HUILI GROUP

滙力集團

INTERIM

2023

REPORT

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

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Cui Yazhou *(Chairman)*
Mr. Ye Xin
Ms. Wang Qian
Mr. Zhou Jianzhong

Non-Executive Director

Mr. Cao Ye

Independent Non-Executive Directors

Ms. Xiang Siying
Ms. Huang Mei
Mr. Chan Ping Kuen

AUDIT COMMITTEE

Ms. Huang Mei *(Chairlady)*
Ms. Xiang Siying
Mr. Chan Ping Kuen

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. Cui Yazhou
Mr. Yau Hong Chun

COMPANY SECRETARY

Mr. Yau Hong Chun

INDEPENDENT AUDITOR

ZHONGHUI ANDA CPA Limited
23/F., Tower 2
Enterprise Square Five
38 Wang Chiu Road
Kowloon Bay
Hong Kong

LEGAL ADVISERS

As to laws of the Hong Kong Special Administrative Region ("Hong Kong") of the People's Republic of China (the "PRC")
Michael Li & Co.

As to laws of the PRC
King & Wood Mallesons

REGISTERED OFFICE

Cricket Square Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Corporate Information (Continued)

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
Unit No. 4, 23rd Floor
Overseas Trust Bank Building
No. 160 Gloucester Road
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
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

COMPANY WEBSITE

www.huili.hk

STOCK CODE

1303

Mines Information

MINERAL RESOURCES AS OF 30 JUNE 2023(Note)

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 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

ORE RESERVES AS OF 30 JUNE 2023(Note)

Project name	Reserve classification	Ore 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	Reserve classification	Ore 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: The reports on mineral resources and ore reserves of the Project No. 20 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. The rounding of figures may result in minor computational discrepancies. Such discrepancies are deemed to be insignificant.

Mines Information (Continued)

MINING PERMITS

Project name	Type of ore under mining	Mining area (km^2)	Permit expiry date (month/year)
Project No. 20	Cu, Ni	0.22	October 2019 (Note)
Project Baiganhu	Pb, Zn	0.96	September 2021 (Note)

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

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

CAPITAL EXPENDITURE AND EXPLORATION EXPENSES

The Group did not carry out any ore production during the six months ended 30 June 2023 and 2022.

For the six months ended 30 June 2023 and 2022, no capital expenditure was incurred for the development and mining activities.

For the six months ended 30 June 2023 and 2022, the Group did not charge any exploration expenses to the interim condensed consolidated statement of comprehensive income.

Interim Condensed Consolidated Statement of Comprehensive Income

	Note	Six months ended 30 June 2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Revenue	6	**1,334,580**	780,204
Cost of sales		**(1,239,425)**	(750,646)
Gross profit		**95,155**	29,558
Administrative expenses		**(17,298)**	(9,532)
Other operating gains/(losses)		**636**	(6,410)
Other gains – net	7	**15,401**	7,627
Fair value changes of financial assets at fair value through profit or loss ("FVTPL")		**(157)**	1,290
Gain on bargain purchases on acquisition of a subsidiary	19(i)	**–**	3,081
Operating profit		**93,737**	25,614
Finance income	8	**2,873**	505
Finance costs	8	**(440)**	(205)
Finance income – net	8	**2,433**	300
Profit before income tax	9	**96,170**	25,914
Income tax expense	10	**(13,884)**	(5,231)
Profit for the period		**82,286**	20,683
Profit attributable to:			
Equity holders of the Company		**82,352**	20,955
Non-controlling interests		**(66)**	(272)
Profit for the period		**82,286**	20,683

Interim Condensed Consolidated Statement of Comprehensive Income (Continued)

		Six months ended 30 June	
	Note	**2023 RMB'000 (unaudited)**	2022 RMB'000 (unaudited)
Other comprehensive loss after tax:			
Items that may be subsequently reclassified to profit or loss			
Fair value changes of financial assets (debt instruments) at fair value through other comprehensive income ("FVTOCI")		**(435)**	(2,923)
Other comprehensive loss for the period, net of tax		**(435)**	(2,923)
Total comprehensive income for the period		**81,851**	17,760
Total comprehensive income for the period attributable to:			
Equity holders of the Company		**81,917**	18,032
Non-controlling interests		**(66)**	(272)
Total comprehensive income for the period		**81,851**	17,760
Earnings per share attributable to the equity holders of the Company			
– Basic and diluted (RMB cents)	11	**5.08**	1.29

Interim Condensed Consolidated Statement of Financial Position

	Note	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	13	139,287	138,995
Mining rights		94,538	94,538
Right-of-use assets		20,271	10,339
Financial assets at FVTOCI		7,981	11,305
Deferred tax assets		7,141	7,942
Total non-current assets		269,218	263,119
Current assets			
Inventories		252,196	5,129
Trade and bills receivables	14	370,563	183,893
Other receivables and prepayments	15	93,184	31,947
Financial assets at FVTOCI		3,539	–
Financial assets at FVTPL		16,075	15,000
Cash and cash equivalents		435,100	369,309
Total current assets		1,170,657	605,278
Total assets		1,439,875	868,397
LIABILITIES			
Current liabilities			
Trade payables	16	596,451	167,354
Other payables and accruals	17	88,505	57,187
Contract liabilities		36,219	12,530
Lease liabilities		2,666	589
Current tax liabilities		18,616	22,151
Total current liabilities		742,457	259,811
Net current assets		428,200	345,467

Interim Condensed Consolidated Statement of Financial Position (Continued)

	Note	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Non-current liabilities			
Lease liabilities		**10,960**	2,361
Provision for close down, restoration and environmental costs		**3,161**	3,106
Deferred tax liabilities		**30,355**	31,372
Total non-current liabilities		**44,476**	36,839
Total liabilities		**786,933**	296,650
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	18	**137,361**	137,361
Share premium	18	**668,768**	668,768
Other reserves		**5,280**	1,277
Accumulated losses		**(156,819)**	(234,886)
		654,590	572,520
Non-controlling interests		**(1,648)**	(773)
Total equity		**652,942**	571,747
Total equity and liabilities		**1,439,875**	868,397

Interim Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company										
	Share capital RMB'000	Share premium RMB'000	Safety fund RMB'000	Maintenance fund RMB'000	Capital reserve RMB'000	Investment revaluation reserves RMB'000	Statutory reserves RMB'000	Accumulated losses RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2023 (audited)	137,361	668,768	221	1,583	(13,972)	(2,802)	16,247	(234,886)	572,520	(773)	571,747
Total comprehensive (loss)/ income for the period (unaudited)	–	–	–	–	–	(435)	–	82,352	81,917	(66)	81,851
Acquisition of non-controlling interests of a subsidiary (unaudited) (note 19(ii))	–	–	–	–	153	–	–	–	153	(653)	(500)
Appropriations to statutory reserves (unaudited)	–	–	–	–	–	–	4,285	(4,285)	–	–	–
Deregistration of a subsidiary (unaudited)	–	–	–	–	–	–	–	–	–	(156)	(156)
Balance at 30 June 2023 (unaudited)	137,361	668,768	221	1,583	(13,819)	(3,237)	20,532	(156,819)	654,590	(1,648)	652,942
At 1 January 2022 (audited)	137,361	668,768	221	1,583	(13,972)	(892)	2,740	(402,223)	393,586	(1,274)	392,312
Total comprehensive (expense)/ income for the period (unaudited)	–	–	–	–	–	(2,923)	–	20,955	18,032	(272)	17,760
Acquisition of a subsidiary (unaudited) (note 19(i))	–	–	–	–	–	–	–	–	–	667	667
Appropriations to statutory reserves (unaudited)	–	–	–	–	–	–	234	(234)	–	–	–
Balance at 30 June 2022 (unaudited)	137,361	668,768	221	1,583	(13,972)	(3,815)	2,974	(381,502)	411,618	(879)	410,739

Interim Condensed Consolidated Statement of Cash Flows

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cash flows from operating activities		
Cash generated from/(used in) operations	**87,131**	(80,217)
Income tax paid	**(17,635)**	(2,036)
Net cash generated from/(used in) operating activities	**69,496**	(82,253)
Net cash used in investing activities	**(1,027)**	(7,295)
Net cash used in financing activities	**(1,367)**	(747)
Net increase/(decrease) in cash and cash equivalents	**67,102**	(90,295)
Cash and cash equivalents at beginning of period	**369,309**	235,866
Exchange differences on cash and cash equivalents	**(1,311)**	26
Cash and cash equivalents at the end of period	**435,100**	145,597

Notes to the Interim Condensed Consolidated Financial Information

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. With effect from 14 March 2023, the registered office and the principal place of business of the Company had changed from Room 2805, 28/F., Harbour Centre, No. 25 Harbour Road, Wan Chai, Hong Kong to Unit No. 4, 23rd Floor, Overseas Trust Bank Building, No. 160 Gloucester Road, Hong Kong.

The Company is an investment holding company and its subsidiaries (together with the Company, the "Group") were principally engaged in the trading of coal, provision of coal processing services, coal service supply chain, and mining, ore processing and sales of nickel, copper, lead and zinc products in the People's Republic of China (the "PRC") during the six months ended 30 June 2023 (the "Period").

These interim condensed consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These interim condensed consolidated financial statements, which have not been audited, have been approved and authorised for issue by the board (the "Board") of directors (the "Director(s)") of the Company on 25 August 2023.

