April 2020 and was signed on its behalf.

Xiang Siying	**Zhou Jianzhong**
Director	*Director*

Note (a)

Reserves movements of the Company

	Accumulated losses RMB'000
At 1 January 2018	(325,338)
Loss for the year	(51,519)
At 31 December 2018	(376,857)
Impact on initial application of HKFRS 16	(191)
At 1 January 2019, as restated	(377,048)
Loss for the year	(30,164)
At 31 December 2019	(407,212)

39. INFORMATION ABOUT PRINCIPAL SUBSIDIARIES

The Group's principal subsidiaries at 31 December 2019 are set out below. Unless otherwise stated, the proportion of ownership interests held equals the voting rights held by the Group.

Company name	Country/place of incorporation	Issued and paid-up capital/ registered capital	Interest held	Principal activities and place of operation
Right Source	The BVI	US$100	100% directly held	Investment holdings, the BVI
Fortune In	The BVI	US$100	100% directly held	Investment holdings, the BVI
Surplus Plan Limited ("Surplus Plan")	Hong Kong	HK$1	100% directly held	Investment holdings, Hong Kong
Realty Investment (Group) Limited ("Realty Investment")	Hong Kong	HK$100	100% indirectly held	Investment holdings, Hong Kong
滙力潤策投資諮詢(北京)有限公司 Investment Consultation (Beijing) Limited ("Huili Runce")#	Beijing, the PRC	HK$10,000,000	100% indirectly held	Management and investment consultation, the PRC
潤羲能源技術(上海)有限公司 ("Runxi Energy")#	Shanghai, the PRC	Nil	100% indirectly held	Provision of consultancy services, the PRC
哈密市錦華礦產資源開發有限責任公司 ("Hami Jinhua")#	Hami, the PRC	RMB100,000,000	95% indirectly held	Mining, ore processing and sales of lead and zinc metal products, the PRC
哈密市佳泰礦產資源開發有限責任公司 ("Hami Jiatai")△	Hami, the PRC	RMB10,000,000	95% indirectly held	Mining, ore processing and sales of nickel and copper metal products, the PRC

39. INFORMATION ABOUT PRINCIPAL SUBSIDIARIES (Continued)

Company name	Country/place of incorporation	Issued and paid-up capital/ registered capital	Interest held	Principal activities and place of operation
Jia Zhao Ventures Limited ("Jiazhao")	The BVI	US$2	100% directly held	Investment holdings, the BVI
Business Factoring (China) Limited ("Business Factoring")	Hong Kong	HK$40,000,000	100% indirectly held	Investment holdings, Hong Kong
嘉屹融資租賃有限公司 ("Jiayi")#	Tianjin, the PRC	RMB200,000,000	100% indirectly held	Financial services, the PRC
永和縣長實工程服務有限公司 ("Changshi")∆	Linfen, the PRC	RMB10,000,000	100% indirectly held	Engineering services, the PRC
陝西佳合礦業開發有限公司 ("Shaanxi Jiahe")∆	Shaanxi, the PRC	RMB10,000,000	95% indirectly held	Mining, ore processing and sales of gold metal products, the PRC
長治潤策貿易有限公司 ("Changzhi Runce")∆	Shanxi, the PRC	RMB10,000,000	100% indirectly held	Trading of coal, the PRC
古交市潤策貿易有限公司 ("Gujiao Runce")∆	Shanxi, the PRC	RMB10,000,000	90.1% indirectly held	Trading of coal, the PRC

The total non-controlling interests in respect of Hami Jinhua, Hami Jiatai, Shaanxi Jiahe and Gujiao Runce are not material.

The companies are wholly owned foreign enterprise under the Law of The Peoples Republic of China on Foreign-Capital Enterprises of the PRC.

∆ The companies are domestic-funded enterprise under the law of the PRC.

40. BUSINESS COMBINATIONS

Summary of acquisition of Shaanxi Jiahe

In December 2015, the Group and Xiaoyi Dajieshan Coal Industry Company Limited ("Xiaoyi Dajieshan") entered into an agreement, pursuant to which (i) Hami Jiatai sold 100% equity interests in Shaanxi Jiahe to Xiaoyi Dajieshan for a consideration of RMB48,000,000; and (ii) payables of RMB9,400,000 due to the Company and its subsidiaries originally by Shaanxi Jiahe were assumed by Xiaoyi Dajieshan (the "Disposal").

