滙力集團
HUILI GROUP

# Huili Resources (Group) Limited
# 滙 力 資 源 （ 集 團 ） 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 1303

# 2016
# ANNUAL REPORT

# CONTENTS

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Wang Dayong *(Chairman)*
Mr. Shou Xuancheng
Mr. Xu Zucheng
Ms. Wang Qian

### Independent Non-Executive Directors

Mr. Cao Shiping
Mr. Cao Kuangyu
Mr. Song Shaohuan

## AUDIT COMMITTEE

Mr. Song Shaohuan *(Chairman)*
Mr. Cao Shiping
Mr. Cao Kuangyu

## REMUNERATION COMMITTEE

Mr. Cao Kuangyu *(Chairman)*
Ms. Wang Qian
Mr. Song Shaohuan

## NOMINATION COMMITTEE

Ms. Wang Qian *(Chairman)*
Mr. Cao Kuangyu
Mr. Song Shaohuan

## AUTHORISED REPRESENTATIVES

Mr. Wang Dayong
Mr. Ip Wing Wai

## COMPANY SECRETARY

Mr. Ip Wing Wai

## INDEPENDENT AUDITOR

PricewaterhouseCoopers
22 Floor, Prince's Building
Central, Hong Kong

## LEGAL ADVISERS

*as to Hong Kong law*
Michael Li & Co

*as to PRC law*
King & Capital Law Firm

*as to Cayman Islands law*
Conyers Dill & Pearman

## REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

*In Hong Kong*
3rd Floor
No. 8 Queen's Road Central
Central, Hong Kong

## SHARE REGISTRAR AND TRANSFER OFFICE

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

*In Hong Kong*
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

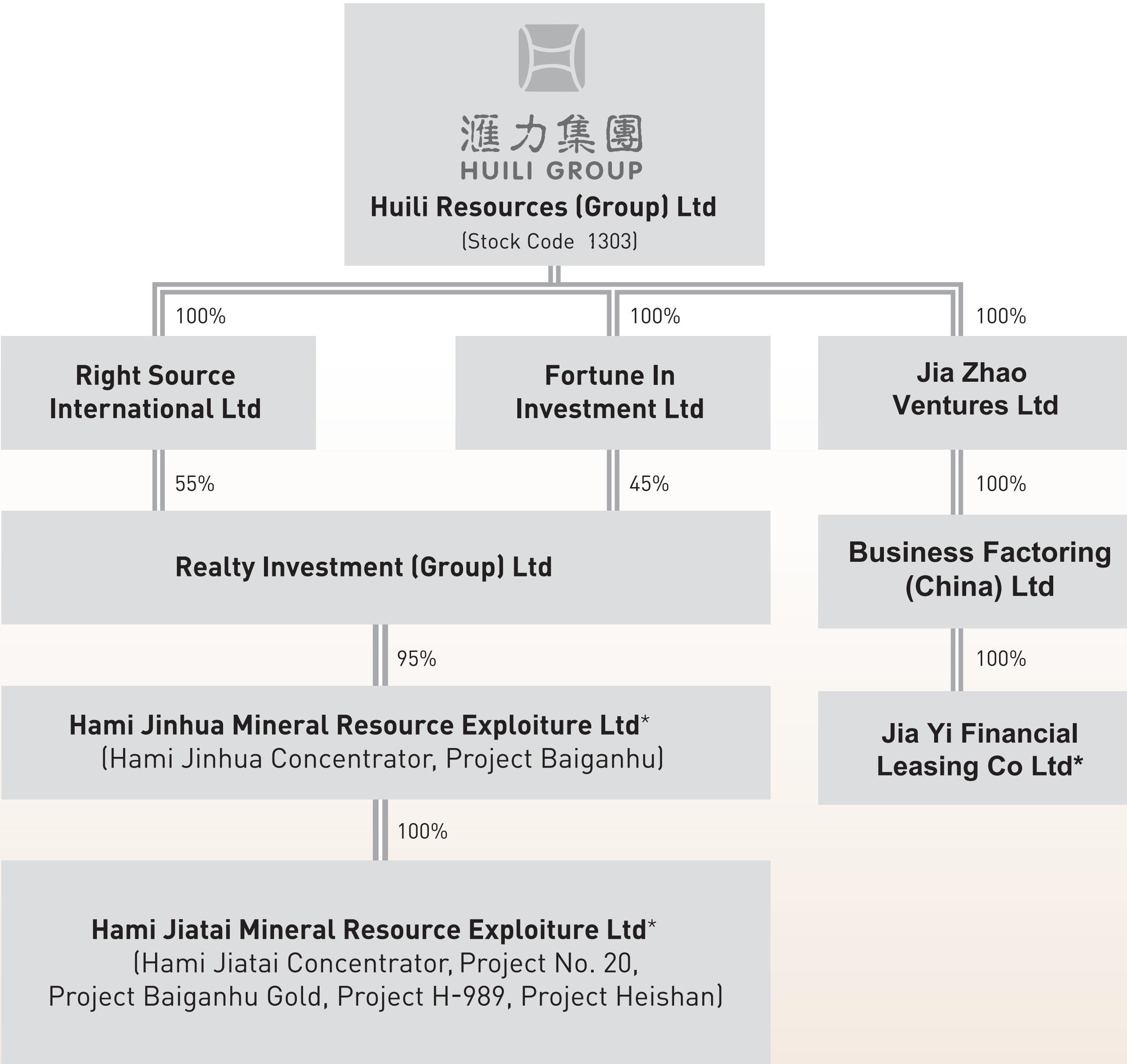
## COMPANY WEBSITE

www.huili.hk

## STOCK CODE

1303

# GROUP STRUCTURE




* For identification purposes only

# MINES INFORMATION

## MINERAL RESOURCES AS OF 31 DECEMBER 2016

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

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

## ORE RESERVES AS OF 31 DECEMBER 2016

| Project name | Reserve classification | Ore Quantity (kt) | Ni Grade (%) | Cu Grade (%) | Ni metal (t) | Cu metal (t) |
|---|---|---|---|---|---|---|
| Project No. 20 | Proved | — | — | — | — | — |
| | Probable | 1,099 | 0.64 | 0.21 | 7,071 | 2,362 |

| Project name | Reserve classification | Ore Quantity (kt) | Zn Grade (%) | Pb Grade (%) | Zn metal (t) | Pb metal (t) |
|---|---|---|---|---|---|---|
| Project Baiganhu | Proved | — | — | — | — | — |
| | Probable | 1,055 | 5.95 | 3.73 | 62,773 | 39,352 |

Source: Independent Technical Report prepared by Minarco-Mine Consult (rounding errors affect the total metal amounts reported above)

## EXPLORATION PERMITS

| Project name | Type of ore under exploration | Exploration Area (km²) | Permit expiry date (month/year) |
|---|---|---|---|
| Project Baiganhu Gold | Au | 1.28 | June 2017 |
| Project H-989 | Cu, Ni | 1.91 | June 2017 |
| Project Heishan | Cu, Ni | 20.26 | March 2017 |

## MINING PERMITS

| Project name | Type of ore under mining | Mining Area (km²) | Permit expiry date (month/year) |
|---|---|---|---|
| Project No. 20 | Cu, Ni | 0.22 | June 2018 |
| Project Baiganhu | Pb, Zn | 0.96 | September 2021 |

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

## CAPITAL EXPENDITURE AND EXPLORATION EXPENSES

The Group did not carry out any production during the year ended 31 December 2016 and 31 December 2015.

For the year ended 31 December 2016, no capital expenditure was incurred for the development and mining activities which mainly represented construction of mining structure and explosive storage of the mines (2015: RMB1.3 million).

For the year ended 31 December 2016 and 31 December 2015, no exploration expenses were charged to the statement of comprehensive income.

# CHAIRMAN STATEMENT

Dear shareholders,

On behalf of the Board ("Board") of Directors ("Directors"), I hereby present the annual report of Huili Resources Group Limited (the "Company"). 2016 was another challenging year for the Company. The overall price of bulk commodity has suffered a persistent downtrend since peaking at 2012 and the whole non-ferrous metal market has suffered from combined impact of macroeconomic conditions and slowdown of consumption till the 2nd half of 2016. We have seen some signals of market trending up at the end of 2016. For example, the average SHFE lead and zinc price in December 2016 represents a year-to-year growth of more than 50%.

Under such a volatile market environment in 2016, the Company has strategically maintained the mining activities as suspended and has strengthened the site management and implemented regular equipment inspections to ensure the facilities are under normal and safe conditions in order to extend the mine services lives and get prepared for re-starting production. As the industry turns around at around the end of 2016, the Company has actively revisited the production plan and analyzed the feasibility of re-starting the production.

Looking forward to 2017, the Company remains positive on the long-term development of non-ferrous metal industry and will keep enhancing and improving the operation management so as to bring positive contribution to the Group in the future. The Company will also actively explore potential acquisition opportunities with promising return in order to broaden and diversify the return for the Company and the shareholders as a whole.

I, on behalf of the Board would like to extend my sincere appreciation to my fellow directors, management and all of my colleagues for their hard work, dedication and commitment in delivering our strategy in volatile and challenging market conditions. For myself and on behalf of the Board, I would like to express our heartfelt gratitude to our shareholders, customers, suppliers, bankers and business associates for their continuous support throughout 2016.

The Group is taking a number of strategic initiatives which, I believe, will provide us with a platform to better withstand market risks and achieve sustainable growth. I look forward to the continuous support from our stakeholders as we bring these initiatives to fruition.

Wang Dayong
*Chairman*
28 March 2017

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

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

The Company's subsidiaries Hami Jinhua Mineral Resource Exploitation Limited ("Hami Jinhua") and Hami Jiatai Mineral Resource Exploitation Limited ("Hami Jiatai"), own two mining permits and three exploration permits in Xinjiang. In 2016, the prices of copper, nickel, zinc and lead still fluctuated at relatively low levels. The Company has strategically deferred the mining activities and scheduled more maintenance work in order to extend the mine services lives and preserve the value of the assets. We have seen some signals of non-ferrous metals market trending up approaching the end of the year, and the Company has quickly responded to this market change and has been actively studying and analyzing a feasible production plan since then.

As expected, the commodities market has begun to turn around since the last quarter of 2016, and the Company has continually explored acquisition opportunities in natural resources industry with promising return in order to expand and diversify its business and to enhance the investment return of the Group and the shareholders as a whole. On 3 December 2015, the Company entered into a non-binding memorandum of understanding in relation to a possible acquisition over an upstream natural gas project in Shanxi Province, the PRC. During the reporting period, the Company has been working on the potential acquisition opportunity and performed due diligence on the potential target group and the natural gas industry as a whole to ensure that the Company and shareholders' rights and interests are optimized. The Company is also exploring some other acquisition opportunities in the industry.

### Mines under Operation

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

### Exploration Permits

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

### Ore Processing Plants

Hami Jiatai operates a copper-nickel ore processing plant ("Jiatai Processing Plant") and Hami Jinhua owns a lead-zinc ore processing plant ("Jinhua Processing Plant"). Both plants are used to treat ore extracted from the deposits, and adopt a non-conventional flotation circuit. The throughput capacity of both plants is 1,500 tpd. Nickel, copper, lead and zinc concentrates are separated and recovered from bulk concentrate for sell. During the year of 2016, Hami Jiatai and Hami Jinhua did not carry out any mining and processing activities.

### Financial Leasing

To diversify the business activities and broaden the revenue base of the Group, the Group commenced the financial leasing business in the PRC through the acquisition of Jia Zhao Ventures Limited ("Jiazhao"), which provides financial leasing services through its subsidiary Jiayi Financial Leasing Company Limited ("Jiayi") in the PRC.

## RESULTS REVIEW

### Revenue and gross profit

For the year ended 31 December 2016, the Group carried out financial leasing service (2015: silicon coal trading) and recorded revenue of 25.6 million (2015: RMB3.2 million). Cost of sales of RMB23.9 million (2015: RMB33.5 million) represented mainly borrowing cost of financial leasing service (2015: impairment charges, depreciation charges of the mines and cost of inventories sold). Gross profit for the year amounted to RMB1.6 million (2015: gross loss of RMB30.3 million).