2 Basis of Preparation

These interim condensed consolidated financial statements for the Period have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure provisions of Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). These interim condensed consolidated financial statements contain selected explanatory notes which include an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group after the financial year ended 31 December 2022. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2022 ("2022 Annual Financial Statements"), which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

Notes to the Interim Condensed Consolidated Financial Information (Continued)

2 Basis of Preparation (Continued)

These interim condensed consolidated financial statements have been prepared on the historical cost basis except for financial assets at FVTPL and financial assets at FVTOCI, which are measured at fair value.

In preparing these interim condensed consolidated financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2022 Annual Financial Statements.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

3 Changes in Accounting Policies

3.1 New and amended standards adopted by the Group

The Group has adopted the following new and revised HKFRSs (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by HKICPA for the first time for these interim condensed consolidated financial statements.

HKFRS 17	Insurance contracts
HKAS 1 (Amendments)	Disclosure of Accounting Policies
HKAS 8 (Amendments)	Definition of Accounting Estimates
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
HKAS 12 (Amendments)	International Tax Reform – Pillar Two Model Rules

The Group concluded that the adoption of these new and revised HKFRSs in the current period has had no material impact on the amounts reported and/or disclosures set out in these interim condensed consolidated financial statements.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

3 Changes in Accounting Policies (Continued)

3.2 New standards and amendments to standards issued but not yet effective for the accounting period beginning on 1 January 2023 and not early adopted by the Group

		Effective for accounting periods beginning on or after
HK-Int 5 (Amendments)	Amendments to HKAS 1	1 January 2024
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2024
HKAS 1 (Amendments)	Non-current Liabilities with Covenants	1 January 2024
HKFRS 16 (Amendments)	Lease Liability in a Sale and Leaseback	1 January 2024
HKFRS 7 and HKAS 7 (Amendments)	Supplier Finance Arrangements	1 January 2024
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group is in the process of making an assessment on the impact of these new standards and amendments to standards and preliminary results showed that their application are not expected to have material impact on the financial performance and the financial position of the Group.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

4 Estimates

The preparation of these interim condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the carrying amounts of assets and liabilities, income and expense that are not readily apparent from other sources. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2022 Annual Financial Statements.

5 Financial Risk Management

5.1 Financial risk factors

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

These interim condensed consolidated financial statements do not include the disclosures of the Group's financial risk management information that were required in the annual financial information, and should be read in conjunction with the Group's 2022 Annual Financial Statements.

There have been no changes in the risk management policies since 31 December 2022.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

5 Financial Risk Management (Continued)

5.2 Fair value estimation

This section analyses the Group's financial instruments carried at fair value as at 30 June 2023 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, trading securities and securities carried at FVTPL) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

- Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives and debts instruments carried at FVTOCI) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

5 Financial Risk Management (Continued)

5.2 Fair value estimation (Continued)

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)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
As at 30 June 2023				
– Financial assets at FVTOCI (unaudited)	**–**	**11,520**	**–**	**11,520**
– Financial assets at FVTPL (unaudited)	**16,075**	**–**	**–**	**16,075**
Total	**16,075**	**11,520**	**–**	**27,595**
As at 31 December 2022				
– Financial assets at FVTOCI (audited)	–	11,305	–	11,305
– Financial assets at FVTPL (audited)	15,000	–	–	15,000
Total	15,000	11,305	–	26,305

The fair value of financial assets at FVTPL was measured at the quoted market prices of the identical equity securities in the publicly listed stock exchanges, while the fair value of financial assets at FVTOCI was measured at traded prices for identical debts instruments in over-the-counter markets at the end of the reporting period.

During the six months ended 30 June 2023 and 2022, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

6 Segment Information

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

During the six months ended 30 June 2023, the CODM decided to suspend the activities of the financial services segment and considered that it is in the best interest of the Company to concentrate its resources in the coal and mining businesses. As such, the financial performance of the financial services segment was no longer presented separately and therefore grouped into "Unallocated".

The CODM reviews the operating performance from a business perspective (i.e. coal and mining businesses). The reportable and operating segments derive their revenue primarily from mining, trading of coal, provision of coal processing services and coal service supply chain management.

For the six months ended 30 June 2023, the Group had two reportable segments:

(a) the "Coal business" segment which engages in (i) the trading of coal through Changzhi Runce Trading Company Limited* ("Changzhi Runce") and Hainan Runce Energy Co., Ltd.* ("Hainan Runce"); (ii) the provision of coal processing business through Shanxi Fanpo Clean Energy Technology Company Limited* ("Shanxi Fanpo"); and (iii) the coal service supply chain through Runce Supply Chain Management (Shenzhen) Co., Ltd* ("Shenzhen Runce") in the PRC; and

(b) the "Mining business" segment which engages in the mining, ore processing and sale of nickel, copper, lead and zinc products through Hami Jiatai Mineral Resource Exploiture Limited* ("Hami Jiatai") and Hami Jinhua Mineral Resource Exploiture Limited* ("Hami Jinhua") in the PRC.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

6 Segment Information (Continued)

For the six months ended 30 June 2022, the Group had three reportable segments:

(a) the "Coal business" segment which engages in (i) the trading of coal through Changzhi Runce, Hainan Runce, Gujiao Runce Trading Company Limited* ("Gujiao Runce") and Ningbo Runce Trading Company Limited* ("Ningbo Runce"); and (ii) the provision of coal processing business through Shanxi Fanpo and coal service supply chain through Shenzhen Runce in the PRC;

(b) the "Financial services" segment which engages in financial services through Runxi Energy Technology (Shanghai) Company Limited* ("Runxi Energy") in the PRC; and

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

Apart from the above 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 these interim condensed consolidated financial statements disclosures.

The CODM assesses the performance of the operating segments based on operating profit. Interest income and expenditure at the level of the 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. This measurement basis excludes the operating results of other insignificant activities of the Group.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

6 Segment Information (Continued)

(A) The segment information provided to the CODM for the reportable segments for the six months ended 30 June 2023 and 2022 is as follows:

	For the six months ended								
	30 June 2023				30 June 2022				
	Coal business RMB'000 (unaudited)	Mining business RMB'000 (unaudited)	Unallocated RMB'000 (unaudited)	Total RMB'000 (unaudited)	Coal business RMB'000 (unaudited)	Financial services RMB'000 (unaudited)	Mining business RMB'000 (unaudited)	Unallocated RMB'000 (unaudited)	Total RMB'000 (unaudited)
Segment Revenue									
– Trading of coal	1,279,197	–	–	1,279,197	712,176	–	–	–	712,176
– Provision of coal processing services	25,022	–	–	25,022	28,829	–	–	–	28,829
– Coal service supply chain	30,361	–	–	30,361	36,155	–	–	–	36,155
– Interest income from financial services	–	–	–	–	–	3,044	–	–	3,044
	1,334,580	–	–	1,334,580	777,160	3,044	–	–	780,204
Segment operating profit/(loss) (Note (a))	92,955	(5,490)	5,636	93,101	28,180	2,560	(1,617)	2,901	32,024
Segment reversal of expected credit losses ("ECLs")/ECLs on trade and bills receivables	(1,006)	–	133	(873)	6,500	–	–	–	6,500
Segment (reversal of ECLs)/ECLs on loan and other receivables	186	(7)	58	237	(40)	(196)	(43)	189	(90)
Segment finance income/(costs) – net	482	(55)	2,006	2,433	278	8	(56)	70	300
Segment income tax (expense)/credit	(13,911)	27	–	(13,884)	(4,526)	(758)	53	–	(5,231)
Depreciation of right-of-use assets	1,171	122	657	1,950	64	–	122	657	843
Depreciation of property, plant and equipment	3,046	807	156	4,009	2,752	–	1,080	107	3,939

Notes to the Interim Condensed Consolidated Financial Information (Continued)

6 Segment Information (Continued)

(A) (Continued)

	As at 30 June 2023				As at 31 December 2022				
	Coal business RMB'000 (unaudited)	Mining business RMB'000 (unaudited)	Unallocated RMB'000 (unaudited)	Total RMB'000 (unaudited)	Coal business RMB'000 (audited)	Financial services RMB'000 (audited)	Mining business RMB'000 (audited)	Unallocated RMB'000 (audited)	Total RMB'000 (audited)
Segment assets (Note (b))	1,000,933	194,094	244,848	1,439,875	472,187	87,224	164,341	144,645	868,397
Segment liabilities (Note (c))	743,783	42,025	1,125	786,933	251,222	1,516	41,989	1,923	296,650

Notes:

(a) Unallocated operating profit for both the six months ended 30 June 2023 and 2022 mainly represented foreign exchange gain, fair value changes of financial assets at FVTPL, netted by administrative and professional services expenses incurred by the Company and certain non-operating subsidiaries in the PRC.

(b) Unallocated assets as at 30 June 2023 mainly represented the right-of-use assets, financial assets at FVTOCI and financial assets at FVTPL, other receivables, the bank deposits held by the Company and bank deposits held by an indirect wholly-owned subsidiary of the Company, Jiayi Financial Leasing Company Limited*, while the unallocated assets as at 31 December 2022 mainly represented the right-of-use assets, financial assets at FVTOCI and financial assets at FVTPL, other receivables and the bank deposits held by the Company.

(c) Unallocated liabilities mainly represented other payables and accruals and lease liabilities of the Company and certain non-operating subsidiaries as at both 30 June 2023 and 31 December 2022.

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

Notes to the Interim Condensed Consolidated Financial Information (Continued)

6 Segment Information (Continued)

(B) Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers are disaggregated by primary geographical markets, major products and service lines and timing on revenue recognition.