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.

As Xiaoyi Dajieshan had failed to settle the remaining balance of the consideration for the disposal in the amount of RMB52,600,000 despite of 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 recover the outstanding consideration for the disposal of Shaanxi Jiahe 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 interests 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 (the "Settlement").

As the relevant regulatory filings with the local commerce bureau in relation to the Disposal had yet to be completed, no further filing with the local regulatory bodies was 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 addition, the management accounts of Shaanxi Jiahe included significant other receivables of approximately RMB17,770,000 due from, and other payables due to, same group of certain third parties. As at the date of acquisition, management assumed that Shaanxi Jiahe could fully collect all other receivables and would settle the other payables in full in the foreseeable future. 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. As at 31 December 2018, as the Company was still in the process of negotiating and could not finalise the terms of the set off arrangement, the expected credit loss of the aforesaid receivable had been fully provided for.

40. BUSINESS COMBINATIONS (Continued)

Summary of acquisition of Shaanxi Jiahe (Continued)

The following table summarises the consideration, the amounts of the assets acquired and liabilities assumed 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 (Note 16)	14,296
Mining rights and exploration rights (Note 17)	15,320
Other receivables	18,231
Other long-term assets	349
Payables to third parties	(23,678)
Provision for close down, restoration and environmental costs (Note 31)	(1,961)
Payables to the Company and its subsidiaries	(9,400)
Deferred tax liabilities (Note 32)	(1,115)
Total identifiable net assets	12,044
Goodwill (Note 19)	1,115

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

The fair value of other receivables amounted to RMB18,231,000, which is equal to the gross amount of these receivables as at date of acquisition. None of these receivables have been impaired as at date of acquisition. Among the other receivables acquired as at date of acquisition, approximately RMB17,770,000 was impaired as at 31 December 2018.

The goodwill of RMB1,115,000, which is not deductible for tax purposes, comprises the expected future growth of the mining business to diversify the revenue stream of the existing business of the Group.

The goodwill arising from business combination was fully impaired as at 31 December 2018 (see Note 19).

40. BUSINESS COMBINATIONS (Continued)

Summary of acquisition of Shaanxi Jiahe (Continued)

Shaanxi Jiahe did not generate revenue and contributed net loss of RMB30,875,000 to the Group from the date of acquisition to 31 December 2018. Had the business combination taken place on 1 January 2018, no increase in revenue and loss of the Group for the year ended 31 December 2018 would have been the same. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is it intended to be a projection of future performance.

The acquisition-related costs of RMB296,000 have been expensed and were included in administrative expenses for the year ended 31 December 2018.

41. RELATED PARTY TRANSACTIONS

(a) The Group's management is of the view that the following persons are related parties of the Group during the years ended 31 December 2018 and 2019:

Name of related parties	Relationship with the Group
Mr. Guo Jianzhong	An ultimate shareholder of the Company who holds 28.08% equity interest in the Company.
China Huarong Asset Management Co., Ltd.	An ultimate shareholder of the Company which holds 12.35% equity interest in the Company.

(b) Key management compensation

Included in staff costs are key management personnel compensation and comprises the following categories:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Basic salaries, allowances and other benefits	**4,031**	4,011
Contributions to pension plan	**66**	15
	4,097	4,026

42. MATERIAL INTEREST OF DIRECTORS IN TRANSACTIONS

Other than the transactions with related party identified according to HKAS 24, the Company would like to disclose the following transactions and balances with Warburg as the Company's executive directors, Mr. Li Xiaobin and Mr. Liu Huijie, also have been the executive directors of Warburg during the years ended 31 December 2018 and 2019:

(a) Transactions with Warburg

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Revenue		
— Interest income from Warburg	**–**	349
	–	349

(b) Balance with Warburg

	2019	2018
	RMB'000	RMB'000
Loan receivables and other receivables		
— Loan and interest receivables due from Warburg	**–**	10,493
	–	10,493

43. CONTINGENT LIABILITIES

The Group had contingent liabilities at 31 December 2019 in respect of:

(a) Environmental contingencies

Historically, the Group has not incurred any significant expenditure for environmental remediation. Save as disclosed in Note 31, the Group is presently not involved in any environmental remediation and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislations, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, may move further towards the adoption of more stringent environmental standards.

Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include (i) the exact nature and extent of the contamination at various sites including but not limited to mines and land development areas, whether operating, closed or sold; (ii) the extent of required cleanup efforts; (iii) varying costs of alternative remediation strategies; (iv) changes in environmental remediation requirements; and (v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under future environmental legislations cannot reasonably be estimated at present, and could be material.

(b) Insurance

The Group carries commercial insurance for its employees who work underground for personal injury. However, such insurance may not be sufficient to cover the potential future losses. While the effect of under-insurance on future incidents cannot be reasonably assessed at present, management believes this can have a material adverse impact on the results of operations or the financial position of the Group.

44. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash and cash equivalents comprise:

	2019 **RMB'000**	2018 RMB'000
Cash on hand	**3**	106
Current deposits with banks	**218,235**	167,817
	218,238	167,923

44. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Reconciliation of liabilities arising from financing activities:

	Lease liabilities (Note 37) RMB'000	**Borrowings (Note 30)** RMB'000
At 1 January 2018	–	1,000
Changes from cash flows:		
Proceeds from borrowings	–	1,200
Interest paid	–	(175)
Total changes from financing cash flows	–	1,025
Other changes		
Interest expenses	–	175
Total other changes	–	175
At 31 December 2018	–	2,200
Restated balance as at 1 January 2019, upon adoption of HKFRS 16	4,788	2,200
Changes from cash flows:		
Repayment of principal portion of lease liabilities	(2,007)	–
Repayment of borrowings	–	(2,200)
Interest paid	(131)	–
Total changes from financing cash flows (Note 37)	(2,138)	(2,200)
Other changes		
Exchange realignment (Note 37)	2	–
Interest expenses (Notes 9 and 37)	131	–
Total other changes	133	–
At 31 December 2019	2,783	–

45. CAPITAL COMMITMENTS

There is no contracted commitments for capital expenditure as at 31 December 2019 and 2018.

46. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2019 and 2018 are categorised as follows:

	2019 RMB'000	2018 RMB'000
Financial assets		
Financial assets measured at amortised cost (including cash and cash equivalents)	**292,592**	347,971
Financial assets at FVOCI	**–**	2,300
Financial liabilities		
Financial liabilities measured at amortised cost	**17,358**	51,118

(a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade and bills receivables, loan receivables, other receivables, restricted cash at banks and cash and cash equivalents, trade and other payables and accruals, lease liabilities and borrowings.

Due to their short term nature, the carrying value of trade and bills receivables, loan receivables, other receivables, restricted cash at banks and cash and cash equivalents, trade and other payables and accruals, lease liabilities and borrowings approximate fair value.

(b) Financial instruments measured at fair value

The following table illustrates the fair value hierarchy of the Group's financial instruments:

	Fair value measurement using			
	Quoted price in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2)** RMB'000	**Significant unobservable inputs (Level 3)** RMB'000	**Total** RMB'000
As at 31 December 2018				
— Financial assets at FVOCI	–	2,300	–	2,300

The fair value of bills receivables was calculated as the present value of the estimated future cash flows based on discounted cash flows.

During the year ended 31 December 2018, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

47. FINANCIAL RISK MANAGEMENT

47.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk, liquidity risk and concentration risk. The Group historically has not used derivative instruments for hedging or trading purposes.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to HK$. Foreign exchange risk arises from recognised assets and liabilities in foreign operations. The Group does not hedge against any fluctuation in foreign currency.

At 31 December 2019, if RMB had weakened/strengthened by 1% against HK$ with all other variables held constant, loss for the year would have been RMB1,995,000 (2018: RMB2,095,000) lower/higher, mainly as a result of foreign exchange gains/losses on translation of HK$ denominated cash and cash equivalents, other receivables and other payables.

(ii) Interest rate risk

The Group's interest rate risk arises from bank deposits and cash at banks which are bearing floating interest rates. Floating interest rates cause the Group cash flow interest rate risk. The Group also had borrowings with fixed interest rate for the years ended 31 December 2019 and 2018 which exposed the Group to fair value interest rate risk. For the years ended 31 December 2019 and 2018, management of the Group is of the opinion that relevant cash flow interest rate risks were not material to the Group and hence sensitivity analysis of effects of reasonably possible changes in the relevant interest rates is not provided.