For the year ended 31 December 2015, due to the prolonged depression of commodity market and consolidation program of the government in relation to Mine No.2, the Group engaged an independent valuer to carry out a review of the recoverable amounts of its assets including the mining rights, land use rights, properties, plants and equipments. As a result, impairment losses on mining structure and mining rights of Hami Jiatai of approximately RMB5.5 million and approximately RMB19.5 million respectively were recognised in the income statement in 2015.

For the year ended 31 December 2016, the Group engaged an independent valuer to carry out a review of the recoverable amounts of its assets including the mining rights, land use rights, properties, plants and equipments. No additional or reversal of impairment loss was recognised for the year after taking into consideration of the valuation results of the independent valuer. The recoverable amount is determined based on the value-in-use calculation using cash flow projections, based on financial budgets approved by management covering a five year period and management's assumptions and estimates including forecast of selling price of nickel, copper, discount rates, time to restart production and inflation rate on the cash generating unit for the segment of Hami Jiatai. There was no material change in the valuation methodology adopted during the year. Further details of changes in key assumptions and parameters adopted in the valuation as compared to those in previous year has been disclosed in notes 6 and 7 to the consolidated financial statements.

### Administrative expenses

Administrative expenses for the year amounted to RMB33.2 million (2015: RMB60.3 million). They included mainly depreciation and amortization charges, consulting fees, staff costs, office overheads, and loss on stock taking of inventories of approximately RMB3.1 million (2015: Nil) for the year ended 31 December 2016. For the year ended 31 December 2015, doubtful debt provision of RMB41.1 million was made for certain receivables in relation to the deposit payment for acquisition of Shaanxi Jiarun Mining Exploiture Limited and the earnest money paid for possible acquisition of gold mines and mining processing plants in the Republic of Ghana. Both the above two acquisitions lapsed in 2013. No further doubtful debt provision was made for the year ended 31 December 2016.

### Other gains/(losses) – net

Other gains for the year mainly represented gains on bargain purchase of approximately RMB0.6 million in relation to acquisition of Jiazhao. No losses on disposal of property, plant and equipment (2015: RMB2.2 million), gains on disposal of a subsidiary (2015: RMB1.2 million) and fair value gains on derivative financial instruments (2015: RMB0.7 million) were recorded for the year ended 31 December 2016.

### Finance costs – net

The Group recorded interest expense of approximately RMB1.3 million on long-term borrowings (2015: Nil), interest income of RMB0.2 million (2015: RMB0.4 million) and exchange losses of approximately RMB1.6 million (2015: gains of RMB3.3 million) for the year ended 31 December 2016. There was no interest expense on convertible bonds for the year (2015: RMB15.9 million) as the convertible bonds matured in December 2015.

### Income tax expense

Income tax expense for the year was approximately RMB1.3 million (2015: RMB0.6 million), mainly representing current taxation arising from net interest income of Jiayi (2015: deferred taxation arising from impairment, depreciation and provisions).

### Loss attributable to the equity holders of the Company

Loss attributable to equity holders of the Company for the year was approximately RMB34.6 million (2015: RMB101.8 million). The reduction of loss was primarily due to the impairment charges on certain assets, mining rights and doubtful debts provision for other receivables aggregating approximately RMB66.2 million in the year of 2015 but no such impairment and provision were made during the year.

## SIGNIFICANT INVESTMENTS HELD

As at 31 December 2016, the Group held investment in a fund, which was a limited partnership focusing on mining and natural resources industries and has been classified as an available-for-sale financial instrument in the consolidated balance sheet of the Group, of approximately RMB114.8 million (2015: RMB112.3 million). There was an increase in value of approximately RMB2.5 million (2015: RMB10.0 million) included in other comprehensive income for the year.

The contracted period of the fund expired in December 2016 and the liquidation progress of the fund had not been completed as at 31 December 2016. In February 2017, net proceeds of approximately HK$76.9 million (equivalent to RMB68.8 million) was fully collected after netting off against the long-term borrowings of approximately HK$51.5 million (equivalent to RMB46 million).

## MATERIAL ACQUISITIONS AND DISPOSALS

### Acquisition of Jiazhao

On 4 March 2016, the Group entered into a sale and purchase agreement with two independent vendors to purchase the entire issued share capital of Jiazhao and its subsidiaries, which is principally engaged in financial leasing business in the PRC, at a total consideration HK$121.2 million by allotment and issue of 120,000,000 new shares at the issue price of HK$1.01 to the vendors. The acquisition was completed on 31 March 2016. Details of the acquisition were set out in the announcement of the Company dated 4 March 2016.

### Possible acquisition for oil and gas business in the PRC

Capitalised terms used in this paragraph shall have the same meanings as those defined in the Company's announcement dated 6 September 2016. On 29 July 2016, the Company, the Purchaser, the Vendors and the Guarantors entered into the Sale & Purchase Agreement in relation to the Acquisition, pursuant to which the Purchaser shall purchase, and the Vendors shall sell, the Sale Shares. After signing of the Sale & Purchase Agreement, the Purchaser and the Vendors have further discussed on the fulfillment of the conditions precedent and it was considered that it would take longer time than expected to fulfill certain of the conditions precedent. As such, the Sale & Purchase Agreement would not be able to proceed on its original terms and time frame and was therefore terminated on 6 September 2016. Since the Company remains to be interested in investing in the Target Group and is in the course of considering any viable alternative(s) to restructure its proposed investment in the Target Company, after arm's length negotiation, the parties to the Sale & Purchase Agreement entered into the Framework Agreement on 6 September 2016, to renegotiate the structure, terms and conditions for the New Acquisition. The Company will publish further announcement(s) to update the Shareholders and potential investors as and when necessary in the event of any material development in respect of the New Acquisition.

Save as disclosed above, there were no other material acquisitions and disposals during the year.

## LIQUIDITY AND FINANCIAL REVIEW

The Group financed its day to day operations by internally generated cash flow during the year. Primary uses of funds during the year included payment of operating expenses and repayment of convertible bonds of RMB62.6 million (equivalent to HK$74.7 million) in January 2016.

As at 31 December 2016, current assets of approximately RMB489.6 million (2015: RMB171.2 million) were comprised of inventories of RMB3.0 million, trade receivables of RMB0.1 million, other receivables and prepayments of RMB362.7 million, available for sale financial assets of RMB114.8 million and cash and cash equivalents of RMB9.0 million. Current liabilities of approximately RMB365.0 million (2015: RMB79.7 million) were mainly comprised of trade payables of RMB1.3 million, other payables and accruals of RMB315.6 million, income tax payable of RMB2.0 million and current portion of long-term borrowings of RMB46.0 million. Current ratios, being total current assets to total current liabilities, were 1.34 as at 31 December 2016 (2015: 2.15).

As at 31 December 2016, borrowings of HKD50,000,000 (equivalent to RMB44,726,000) together with interest payable of HKD1,452,000 (equivalent to RMB1,299,000) were classified as current portion of long-term borrowings. There was no outstanding interest-bearing bank loan (31 December 2015: Nil).

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

## GEARING RATIO

Gearing ratio of the Group is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings) less cash and cash equivalents. Total capital is calculated as total equity plus net debt. As at 31 December 2016, the gearing ratio was 6.38% (2015: 0.24%).

## NON-COMPETITION UNDERTAKING

According to the Prospectus, Mr. Lu Qi (the former controlling shareholder of the Company) and Mr. Wang Dayong (the controlling shareholder of the Company) have under the Non-Competition Agreement undertaken not to compete with the Company in its core business. Each of Mr. Lu and Mr. Wang has also undertaken to provide an annual confirmation to the Company confirming that he and his associates have not breached the terms of the non-competition undertaking and to provide all information necessary for the annual review by the independent non-executive directors for the enforcement of the non-competition deed. Details of the undertaking have been disclosed in the "Relationship With Our Controlling Shareholders" section in the Prospectus. Mr. Lu resigned as executive Director of the Company with effect from 8 June 2016. Mr. Wang has provided the annual confirmation to the Company confirming that he and his associates have not breached the terms of the non-competition undertaking for the year ended 31 December 2016. The independent non-executive directors have also enquired Mr. Wang in the board meeting on 28 March 2017 for the purpose of considering and approving the financial statements for the year ended 31 December 2016.

## CHARGES ON COMPANY'S ASSETS, COMMITMENTS AND CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

As at 31 December 2016, the Group had no contracted capital expenditure (2015: Nil).

As at 31 December 2016, the future aggregate minimum lease payments under non-cancellable operating leases of various offices was approximately RMB4.7 million (2015: RMB1.8 million).

As at 31 December 2016, the Group had no investment commitments (2015: Nil).

There were no charges on the Company's assets as at 31 December 2016 (2015: Nil).

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

Save as disclosed above, as at 31 December 2016, the Group had no material contingent liability (2015: Nil).

## HUMAN RESOURCES AND SHARE OPTION SCHEME

As at 31 December 2016, the Group employed 45 employees. The total staff costs (including directors' emoluments) for the year were approximately RMB9.4 million (2015: RMB9.0 million). The salaries of employees largely depend on their job nature, performance and length of service with the Group. The directors' remuneration is determined with reference to salaries paid by comparable companies, experience, responsibilities and performance of the Group. Discretionary bonuses are also available to the Group's employees depending on the overall performance of the Group. In addition to the basic remuneration, the Group also provides employees with employees benefits, including pension, medical scheme and other applicable social insurance as required by the applicable laws and regulations. Apart from regular on-job training, the Group provides training to new employees including an introduction to relevant regulations and general safety awareness and a workshop specific training to the work area and the role of individual within the workshop. Directors and employees, among others, are entitled to participate in the share option scheme at the discretion of the board. No share option was granted/exercised and outstanding as at 31 December 2016.

## FUTURE OUTLOOK

The demand for basic metals in China slowed down in recent years and such status evolved further into 2016. In the last few years, some producers struggled to survive and many of them postponed their production activities in order to survive the downturns. Though we have seen some turnaround in the non-ferrous metals markets at the end of 2016, looking forward, the Company believes the non-ferrous metals commodity market will be volatile and remain uncertain in the near future.

Other than continuously carrying out further exploration and study of current mines and tenements in order to extend the mine service lives and preserve the value of the assets, the Company will be actively facilitating the completion of the existing acquisition projects and seeking for other acquisition opportunities to broaden the revenue sources, diversify existing business, and enhance investment return for the Company and to create value to all the shareholders. The Company believes that it is now a good timing to acquire more natural resources and prime assets, leveraging the Company's competitive advantages of geologic and exploration expertise, business network in natural resource sector, and fundraising access, and it is also in accordance with the Company's development strategy to acquire. The Company will continue to invest in its existing mining and exploration projects, as well as to seek for and facilitate other potential acquisition opportunities.

## EXECUTIVE DIRECTORS

### Mr. Wang Dayong (王大勇)

Mr. Wang, aged 50, is an executive director and the Chairman of the Company. Mr. Wang joined the Group in January 2008. He graduated from the University of Nanjing (南京大學) with a Bachelor degree in Economics. He also holds a Master degree in Commerce and Economics major in Money and Banking from Graduate University of Chinese Academy of Social Sciences (中國社會科學院研究生院) and a Doctor of Economics from the Business School of Jilin University (吉林大學).With over 20 years' experience in investment, finance and management, Mr. Wang is familiar with corporate merger and acquisition and direct investment. He has comprehensive and in-depth knowledge of coal, coal chemical, metal mineral resources industries and maintains strong networks in business field and with central and local government agencies in the PRC.