For the six months ended 30 June 2023

	Coal business RMB'000 (unaudited)
Primary geographical market	
– The PRC	1,334,580
Major products and services	
– Trading of coal	1,279,197
– Provision of coal processing services	25,022
– Coal service supply chain	30,361
Timing of revenue recognition	
– At a point in time	1,334,580

Notes to the Interim Condensed Consolidated Financial Information (Continued)

6 Segment Information (Continued)

(B) Disaggregation of revenue from contracts with customers (Continued)

For the six months ended 30 June 2022

	Coal business RMB'000 (unaudited)
Primary geographical market	
– The PRC	777,160
Major products and services	
– Trading of coal	712,176
– Provision of coal processing services	28,829
– Coal service supply chain	36,155
Timing of revenue recognition	
– At a point in time	777,160

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	For the six months ended 30 June	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Coal business		
– Trading of coal	**1,279,197**	712,176
– Provision of coal processing services	**25,022**	28,829
– Coal service supply chain	**30,361**	36,155
Revenue from contracts with customers	**1,334,580**	777,160
Financial services – interest income from financial services	**–**	3,044
Total revenue	**1,334,580**	780,204

Notes to the Interim Condensed Consolidated Financial Information (Continued)

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 assets)	
	For the six months ended 30 June		As at 30 June	As at 31 December
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)	2023 RMB'000 (unaudited)	2022 RMB'000 (audited)
The PRC	1,334,580	779,855	252,393	243,184
Hong Kong	–	349	1,703	688
	1,334,580	780,204	254,096	243,872

Notes to the Interim Condensed Consolidated Financial Information (Continued)

7 Other Gains – Net

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Foreign exchange gain, net	**6,787**	6,169
Government subsidy (Note (i))	**5,280**	60
Penalty income from customers	**2,100**	751
Interest income on financial assets at FVTOCI	**422**	487
Dividend income from financial assets at FVTPL	**589**	41
Loss on redemption of financial assets at FVTOCI	**–**	(11)
Others	**223**	130
	15,401	7,627

Note:

(i) Amounts are mainly related to unconditional government subsidies received by the Group from relevant government bodies for the purpose of giving incentive to enterprises, including but not limited to refund of taxes.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

8 Finance Income – Net

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Finance income		
Interest income	**2,873**	505
Finance costs		
Interest expenses		
– Interest on lease liabilities	**(385)**	(150)
– Unwinding of discount – provision for close down, restoration and environmental costs	**(55)**	(55)
	(440)	(205)
Finance income – net	**2,433**	300

9 Profit before Income Tax

Profit before income tax is arrived at after charging:

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cost of inventories	**1,007,987**	693,004
Depreciation of right-of-use assets	**1,950**	843
Depreciation of property, plant and equipment	**4,009**	3,939
Employee costs	**25,680**	18,367
Loss on written off of property, plant and equipment	**86**	–

Notes to the Interim Condensed Consolidated Financial Information (Continued)

10 Income Tax Expense

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax – PRC Enterprise Income Tax	**14,100**	3,828
Deferred tax	**(216)**	1,403
Income tax expense	**13,884**	5,231

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 six months ended 30 June 2023 and 2022.

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 Hong Kong dollars ("HK$") 2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2,000,000 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 during the six months ended 30 June 2023 and 30 June 2022.

The Group's subsidiaries in the PRC were subject to the corporate income tax at a rate of 25% in accordance with the Law of the PRC on Enterprise Income Tax for each of the six months ended 30 June 2023 and 2022.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

10 Income Tax Expense (Continued)

Certain subsidiaries of the Group are eligible as Small Low-profit Enterprises and are subject to the relevant preferential tax treatments in the PRC. During the six months ended 30 June 2023 and 30 June 2022, a Small Low-profit Enterprise with annual taxable income of not more than RMB1,000,000 is subject to Enterprise Income Tax calculated at 12.5% of its taxable income at a tax rate of 20%.

During the six months ended 30 June 2023 and 2022, Hainan Runce was entitled to a preferential tax rate of 15% in accordance to the Notice on Preferential Policies for Enterprise Income Tax of Hainan Free Trade Port (《關於海南自由貿易港企業所得稅優惠政策的通知》), which was applied to companies incorporated in Hainan, the PRC from 1 January 2020 to 31 December 2024, and subjected to fulfillment of certain conditions precedent to entitlement of the preferential tax rate. Accordingly, during the six months ended 30 June 2023 and 2022, Hainan Runce was subject to the enterprise income tax at a rate of 15%.

During the six months ended 30 June 2023 and 2022, Shenzhen Runce was entitled to a preferential tax rate of 15% in accordance to Notice of the Ministry of Finance and the State Administration of Taxation on Continuing the Preferential Enterprise Income Tax Policies of Shenzhen Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone (Caishui [2021] No. 30) (《財政部稅務總局關於延續深圳前海深港現代服務業合作區企業所得稅優惠政策的通知(財稅[2021]30號)》), which was applied to companies incorporated in Qianhai, the PRC from 1 January 2021 to 31 December 2025, and subjected to fulfillment of certain conditions precedent to entitlement of the preferential tax rate. Accordingly, during the six months ended 30 June 2023 and 2022, Shenzhen Runce was subject to the enterprise income tax at a rate of 15%.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

11 Earnings per Share

The basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Company by weighted average number of ordinary shares in issue during the six months ended 30 June 2023 and 2022.

	For the six months ended 30 June	
	2023 (unaudited)	2022 (unaudited)
Profit attributable to equity holders of the Company (RMB'000)	**82,352**	20,955
Weighted average number of shares in issue (in thousands)	**1,620,000**	1,620,000
Basic and diluted earnings per share (RMB cents)	**5.08**	1.29

Diluted earnings per share equals to basic earnings per share as there was no dilutive potential share outstanding for the six months ended 30 June 2023 and 2022.

12 Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2023 (30 June 2022: Nil).

13 Property, Plant and Equipment

For the six months ended 30 June 2023, the Group incurred approximately RMB4,388,000 (2022: RMB11,645,000) of capital expenditure on property, plant and equipment and wrote off property, plant and equipment of RMB86,000 (2022: Nil). There were no disposals of property, plant and equipment during the six months ended 30 June 2023 and 2022.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

14 Trade and Bills Receivables

	As at 30 June 2023 RMB'000 (unaudited)	As at 31 December 2022 RMB'000 (audited)
Trade receivables	269,969	116,428
Less: ECLs of trade receivables	(2,465)	(3,361)
Trade receivables, net	267,504	113,067
Bills receivables	103,957	71,701
Less: ECLs of bills receivables	(898)	(875)
Bills receivables, net	103,059	70,826
Total trade and bills receivables, net	370,563	183,893

As at 30 June 2023 and 31 December 2022, the ageing analysis of trade and bills receivables after ECLs based on invoice date were as follows:

	As at 30 June 2023 RMB'000 (unaudited)	As at 31 December 2022 RMB'000 (audited)
Up to 3 months	296,981	179,766
3 to 6 months	73,582	4,127
	370,563	183,893

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 within one year.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

14 Trade and Bills Receivables (Continued)

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 six months to one year.

The carrying amounts of trade and bills receivables approximated to their fair values. The balances were denominated in RMB.

15 Other Receivables and Prepayments

	As at 30 June 2023 RMB'000 (unaudited)	As at 31 December 2022 RMB'000 (audited)
Other receivables	**100,409**	94,520
Less: Provision of impairment losses on other receivables	**(92,904)**	(90,318)
	7,505	4,202
Deposits paid to suppliers – third parties	**10,000**	13,000
Prepayments to suppliers – third parties	**75,679**	14,745
Total other receivables and prepayments, net	**93,184**	31,947

The carrying amounts of other receivables approximated to their fair values.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

16 Trade Payables

The ageing analysis of trade payables as the end of reporting period, based on invoice date was as follows:

	As at 30 June 2023 RMB'000 (unaudited)	As at 31 December 2022 RMB'000 (audited)
Up to 3 months	**595,150**	166,053
Over 12 months	**1,301**	1,301
	596,451	167,354

The carrying amounts of trade payables approximated their fair values due to their short-term nature. The balances were denominated in RMB.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

17 Other Payables and Accruals

	As at 30 June 2023 RMB'000 (unaudited)	As at 31 December 2022 RMB'000 (audited)
Other payables (Note)	30,849	31,381
Salary and welfare payables	18,126	13,608
Accrued taxes other than income tax	39,530	12,198
	88,505	57,187

Note: Other payables mainly included security deposits received from customers, payables of equipment purchasing costs, service charges payable and advances from third parties as at 30 June 2023 and 31 December 2022.

The carrying amounts of other payables and accruals approximated their fair values due to their short-term nature.

18 Share Capital and Share Premium

	Authorised Shares of HK$0.1 each
As at 1 January 2022 (audited), 31 December 2022 (audited), 1 January 2023 (audited) and 30 June 2023 (unaudited)	5,000,000,000

	Number of Shares Thousands	Share Capital RMB'000	Share Premium RMB'000	Total RMB'000
As at 1 January 2022 (audited), 31 December 2022 (audited), 1 January 2023 (audited) and 30 June 2023 (unaudited)	1,620,000	137,361	668,768	806,129

Notes to the Interim Condensed Consolidated Financial Information (Continued)

19 Acquisition of Shanxi Fanpo

(i) On 29 November 2021, the Group entered into a sale and purchase agreement with an independent third party (the "Vendor") to purchase, 95% equity interest in Shanxi Fanpo (the "Shanxi Fanpo Acquisition") at a consideration of RMB9,599,000. The Shanxi Fanpo Acquisition was completed on 5 January 2022. Shanxi Fanpo was engaged in the sale of coal and the operation of coal washery. The Shanxi Fanpo Acquisition would allow the Group to move upstream in the coal industry, broaden the Group's source of income and diversify its business portfolio.