(b) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's credit risk is primarily attributable to its trade and bills receivables, loan receivables, other receivables, restricted cash at banks and cash and cash equivalents. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

In respect of restricted cash at banks and cash and cash equivalents, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, expected credit loss rates of restricted cash at banks and cash and cash equivalents are assessed to be close to zero and no provision was made as of 31 December 2018 and 31 December 2019.

The Group applies the simplified approach to provide for ECLs prescribed by HKFRS 9, which permits the use of the lifetime ECLs provision for all trade and bills receivables. To measure the ECLs, trade and bills receivables have been grouped based on shared credit risk characteristics. The Group has performed historical analysis and identified the key economic variables impacting credit risk and ECLs. It considers available reasonable and supportive forwarding-looking information.

47. FINANCIAL RISK MANAGEMENT (Continued)

47.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

As at 31 December 2019, trade and bills receivables that are individually significant have been separately assessed for impairment. The Group makes periodic assessments on the recoverability of the receivables based on the background and reputation of the customers, historical settlement records and past experience.

Trade and bills receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period greater than 365 days past due.

Impairment losses on trade and bills receivables are presented as net impairment losses within operating results. Subsequent recoveries of amounts previously written off are credited against the same line item.

Loan receivables of the Group at amortised cost are considered to have low credit risk, and the loss allowances recognised during the year was therefore limited to 12-month ECLs.

The credit quality of other receivables has been assessed with reference to historical information about the counterparties default rate and financial position of the counterparties.

The loss allowances as at 31 December 2019 and 2018 was determined for trade and bills receivables, loan receivables and other receivables as follow:

As at 31 December 2019	Trade and bill receivables	Loan receivables	Other receivables	Total
Expected credit loss rate (%)	**16.71%**	**0.72%**	**98.42%**	
Gross carrying amount of trade and bill receivables (RMB'000)	**7,135**	**–**	**–**	**7,135**
Gross carrying amount of loan receivables (RMB'000)	**–**	**65,000**	**–**	**65,000**
Gross carrying amount of other receivables (RMB'000)	**–**	**–**	**94,722**	**94,722**

47. FINANCIAL RISK MANAGEMENT (Continued)

47.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

As at 31 December 2018	Trade receivables	Loan receivables	Other receivables	Total
Expected credit loss rate (%)	1.37%	1.14%	58.59%	
Gross carrying amount of trade receivables (RMB'000)	11,516	–	–	11,516
Gross carrying amount of loan receivables (RMB'000)	–	100,000	–	100,000
Gross carrying amount of other receivables (RMB'000)	–	–	157,061	157,061

Movement in the loss allowances account in respect of trade and bills receivables, loan receivables and other receivables during the year is as follow:

	Trade and bills receivables (Note 23(d)) RMB'000	**Loan receivables** (Note 24(c)) RMB'000	**Other receivables** (Note 25(k)) RMB'000	**Total** RMB'000
Balance at 1 January 2018	104	1,049	103,359	104,512
Written off of other receivables	–	–	(30,041)	(30,041)
ECLs on financial assets	54	95	16,806	16,955
Exchange realignment	–	–	1,895	1,895
Balance at 31 December 2018 and 1 January 2019	158	1,144	92,019	93,321
Reversal of ECLs on financial assets	(158)	(1,144)	(26,230)	(27,532)
ECLs on financial assets	1,192	465	23,938	25,595
Exchange realignment	–	–	3,500	3,500
Balance at 31 December 2019	1,192	465	93,227	94,884

47. FINANCIAL RISK MANAGEMENT (Continued)

47.1 Financial risk factors (Continued)

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Less than 1 year or on demand RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
At 31 December 2019						
Trade and other payables	**11,805**	**11,805**	**11,805**	**–**	**–**	**–**
Lease liabilities	**2,783**	**2,851**	**2,138**	**713**	**–**	**–**
Provision for close down, restoration and environmental costs	**2,770**	**3,393**	**–**	**–**	**–**	**3,393**
	17,358	**18,049**	**13,493**	**713**	**–**	**3,393**
At 31 December 2018						
Trade and other payables	43,611	43,611	43,611	–	–	–
Borrowings	2,200	2,205	2,205	–	–	–
Provision for close down, restoration and environmental costs	5,307	6,538	–	–	–	6,538
	51,118	52,354	45,816	–	–	6,538

47. FINANCIAL RISK MANAGEMENT (Continued)

47.1 Financial risk factors (Continued)

(d) Concentration risk

Revenue of the Group is principally derived from trading of coal business, engineering services and financial services in 2019 and 2018.