During July 1988 to December 1998, Mr. Wang had been worked with the China State Farm Agribusiness Group Corp. (中國農墾集團總公司), the PRC. During the period from November 2003 to December 2008, Mr. Wang served as a managing director of China Coal and Coke Investment Fund L.P. (the "Partnership") and China Coal and Coke Investment Holding Company Limited. He was in charge of the foundation of the Partnership which was established on 4 February 2005. His main responsibilities included investment structuring, strategic development and investors relationship. Mr. Wang involved in the investment in Fortune Dragon Group Limited ("Fortune Dragon"), a company with major investment in coking coal mine operations in Shanxi, the PRC. The Partnership exited its investment in Fortune Dragon in July 2008 with satisfactory return on investment. He was an executive director and CEO of E-Life International Limited (Stock Code: 370) (now known as "China Best Group Holding Limited"), from September 2004 to June 2007. During the period from January 2005 to August 2008, Mr. Wang served as a director and chief executive officer of Fortune Dragon. During his tenure with Fortune Dragon, Mr. Wang was responsible for the strategic financing, direct investment and merger and acquisition. Mr. Wang successfully procured a fund raising exercise of USD160 million through an international bank for the investment of three coking coal mines in Shanxi in March 2006. Such three coking coal mines were subsequently sold to Shougang Fushan Resources Group Limited ("Shougang Fushan") (Stock Code: 639) at the consideration of HK$10.53 billion in July 2008. Mr. Wang was also an executive director of King Stone Energy Group Limited ("King Stone Energy") (Stock Code: 663) from July 2009 to January 2013, AID Partners Capital Holdings Limited (Stock code: 8088) from October 2014 to June 2015 and the independent non-executive director of Up Energy Development Group Limited (Stock code: 307) from March 2016 to September 2016.

Mr. Wang was appointed as an executive director on 19 February 2010.

### Mr. Shou Xuancheng (壽鉉成)

Mr. Shou, aged 67, is an executive director. He joined the Group as vice president of the Company in July 2014. He holds a Master Degree in Petroleum Engineering Management and a Doctor Degree in Petroleum Reservoir Management from China University of Petroleum. He held senior positions in group of companies in China National Petroleum Corporation from 1985 to 2004 and has over 44 years' experience in oil and gas industry. He was the secretary to the board of PetroChina Company Limited ("PetroChina")(stock code: 857) from September 1999 to August 2001 and the chief executive officer of PetroChina International Co., Ltd., a wholly owned subsidiary of PetroChina, from September 2001 to December 2004. He was also the vice chairman and executive director of CITIC Resources Holdings Limited ("CITIC Resources") (stock code: 1205) from September 2005 to October 2009 and the independent non-executive director of CITIC Resources from July 2014 to December 2015. He was also the senior vice president of MIE Holdings Corporation (stock code: 1555) till July 2014.

He was appointed as a non-executive director on 8 September 2015 and was re-designated from a non-executive director to an executive director on 17 November 2015.

## Mr. Xu Zucheng (徐祖成)

Mr. Xu, aged 64, is an executive director. He joined the Group in November 2015. He graduated from the Geological Department of Northwest University, the PRC, in 1976. Mr. Xu served as Deputy Chief Geologist in PetroChina Coalbed Methane Company Limited since 2008. Prior to the aforesaid position, Mr. Xu worked for the Shaanxi Bureau of Geology and Mineral Resources, the Daqing Oilfield Institute and the Secretariat Office of the Ministry of Petroleum. He was also the Head of Reserve and Mining Right Divisions of PetroChina Exploration & Production Company. Mr. Xu has substantial experience in oil and gas exploration and mining right management. He was also awarded the second prize of Science and Technology of the Ministry of Land and Resources. Mr. Xu was the executive director of Sino Oil and Gas Holdings Limited (stock code: 702) from March 2012 to June 2013.

Mr. Xu was appointed as an executive director on 17 November 2015.

## Ms. Wang Qian (王茜)

Ms. Wang, aged 41, is an executive director. She joined the Group in January 2016. She has over 15 years of experience in finance, investment and management area. From October 2001 to June 2002, Ms. Wang was employed by PricewaterhouseCoopers Consulting, a company principally engaged in the provision of management consulting services, where she served as a consultant and was primarily responsible for enterprise strategy and financial management consultation. Ms. Wang successively acted as a senior manager of the finance strategy & business development department at the US headquarters of Goodyear Tire & Rubber Company and the Asia-Pacific region Finance Director of Goodyear Engineered Products Company from July 2004 to March 2009, Goodyear's principal business is manufacturing tires and rubber products, where she was primarily in charge of mergers and acquisitions, and annual operation planning, as well as organizing and supervising the financial activities for Asia Pacific region, After Goodyear Engineered Products Company was acquired by The Carlyle Group, Ms. Wang had led several acquisitions and restructuring projects. Since March 2009, Ms. Wang has served as the president of HIXIH Investment, a company principally engaged in the business of equity and securities investment, and Ms. Wang is primarily responsible for company management and investment business, She has accomplished and participated in several IPOs in New York Stock Exchange, The Stock Exchange of Hong Kong Limited and Shanghai Stock Exchange for companies in finance, energy and resources, culture industries. Ms. Wang received a certificate of Certified Public Accountant granted by the Accountancy Board in the USA in October 2005. Ms. Wang received her bachelor's degree of economics from the Central University of Finance and Economics in July 1998. Ms. Wang received her Master of Business Administration degree from the Carnegie Mellon University in the USA in May 2004.

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

## INDEPENDENT NON-EXECUTIVE DIRECTORS

### Mr. Cao Shiping (曹仕平)

Mr. Cao, aged 67, is an independent non-executive director. He graduated from the Kunming University of Science and Technology (昆明工學院) (now known as Kunming University of Science and Technology (昆明理工大學) in 1975 majoring in mining. Mr. Cao has the qualification of chief senior engineer and approximately 30 years of experience in mining industry. From 1975 to 1998, Mr. Cao worked for various positions in Dayao Copper Mine (大姚銅礦). During his tenure, Mr. Cao obtained several awards of Yunnan Province Science and Technology Advancement Division Three (雲南省科學技術進步三等獎) granted by Yunnan Province government in the years of 1990, 1992, 1996 and 1997 for his contribution towards technology advancement in various projects. In 1993, Mr. Cao was also awarded as a Model Worker (勞動模範) in the PRC nonferrous metal industry by China Nonferrous Metals Industry Company (中國有色金屬工業總公司) and China National Machinery Metallurgy Union (中國機械冶金工會). The significant contributions by Mr. Cao in engineering also resulted him in receiving the prestigious governmental special allowance granted by the State Council of the People's Republic of China from 1993. Since 1998, Mr. Cao joined Yunnan Copper (Group) Company Limited (雲南銅業(集團)有限公司) for various senior technical positions and currently holds the consultant position. Mr. Cao was admitted as a certified senior Enterprise Risk Manager in 2006.

Mr. Cao was appointed as an independent non-executive director on 16 December 2011.

### Mr. Cao Kuangyu (曹貺予)

Mr. Cao, aged 66, is an independent non-executive director. He graduated from the Hunan College of Finance and Economics (湖南財經學院) (now known as University of Hunan (湖南大學) with a Bachelor degree in Finance in 1982. He also holds a Master of Science degree in Financial Management from the University of London. Mr. Cao has extensive experience in the area of banking and finance. For the period from July 1981 to February 1996, Mr. Cao worked in Bank of China, Hunan Province branch and his last position was the deputy president of the branch. For the period from February 1996 to September 1999, he was the deputy general manager of Bank of China, Singapore branch. Mr. Cao was the president of China Citic Bank, Shenzhen branch for the period from September 1999 to September 2003. He was then the managing director of the investment banking division of BOCI Asia Limited from September 2003 to September 2007.

He serves as an independent non-executive director of New Silkroad Culturaltainment Limited (Stock Code: 472) since February 2004, an independent non-executive director of Dongwu Cement International Limited (Stock Code: 695) since May 2012, an independent non-executive director of Junefield Department Store Group Limited (Stock Code: 758) since January 2013 and an independent non-executive director of Dingyi Group Investment Limited (Stock Code: 508) since December 2014. He served as an independent non-executive director of Huarong International Financial Holdings Limited (Stock Code: 993) from April 2010 to June 2010, a non-executive director of Continental Holdings Limited (Stock Code: 513) from April 2010 to December 2011 and an independent non-executive director of King Stone Energy from February 2010 to April 2012.

Mr. Cao was appointed as an independent non-executive director on 16 December 2011.

### Mr. Song Shaohuan (宋少環)

Mr. Song Shaohuan, aged 48, is an independent non-executive director. He holds a Bachelor degree in Computer Science from Taiyuan University of Technology, a Master degree in Marketing from University of International Business and Economics, China, a Master degree in Computer Science from the Moore School, University of Pennsylvania and a Master of Business Administration degree from the Wharton School, University of Pennsylvania. He possesses over 20 years' experience in financial management, project investment and corporate management. Currently, he is the partner of Leading Capital responsible for fund management. He was the general partner of Qun Zhan Capital Partner and chief operating officer of Oriental Creation Management Group. Before that, he worked for Booze Allen Hamilton as senior project manager for China practice.

Mr. Song was appointed as an independent non-executive director on 1 October 2013.

## SENIOR MANAGEMENT

### Mr. Ip Wing Wai (葉永威)

Mr. Ip, aged 38, is qualified accountant, company secretary and the chief financial officer of the Company. Mr. Ip holds a Bachelor degree in Business Administration in Accounting from the The Hong Kong University of Science and Technology. He is a member of The Hong Kong Institute of Certified Public Accountants since 2004. He joined the Company since August 2011. Mr. Ip is responsible for the Group's overall financial reporting and company secretarial functions of the Group. Mr. Ip possesses approximate 15 years of experience in accounting, auditing and corporate field. Mr. Ip worked in an international accounting firm for auditing and Beijing Enterprises Holdings Limited (Stock Code: 392) as an accounting manager. During September 2006 to August 2008, Mr. Ip served as a finance manager and company secretary in a Chinese coal investment company. He was in charge of financial reporting, corporate finance, merger and acquisition and company secretarial matters and he also coordinated the audit work and due diligence work of a transaction in selling the company's interest in three coal mines in Shanxi to Shougang Fushan. He then worked with Shougang Fushan as a senior finance manager from September 2008 to March 2010. During the tenure, he was mainly responsible for the group's financial reporting, project evaluation, regulatory compliance and investors relationship. Prior joining the Group, Mr. Ip has worked for King Stone Energy since April 2010.

## Mr. Huang Kenian (黃可年)

Mr. Huang, aged 41, has been the vice president of the Company since January 2008, and is responsible for direct investment and corporate finance. Mr. Huang holds a Bachelor degree in Economics from the Finance and Banking Institute of China (中國金融學院) (now University of International Business and Economics (對外經濟貿易大學). Mr. Huang has over 15 years experience in corporate finance and merge and acquisition field. During the period from November 2003 to October 2009, Mr. Huang served as a vice president of China Coal and Coke Investment Fund L.P. (the "Partnership") and China Coal and Coke Investment Holding Company Limited. He was one of responsible persons in charge of the foundation of the Partnership which established on 4 February 2005. His main responsibilities included due diligence work on target companies, preparation for business development plan and liaison with different professional parties. Mr. Huang involved in the investment in Fortune Dragon in mid of 2005. The Partnership exited its investment in Fortune Dragon in July 2008 with satisfactory return on investment. From January 2005 to July 2008, Mr. Huang worked as a general manager of capital market department in Fortune Dragon. During his tenure with Fortune Dragon, he successfully procured a fund raising exercise of USD160 million through an international bank for the investment of three coal mines in Shanxi in March 2006, led a task force of the initial public offerings of the company during the period from June 2006 to May 2007 and coordinated the deal of selling the company's interest in three coal mines to Shougang Fushan. Between 1998 to 2003, he worked in various companies, including Guofu Investment Management Co., Ltd. (國富投資管理有限公司), Beijing Xintong Media & Cultural Investment Co., Ltd. (北京信通傳之媒文化投資有限公司) and Beijing Jianhao Industrial Co., Ltd. (北京建昊實業有限公司).