The fair values of identifiable assets and liabilities of Shanxi Fanpo as at the date of the Shanxi Fanpo Acquisition are as follows:

	RMB'000
Property, plant and equipment	75,343
Right-of-use assets	2,312
Deferred tax assets	8,143
Inventories	2,211
Trade receivables	232,788
Other receivables and prepayments	3,976
Cash and cash equivalents	24,767
Trade payables	(285,764)
Other payables and accruals	(17,826)
Contract liabilities	(23,180)
Lease liabilities	(2,475)
Deferred tax liabilities	(6,948)
Net identifiable assets acquired	13,347
Less: non-controlling interests (5%)	(667)
Net assets acquired	12,680
Gain on bargain purchases on acquisition of a subsidiary	(3,081)
Total consideration satisfied by cash (paid in 2021)	9,599
Net cash inflow arising from the acquisition:	
Cash and cash equivalents acquired	(24,767)

Notes to the Interim Condensed Consolidated Financial Information (Continued)

19 Acquisition of Shanxi Fanpo (Continued)

(i) (Continued)

The Group has elected to measure the non-controlling interests in Shanxi Fanpo at the non-controlling interests' proportionate share of Shanxi Fanpo's net identifiable assets acquired.

The Group recognised a gain on bargain purchase of approximately RMB3,081,000 in the business combination.

On 29 November 2021 (the "Agreement Date"), the Group entered into a sale and purchase agreement with the Vendor with respect to the Shanxi Fanpo Acquisition at a consideration of RMB9,599,000, which is determined based on the appraised value of net assets of Shanxi Fanpo as set out in the valuation report prepared by the valuer. Since the Agreement Date, Shanxi Fanpo has been profit making and has expanded its operation scale. The increase in fair value of Shanxi Fanpo represented the upward adjustment on net assets. As such, business combination resulted in a gain on bargain purchase as the fair value of Shanxi Fanpo increased accordingly after the Agreement Date.

(ii) Further to the Shanxi Fanpo Acquisition, the Group further acquired the remaining 5% equity interest in the Shanxi Fanpo from the Vendor on 22 February 2023 at the consideration of RMB500,000. Subsequent to the said acquisition, Shanxi Fanpo became a wholly-owned subsidiary of the Company.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

20 Related Party Transactions

(a) The Group's management is of the view that the following persons are related parties of the Group during the six months ended 30 June 2023 and 2022:

Name of related parties	**Relationship with the Group**
Sky Circle International Limited	A shareholder of the Company which holds 27.22% equity interest in the Company.

(b) Key management compensation

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

	For the six months ended 30 June	
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)
Basic salaries, allowances and other benefits	**1,505**	1,610
Contributions to retirement benefit scheme	**15**	15
	1,520	1,625

21 Capital Commitments

	As at 30 June 2023 RMB'000 (unaudited)	As at 31 December 2022 RMB'000 (audited)
Capital expenditure contracted for but not provided for in the consolidated financial statements in respect of:		
– acquisition of plant and equipment	**763**	1,268
– construction of new production plant	**8,506**	8,642
	9,269	9,910

Notes to the Interim Condensed Consolidated Financial Information (Continued)

22 Contingent Liabilities

The Group had contingent liabilities as at 30 June 2023 in respect of:

(a) Environmental contingencies

Historically, the Group has not incurred any significant expenditure for environmental remediation. The Group has made provision for close down, restoration and environmental costs, and 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.

Management Discussion and Analysis

BUSINESS REVIEW

Huili Resources (Group) Limited (the "Company") and its subsidiaries (together with the Company, the "Group") mainly participate in the coal business and in non-ferrous ore mining and processing.

Coal business

The coal industry is a typical pro-cyclical industry, where the demand for coal is closely linked to economic growth. During the six months ended 30 June 2023 (the "Period"), due to the lack of momentum of the economy of the People's Republic of China (the "PRC") and the increase in overseas coal imports, the demand for domestic coal had softened. According to the National Bureau of Statistics, the country's gross domestic product ("GDP") for the first half of 2023 grew at approximately 6.3% year-on-year, with a faster growth rate of approximately 6.3% year-on-year in the second quarter of 2023, compared to approximately 4.5% year-on-year in the first quarter of 2023. The added value of industries above designated size (規模以上工業增加值) increased by approximately 3.8% year-on-year, specifically the added value of the production and supply of electricity and heat industry increased by approximately 4.3% year-on-year during first quarter of 2023, while the added value of coal mining and washing industry increased by approximately 1.6% year-on-year during the first half of 2023. Industrial enterprises above designated size (規模以上工業企業) achieved an operating revenue of approximately Renminbi ("RMB") 51,391.39 billion, a year-on-year increase of approximately 0.1% from January to May 2023, however, the coal mining and washing industry experienced a year-on-year operating revenue decline of approximately 9.1% to approximately RMB1,509.7 billion during the same period. Meanwhile, power products production continued to grow during the Period. The electricity generation also continued to grow during the Period, with a year-on-year increase of approximately 3.8% to approximately 4,168 billion kilowatt hours ("kWh"). Thermal power saw the highest growth rate of approximately 7.5% year-on-year, outpacing the growth rate of hydropower, nuclear power, and solar power at approximately -22.9%, 6.5%, and 7.4%, respectively.

Looking at the supply side, raw coal production showed steady growth during the Period, while raw coal imports demonstrated high growth levels. The year-on-year growth rate of the domestic raw coal production decelerated from approximately 5.8% in January to February 2023 to approximately 2.5% in June 2023, with approximately 2.30 billion tonnes of raw coal produced in the first half of 2023, representing a year-on-year increase of approximately 4.4%. In contrast, raw coal imports amounted to approximately 220 million tonnes during the same period, representing a year-on-year increase of approximately 93.0%. Notably, the year-on-year growth rate of raw coal imports accelerated from approximately 70.8% in January to February 2023 to approximately 110.1% in June 2023.

Management Discussion and Analysis (Continued)

The lower-than-expected demand for domestic coal and the increased demand for imported coal put pressure on the domestic coal price, which was reflected in the gradual decline of the NCEI composite 5500K, a gauge of coal prices in the PRC. The NCEI composite 5500K dropped from RMB791 per tonne at the beginning of Period to RMB772 per tonne in May 2023, followed by a sharp decline to RMB721 per tonne in mid-June before closing at RMB731 per tonne at the end of June 2023, according to the National Coal Exchange Co., Ltd. (全國煤炭交易中心有限公司). On the other hand, with the announcement of a reasonable price range for medium and long-term trading prices and spot prices of Qinhuangdao Port launched coal (5,500 kcal) (秦皇島港下水煤（5,500千卡）) (Source: "On Further Notice on Improving the Coal Market Price Formation Mechanism (Development and Reform Price '2022' No. 303)" (國家發展改革委關於進一步完善煤炭市場價格形成機制的通知（發改價格[2022]303號）) and 2022 Announcement No. 4 "Announcement on Clarifying Price Gouging Behaviors of Coal Industry Operators" (二零二二年4號公告《關於明確煤炭領域經營者哄抬價格行為的公告》), being between RMB570 and RMB770 (inclusive of tax) per tonne, in May 2022, the medium and long-term trading prices of Qinhuangdao Port launched coal (5,500 kcal) recorded a slight drop from RMB728 per tonne at the beginning of the Period to RMB701 per tonne at the end of the Period.

Looking ahead to the third quarter of the year, the expected high temperature weather during the summer is likely to drive up daily electricity consumption, leading to a corresponding rise in demand for coal. This trend is expected to continue throughout the summer season, and may be further exacerbated by insufficient hydropower output, creating a potential opportunity for the coal industry.

In May 2023, the National Development and Reform Commission and other three ministries and commissions jointly issued the "Memorandum on Key Cost Reduction Work in 2023" (《關於做好2023年降成本重點工作的備忘錄》), which emphasized the importance of ensuring domestic energy production supply, stabilizing energy prices, and increasing key energy reserves and production, and hence it is expected that coal production in the PRC will grow further. China Electricity Council (中國電力企業聯合) also issued a China Power Industry Annual Development Report 2023 (《中國電力行業年度發展報告2023》), which anticipates a growth rate of approximately 6% in electricity consumption in 2023. Both of the aforementioned reasons provide a solid foundation for coal demand in 2023. Additionally, the guidance for price ranges of medium and long-term trading prices issued by the authorities served to support medium and long-term trading prices, as evidenced by the fact that the coal price fluctuated at the upper end of the guidance price range of RMB570 and RMB770 despite the recent drop in coal prices during the Period.

Management Discussion and Analysis (Continued)

In the medium and long term, despite the global trend towards transitioning to new energy sources, the structural mismatch of the demand and supply for coal is expected to persist. The continuous tightening of the safety and environmental requirements on coal production is likely to restrict long-term coal supply, while the rising demand for electricity and coal power installed capacity are expected to support long-term demand for coal products. This suggests a long-term healthy development of the coal industry and creates a supportive environment for coal prices in the longer term.

