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)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

Reference is made to the announcement of Huili Resources (Group) Limited (the "**Company**", together with its subsidiaries, the "**Group**") in relation to the annual results of the Group for the year ended 31 December 2021 (the "**Annual Results**") dated 31 March 2022 (the "**Announcement**"). Capitalised terms used herein, unless otherwise defined, shall have the same meanings as those defined in the Announcement.

The Board would like to provide the following additional information in relation to its financial services business.

BUSINESS MODEL AND SOURCE OF FUNDS

The Group engages in the provision of its financial services business through itself in Hong Kong and its indirect wholly-owned subsidiary, Runxi Energy Technology (Shanghai) Company Limited ("**Runxi Energy**") in the People's Republic of China (the "**PRC**") with the aim of increasing the return of capital of the Group.

The primary goal of the Group's financial services business is to utilise the Group's idle cash to generate additional revenue for the shareholders of the Company (the "**Shareholders**") under acceptable and controllable levels of risk. In order to minimise the risks of the financial services business, the Group currently restricts its source of funds for the provision of loans to its internal idle cash and does not have any plans to expand the source of funds for the financial services business to liability financing.

SOURCE OF CLIENTS

The Group currently provides loans to a limited number of corporate clients only and its client base is mainly from (i) the coal trading industry which the Group is currently engaged in and has more access to such clients; and (ii) investment holding companies since the Group is inclined to request for security for loans, which is normally property.

Such clients are generally solicited through (i) the assignment of a dedicated person (the "**Dedicated Person**") to engage clients; (ii) through direct approaches from clients; and (iii) referral from existing clients.

INTERNAL CONTROL MEASURES

In addition to minimising the risks of the financial services business by restricting the Group's source of funds to its internal idle cash, the Group has appointed designated personnel to operate and oversee the financial services business, which includes (i) the Dedicated Person who is responsible for running the financial services business; (ii) the senior management personnel in charge of the finance functions of the Group (the "**Finance Management Team**") whom are responsible for the supervision of the financial services business; and (iii) the board (the "**Board**") of directors (the "**Director(s)**") of the Company whom are responsible for overseeing the financial services business. The Group also engages a PRC legal adviser to assist in reviewing the loan documents, and a HK legal adviser to advise on impact of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited on the loan transactions.

The designated personnel whom operate and oversee the financial services business have vast experiences and knowledge in the industry. The Dedicated Person is a senior financial management of the Group's financial service business and holds a bachelor's degree in international finance and a master's degree in finance, and has more than 10 years' experience in corporate finance and the investment industry. The Finance Management Team, which includes the general manager of the Runxi Energy, chief financial officer of the Group and the Company's financial controller and the company secretary, also possesses over 10 years of experience in the corporate industry and the field of accounting and auditing. Additionally, over half of the members of the Board also possess extensive experience in corporate financing, investments and banking and financial advisory services.

After the Group has identified any potential corporate clients, the Group conducts credit risk assessments on such potential corporate clients before entering into formal business relationships. The Group's credit risk assessment procedures include:

(i) background checks on the potential client and the shareholder(s) of the potential client (as the Group's client base includes corporate clients only);

(ii) understanding the business operations of the potential client;

(iii) reviewing the corporate documents of the potential client including but not limited to the constitution documents and financial statements;

(iv) assessing the repayment ability of the potential client through accessing its leverage level, liquidity condition, the value of the pledge (if any), etc; and

(v) in case of security being provided as collateral for the loan, assessing the validity and value of the security.

Upon the satisfaction of the credit risk assessment, the Group will determine the loan terms, including but not limited to interest rate, loan tenure, collateral and guarantee. The loan terms are proposed by the Dedicated Person, and subject to the review of the Finance Management Team and the approval of the Board.

In addition, the finance manager of Runxi Energy (the "**Finance Manager**") and the Dedicated Person are responsible for the on-going monitoring of the status of the loans. The Finance Management Team continuously obtains updates on the status of all the loans granted by the Group on a regular basis and assesses the sufficiency of the collateral, through obtaining updated information on recent transactions involving comparable collaterals. On a semi-annual basis, the Finance Management Team will also provide updates to the Board on the status of all the loans granted by the Company and the credit exposure risks of the loan portfolio.

In case of delinquent loans, the Finance Management Team will immediately notify the Board, provide regular updates on the progress of the collection of the outstanding balance of the loans, and request the Finance Manager and the Dedicated Person to commence procedures to recover the outstanding balance.

LOAN PORTFOLIO

The Group strives to maintain a balance between return and risk of its loan portfolio by either limiting the size of the loan or requesting collateral for the loan. As at 31 December 2021, the Group had loan balances (the "**Loan Balances**") with the below clients:

Borrower	Original Principal *(RMB'000)*	Expected credit losses *(RMB'000)*	Maturity date	Provision of Security	Provision of Guarantee
1	65,000	1,903	5 December 2022	A property in Beijing	No
2	6,000	177	6 January 2023	No	No
3	6,000	177	8 January 2023	No	No
4 *(note (b))*	18,457	540	31 December 2022	No	Yes
Total	95,457	2,797			

Notes:

(a) None of the Loan Balances have been written off nor impaired, except for expected credit losses (the "**ECLs**") made in accordance with HKFRS 9.