The revenue of each business segment was derived from:

	For the year ended 31 December			
	2019		2018	
	Concentration of revenue	**Number of customers**	Concentration of revenue	Number of customers
Trading business	**66%**	**5**	–	–
Financial services	**100%**	**2**	100%	3
Engineering services	**–**	**–**	94%	3

In the event that these major customers terminate the business relationship with the Group and the Group fails to find new customers, it may have a material adverse impact on the Group's financial position and results of operations.

48. SIGNIFICANT NON-CASH TRANSACTIONS

Pursuant to the Set-off Agreement, other receivables from Shaanxi Jiatai and Shaanxi Garner in aggregate amounts of approximately RMB24,640,000 were used to offset against certain payables to Mr. Wei Xing and Beijing Jiatai during the year ended 31 December 2019 (see Note 25(c), 25(f) and 28(a)).

49. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to:

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders; and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

49. CAPITAL RISK MANAGEMENT (Continued)

Consistent with others in the industry, the Group monitors capital on the basis of the following gearing ratio:

The gearing ratios at 31 December 2019 and 2018 were as follows:

	2019 RMB'000	2018 RMB'000
Total borrowings (Note 30)	–	2,200
Less: cash and cash equivalents (Note 26)	(218,238)	(167,923)
Net cash position	(218,238)	(165,723)
Total equity	425,314	440,741
Total capital	207,076	275,018
Gearing ratio	–	–

50. EVENTS AFTER THE REPORTING DATE

On 6 January 2020, the Group entered into two loan agreements with two independent third parties to provide loans of RMB6,000,000 each. Both loans are interest bearing at 7% per annum for a term of 36 months.

On 17 January 2020, the Group entered into a loan agreement with an independent third party to provide loan of RMB6,000,000, bearing an interest rate at 7% per annum for a term of 6 months.

On 28 February 2020, the Board approved the extension of the term of the loan to Beijing Fengwo of RMB65,000,000 to 5 December 2022 (in respect of RMB45,000,000 drawn down on 5 December 2019) and 6 December 2022 (in respect of RMB20,000,000 drawn down on 6 December 2019).

On 23 March 2020, the Company completed the process in relation to the change of shareholders of Shaanxi Jiahe with the relevant authorities, and disposal of Shaanxi Jiahe was then completed.

Since January 2020, the outbreak of Novel Coronavirus ("COVID-19") has impact on the global business environment. Up to the date of this report, COVID-19 has not caused material financial difficulties to the Group. Pending the development and spread of COVID-19 subsequent to the date of this report, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of this report. The Group will keep continuous attention on the situation of the COVID-19 and react actively to its impact on the financial position and operating results of the Group.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is set out below:

RESULTS

	Year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**93,572**	32,828	22,845	25,588	3,195
LOSS BEFORE INCOME TAX	**(4,953)**	(48,225)	(46,357)	(34,015)	(103,741)
Income tax (expense)/credit	**(10,283)**	4,695	(1,829)	(1,254)	(608)
LOSS FOR THE YEAR	**(15,236)**	(43,530)	(48,186)	(35,269)	(104,349)
Attributable to:					
Equity holders of the Company	**(16,013)**	(41,269)	(46,129)	(34,615)	(101,808)
Non-controlling interests	**777**	(2,261)	(2,057)	(654)	(2,541)
	(15,236)	(43,530)	(48,186)	(35,269)	(104,349)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**494,170**	522,964	555,205	936,566	625,051
TOTAL LIABILITIES	**(68,856)**	(82,223)	(64,549)	(392,667)	(149,311)
NON-CONTROLLING INTERESTS	**2,587**	3,364	1,080	(977)	(1,631)
	427,901	444,105	491,736	542,922	474,109