On 29 November 2021, the Group entered into a sale and purchase agreement with an independent third party (the "Vendor") to purchase, 95% equity interest in Shanxi Fanpo Clean Energy Technology Company Limited* ("Shanxi Fanpo") (the "Shanxi Fanpo Acquisition") at a consideration of RMB9,599,000. The Shanxi Fanpo Acquisition was completed on 5 January 2022. During the Period, the Group further acquired the remaining 5% equity interest in Shanxi Fanpo from the Vendor on 22 February 2023 at the consideration of RMB500,000. Subsequent to the said acquisition, Shanxi Fanpo became a wholly-owned subsidiary of the Company.

Meanwhile, the Group continued to make progress towards the Group's strategy of allocating more resources to the Group's coal business. The Group expanded its coal business through integrating vertically through acquiring 100% equity interests in Margaux Investment Limited ("Margaux"), which indirectly owns 100% equity interests in Shanxi Margaux Supply Chain Management Company Limited ("Shanxi Margaux")* (山西瑪高供應鏈管理有限公司) at a consideration (the "Consideration") of HK$41,847,000 (the "Margaux Acquisition") which shall be satisfied by the allotment and issue of the Consideration Shares (as defined below).

On 29 May 2023, Surplus Plan Limited (the "Purchaser"), a direct wholly-owned subsidiary of the Company, as the purchaser, entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Mr. Feng Yuantao ("Mr. Feng"), the beneficial owner of Margaux, as the vendor in respect of the Margaux Acquisition. Pursuant to the Sale and Purchase Agreement, the Purchaser has agreed to acquire, and Mr. Feng has agreed to sell the entire issued share capital of Margaux at a Consideration of HK$41,847,000. The Consideration shall be satisfied by the Company by the allotment and issue of 167,388,000 new shares of the Company (the "Consideration Shares") to Mr. Feng at the issue price of approximately HK$0.25 per Consideration Share upon completion of the Margaux Acquisition. Up to the date of this report, the Margaux Acquisition has not been completed.

* *For identification purpose only*

Management Discussion and Analysis (Continued)

Shanxi Margaux is principally engaged in (i) supply chain management services; (ii) machinery and equipment leasing; and (iii) general cargo storage services. Shanxi Margaux currently owns a coal shed which has the storage capacity of 250,000 tonnes with construction area of approximately 16,746 square metre and equipped with 14 specialised bulldozers and loaders, and the coal shed is located approximately 7.0 kilometers ("km") from the Group's washery plant and approximately 2.5 km to 3.0 km from the key highways in Shanxi province, the PRC.

The Board believes that the Margaux Acquisition is in line with the development strategy of the Group to strengthen its existing trading of coal business and supply chain management services and its presence and provision of services in the coal industries in the PRC. Furthermore, the Margaux Acquisition will allow the Group to utilise the synergies created by the acquisition of the Margaux and its subsidiaries and create long-term and strategic growth opportunities for the Group.

For details, please refer to the section headed "Material Acquisitions and Disposals" under the "Management Discussion and Analysis" to this report.

Riding on the increasing demand for coal, the Group will continue to actively seek for opportunities to develop its coal business, either through value-added mergers and acquisitions or strategically re-allocating its internal resources to expand its current coal business or diversify into other business scopes within the coal industry.

The coal business segment has contributed approximately RMB1.33 billion (2022: RMB0.78 billion) to the Group's revenue during the Period.

Mining business

The diversified non-ferrous metal minerals covered by the Company's operations include nickel, copper, zinc and lead in the Xinjiang Uyghur Autonomous Region ("Xinjiang"), 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 km southeast of Urumqi, the capital of Xinjiang.

Throughout the Period, the commodities markets experienced a relatively weak performance as compared with last year, largely due to the ongoing slowdown of the global economy. This slowdown had put downward pressure on commodity markets, despite global inflation having started to moderate. While price pressures remained historically high, the combination of high prices and rising borrowing costs had constrained both consumption and businesses investments. As a result, consumers' spending on goods and services had remained subdued, and manufacturing activity had been sluggish. These coupled with weaker business-to-business demand and capital investment growth, were set to reduce demand for metal commodities and limit price growth during the Period.

Management Discussion and Analysis (Continued)

According to the London Metal Exchange, the prices of zinc exhibited a short-term increase during the Period, starting at approximately United States dollar ("USD") 3,025 per tonne and peaking at around USD3,500 per tonne by the end of January 2023. However, prices gradually dropped by approximately 32% to around USD2,363 per tonne by the end of June 2023, representing a drop of approximately 22% compared to the beginning of the Period.

Copper prices followed a similar pattern to zinc, with prices opening at around USD8,400 per tonne and peaking at approximately USD9,440 per tonne in mid-January 2023. However, prices gradually dropped to approximately USD8,029 per tonne by the end of June 2023.

On the other hand, the prices of nickel showed a downward trend during the Period, decreasing from approximately USD31,150 per tonne at the beginning of the Period to approximately USD20,075 per tonne as at 30 June 2023, representing an approximate 36% drop during the Period.

The price of lead fluctuated widely during the Period, opening at approximately USD2,300 per tonne and decreasing to around USD2,062 per tonne near the end of January 2023. Prices fluctuated between approximately USD2,034 per tonne and approximately USD2,242 per tonne throughout February 2023 to June 2023, before closing at around USD2,106 per tonne as at 30 June 2023.

As at 30 June 2023, the Company's subsidiaries, Hami Jinhua Mineral Resource Exploiture Ltd* ("Hami Jinhua") and Hami Jiatai Mineral Resource Exploiture Ltd* ("Hami Jiatai"), owned two mining permits of non-ferrous metals in Xinjiang, the PRC, namely No. 20 Mine and Baiganhu Mine. No. 20 Mine produces copper and nickel ores, while Baiganhu Mine produces lead and zinc ores. The Group is assessing the possibility for the commencement of productions at both mines and will also look for potential partners to jointly develop the mines to capture the economic values of both mines. Meanwhile, the Group holds two exploration rights, namely Baiganhu Gold tenement and H-989 and 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 Baiganhu Gold tenement preliminary mineralisation band and the ore deposit. However, based on current exploration and economic data, the Group considered that it is not economical to carry out further exploration works on its own and decided temporarily not to extend the exploration permit. The Group continues to seek for a co-operating party for opportunities of cooperative exploration in order to materialise the exploration rights. Up to the date of this report, there is neither any public announcement nor any official statement that the Group's exploration rights are cancelled.

* *For identification purpose only*

Management Discussion and Analysis (Continued)

Hami Jiatai also 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 tonnes 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 Period.

The Group will closely monitor the development of the commodities markets, and also look for potential partners to jointly develop the mines in order to maximise their economic values.

RESULTS REVIEW

Revenue and gross profit

Since 2021, the Group has set the coal business as the strategic business segment of the Group and allocated more resources in developing the Group's coal business. During the Period, the performance of the Group's coal business continued to be remarkable and evidenced the successful move of the Group's strategy into the coal business.

With the strong demand for coal in the domestic coal market in the first half of 2023 in the PRC, both the sales volume and the average selling prices of the Group's coal products increased during the Period, as compared with the six months ended 30 June 2022 (the "Prior Period"). During the Period, the Group's revenue increased by approximately 71.1% to approximately RMB1.33 billion from approximately RMB0.78 billion for the Prior Period. The increase was mainly attributable to the approximate RMB0.56 billion increase in revenue generated from the coal business during the Period.

The cost of sales was approximately RMB1.24 billion for the Period, as compared with approximately RMB0.75 billion in the Prior Period, representing a year-on-year increase of approximately 65.1%. The increase was mainly contributed by the coal business as the result of the increased sales of coal products during the Period.

The gross profit increased by more than two folds from approximately RMB29.6 million for the Prior Period to approximately RMB95.2 million for the Period. The increase was mainly contributed by the increased sales volume of the Group's coal products during the Period.

The Group will closely monitor the development of the commodities markets, and also look for potential partners to jointly develop the mines in order to maximise their economic values.

Management Discussion and Analysis (Continued)

Operating results

The revenue and the corresponding operating results were mainly contributed by the segments below, for the Period and the Prior Period:

	For the Period			For the Prior Period		
	Revenue RMB'000	Operating profit/ (loss) RMB'000	Operating profit margin %	Revenue RMB'000	Operating profit/ (loss) RMB'000	Operating profit margin %
Coal business	**1,334,580**	**92,955**	**7.0%**	777,160	28,180	3.6%
Interest income from financial services (note)	–	–	–	3,044	2,560	84.1%
Mining	–	**(5,490)**	**N/A**	–	(1,617)	N/A
Segment total	**1,334,580**	**87,465**	**6.6%**	780,204	29,123	3.7%

Note: During the Period, the Group's chief operating decision maker decided to suspend the activities of the financial services segment and considered that it is the best interest of the Company to reallocate the resources to its coal and mining business segments. As such, the financial performance of the financial services segment was no longer presented separately and therefore grouped in "Unallocated".

Administrative expenses

During the Period, administrative expenses amounted to approximately RMB17.3 million (the Prior Period: RMB9.5 million), which included depreciation charges, professional fees, staff costs, and office overheads. The rise in administrative expenses was mainly driven by an increase in staff costs as a result of the expansion of business activities and a general increase in salary levels during the Period.

Other gains – net

Other gains – net for the Period of approximately RMB15.4 million (the Prior Period: RMB7.6 million) mainly represented unrealised foreign exchange gain, net, government subsidy, penalty received from customers, interest income from financial assets at fair value through other comprehensive income ("FVTOCI") and dividend income from financial assets at fair value through profit or loss ("FVTPL") of approximately RMB6.8 million (the Prior Period: RMB6.2 million), RMB5.3 million (the Prior Period: RMB60,000), RMB2.1 million (the Prior Period: RMB0.8 million), RMB0.4 million (the Prior Period: RMB0.5 million) and RMB0.6 million (the Prior Period: RMB41,000) respectively. The unrealised foreign exchange gain mainly arose from the financial assets denominated in USD and HKD as the result of the appreciation of USD and HKD against RMB, being the Group's functional and presentation currency.