## Mr.Li Jiaxing (李嘉興)

Mr. Li, aged 55, is the Deputy General Manager of Hami Jinhua. He is responsible for the Group's mining and exploration management.

Mr. Li is a geologist, holding a professor-level senior engineer professional qualification and has extensive experience in geological exploration. Mr. Li had worked at Xinjiang Non-ferrous Geological Exploration Bureau for 30 years, and had been an engineer, senior engineer, chief engineer of Xinjiang Non-ferrous Geological Exploration Bureau Team 706, participating in several large-scale metal mining exploration projects in Xinjiang region; he subsequently worked at the headquarter of Xinjiang Non-ferrous Geological Exploration Bureau, and served as a professor-level senior engineer, deputy chief engineer and the Commissioner of geological research department, responsible for coordinating the set-up, design, supervision, samples inspection and other works relating to various geological exploration projects, and organizing research cooperation.

# REPORT OF THE DIRECTORS

The directors present their report and the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2016.

## CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 19 February 2010 as an exempted company with limited liability under Companies Law (Cap 22, as amended and revised) of the Cayman Islands in preparation for a listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") under the name of Realty Resources (Group) Limited. On 13 May 2010, the Company changed its name to Huili Resources (Group) Limited. The Company issued 250,000,000 ordinary new shares of HK$0.1 each at a subscription price of HK$1.7 per share pursuant to the public offering. The Company's shares including these new shares were listed on the main board of Hong Kong Stock Exchange Limited on 12 January 2012.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The subsidiaries are principally engaged in the mining, ore processing and sales of nickel, copper, lead and zinc products and financial leasing business in the People's Republic of China (the "PRC"), details of which are set out in Note 9 to the consolidated financial statements. Save for commencement of financial leasing business, there were no significant changes in the nature of the Group's principal activities during the year.

## BUSINESS REVIEW

Details of business review, financial performance and future development of the Group's business are set out in the "Management Discussion and Analysis" from pages 7 to 12.

### Principal Risks and Uncertainties

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

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

Details of financial risks are set out in Note 3 to the consolidated financial statements.

## Environmental Policies and Performance

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

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

The Group was in compliance with all relevant PRC laws and regulations regarding environmental protection in all material respects and was not subject to any environmental claims, lawsuits, penalties or administrative sanctions during the year. The Group is also committed to allocate operating and financial resources to ensure environment protection compliance as required by applicable PRC laws and regulations. As at 31 December 2016, the provision for close down, restoration and environmental costs was approximately RMB3.2 million (2015: RMB3.1 million), details of which are set out in notes 21 and 35(a) to the consolidated financial statements.

## Compliance with the Relevant Laws and Regulations

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

The Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group during the year. There was no material breach of or non-compliance with the applicable laws and regulations by the Group for the year ended 31 December 2016.

## Relationship with Employees, Customers and Suppliers and other Stakeholders

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

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

## RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2016 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 41 to 107.

The directors do not recommend the payment of any dividend for the year ended 31 December 2016.

## DISTRIBUTABLE RESERVES

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

Under the Companies Law of the Cayman Islands, the share premium account is distributable to shareholders if immediately following the date on which the Company proposes to distribute the dividend, the Company will be able to pay its debts as they fall due in the ordinary course of business. As at 31 December 2016, the Company had a reserve balance of RMB398,554,000, representing share premium of RMB668,768,000 net of accumulated losses of RMB270,214,000, available for distribution to the shareholders.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 108. This summary does not form part of the audited financial statements.

## SHARE CAPITAL AND CONVERTIBLE BONDS

Details of movements in the Company's share capital and convertible bonds are set out in Notes 18 and 23 to the consolidated financial statements, respectively.

Shares were issued upon completion of acquisition of subsidiaries during the year. Details about the issue of shares are also set out in Note 18 to the consolidated financial statements.

## PRE-EMPTIVE RIGHTS

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

## PURCHASE, REDEMPTION OR SALE OF SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's share during the year ended 31 December 2016.

## MAJOR CUSTOMER AND SUPPLIER

In the year under review, there were two customers and one supplier in relation to the financial leasing business of the Group. Each customer accounted for 50% of the total sales for the year. None of the directors of the Company or any of their respective close associates (within the meaning of the Rules Governing the Listing of Securities on the Stock Exchange (the"Listing Rules")), or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's above-mentioned customers and supplier.

## DIRECTORS

The directors of the Company during the year and up to the date of this report were:

### Executive directors:

| | |
|---|---|
| Mr. Wang Dayong *(Chairman)* | |
| Mr. Lu Qi | (resigned on 8 June 2016) |
| Mr. Sun Zhong | (resigned on 5 January 2017) |
| Mr. Shou Xuancheng | |
| Mr. Xu Zucheng | |
| Ms. Wang Qian | (appointed on 26 January 2016) |
| Mr. Liu Ting | (resigned on 26 January 2016) |

### Independent non-executive directors:

Mr. Cao Shiping
Mr. Cao Kuangyu
Mr. Song Shaohuan

In accordance with the Company's articles of association, (i) directors appointed shall hold office until the forthcoming annual general meeting and eligible for re-election and (ii) at each annual general meeting one-third of directors shall retire from office by rotation. Mr. Cao Shiping, Mr. Cao Kuangyu and Mr. Song Shaohuan will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 13 to 17.

## DIRECTORS' SERVICE CONTRACTS

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

## DIRECTORS' REMUNERATION

The remuneration of the directors are determined by the remuneration committee of the Company with reference to the directors' duties, responsibilities and performance and the results of the Group. Further details of the Company's remuneration committee are set out in the corporate governance report on pages 28 to 35 of the annual report.

## PERMITTED INDEMNITY

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

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

## DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries or fellow subsidiaries was a party during the year.

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

As at 31 December 2016, the following directors or the chief executives of the Company had or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

| Name of director | Nature of interest | Total interest in shares | Approximate percentage of the Company's issued share capital |
|---|---|---|---|
| Mr. Wang Dayong (Note 1) | Interest in a controlled corporation | 412,132,702 (L) | 25.44% |

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

Notes:

1. The shares were held by Sky Circle International Limited which is wholly owned by Mr. Wang Dayong.

### Interests in the shares of associated corporations of the Company

| Name | Name of associated corporation | Nature of interest | Approximately percentage of interest in the share capital of the associated corporation |
|---|---|---|---|
| Mr. Wang Dayong | Sky Circle International Limited | Beneficial owner | 100% |

Save as disclosed above, as at 31 December 2016, none of the directors and chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions 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.

## DIRECTORS' INTERESTS IN A COMPETING BUSINESS

Save as disclosed in the section headed "Non-Competition Undertaking" under the "Management Discussion and Analysis", no directors of the Company or his associate has engaged in any business which competes or is likely to compete directly or indirectly with that of the Group.

## EQUITY LINKED AGREEMENTS

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

### Share Option Scheme

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

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

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

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

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

The Company has not granted any share option under the Share Option Scheme during the year. There was no outstanding share option as at 31 December 2016.

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

## CONTRACT OF SIGNIFICANCE

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

## MANAGEMENT CONTRACTS

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

## CLOSURE OF REGISTER OF MEMBERS

In order to establish entitlements to attend and vote at the annual general meeting held on Thursday, 1 June 2017, the register of members of the Company will be closed from Thursday, 25 May 2017 to Thursday, 1 June 2017, both days inclusive, during which period no transfer of the shares can be registered. Shareholders are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 24 May 2017.

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

So far as was known to the Directors and the chief executive of the Company, as at 31 December 2016, the following persons (not being directors or chief executive of the Company of which interests were disclosed above) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

| Name | Nature of interest | Total interests in shares | Approximate percentage of the Company's issued share capital |
|---|---|---|---|
| Sky Circle International Limited | Beneficial owner (Note 1) | 412,132,702 (L) | 25.44% |
| Ms. Yuan Hong | Interest of spouse (Note 1) | 412,132,702 (L) | 25.44% |
| Affinitiv Mobile Ventures Ltd | Beneficial owner (Note 2) | 320,000,000 (L) | 19.75% |
| China Huarong Asset Management Co., Ltd. | Interest in a controlled corporation (Note 2) | 320,000,000 (L) | 19.75% |
| China Huarong Overseas Invesment Holdings Co., Limited | Interest in a controlled corporation (Note 2) | 320,000,000 (L) | 19.75% |
| Ministry of Finance of the People's Republic of China | Interest in a controlled corporation (Note 2) | 320,000,000 (L) | 19.75% |
| Sun Siu Kit | Interest in a controlled corporation (Note 2) | 320,000,000 (L) | 19.75% |
| Huarong Zhiyuan Investment & Management Co., Ltd. (華融致遠投資管理有限責任公司) | Interest in a controlled corporation (Note 2) | 320,000,000 (L) | 19.75% |
| Huarong Overseas Chinese Asset Management Co., Ltd. (華融華僑資產管理股份有限公司) | Interest in a controlled corporation (Note 2) | 320,000,000 (L) | 19.75% |
| Guangdong Kam Fung Group Company Limited (廣東錦峰集團有限公司) | Interest in a controlled corporation (Note 2) | 320,000,000 (L) | 19.75% |
| Legend Vantage Limited | Beneficial owner (Note 3) | 188,638,883 (L) | 11.64% |
| Mr. Li Guangrong | Interest in a controlled corporation (Note 3) | 188,638,883 (L) | 11.64% |
| Ms. Gao Miaomiao | Interest in a controlled corporation (Note 3) | 188,638,883 (L) | 11.64% |

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

Notes:

1. Yuan Hong is the wife of Mr. Wang Dayong. Mr. Wang is the legal and beneficial owner of the entire issued share capital of Sky Circle International Limited.

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

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

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

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

Save as disclosed above, as at 31 December 2016, the directors and the chief executive of the Company were not aware of any other person who had, or was deemed to have, interests and/or short positions in the shares or underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO.

## SUFFICIENCY OF PUBLIC FLOAT

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

## EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in Note 39 to the consolidated financial statements.

## AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

ON BEHALF OF THE BOARD

**Mr. Wang Dayong**
*Chairman*

Hong Kong, 28 March 2017

# REPORT ON CORPORATE GOVERNANCE

## INTRODUCTION

The Company is committed to maintain a high standard of corporate governance and has taken appropriate steps to adopt and comply with the provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules during the year except for provision A4.1 of the Code as explained in this report.

## DIRECTORS' SECURITIES TRANSACTIONS

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

## BOARD OF DIRECTORS

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

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

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

The Company has received the annual confirmation of independence from each of the independent non-executive directors as required under Rule 3.13 of the Listing Rules. The Company considers all independent non-executive directors, namely Mr. Cao shiping, Mr. Cao Kuangyu and Mr. Song Shaohuan, to be independent of the Company.

## DIRECTORS' ATTENDANCE RECORD AT MEETINGS

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

| | Attended/Eligible to attend | | | | |
|---|---|---|---|---|---|
| | Board meeting | Audit Committee meeting | Remuneration Committee meeting | Nomination Committee meeting | General meeting |
| **Executive Directors:** | | | | | |
| Mr. Wang Dayong *(Chairman)* | 9/9 | N/A | N/A | 0/0 | 1/1 |
| Mr. Lu Qi (resigned on 8 June 2016) | 3/6 | N/A | 0/0 | N/A | 0/0 |
| Mr. Sun Zhong (resigned on 5 January 2017) | 7/9 | N/A | N/A | N/A | 1/1 |
| Mr. Shou Xuancheng | 3/9 | N/A | N/A | N/A | 1/1 |
| Mr. Xu Zucheng | 3/9 | N/A | N/A | N/A | 0/1 |
| Ms. Wang Qian (appointed on 26 January 2016) | 3/8 | N/A | 1/1 | 1/1 | 1/1 |
| Mr. Liu Ting (resigned on 26 January 2016) | 1/1 | N/A | N/A | N/A | 0/0 |
| **Independent Non-Executive Directors:** | | | | | |
| Mr. Cao Shiping | 6/9 | 4/4 | N/A | N/A | 1/1 |
| Mr. Cao Kuangyu | 2/9 | 3/4 | 1/1 | 1/1 | 0/1 |
| Mr. Song Shaohuan | 5/9 | 4/4 | 1/1 | 1/1 | 1/1 |

Note: Mr. Cao Kuangyu could not attend the annual general meeting due to his other business engagement.