(b) The Group entered into Loan 4 with another independent third party (the "**Borrower**"), and a pledge agreement and a guarantee agreement with an individual (the "**Guarantor**"), to provide Loan 4 of HK$22,600,000 (equivalent to approximately RMB18,457,000), interest bearing at 4.5% per annum for a term of 36 months, and may be extended for 12 months, and may thereafter be further extended for 12 months. The total term of Loan 4 after extension shall not be longer than 60 months. The Guarantor has provided a personal guarantee to guarantee Loan 4, and proposed to pledge a property located in Shanghai, the PRC, with fair value higher than the principal amount of Loan 4. Since the Guarantor has not completed the registration of the pledge, the Borrower renegotiated the terms of Loan 4 with the Group. On 3 March 2022, the Group entered into a supplemental loan agreement with the Borrower pursuant to which the Borrower agreed to (1) early settle United States dollars ("**US$**") 1,000,000 (equivalent to approximately HK$7,800,000) on or before 10 March 2022; (2) the remaining outstanding of HK$14,800,000 shall be interest bearing at 5% p.a. after 10 March 2022; (3) the extension option of Loan 4 shall be removed; and (4) the maturity date of Loan 4 shall be shortened to 31 December 2022. The Borrower repaid US$1,000,000 (equivalent to approximately US$7,800,000) of Loan 4 on 7 March 2022 and the remaining HK$14,800,000 loan is interest bearing at 5% per annum after 10 March 2022 and shall mature on 31 December 2022.

(c) To the best of the Directors' knowledge, having made all reasonable enquiries, all of the borrowers are independent of and not connected with the Company or any of its connected persons.

RECOVERABILITY AND IMPAIRMENT ASSESSMENT OF THE GROUP'S LOAN PORTFOLIO

As at 31 December 2021, none of the Loan Balances has been written off nor impaired, except for ECLs made in accordance with HKFRS 9.

The Company measures ECLs 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. When estimating ECLs, the Company generally engages an independent valuer (the "**Valuer**") to estimate the amount of ECLs and measures the loss allowances 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.

As at 31 December 2021, based on the relevant and available information, including but not limited to past repayment records and the value of the security provided, the Company was of the opinion that there was no significant increase in credit risk since origination and measured the loss allowances based on 12-month ECLs, and recognised ECLs in profit and loss with reference to the results concluded by the Valuer.

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. When determining whether the credit risk of a financial asset has increased significantly since initial recognition, 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.

As at 31 December 2021, based on the value of the security provided and the repayment history of the borrowers of the Loan Balances, the Company was of the opinion that there was no increased significantly since initial recognition, and none of the Loan Balances were written off.

FUTURE PROSPECTS

The Company considers that the financial services business would be a supplementary source of revenue for the Group. The Company is of the view that since the deposit rates offered by licensed banks in Hong Kong and the PRC are minimal, the Board can leverage such opportunities with its financial services business and increase the return of capital of the Group. The Board further considers that it is in the best interests of the Company and the Shareholders as a whole to utilise the Group's idle cash to generate additional revenue for the Shareholders under a business model with acceptable and controllable levels of risks.

The financial services business will only be conducted after careful consideration of the working capital needs of the Group's core business. The Group aims to enhance its return on idle cash, diversify and strengthen the Group's revenue streams and to maximise returns to the Shareholders. To minimise the business risks from the financial services business, the Group's client base currently only includes corporate clients and the Group does not have any intention to the expand its provision of loans to individuals. To further minimise the risks of the financial services business, the Group currently restricts the source of fund for the provision of loans to its internal idle cash and does not have any plans to expand the source of funds for the financial services business to liability financing.

The Group is actively exploring potential opportunities to fully utilise the Group's expertise and network in the industry through widening the scope of its coal business. This is part of the Group's plan to strengthen its diverse businesses with the aim of broadening its income streams and minimising the impact of the adverse effects of the commodities market on the Group's overall business performance. This strategy is expected to improve the Group's operating conditions, optimise business structure, exploit new earnings growth points, and drive sustainable and quality development of the Group's business.

The Group will also continue to explore the possibility of developing other quality projects or opportunities with promising prospects to formulate a business configuration with its existing segments and to diversify the Group's businesses in its business segments and locations. The Company will do its best to carry out more active operations and explore more opportunities for potential acquisitions to capture market opportunities in the PRC and to diversify the Group's business and broaden its revenue base with the ultimate aim of bringing greater value to its Shareholders in the long run.

Save as disclosed above, all other information set out in the Announcement remains unchanged.

By order of the Board
Huili Resources (Group) Limited
Cui Yazhou
Chairman

Hong Kong, 22 July 2022

As at the date of this announcement, the executive Directors are Mr. Cui Yazhou (Chairman), Ms. Wang Qian, Mr. Ye Xin and Mr. Zhou Jianzhong; the non-executive Director is Mr. Cao Ye; and the independent non-executive Directors are Mr. Chan Ping Kuen, Ms. Xiang Siying and Ms. Huang Mei.