Management Discussion and Analysis (Continued)

Other operating gains/(losses)

Other operating gains of approximately RMB0.6 million was recorded during the Period. During the Period, reversal of expected credit losses ("ECLs") on trade and bills receivables of approximately RMB0.9 million, netted by ECLs on loan and other receivables of approximately RMB0.3 million. During the Prior Period, operating losses of approximately RMB6.4 million was recorded, which was resulted by the ECLs on trade and bills receivables of approximately RMB6.5 million, netted by reversal of ECLs on loan and other receivables of approximately RMB0.1 million.

Finance income – net

Finance income of approximately RMB2.4 million (the Prior Period: RMB0.3 million) during the Period mainly represented interest income earned from the Group's cash at bank, netted by interest expenses on lease liabilities.

Income tax expense

During the Period, income tax expense was approximately RMB13.9 million (the Prior Period: RMB5.2 million). It mainly represented the tax provision of approximately RMB14.1 million for operations in the PRC and reversal of deferred tax expenses of approximately RMB0.2 million during the Period. No provision for profits tax in Hong Kong was made during the Period.

SIGNIFICANT INVESTMENTS HELD

As at 30 June 2023, the Group had investments in debt securities and listed equity securities of approximately RMB11.5 million (31 December 2022: RMB11.3 million) and RMB16.1 million (31 December 2022: RMB15.0 million) respectively and none of the debt securities and listed equity securities, both individually and in aggregate, held by the Group equaled or exceeded 5% of the Group's total assets. For further details, please refer to the section headed "Liquidity and Financial Resources" under the "Management Discussion and Analysis" to this report.

Management Discussion and Analysis (Continued)

MATERIAL ACQUISITIONS AND DISPOSALS

(i) Acquisition of Shanxi Fanpo Clean Energy Technology Company Limited ("Shanxi Fanpo")

Changzhi Runce Trading Company Limited, as purchaser and an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "Fanpo SPA") in relation to the acquisition of 95% equity interest in Shanxi Fanpo, a company established in the PRC with limited liability, with the Vendor, Mr. Cui Huike (崔慧科), on 29 November 2021. Pursuant to the Fanpo SPA, Changzhi Runce agreed to purchase and the Vendor agreed to sell 95% of the equity interest in Shanxi Fanpo upon the fulfillment of certain conditions, including but not limited to satisfactory completion of the financial and legal due diligence review on Shanxi Fanpo.

The Shanxi Fanpo Acquisition was then completed in January 2022 with the final consideration of approximately RMB9.6 million.

Further details of the Shanxi Fanpo Acquisition are set out in the Company's announcement dated 29 November 2021.

Further to the above Shanxi Fanpo Acquisition, the Group further acquired the remaining 5% equity interest in the Shanxi Fanpo from the Vendor on 22 February 2023 at the consideration of RMB500,000. Subsequent to the said acquisition, Shanxi Fanpo became a wholly-owned subsidiary of the Company.

(ii) Acquisition of 100% equity interest in Margaux Investment Limited ("Margaux")

On 29 May 2023, Mr. Feng as vendor and the Purchaser, Surplus Plan Limited, a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of the Company entered into the Sale and Purchase Agreement in respect of the acquisition of 100% equity interest in Margaux, a company incorporated in Hong Kong with limited liability, together with its subsidiaries, Zhuhai Margaux Investment Company Limited ("Zhuhai Margaux")* (珠海瑪高投資有限公司), a company established in the PRC and a wholly-owned subsidiary of Margaux, and Shanxi Margaux, a company established in the PRC and a wholly-owned subsidiary of Zhuhai Margaux, at the Consideration of HK$41,847,000. Pursuant to the Sale and Purchase Agreement, all debts owing by Zhuhai Margaux to Mr. Feng, being RMB14,000,959 as at the date of Sale and Purchase Agreement, will be transferred to the Purchaser (or its designated entity) at the nominal consideration of RMB1 at completion of the Margaux Acquisition.

* *For identification purpose only*

Management Discussion and Analysis (Continued)

The Consideration shall be satisfied by the Purchaser by the allotment and issue of 167,388,000 Consideration Shares to Mr. Feng under the general mandate granted to the Directors pursuant to an ordinary resolution passed at the Company's annual general meeting on 10 June 2022 to allot and issue up to 324,000,000 Shares, representing 20% of the then total number of issued Shares on the date of passing such resolution at the issue price of approximately HK$0.25 per Consideration Share upon completion of the Margaux Acquisition.

The Margaux Acquisition has not been completed up to date of this report. Further details of the Margaux Acquisition are set out in the Company's announcements dated 29 May 2023, 30 June 2023, 31 July 2023 and 11 August 2023.

Save for the above, there were no other material acquisitions and disposals during the Period and the Prior Period.

CAPITAL EXPENDITURE

For the Period, the Group incurred approximately RMB4.4 million (the Prior Period: RMB11.6 million) of capital expenditure on property, plant and equipment, and RMB11.9 million (the Prior Period: nil) on right-of-use assets. There were no disposals of property, plant and equipment and right-of-use assets during both the Period and the Prior Period.

LIQUIDITY AND FINANCIAL RESOURCES

The equity attributable to owners of the Company as at 30 June 2023 increased to RMB654.6 million, an increase of approximately 14.3% over that as at 31 December 2022 of RMB572.5 million, whilst the Group's total assets employed increased to RMB1.44 billion as at 30 June 2023 as compared to RMB868.4 million as at 31 December 2022.

Management Discussion and Analysis (Continued)

The Group continues to maintain a strong financial position. To preserve funds for future capital expenditure and new business opportunities, the Group invests surplus cash in low-risk fixed deposits, as well as high quality debt securities issued by large financial institutions and corporations and quality equity securities listed on well recognised stock exchanges to generate additional returns for the Group and the shareholders (the "Shareholders") of the Company.

During the Period, the Group did not redeem (the Prior Period: RMB3.4 million) any debt securities. As at 30 June 2023, the debt securities were predominantly denominated in USD with weighted average tenor of approximately 1.5 years. Debt securities investments are closely monitored by a designated team with the help of an international leading bank. The debt securities were classified as financial assets at FVTOCI. These debt securities were considered to be of low credit risk and the expected credit loss was minimal. As at 30 June 2023, none of the debt securities, both individually and in aggregate, held by the Group equaled or exceeded 5% of the Group's total assets. As at 30 June 2023, the Group had the debt securities of approximately RMB11.5 million (31 December 2022: RMB11.3 million).

During the Period, the Group neither invested (the Prior Period: RMB23.6 million) in listed equity securities investments nor disposed (the Prior Period: nil) any equity securities. As at 30 June 2023, these listed equity investments are denominated in HKD and were classified as financial assets at FVTPL. The Directors considered that the closing price of those listed equity securities as at 30 June 2023 was approximately the fair value of those listed equity investments. As at 30 June 2023, the fair value of the listed equity securities are approximately RMB16.1 million (31 December 2022: RMB15.0 million) and none of the equity securities, both individually and in aggregate, held by the Group equaled or exceeded 5% of the Group's total assets.

During the Period, the Group's listed equity securities investments and debt securities recorded a loss in fair value of approximately RMB0.2 million and approximately RMB0.4 million, respectively, which were presented as "Fair value changes of financial assets at fair value through profit or loss" and "Fair value changes of financial assets (debt instruments) at fair value through other comprehensive income" in the consolidated statement of comprehensive income, respectively.

Management Discussion and Analysis (Continued)

During the Period, the Group also received dividend income of approximately RMB0.6 million (the Prior Period: RMB41,000) from listed equity securities that the Group invested, and interest income of approximately RMB0.4 million (the Prior Period: RMB0.5 million) from the debt securities that the Group held. The Group neither redeemed any debt securities nor disposed any equity securities during the Period. During the Prior Period, the Group redeemed certain debt securities and recorded a loss of approximately RMB11,000. All of the dividend income from equity securities, interest income from debt securities and the loss on redemption of debt securities were included in "Other gains – net" in the interim condensed consolidated statement of comprehensive income.

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

As at 30 June 2023 and 31 December 2022, there was no outstanding interest-bearing bank loan and other borrowings. The Group's liquidity position remains strong and the Group is confident that sufficient resources could be secured to meet its commitments and working capital requirements. As at 30 June 2023, the Group maintained bank and cash balances of approximately RMB435.1 million (31 December 2022: RMB369.3 million).

Treasury policy

The Group continues to adopt a conservative treasury policy in liquidity and financial management. The Group conducted its continuing operational business transactions mainly in RMB and HK$. Surplus cash is generally placed in fixed deposits, high-quality debt securities mostly denominated in HK$ and USD and high-quality listed equity securities. The Group did not arrange any foreign currency contracts for hedging purposes.

Gearing ratio

Gearing ratio of the Group is calculated based on net debt divided by total capital. Net debt is calculated based on total interest-bearing 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 30 June 2023, the gearing ratio was 0% (31 December 2022: 0%).

Management Discussion and Analysis (Continued)

PRINCIPAL RISKS

The Group's activities are exposed to a variety of risks.

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 Period. 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.