## ROLES AND RESPONSIBILITIES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under provision A2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Wang Dayong is the chairman while Mr. Sun Zhong is the chief executive officer.

Following the resignation of Mr. Sun Zhong as executive director and the chief executive officer of the Company on 5 January 2017, the duty of chief executive officer has been taken up by Mr. Wang Dayong, an executive Director and the chairman, and other senior management of the Company. The Board considers that the situation is temporary and the structure did not impair the balance of power and authority between the Board and the management of the Group, which was ensured by the operations of the board committees which comprise experienced and high calibre individuals. The Company will make its best endeavor for seeking a suitable candidate for filling up the vacancy and keep its shareholders and investors informed by way of further announcement upon the appointment of a new chief executive officer.

## TERMS OF NON-EXECUTIVE DIRECTORS

Under provision A4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election. All independent non-executive directors of the Company are not appointed for a specific term but all of them are subject to retirement by rotation in accordance with the Articles of Association of the Company. The Board considers that sufficient measures were taken to ensure the corporate governance practices of the Company are not less than those in the Code.

## REMUNERATION OF SENIOR MANAGEMNET

The remuneration of the members of the senior management by band for the year ended 31 December 2016 is set out below:

| Remuneration bands | Number of persons |
|---|---|
| Up to HK$1,000,000 (up to RMB894,500 equivalents) | 2 |
| HK$1,000,001 and above (RMB894,501 equivalents and above) | 1 |

## AUDIT COMMITTEE

The Company has established an audit committee ("Audit Committee") on 16 December 2011 with written terms of reference which are in line with the code provisions set out in the Code. The Audit Committee meets at least twice a year for reviewing the reporting of annual and interim results and other information to the shareholders, and the effectiveness and objectivity of the audit process. Additional meetings may be held by the Audit Committee from time to time to discuss special projects or other issues which the Audit Committee considers necessary. The external auditors of the Company may request a meeting if they consider that one is necessary. The Audit Committee also provides an important link between the Board and the Company's auditors in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the auditors. The Audit Committee currently consists of Mr. Song Shaohuan as chairman and Mr. Cao Shiping and Mr. Cao Kuangyu as members. All of them are independent non-executive directors.

The Audit Committee is also responsible for performing the functions set out in the provision D.3.1 of the Code. The Audit Committee reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the code of conduct and compliance manual (if any) applicable to employees and Directors, the compliance of the Listing Rules, and the Company's compliance with the Code and disclosure in this Corporate Governance Report.

During the year, the Audit Committee reviewed with the management and the Company's auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control, risk management and financial reporting matters including the annual results for the year ended 31 December 2015 and interim results for the six months ended 30 June 2016.

## REMUNERATION COMMITTEE

A remuneration committee ("Remuneration Committee") of the Group was established on 16 December 2011 with written terms of reference in line with the Code. The responsibilities of the Remuneration Committee include considering and recommending to the Board the Group's remuneration policy and structure and reviewing and determining the remuneration packages of the directors and senior management. The directors were remunerated with reference to their respective duties and responsibility with the Company, the Company's performance and current market situation. Details of remunerations of the directors for the year are disclosed in note 33 to the consolidated financial statements.

The Remuneration Committee currently comprises two independent non-executive directors, Mr. Cao Kuangyu as chairman and Mr. Song Shaohuan, and one executive director, Ms. Wang Qian. The Remuneration Committee held one meeting to review the existing remuneration policy and structure of the Company during the year.

## NOMINATION COMMITTEE

A nomination committee ("Nomination Committee") of the Group was established on 16 March 2011 with written terms of reference in line with the Code. The responsibilities of the Nomination Committee include: (i) review and recommend the structure, size, composition and skills mix of the Board at least annually; (ii) identify and nominate candidates to fill casual vacancies of directors for the Board's approval; (iii) assess the independence of independent non-executive directors; (iv) make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular the chairman of the Board and the chief executives. According to the board diversity policy adopted by the Nomination Committee, board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service etc. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service etc. The final decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee currently comprises one executive director, Ms. Wang Qian as chairman, and two independent non-executive directors, Mr. Cao Kuangyu and Mr. Song Shaohuan. The Nomination Committee held one meeting to review the Board composition during the year.

## ACCOUNTABILITY AND AUDIT

### Directors' Responsibilities for the Financial Statements

The directors are responsible for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2016, the directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The directors are also responsible for keeping proper accounting records with reasonable accuracy for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Save as disclosed in Note 2.1.1 to the financial statements, there are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

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

### Auditor's Responsibilities and Remuneration

An analysis of remuneration in respect of services provided by the auditor of the Group, PricewaterhouseCoopers, of the Group is as follows.

| | RMB'000 |
|---|---|
| Annual audit services | 1,259 |
| Services in respect of the possible acquisition during the year | 1,400 |
| | 2,659 |

The statement of the auditor of the Company regarding their reporting responsibilities is set out in the Independent Auditor's Report on pages 36 to 40.

## RISK MANAGEMENT AND INTERNAL CONTROL

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

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

### Risk Identification

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

### Risk Assessment

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

### Risk Response

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

### Risk Monitoring and Reporting

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

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

- established one internal compliance officer, Mr. Ip Wing Wai, the company secretary and chief financial officer, who will report to the Board directly on a monthly basis to ensure that operations of the Group are in compliance with applicable laws, rules and regulations, to strengthen the existing internal control framework and to recommend remedial plans to the Board should there be any internal control deficiencies;
- engaged a PRC legal advisor to provide advice to the Board and the designated compliance officers on an ongoing basis in respect of all relevant PRC laws and regulations, including changes to such laws and regulations, which may affect business operations of the Group in the PRC; and

- engaged APAC Compliance Consultancy and Internal Control Services Limited as our risk management and internal control review adviser ("the Adviser") to conduct the annual review of the risk management and internal control systems for the year ended 31 December 2016. Such review is conducted annually and cycles reviewed are under rotation basis. The scope of review was previously determined and approved by the Board. The Adviser has reported findings and areas for improvement to the Audit Committee and management. The Audit Committee are of the view that there are no material internal control defeats noted. All recommendations from the Adviser are properly followed up by the Group to ensure that they are implemented within a reasonable period of time.

Based on its assessment which covers all material controls including financial, operational and compliance controls and risk management functions, the Board believes that for the year ended 31 December 2016, the Company's internal control and risk management systems are effective and adequate. The Board is satisfied that there are adequate resources of staff with appropriate qualifications and experience in its accounting and financial reporting team and that sufficient training and budget have been provided.

## DIRECTORS' TRAINING

Each newly appointed director has received comprehensive, formal and tailored induction on the first occasion of his appointment, so as to ensure that he has appropriate understanding of the business and operations of the Group and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements. There are also arrangements in place for providing continuing briefing and professional development to directors at the Company's expenses whenever necessary. In-house briefings on the Listing Rules updates were organized for all directors, namely Mr. Wang Dayong, Mr. Lu Qi, Mr. Sun Zhong, Mr. Shou Xuancheng, Mr. Xu Zucheng, Ms. Wang Qian, Mr. Cao Shiping, Mr. Cao Kuangyu and Mr. Song Shaohuan, during the year.

## COMPANY SECRETARY

During the year ended 31 December 2016, Mr. Ip Wing Wai, the Company Secretary, has taken no less than 15 hours of relevant professional training. Biographical details of Mr. Ip are set out in the section headed "Profiles of Directors and Senior Management" in this annual report.

## SHAREHOLDERS' RIGHTS

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

Shareholders should direct their enquiries about their shareholdings to the Company's share registrar, Tricor Investor Services Limited. For any enquiries to the Board, shareholders may send written enquiries to the Company, for the attention of company secretary, by email to enquiry@huili.hk, fax to (852) 2840 0470 or mail to 3rd Floor of No. 8 Queen's Road Central, Hong Kong.

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

## INVESTOR RELATIONS

The Company believes in regular and timely communication with shareholders as part of its efforts to help shareholders understand its business better and the way the Company operates. To promote effective communication with the public, the Company maintains a website (www.huili.hk) on which comprehensive information about the Company's major businesses, press releases, notices, financial information, announcements, annual and interim reports and shareholders circulars are being made available.

There was no change in the Company's constitutional documents during the year ended 31 December 2016.

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Huili Resources (Group) Limited
(incorporated in the Cayman Islands with limited liability)

## OPINION

### What we have audited

The consolidated financial statements of Huili Resources (Group) Limited (the "Company") and its subsidiaries (the "Group") set out on pages 41 to 107, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

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

### Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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## KEY AUDIT MATTERS (Continued)

A key audit matter is identified in our audit as follows:

| *Key Audit Matter* | *How our audit addressed the Key Audit Matter* |
|---|---|
| **Impairment of long-term mining assets** | |
| Refer to Note 4 "Critical accounting estimates and judgements", Note 6"Property, Plant and Equipment" and Note7"Mining Rights and Exploration Rights" to the Group's consolidated financial statements.<br><br>As a result of the continuous depression in the commodity market of copper and nickel in 2014 and 2015, management appointed an independent valuer to carry out valuation of the recoverable amount of the cash-generating unit ("CGU") of Hami Jiatai including mining rights, land use rights, properties, plants and equipment as at 31 December 2014 and 2015, whereby the recoverable amount has been determined based on the value-in-use calculation of the CGU of Hami Jiatai. Consequently, management recognised accumulated impairment losses on mining structures and mining rights of Hami Jiatai of RMB39,059,000 by 31 December 2015.<br><br>Although the metal price had risen in 2016 which was an indicator of reversal of impairment provision, the production was further postponed and uncertainty increased. Management appointed an independent valuer to carry out valuation of the recoverable amount of the CGU of Hami Jiatai as at 31 December 2016, and concluded that there was no need for further impairment provision or reversal of impairment provision in respect of the long-term mining assets as at 31 December 2016.<br><br>The calculation of value-in-use involved significant management judgement with respect to the key assumptions, such as pre-tax discount rate, estimated metal price, time to restart production and inflation rate. The key assumptions of the parameters have been disclosed in Note 6 and Note 7.<br><br>We focused on this area due to the significance of long-term mining assets as to the Group and the complexity of management judgements required in determining the impairment provision for long-term mining assets. | We inquired management and considered the impairment indicators, and prior performance of the assets to assess the scope within which impairment testing was performed.<br><br>We tested the mathematical accuracy of the calculations in the valuation models.<br><br>We interviewed the independent valuer and assessed the appropriateness of the valuation model with the assistance of our valuation expert.<br><br>We assessed the adequacy of the sensitivity analysis performed by the management.<br><br>We tested the key assumptions that management used in the valuation process:<br><br>• For pre-tax discount rate, we compared it with the cost of capital for the Group and comparable companies, taking into consideration territory specific factors.<br><br>• For estimated metal price, we compared it with the historical data and forecast of Bloomberg to assess the reasonableness.<br><br>• For time to restart production, we interviewed management and technical personnel to assess the economic and technical feasibility of the production plan.<br><br>• For inflation rate, we compared it with the data published by National Bureau of Statistics of the People's Republic of China to assess the reasonableness.<br><br>We considered management's judgements made in the impairment assessments to be reasonable based on available evidence and our work performed. |

## OTHER INFORMATION

The directors of the Company are responsible for the other information as set out in the Company's 2016 Annual Report. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The audit committee is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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

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

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

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

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

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

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

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

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

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

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

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The engagement partner on the audit resulting in this independent auditor's report is Lam Siu Wing, Benny.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2017