Credit risk exposure

The Group is exposed to credit risks in its coal business and is primarily attributable to its trade and bills receivables in this business segment. 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. The carrying amounts of its trade and bills receivables represent the Group's maximum exposure to credit risk in this business segment. The Group applies the simplified approach to provide for ECLs as prescribed by HKFRS 9, which permits the use of the lifetime ECLs provision for all trade and bills receivables. As at 30 June 2023, loss allowance of approximately RMB3.4 million (31 December 2022: RMB4.2 million) were made against the gross amount of trade and bills receivables.

The Group also separately assesses trade and bills receivables that are individually significant for impairment at each reporting date. 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 experiences. 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. As at the end of the reporting period, none of the trade and bills receivables of the Group was impaired.

Management Discussion and Analysis (Continued)

CHARGES ON COMPANY'S ASSETS, COMMITMENTS AND CONTINGENT LIABILITIES

Save as disclosed in note 21 to the interim condensed consolidated financial statements of the Company, the Group had no other contracted capital expenditure, commitments and charge on the Company's assets as at 30 June 2023 and 31 December 2022.

There was no charge on the Company's assets as at 30 June 2023 and 31 December 2022.

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 in note 22 to the interim condensed consolidated financial statements of the Company, the Group had no other material contingent liabilities as at 30 June 2023 and 31 December 2022.

DIVIDEND

The Directors do not recommend the payment of any interim dividend in respect of the Period (the Prior Period: nil).

HUMAN RESOURCES AND SHARE OPTION SCHEME

As at 30 June 2023, the Group employed 799 employees (31 December 2022: 743). The total staff costs (including Directors' emoluments) for the Period was approximately RMB25.7 million (the Prior Period: RMB18.4 million). The salaries of employees largely depend on their job nature, performance and length of service with the Group. The Directors' remuneration is determined with reference to salaries paid by comparable companies, their experience and responsibilities and the 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 employee benefits, including pension, medical scheme and other applicable social insurance as required by applicable laws and regulations. Apart from regular on-the-job training, the Group encourages its employees to attend external job-related training and 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 each 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 during the Period and as at 30 June 2023.

Management Discussion and Analysis (Continued)

FUTURE OUTLOOK AND PROSPECTS

According to the April 2023 "World Economic Outlook Report" released by the International Monetary Fund ("IMF"), the global economy appears poised for a gradual recovery from the powerful blows of the pandemic and of conflict between Ukraine and Russia. China was rebounding strongly following the reopening of its economy and the unwinding of the supply-chain disruptions, while the interruptions to the energy and food markets caused by the war were receding. Simultaneously, the inflation was moving back toward its targets. However, inflation was much stickier than anticipated. While global inflation has declined, that reflected mostly the sharp reversal in energy and food prices. At present, the world economy is recovering continuously, but the prospect of recovery faces great uncertainty. In addition to high inflation, high debt, and the continuous impact of the conflict between Russia and Ukraine, the turmoil in the financial sector has brought new challenges, and the risk of economic downturn has increased. The IMF lowered its forecast for global economic growth in 2023 from 2.9 percent to 2.8 percent in January. The slowdown in growth is particularly pronounced in advanced economies, which are expected to slow to 1.3 percent in 2023 from 2.7 percent in 2022, and emerging market and developing economies are expected to grow by 3.9 percent this year.

While the global economy is facing high uncertainties, according to "China Economic Monitor: Q2 2023" issued by KPMG China in May 2023, China's economy has been recovering since the removal of pandemic-related restrictions, with demand gradually improving. The strengthening of household and corporate confidence was the key to unlocking faster economic recovery. KPMG China forecasted that the PRC's GDP growth will be 5.7% in 2023 and expected the economy to grow 5.2% in 2024. Additionally, the Asian Development Bank's "Asian Development Outlook" issued in July 2023 projected that the PRC's economy will expand by 5.0% and 4.5% in 2023 and 2024, respectively, unchanged from the April forecast, driven by strong domestic demand in the services sector.

The Group subscribes to a more conservative outlook and will remain alert to changes in the market while managing operations pragmatically. While mitigating the risks associated with external economic and business risks, the Group will continue to study the feasibility of resuming the productions of its mines with the expectation in capitalising on economic growth in the PRC in the future. By adopting a cautious and strategic approach, the Group can position itself to take advantage of potential opportunities while managing potential risks.

During the Period, the performance of the Group's coal business segment was encouraging and exciting, in which an approximate 71.7% increase in the revenue from the coal business was recorded as compared with the corresponding period. This demonstrated the Group's success in capturing the opportunities presented by the booming coal business, and is promising development for the Group.

Management Discussion and Analysis (Continued)

To further capitalise on the opportunities of the booming coal industry, the Group has continued to allocate more resources to its coal business segment. The Group has expanded its coal business by vertically integrating through the acquisition of 100% equity interests in Margaux, which indirectly owns 100% equity interests in Shanxi Margaux. Shanxi Margaux is principally engaged in (i) supply chain management services; (ii) machinery and equipment leasing; and (iii) general cargo storage services. It currently owns a coal shed with a storage capacity of 250,000 tonnes and a construction area of approximately 16,746 square meters. The coal shed is equipped with 14 specialised bulldozers and loaders and is located approximately 7.0 kilometers from the Group's washery plant and 2.5 to 3.0 kilometers from key highways in Shanxi province, the PRC. The Margaux Acquisition is expected to enhance the Group's vertical integration capabilities and improve its supply chain management, enabling it to further capitalise on the opportunities presented by the booming coal industry. The Margaux Acquisition has not yet completed up to the date of this report.

The Board believes that the Margaux Acquisition is aligned with the Group's development strategy to strengthen its existing trading of coal business and supply chain management services, as well as its presence and position in the coal industry in the PRC. The Margaux Acquisition is also expected to create synergies that will enable the Group to leverage its resources more effectively, resulting in long-term and strategic growth opportunities for the Group. By expanding its capabilities in supply chain management, the Group can enhance its vertical integration capabilities and improve its operational efficiency, which should enable it to capitalise on the opportunities presented by the booming coal industry. Overall, the Margaux Acquisition is expected to be a positive development for the Group, and should help to position it for long-term success in the coal industry.

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 the coal business. This strategy is expected to improve the Group's operating conditions and optimise business structure, enabling it to capitalise on new earnings and growth points and drive sustainable and quality development of the Group's business. By expanding its coal business and capabilities, the Group can diversify its revenue streams and reduce its reliance on any single market or product, which is likely to enhance its long-term stability and resilience. Additionally, this strategy should position the Group to take advantage of emerging opportunities in the coal industry, while also enabling it to respond effectively to changing market conditions and regulatory requirements. Overall, the Group's efforts to widen the scope of its coal business are a positive development, and should help to strengthen its position in the industry.

Management Discussion and Analysis (Continued)

The long-term outlook for the coal industry in the PRC appears to be positive, supported by the continuous growth in electricity demand and the increasing installed capacity of coal power generation. According to the "Research on the '14th Five-Year' Development Plan of the Electric Power Industry" (《電力行業「十四五」發展規劃研究》) issued by the China Electricity Council (中國電力聯合會), the electricity consumption of the country is approximately 9.2 trillion kilowatt hour, representing an average annual growth rate of 4.4%, and the national installed capacity of power generation was approximately 2.75 billion kilowatts, representing an average annual growth rate of 5.1% during the period from 2021 to 2025. Particularly, the report also indicated that the coal power installed capacity (煤電裝機) will increase from 1.08 billion kilowatts in 2020 to 1.25 billion kilowatts in 2025, representing an average annual growth rate of 3.0%. While the continued increase in the safety and environmental requirements on coal production is likely to restrict long-term coal supply, the increasing demand in electricity and the coal power installed capacity set a favorable tone to long-term demand of the coal products. This dynamic suggests the structural mismatch of the demand and supply for coal is expected to persist in the medium to long term, and a healthy long-term development trend for the coal industry and creates support for coal prices in the longer term.

The Board is optimistic about the prospects of its core businesses, particularly the coal business, as it looks ahead to the latter half of 2023. However, the Company will maintain a cautious approach to ensure long-term sustainability. To enhance its mining operations, the Company is exploring opportunities for co-operative exploration to materialise exploration permits and develop mines jointly to maximise the value of the Group's resources. Additionally, the Company aims to diversify its business by exploring the development of other quality projects with promising prospects and expanding into new business segments and locations. The Company plans to actively pursue potential acquisitions and market opportunities in the PRC to broaden its revenue base and diversify its business. The Company remains committed to carrying out its operations in an efficient and effective manner to capture market opportunities and achieve long-term growth.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

So far as was known to the Directors of the Company, as at 30 June 2023, the following Directors or the chief executive of the Company had or were deemed to have interests or short positions in the shares (the "Shares") of the Company, 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 (the "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.

Management Discussion and Analysis (Continued)

Name	Nature of interests	Total interests in shares	Approximate percentage of the Company's issued share capital
Sky Circle International Limited ("Sky Circle")	Beneficial owner (Note 1)	441,000,000 (L)	27.22%
Mr. Cui Yazhou ("Mr. Cui")	Interest in a controlled corporation (Note 1)	441,000,000 (L)	27.22%
Prosper Union Holdings Limited	Beneficial owner (Note 2)	74,361,117 (L)	4.59%
Mr. Ye Xin ("Mr. Ye")	Interest in a controlled corporation (Note 2)	74,361,117 (L)	4.59%

Remarks: (L): Long position

Notes:

1. Mr. Cui is the legal and beneficial owner of the entire issued share capital of Sky Circle which holds 441,000,000 Shares, and thus Mr. Cui is deemed to be interested in such Shares under the SFO. Save as disclosed above, Mr. Cui has no other relationship with any Directors, senior management or substantial or controlling shareholders of the Company.