# CONSOLIDATED BALANCE SHEET

| | Note | As at 31 December 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | 60,729 | 64,250 |
| Mining rights and exploration rights | 7 | 99,300 | 99,300 |
| Land use rights | 8 | 9,099 | 9,342 |
| Deferred tax assets | 10 | 2,823 | 2,823 |
| Refundable deposit | 11 | 163,367 | 163,367 |
| Restricted cash at banks | 12 | 2,525 | 2,492 |
| Available for sale financial assets | 13 | – | 112,286 |
| Other receivables and prepayments | 16 | 109,123 | – |
| **Total non-current assets** | | 446,966 | 453,860 |
| **Current assets** | | | |
| Available for sale financial assets | 13 | 114,825 | – |
| Inventories | 14 | 3,045 | 6,526 |
| Trade receivables | 15 | 100 | 3,738 |
| Other receivables and prepayments | 16 | 362,660 | 57,594 |
| Cash and cash equivalents | 17 | 8,970 | 103,333 |
| **Total current assets** | | 489,600 | 171,191 |
| **Total assets** | | 936,566 | 625,051 |
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Share capital | 18 | 137,361 | 127,362 |
| Share premium | 18 | 668,768 | 577,878 |
| Other reserves | 19 | (7,111) | (9,650) |
| Accumulated losses | 20 | (256,096) | (221,481) |
| | | 542,922 | 474,109 |
| **Non-controlling interests** | | 977 | 1,631 |
| **Total equity** | | 543,899 | 475,740 |

## CONSOLIDATED BALANCE SHEET (CONTINUED)

| | Note | As at 31 December 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Provision for close down, restoration and environmental costs | 21 | 3,160 | 3,090 |
| Deferred tax liabilities | 10 | 24,548 | 24,602 |
| Long-term borrowings | 24 | – | 41,889 |
| **Total non-current liabilities** | | 27,708 | 69,581 |
| **Current liabilities** | | | |
| Trade payables | 22 | 1,318 | 2,523 |
| Other payables and accruals | 26 | 315,611 | 14,359 |
| Income tax payable | | 2,005 | 266 |
| Current portion of long-term borrowings | 25 | 46,025 | – |
| Convertible bonds | 23 | – | 62,582 |
| **Total current liabilities** | | 364,959 | 79,730 |
| **Total liabilities** | | 392,667 | 149,311 |
| **Total equity and liabilities** | | 936,566 | 625,051 |

The notes on pages 47 to 107 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 41 to 107 were approved by the Board of directors on 28 March 2017 and were signed on its behalf.

**Wang Dayong**
*Director*

**Wang Qian**
*Director*

# CONSOLIDATED INCOME STATEMENT

| | Note | Year ended 31 December 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| Revenue | 5 | 25,588 | 3,195 |
| Cost of sales | 27 | (23,943) | (33,498) |
| **Gross profit/(loss)** | | 1,645 | (30,303) |
| Distribution expenses | 27 | (56) | (455) |
| Administrative expenses | 27 | (33,161) | (60,312) |
| Other gains/(losses) – net | 29 | 347 | (95) |
| **Operating loss** | | (31,225) | (91,165) |
| Finance income | | 210 | 428 |
| Finance costs | | (3,000) | (13,004) |
| Finance costs – net | 30 | (2,790) | (12,576) |
| **Loss before income tax** | | (34,015) | (103,741) |
| Income tax expense | 31 | (1,254) | (608) |
| **Loss for the year** | | (35,269) | (104,349) |
| **Loss attributable to:** | | | |
| Equity holders of the Company | | (34,615) | (101,808) |
| Non-controlling interests | | (654) | (2,541) |
| | | (35,269) | (104,349) |
| **Loss per share attributable to the equity holders of the Company (expressed in RMB per share) – Basic and diluted** | 32 | (0.022) | (0.090) |

The notes on pages 47 to 107 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | Year ended 31 December 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| Loss for the year | | (35,269) | (104,349) |
| Other comprehensive income: | | | |
| *Items that may be reclassified to profit or loss* | | | |
| Change in value of available-for-sale financial assets | 13 | 2,539 | 9,985 |
| Other comprehensive income for the year, net of tax | | 2,539 | 9,985 |
| Total comprehensive loss for the year | | (32,730) | (94,364) |
| Attributable to: | | | |
| Equity holders of the Company | | (32,076) | (91,823) |
| Non-controlling interests | | (654) | (2,541) |
| Total comprehensive loss for the year | | (32,730) | (94,364) |

The notes on pages 47 to 107 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to equity holders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 (Note 18) | Share premium RMB'000 (Note 18) | Safety funds RMB'000 (Note 19) | Maintenance funds RMB'000 (Note 19) | Capital reserve RMB'000 (Note 19) | Available for sale financial assets RMB'000 (Note 19) | Accumulated losses RMB'000 (Note 20) | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| At 1 January 2015 | 86,322 | 416,979 | 221 | 1,583 | (13,972) | (7,467) | (119,673) | 363,993 | 4,172 | 368,165 |
| **Comprehensive loss** | | | | | | | | | | |
| Loss for the year | – | – | – | – | – | – | (101,808) | (101,808) | (2,541) | (104,349) |
| **Other comprehensive income** | | | | | | | | | | |
| Available-for-sale financial assets | – | – | – | – | – | 9,985 | – | 9,985 | – | 9,985 |
| Total other comprehensive income, net of tax | – | – | – | – | – | 9,985 | – | 9,985 | – | 9,985 |
| **Total comprehensive profit/(loss)** | – | – | – | – | – | 9,985 | (101,808) | (91,823) | (2,541) | (94,364) |
| **Transactions with owners in their capacity as owners** | | | | | | | | | | |
| Proceeds from shares issued | 41,040 | 160,899 | – | – | – | – | – | 201,939 | – | 201,939 |
| **Total transactions with owners in their capacity as owners** | 41,040 | 160,899 | – | – | – | – | – | 201,939 | – | 201,939 |
| At 31 December 2015 | 127,362 | 577,878 | 221 | 1,583 | (13,972) | 2,518 | (221,481) | 474,109 | 1,631 | 475,740 |
| **Comprehensive loss** | | | | | | | | | | |
| Loss for the year | – | – | – | – | – | – | (34,615) | (34,615) | (654) | (35,269) |
| **Other comprehensive income** | | | | | | | | | | |
| Available-for-sale financial assets | – | – | – | – | – | 2,539 | – | 2,539 | – | 2,539 |
| Total other comprehensive income, net of tax | – | – | – | – | – | 2,539 | – | 2,539 | – | 2,539 |
| **Total comprehensive loss** | – | – | – | – | – | 2,539 | (34,615) | (32,076) | (654) | (32,730) |
| **Transactions with owners in their capacity as owners** | | | | | | | | | | |
| Proceeds from shares issue | 9,999 | 90,890 | – | – | – | – | – | 100,889 | – | 100,889 |
| **Total transactions with owners in their capacity as owners** | 9,999 | 90,890 | – | – | – | – | – | 100,889 | – | 100,889 |
| **At 31 December 2016** | 137,361 | 668,768 | 221 | 1,583 | (13,972) | 5,057 | (256,096) | 542,922 | 977 | 543,899 |

The notes on pages 47 to 107 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | Year ended 31 December 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash used in operations | 34(a) | (32,056) | (15,577) |
| **Net cash used in operating activities** | | (32,056) | (15,577) |
| **Cash flows from investing activities** | | | |
| Net cash used in acquisition of subsidiaries | 37 | (42) | – |
| Deposit payment for investment | 11 | – | (163,367) |
| Purchase of property, plant and equipment | | (64) | (1,357) |
| Net proceeds from disposal of a subsidiary | | – | 4,790 |
| Interest received | | 210 | 428 |
| **Net cash generated from/(used in) investing activities** | | 104 | (159,506) |
| **Cash flows from financing activities** | | | |
| **Proceeds from issuance of ordinary shares** | 18 | – | 201,939 |
| Repayment of borrowings | | (62,582) | – |
| Interest paid | | (390) | (1,313) |
| **Net cash (used in)/generated from financing activities** | | (62,972) | 200,626 |
| **Net (decrease)/increase in cash and cash equivalents** | | (94,924) | 25,543 |
| Cash and cash equivalents at beginning of year | | 103,333 | 72,868 |
| Exchange differences on cash and cash equivalents | | 561 | 4,922 |
| **Cash and cash equivalents at end of year** | 17 | 8,970 | 103,333 |

The notes on pages 47 to 107 are an integral part of these consolidated financial statements.

## 1 GENERAL INFORMATION

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

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

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

These financial statements have been approved for issue by the Board of directors on 28 March 2017.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied for each of the years ended 31 December 2015 and 2016, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available- for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### *2.1.1 Going concern*

During the year ended 31 December 2016, the Group had incurred a net loss of RMB35,269,000 and had a net operating cash outflow of RMB32,056,000.

The Group entered into a Memorandum of Terms (the "Memorandum") on 3 December 2015 and Supplemental Terms (the "Supplementals") on 29 March 2016, 5 September 2016 and 31 December 2016 with certain vendors in relation to a possible acquisition of the entire equity interest of a Target Group, which is principally engaged in exploration, development, production and sale of the coalbed methane in Shanxi Province, at a total consideration of not more than US$ 150 million (equivalent to HK$1,170 million). The consideration will be payable as to: (i) US$ 100 million in cash (including issuance of debt securities, if applicable); and (ii) the remaining consideration of not more than US$50 million by the allotment and issue of up to 600,000,000 ordinary shares of the Company at an issue price of HK$0.65 per share upon completion. Pursuant to the Memorandum, the Group has already paid US$25 million, equivalent RMB163,367,000 to the vendors in December 2015 as a refundable deposit for the exclusive negotiation rights from the date of the Memorandum to end of March 2016 (which was subsequently extended to end of June 2017 pursuant to the Supplementals (Note 11)). The above matter indicated that the Group may need to secure a substantial amount of funds in the foreseeable future to finance the possible acquisition before the end of June 2017 upon signing of a binding purchase and sale agreement with the vendors. If the Company decides to finance the possible acquisition by short-term or long-term borrowings, it is uncertain as to whether the Group will be able to generate adequate financial resources during the terms of the borrowings to service these principal and interest payments, or meet the relevant loan covenant requirements, if any, and these matters may cast significant doubt about the Group's ability to continue as a going concern in the foreseeable future.

The Directors of the Company (the "Directors") confirmed that before a binding sale and purchase agreement is entered into, the Directors would: (i) complete and be satisfied with the due diligence on the financial and non-financial status of the target to ensure the acquisition of the target would not create an adverse impact on the financial position of the Group at least in the coming twelve months from 31 December 2016; and (ii) secure a long-term debt financing of not less than US$75million at terms (including covenant requirements, if any, and payment terms) that would not create an adverse impact on the financial position of the Group for at least twelve months from 31 December 2016. The abovementioned negotiation for the financing arrangements are still in progress, and no binding sale and purchase agreement or financing arrangements have been entered into by the Company as at the date of approval of the consolidated financial statements. The directors of the Company confirmed that the Company will enter into a binding purchase and sale agreement with the vendors only after the conditions (i) and (ii) as mentioned above have been satisfied in order to maintain the Group's ability to continue as a going concern.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### *2.1.1 Going concern (Continued)*

On the basis set out in the preceding paragraph, the directors of the Company have prepared cash flow projections for the Group which cover a period of twelve months from 31 December 2016, with considering that the possible acquisition will only happen after the Group obtains sufficient additional funding. The directors are of the opinion that, the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the next twelve months from end of the reporting period, and are satisfied that it is appropriate to prepare the consolidated financial statements of the Group on a going concern basis.