2. Mr. Ye is the legal and beneficial owner of the entire issued share capital of Prosper Union Holdings Limited which holds 74,361,117 Shares, and thus Mr. Ye is deemed to be interested in such shares of the Company under the SFO.

Save as disclosed above, as at 30 June 2023, the Directors of the Company were not aware of any other Directors and chief executive of the Company who had, or is deemed to have, interests or short positions in the Shares, and underlying Shares which has to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

Management Discussion and Analysis (Continued)

INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

So far as was known to the Directors of the Company, as at 30 June 2023, the following persons (not being a Director or chief executive of the Company) had or is deemed to have an interest and short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name	Nature of interests	Total interests in Shares	Approximate percentage of the Company's issued share capital
Affinitiv Mobile Ventures Ltd.	Beneficial owner (Note 1)	320,000,000 (L)	19.75%
China Huarong Asset Management Co., Ltd.	Interest in controlled corporations (Note 1)	320,000,000 (L)	19.75%
China Huarong Overseas Investment Holdings Co., Limited	Interest in controlled corporations (Note 1)	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 1)	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 1)	320,000,000 (L)	19.75%
Pine Success International Holdings Limited	Beneficial owner (Note 2)	147,000,000 (L)	9.07%
Ms. Gao Miaomiao	Interest in a controlled corporation (Note 2)	147,000,000 (L)	9.07%
Mr. Cao Jiawei	Interest in a controlled corporation (Note 2)	147,000,000 (L)	9.07%

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

Management Discussion and Analysis (Continued)

Notes:

1. 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. held 91% 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.

2. Ms. Gao Miaomiao and Mr. Cao Jiawei hold 85% and 15% of the issued share capital of Pine Success International Holdings Limited, respectively.

Save as disclosed above, as at 30 June 2023, the Directors of the Company were not aware of any other person (other than the Directors and chief executives of the Company) who had, or was deemed to have an interests and/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, or which were recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

CONTRACT OF SIGNIFICANCE

No transactions, arrangements or 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 Period.

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 Period.

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.

Management Discussion and Analysis (Continued)

SHARE OPTION SCHEME

The old share option scheme, which was adopted by the Company on 16 December 2011 was terminated upon the conclusion of the annual general meeting of the Company held on 28 May 2021 (the "AGM") and no share options can be further granted under the old share option scheme. A new share option scheme (the "Share Option Scheme") was adopted by the shareholders of the Company at the AGM. The Share Option Scheme shall continue in force for a period commencing from the date of adoption of the Share Option Scheme (the "Date of Adoption"), which is 28 May 2021, and expire at the close of business on the date which falls ten (10) years after the Date of Adoption (that is from 28 May 2021 to 27 May 2031).

The purpose of the Share Option Scheme is to enable the Company to grant options (the "Options") to select Eligible Participants (as defined below) as incentives or rewards for their contribution or potential contribution to the Group and to enable the Group to recruit and retain high-calibre persons and attract human resources that are valuable to the Group or any entity in which the Group holds any equity interest (the "Invested Entity").

The Share Option Scheme intends to cover eligible participants (the "Eligible Participants") including (i) any directors, whether executive or non-executive and whether independent or not, of the Group or any Invested Entity; (ii) any full time or part time employees of the Group or any Invested Entity; (iii) any shareholders of any members of the Group or any Invested Entity or any holders of any securities issued by any member of the Group or any Invested Entity; and (iv) any business or joint venture partners, contractors, agents or representatives, consultants, advisers, suppliers, producers or licensors, customers, licensees (including any sub-licensee) or distributors, landlords or tenants (including any sub-tenants) of the Group or any Invested Entity.

The subscription price for Shares under the Share Option Scheme may be determined by the Board at its absolute discretion but in any event will not be less than the highest of: (i) the closing price of the Shares on the Stock Exchange as shown in the daily quotations sheet of the Stock Exchange on the date on which an offer(s) (the "Offer(s)") of the grant of an Option(s) to Eligible Participant(s) to subscribe for Share(s) under the Share Option Scheme is/are made to an Eligible Participant(s) (the "Offer Date"), which must be a day on which the Stock Exchange is open for the business of dealing in securities listed thereon ("Business Day"); (ii) the average of the closing prices of the Shares as shown in the daily quotations sheets of the Stock Exchange for the five (5) Business Days immediately preceding the Offer Date; and (iii) the nominal value of the Share on the Offer Date.

Management Discussion and Analysis (Continued)

An Offer of the grant of an Option shall be made to Eligible Participants in writing (and unless so made shall be invalid) in such form as the Board may from time to time determine and shall remain open for acceptance by the Eligible Participant concerned for a period of twenty-one (21) days inclusive of, from the date upon which it is made provided that no such Offer shall be open for acceptance after the earlier of the 10th anniversary of the Date of Adoption or the termination of the Share Option Scheme or the Eligible Participant to whom such Offer is made has ceased to be an Eligible Participant. A non-refundable nominal consideration of HK$1.00 is payable by the grantee upon acceptance of an Option.

The Share Option Scheme does not specify a minimum period for which an Option must be held before it can be exercised. The exercise period of the Options granted is determinable by the Directors, and from the date of the grant of the particular Option which shall not exceed the period of 10 years. The exercise of any Option may by subject to any vesting schedule or condition(s) to be determined by the Board.

The total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any other share option schemes of the Company must not, in aggregate, exceed 10% of the Shares in issue as at the date of the approval of the Share Option Scheme (the "Scheme Mandate Limit"), unless approval from shareholders of the Company (the "Shareholder(s)") has been obtained. Options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating the scheme mandate limit (the "Scheme Mandate Limit"). The Company may refresh the Scheme Mandate Limit at any time subject to approval of the Shareholders in general meeting, provided that the Scheme Mandate Limit as refreshed must not exceed 10% of the Shares in issue as at the date of passing the relevant resolution. Options previously granted under the Share Option Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with such schemes or exercised Options) will not be counted for the purpose of calculating this limit.

The total number of Shares available for issue under the Share Option Scheme is 162,000,000 Shares, representing approximately 10% of the total number of Shares in issue as at the date of passing of an ordinary resolution by the Shareholders at the AGM to approve the adoption of the Share Option Scheme. As at 30 June 2023, 162,000,000 Shares are available for issue under the Share Option Scheme, representing 10% of the Shares in issue as at 30 June 2023 and the date of this interim report.

The total number of Shares issued and to be issued upon exercise of the Options granted to each Eligible Participant or grantee (including exercised and outstanding options) in any twelve (12)-month period up to the date of grant shall not exceed 1% of the Shares in issue.

Management Discussion and Analysis (Continued)

As at 30 June 2023, there were no outstanding Options and no Options were granted, exercised or cancelled or lapsed during the Period. Further details of the Share Option Scheme are set out in the circular of the Company dated 23 April 2021.

PURCHASE, REDEMPTION OR SALE OF SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Period.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining a high standard of corporate governance and has taken appropriate steps to adopt and comply with the provisions of its Code on Corporate Governance Practices which adopted practices that meet the requirements of the Corporate Governance Code (the "Code") effective from 1 January 2022 as set out in Appendix 14 of the Listing Rules during the Period, with the following exceptions:

Under code provision C.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 Period, Mr. Cui was the Chairman. The Company does not maintain the office of chief executive officer and the duties of a chief executive officer has been taken up by other executive Directors and senior management of the Company. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are comparable to those in the Code.

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 of the Company (the "Directors"). Having made specific enquiry of all of the Directors, the Directors confirm that they have complied with the required standard as set out in the Model Code during the Period.

CHANGE OF ADDRESSES

The principal place of business of the Company in Hong Kong had changed from Room 2805, 28/F., Harbour Centre, No. 25 Harbour Road, Wan Chai, Hong Kong to Unit No. 4, 23rd Floor, Overseas Trust Bank Building, No. 160 Gloucester Road, Hong Kong, with effect from 14 March 2023.

Management Discussion and Analysis (Continued)

REVIEW BY AUDIT COMMITTEE

The Company has an audit committee (the "Audit Committee") which was established in accordance with the requirements of the Code and the Listing Rules for the purposes of, among other things, reviewing and providing supervision over the Group's financial reporting process, internal controls and risk management systems.

The Audit Committee comprises of three independent non-executive Directors and at least one of whom is an independent non-executive Director with appropriate qualifications or accounting or related financial management expertise. The interim report for the Period is unaudited but has been reviewed by the Audit Committee.

PAST PERFORMANCE AND FORWARD-LOOKING STATEMENTS

The performance and the results of the operations of the Group contained in this report are historical in nature, and past performance is no guarantee of the future results of the Group. This report contains certain forward-looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent the Company's current expectations, beliefs, assumptions or projections concerning future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Forward-looking statements involve inherent risks and uncertainties. Readers should be cautioned that a number of factors could cause actual results to differ, in some instances materially, from those expressed, implied or anticipated in any forward-looking statement or assessment of risk. The Group, the Directors, employees and agents of the Group assume (a) no obligation to correct or update the forward-looking statements or opinions contained in this report; and (b) no liability in the event that any of the forward-looking statements or opinions do not materialise or turn out to be incorrect.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim results announcement and this interim report are available for viewing on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.huili.hk.

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

Hong Kong, 25 August 2023