#### *2.1.2 Changes in accounting policy and disclosures*

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

- Clarification of acceptable methods of depreciation and amortisation – Amendments to HKAS 16 and HKAS 38
- Equity method in separate financial statements – Amendment to HKAS 27
- Interim financial reporting – HKAS 34
- Disclosure initiative – Amendments to HKAS 1

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

(b) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2016 and have not been early adopted.

| | Applicable for accounting periods beginning on/after |
|---|---|
| Amendments to HKAS 12, "Income taxes" | 1 January 2017 |
| Amendments to HKAS 7 – Statement of cash flows | 1 January 2017 |
| HKFRS15 "Revenue from Contracts with Customers" | 1 January 2018 |
| HKFRS 9 "Financial Instruments" | 1 January 2018 |
| Amendments to HKFRS 2 "Classification and Measurement of Share-based Payment Transactions" | 1 January 2018 |
| HKFRS 16 "Leases" | 1 January 2019 |
| Amendments to HKFRS 10 and HKAS 28 "Sale or contribution of assets between an investor and its associate or joint venture" | 1 January 2019 |

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### *2.1.2 Changes in accounting policy and disclosures (Continued)*

The Group will adopt the above new or revised standards, amendments and interpretations to existing standards as and when they become effective. The Group has already commenced the assessment of the impact to the Group and is not yet in a position to state whether these would have a significant impact on its results of operations and financial position.

### 2.2 Subsidiaries

#### *2.2.1 Consolidation*

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

*(a) Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Subsidiaries (Continued)

#### *2.2.1 Consolidation (Continued)*

*(a) Business combinations (Continued)*

Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

*(b) Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

#### *2.2.2 Separate financial statements*

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

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

### 2.3 Segment reporting

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

### 2.4 Foreign currency translation

*(a) Functional and presentation currency*

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Foreign currency translation (Continued)

#### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance costs – net". All other foreign exchange gains and losses are presented in the income statement within "other gains/(losses) – net".

Changes in the fair value of debt securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

#### *(c) Group companies*

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate at the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.5 Property, plant and equipment

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

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

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

| | |
|---|---|
| Buildings | 20 years |
| Machinery and equipment | 10 years |
| Office equipment and others | 3 to 7 years |
| Motor vehicles | 4 to 6 years |

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other gains/(losses) – net" in the income statement.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.6 Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

### 2.7 Land use rights

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

### 2.8 Mining rights and exploration rights

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

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

### 2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.10 Financial assets

#### *2.10.1 Classification*

The Group classifies its financial assets in the following categories: loans and receivables, and available for sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*(a) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the balance sheet (Notes 2.13 and 2.14).

*(b) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

#### *2.10.2 Recognition and measurement*

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of profit or loss as "gains and losses from investment securities".

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.10 Financial assets (Continued)

#### *2.10.3 Impairment of financial assets*

*(a) Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

*(b) Assets classified as available for sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.11 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, or using valuation techniques, including discounted cash flow models and options pricing models, as appropriate.

For derivative financial instruments which do not qualify for hedge accounting, changes in fair value are recognised immediately in profit or loss.

### 2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and semi-finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

### 2.14 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

### 2.15 Share capital

Ordinary shares are classified as equity.

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.17 Borrowings and borrowing costs

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

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

The loans from shareholders, which are interest-free and repayable under the control of the Group, are accounted for as quasi-equity loans and classified as equity.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### 2.18 Convertible bonds

Convertible bonds denominated in the functional currency of the issuing entity are accounted for as compound instruments. The equity components and the liability components are separated out on the date of the issue. The equity component is recognised in a separate reserve and is not subsequently remeasured. The liability component is measured at amortised cost. The interest expense on the liability component is calculated by applying the effective interest rate, being the prevailing market interest rate for similar non-convertible debt. The difference between this amount and interest paid is added to the carrying amount of the liability component.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.18 Convertible bonds (Continued)

Convertible bonds not denominated in the functional currency of the issuing entity are split into two components: a debt component and a component representing the embedded derivative in the convertible bonds. The debt component represents a liability for future coupon payments and the redemption on the principal amount. The embedded derivatives, financial liability, represent the value of the option that bondholders have to convert into ordinary shares. At inception the embedded derivative is recorded at fair value and the remaining balance, after deducting a share of issue costs is recorded as the debt component. Subsequently, the debt component is measured at amortised cost and the embedded derivative is measured at fair value at each balance sheet dates with the change in the fair value recognised in the income statement.

### 2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

*(a) Current income tax*

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

*(b) Deferred income tax*

*Inside basis differences*

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

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.19 Current and deferred income tax (Continued)

*(b) Deferred income tax* (Continued)

*Outside basis differences*

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

*(c) Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 2.20 Employee benefits

*(a) Pension obligations*

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

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

*(b) Housing benefits*

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.21 Provisions

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

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax interest rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### 2.22 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

#### *(a) Sales of goods*

Sales of goods are recognised when a Group entity has delivered products and transferred the significant risks and rewards of ownership of the product to the customer; the customer has accepted the products and collectability of the related receivables is reasonably assured.

### 2.23 Interest income

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.24 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

### 2.25 Dividend distribution

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

### 2.26 Exploration and evaluation expenditure

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

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

### 2.27 Contingent liability

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

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

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

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

#### *(a) Market risk*

##### *(i) Foreign exchange risk*

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

At 31 December 2016, if RMB had weakened/strengthened by 1% against Hong Kong dollar with all other variables held constant, loss for the year would have been approximately RMB370,000 (2015: RMB1,473,000) lower/higher, mainly as a result of foreign exchange gains/losses on translation of Hong Kong dollars denominated cash and borrowings.

##### *(ii) Price risk*

The Group is principally engaged in the mining, ore processing and sales of nickel, copper, lead, zinc, gold and other non-ferrous metal products. Non-ferrous metal markets are influenced by global as well as regional supply and demand conditions. A decline in prices of non-ferrous metal could adversely affect the Group's financial performance.

The Group is also exposed to equity securities price risk because of investment held by the Group and classified as available for sale financial assets (Note 13).

##### *(iii) Interest rate risk*

The Group's interest rate risk arises from bank deposits which are bearing floating interest rates. Floating interest rates cause the Group cash flow interest rate risk. The Group also had convertible bonds bearing fixed interest rate which expose the Group to fair value risk. For the years ended 31 December 2015 and 31 December 2016, management of the Group is of the opinion that relevant risks were not material to the Group.

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Financial risk factors (Continued)

#### (b) *Credit risk*

The carrying amounts of deposits and receivables included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. Management of the Group is of the opinion that adequate provision for uncollectible other receivables has been made as at 31 December 2015 and 2016 after considering the Group's historical experience in collection of other receivables.

#### (c) *Liquidity risk*

The Group obtained funds through initial public offering of the Company's shares, borrowings from financial institutions and issuing of convertible bonds.

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Over 5 years RMB'000 |
|---|---|---|---|---|
| At 31 December 2016 | | | | |
| Trade and other payables | 304,412 | – | – | – |
| Borrowings | 46,025 | – | – | – |
| At 31 December 2015 | | | | |
| Trade and other payables | 5,876 | – | – | – |
| Convertible bonds | 62,582 | – | – | – |
| Borrowings | – | 50,267 | – | – |

#### (d) *Concentration risk*

Revenue of the Group is principally derived from the financial service operated by Jiayi in 2016. Revenue of the Group is principally derived from three non-ferrous metal mines and the wholesale of coals during past years. Any disruption to the financial service operated by Jiayi or operations of these mines and wholesale of coal products may have a material adverse impact on the results of operations and the financial position of the Group.

The revenue for the year ended 31 December 2016 is concentrated on two customers. And there was no production for the year ended 31 December 2015 and 2016. The sales of concentrates produced during previous years of the Group in general are concentrated on a few major customers. In the event that these major customers terminate the business relationship with the Group and the Group fails to find new customers, it may have a material adverse impact on the Group's financial position and results of operations.

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Financial risk factors (Continued)

#### *(d) Concentration risk (Continued)*

For the year ended 31 December 2016, revenue of interest income from financial service was derived from two customers. And for the year ended 31 December 2015, all the revenue of the Group was derived from one single customer which was mainly attributable to the wholesale of coal products.

### 3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt.

The gearing ratios at 31 December 2016 and 2015 were as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Total borrowings (Notes 23, 24, 25) | 46,025 | 104,471 |
| Less: cash and cash equivalents (Note 17) | (8,970) | (103,333) |
| Net debt | 37,055 | 1,138 |
| Total equity | 543,899 | 475,740 |
| Total capital | 580,954 | 476,878 |
| Gearing ratio | 6.38% | 0.24% |

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2016.

| | Level 1<br>RMB'000 | Level 2<br>RMB'000 | Level 3<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| Asset | | | | |
| Available-for-sale financial assets | | | | |
| Equity investment | | | | |
| – Investment in a fund (Note 13) | – | – | 114,825 | 114,825 |
| Total assets | – | – | 114,825 | 114,825 |

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2015.

| | Level 1<br>RMB'000 | Level 2<br>RMB'000 | Level 3<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| Asset | | | | |
| Available-for-sale financial assets | | | | |
| Equity investment | | | | |
| – Investment in a fund (Note 13) | – | – | 112,286 | 112,286 |
| Total assets | – | – | 112,286 | 112,286 |

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.3 Fair value estimation (Continued)

The following table presents the changes in level 3 instruments for the year ended 31 December 2016.

| | Available-for-sale financial assets RMB'000 |
|---|---|
| Opening balance | 112,286 |
| Gains recognised in other comprehensive income | 2,539 |
| Closing balance | 114,825 |
| Changes in unrealised gains for the year included in other comprehensive income | 2,539 |

The following table presents the changes in level 3 instruments for the year ended 31 December 2015.

| | Available-for-sale financial assets RMB'000 | Derivative at fair value through profit or loss RMB'000 | Total RMB'000 |
|---|---|---|---|
| Opening balance | 102,301 | 718 | 103,019 |
| Gains recognised in profit or loss (Note 29) | – | (718) | (718) |
| Gains recognised in other comprehensive income | 9,985 | – | 9,985 |
| Closing balance | 112,286 | – | 112,286 |
| Total gains for the year included in profit or loss for assets held at the end of the year, under "Other gains/(losses) – net" | – | 718 | 718 |
| Changes in unrealised losses for the year included in profit or loss at the end of the year | – | 718 | 718 |
| Changes in unrealised losses for the year included in other comprehensive income | 9,985 | – | 9,985 |

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.3 Fair value estimation (Continued)

The fair value of available-for-sale financial assets was determined based on information available to the management regarding the investment portfolio, investment percentage and operating results.

The fair value of derivative financial instruments was determined based on spot price, risk free rates, expected volatility and expected dividend yield using binomial model.

For fair value measurements categorised within Level 3 of the fair value hierarchy, the significant quantitative unobservable inputs used are as follows.

*Quantitative information about fair value measurements using significant unobservable inputs (Level 3)*

| Description | Fair value as at 31 December 2016 | Valuation technique | Unobservable input | inputs |
|---|---|---|---|---|
| Available-for-sale financial assets | 114,825 | Net asset value | Not applicable | Not applicable |

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### (a) Carrying value of non-current assets

The Group tests whether property, plant and equipment, land use rights, mining rights and exploration rights have been impaired due to events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount, in accordance with accounting policies stated in Note 2.9. As at 31 December 2016, there was no impairment charge for property, plant and equipment, land use rights, mining rights and exploration rights of the Group. The recoverable amounts of different cash generating units to which the property, plant and equipment, land use rights, mining rights and exploration rights belong, have been determined based on value-in-use calculations using cash flow projections, based on financial budgets approved by management covering a five year period and management's assumptions and estimates including forecast of selling price of nickel, copper, lead, zinc and gold, discount rates, time to restart production and inflation rate. Cash flows beyond the five-year period are assumed to be equal to the cash flow of year 2021 for cash generating units. The discount rates used in cash flow projections varied with different cash generating units.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### (b) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

### (c) Mineral reserves

Engineering estimates of the Group's mineral reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information.

There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mineral reserves can be designated as "proved" and "probable". Proved and probable mineral reserve estimates are updated at regular basis and have taken into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable mineral reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expenses and impairment losses. Depreciation rates are determined based on estimated proved mineral reserve quantity (the denominator) and capitalised costs of mining structures (the numerator). The capitalised cost of mining structures is amortised based on the units of products produced.

### (d) Income tax

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

### (e) Mining licenses

The Group's mining licenses expire at various dates from June 2018 to September 2021. Management believes that the Group will be able to renew these licenses at their option and at minimal cost, provided the Group complies with the terms of the licenses. The useful life of some of the Group's tangible and intangible assets would be reduced and the Group's operation results would be affected accordingly if any licenses could not be renewed.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### (f) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data such as share price and risk-free interest rate where it is available and rely as little as possible on entity specific estimates.

## 5 SEGMENT INFORMATION

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

The CODM reviews the operating performance from a mine perspective (ie nickel/copper mine, lead/zinc mine and gold mine). The reportable operating segments derive their revenue primarily from mining, ore processing and sales of nickel, copper, lead, zinc and gold products.

For the year ended 31 December 2015, the Group had three (Notes a, b and c) reportable segments:

(a) Hami Jiatai which held two nickel/copper mines and was mainly engaged in the mining, ore processing and sales of nickel and copper products;

(b) Hami Jinhua Mineral Resource Exploiture Limited ("Hami Jinhua") which held a lead/zinc mine and was mainly engaged in the mining, ore processing and sales of lead and zinc products; and

(c) Shaanxi Jiahe Mineral Resources Development Co. Ltd. ("Shaanxi Jiahe") which held a gold mine and was mainly engaged in the mining, ore processing and sales of gold products. Shaanxi Jiahe was disposed in December 2015.

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

(a) Hami Jiatai which held two nickel/copper mines and was mainly engaged in the mining, ore processing and sales of nickel and copper products;

(b) Hami Jinhua which held a lead/zinc mine and was mainly engaged in the mining, ore processing and sales of lead and zinc products; and

(c) Jia Zhao Ventures Limited ("Jiazhao") which was acquired in March 2016(Note 37), is principally engaged in financial leasing business through Jiayi Financial Leasing Company Limited ("Jiayi") in the PRC.

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

## 5 SEGMENT INFORMATION (Continued)

The CODM assesses the performance of the operating segments based on operating profit, excluding the effects of non-recurring impairments of mining rights and property, plant and equipment when the impairment is the result of an isolated, non-recurring event. The measure of operating profit for segment review also excludes unrealised gains/losses on financial instruments. Interest income and expenditure at the level of Group are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

The segment information provided to the CODM for the reportable segments for each of the years ended and as at 31 December 2015 and 2016 is as follows:

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Jiazhao RMB'000 | Hami Jiatai RMB'000 | Hami Jinhua RMB'000 | Total RMB'000 | Shaanxi Jiahe RMB'000 | Hami Jiatai RMB'000 | Hami Jinhua RMB'000 | Total RMB'000 |
| Year ended 31 December | | | | | | | | |
| Segment revenue | | | | | | | | |
| - Nickel concentrate | - | - | - | - | - | - | - | - |
| - Copper concentrate | - | - | - | - | - | - | - | - |
| - Zinc concentrate | - | - | - | - | - | - | - | - |
| - Lead concentrate | - | - | - | - | - | - | - | - |
| - Interest income from financial service | 25,588 | - | - | 25,588 | - | - | - | - |
| - Others | - | - | - | - | - | - | 3,195 | 3,195 |
| | 25,588 | - | - | 25,588 | - | - | 3,195 | 3,195 |
| Segment operating profit/(loss) | 5,190 | (2,758) | (10,338) | (7,906) | (799) | (35,816) | (14,393) | (51,008) |
| Unallocated operating gains/ (losses) (Note (a)) | - | - | - | (23,319) | - | - | - | (40,157) |
| Operating profit/(loss) | 5,190 | (2,758) | (10,338) | (31,225) | (799) | (35,816) | (14,393) | (91,165) |
| Segment finance costs – net | (1) | 1 | 38 | 38 | 99 | 127 | 122 | 348 |
| Unallocated | - | - | - | 2,752 | - | - | - | 12,228 |
| Finance costs – net | (1) | 1 | 38 | 2,790 | 99 | 127 | 122 | 12,576 |
| Income tax (expense)/credit | (1,308) | 18 | 36 | (1,254) | - | (909) | 301 | (608) |
| Amortisation | - | 80 | 163 | 243 | - | 80 | 163 | 243 |
| Segment depreciation | - | 1,190 | 2,391 | 3,581 | 286 | 2,159 | 2,647 | 5,092 |
| Unallocated | - | - | - | 4 | - | - | - | 1 |
| Depreciation | - | 1,190 | 2,391 | 3,585 | 286 | 2,159 | 2,647 | 5,093 |

## 5 SEGMENT INFORMATION (Continued)

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Jiazhao RMB'000 | Hami Jiatai RMB'000 | Hami Jinhua RMB'000 | Total RMB'000 | Shaanxi Jiahe RMB'000 | Hami Jiatai RMB'000 | Hami Jinhua RMB'000 | Total RMB'000 |
| Segment impairment | | | | | | | | |
| - Non-current assets | - | - | - | - | - | 25,059 | - | 25,059 |
| - Other receivables | - | - | - | - | - | 7,524 | 6,850 | 14,374 |
| - Unallocated | - | - | - | - | - | - | - | 26,755 |
| Impairment | - | - | - | - | - | 32,583 | 6,850 | 66,188 |
| As at 31 December | | | | | | | | |
| Segment assets | 409,658 | 83,787 | 148,570 | 642,015 | - | 94,160 | 159,275 | 253,435 |
| Unallocated assets (Note (b)) | - | - | - | 294,551 | - | - | - | 371,616 |
| Total | 409,658 | 83,787 | 148,570 | 936,566 | - | 94,160 | 159,275 | 625,051 |
| Segment liabilities | 304,213 | 19,233 | 21,732 | 345,178 | - | 19,385 | 30,635 | 50,020 |
| Unallocated liabilities (Note (c)) | - | - | - | 47,489 | - | - | - | 99,291 |
| Total | 304,213 | 19,233 | 21,732 | 392,667 | - | 19,385 | 30,635 | 149,311 |

Notes:

(a) Unallocated operating losses mainly represented administrative and consulting expenses incurred by the Company for the year ended 31 December 2016 and unallocated operating losses mainly represented impairment of other receivables held by the Company and administrative expenses incurred by the Company for the year ended 31 December 2015.

(b) Unallocated assets as at 31 December 2016 and as at 31 December 2015 mainly represented available for sale financial assets, refundable deposit, and bank deposits held by the Company.

(c) Unallocated liabilities as at 31 December 2016 mainly represented long-term borrowings of the Company; unallocated liabilities as at 31 December 2015 mainly represented long-term borrowings and convertible bonds of the Company.

## 6 PROPERTY, PLANT AND EQUIPMENT

| | Buildings RMB'000 | Machinery and equipment RMB'000 | Office equipment and others RMB'000 | Motor vehicles RMB'000 | Mining structures RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| Year ended 31 December 2015 | | | | | | | |
| Opening net book amount | 23,411 | 11,425 | 12 | 224 | 10,048 | 59,832 | 104,952 |
| Additions | - | - | 39 | - | - | 1,318 | 1,357 |
| Transfer form construction in progress | - | 2,380 | - | - | - | (2,380) | - |
| Disposal | - | (2,148) | (2) | - | - | - | (2,150) |
| Disposal of a subsidiary | - | (2,097) | (11) | - | - | (27,178) | (29,286) |
| Depreciation (note (a), Note 27) | (1,793) | (3,256) | (28) | - | (16) | - | (5,093) |
| Impairment charge (Note (b), Note 27) | - | - | - | - | (5,530) | - | (5,530) |
| Closing net book amount | 21,618 | 6,304 | 10 | 224 | 4,502 | 31,592 | 64,250 |
| At 31 December 2015 | | | | | | | |
| Cost | 35,281 | 25,205 | 301 | 6,969 | 14,393 | 31,592 | 113,741 |
| Accumulated depreciation | (13,663) | (18,901) | (291) | (6,745) | (1,243) | - | (40,843) |
| Accumulated impairment charge (Note (b), Note 27) | - | - | - | - | (8,648) | - | (8,648) |
| Net book amount | 21,618 | 6,304 | 10 | 224 | 4,502 | 31,592 | 64,250 |
| Year ended 31 December 2016 | | | | | | | |
| Opening net book amount | 21,618 | 6,304 | 10 | 224 | 4,502 | 31,592 | 64,250 |
| Additions | - | - | 64 | - | - | - | 64 |
| Depreciation (Note (a), Note 27) | (1,793) | (1,764) | (28) | - | - | - | (3,585) |
| Closing net book amount | 19,825 | 4,540 | 46 | 224 | 4,502 | 31,592 | 60,729 |
| At 31 December 2016 | | | | | | | |
| Cost | 35,281 | 25,205 | 365 | 6,969 | 14,393 | 31,592 | 113,805 |
| Accumulated depreciation | (15,456) | (20,665) | (319) | (6,745) | (1,243) | - | (44,428) |
| Accumulated impairment charge (Note (b)) | - | - | - | - | (8,648) | - | (8,648) |
| Net book amount | 19,825 | 4,540 | 46 | 224 | 4,502 | 31,592 | 60,729 |

## 6 PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes:

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

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Total depreciation | 3,585 | 5,093 |
| Administrative expenses (Note 27) | 28 | 28 |
| Cost of sales (Note 27) | 3,557 | 5,065 |
| | 3,585 | 5,093 |

(b) Impairment assessment

Hami Jiatai

As a result of the continuous depression in the copper and nickel product market which is the main business engaged in Hami Jiatai, management had decided to postpone the commencement of Hami Jiatai's operations since 2009. During the year ended in 31 December 2014, there is a collapse in the mining area that Hami Jiatai operates, and significant improvement in mining structure and equipment would be necessary for restart of operation. As at 31 December 2015, management appointed an independent valuer to carry out a review of the recoverable amount of its assets in the mining rights, land use rights, property, plant and equipment. The review has resulted in the recognition of impairment losses on mining structure and mining rights of Hami Jiatai of RMB5,530,000 and RMB19,529,000 respectively (Notes 6, 7), which has been recognised in cost of sales. And the acumulated impairment recognised on mining structures and mining rights of Hami Jiatai were RMB8,648,000 and RMB30,411,000 respectively as at 31 December 2015.

As at 31 December 2016, management appointed an independent valuer to carry out a review of the recoverable amount of its assets including the mining rights, land use rights, property, plant and equipment. No further impairment loss or reversal of impairment loss was recognised in the year 2016 after taking into consideration of the valuation results of the independent valuer.

The recoverable amount is determined based on the value-in-use calculation using cash flow projections, based on financial budgets approved by management covering a five year period and management's assumptions and estimates including forecast of selling price of nickel, copper, discount rates, time to restart production and inflation rate on the cash generating unit for the segment of Hami Jiatai. The discount rate used in measuring value-in-use was 21% (2015: 19.0%), which is pre-tax and reflects the specific risk relating to the business. The price of nickel/copper used is derived from the forecast of Bloomberg. The production is expected to restart in 2018. And 3% (2015: 3%) is adopted in the forecast as inflation rate (Note 7(b)).

## 7 MINING RIGHTS AND EXPLORATION RIGHTS

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Mining rights RMB'000 | Exploration rights RMB'000 | Total RMB'000 | Mining rights RMB'000 | Exploration rights RMB'000 | Total RMB'000 |
| Year ended 31 December | | | | | | |
| Opening net book amount | 99,300 | - | 99,300 | 129,235 | 48,128 | 177,363 |
| Disposal of a subsidiary | - | - | - | (10,406) | (48,128) | (58,534) |
| Amortisation charge (Note (a)) | - | - | - | – | – | – |
| Impairment charge (Note (b), Note 27) | - | - | - | (19,529) | – | (19,529) |
| Closing net book amount | 99,300 | - | 99,300 | 99,300 | – | 99,300 |
| At 31 December | | | | | | |
| Cost | 133,523 | - | 133,523 | 133,523 | – | 133,523 |
| Accumulated amortization | (3,812) | - | (3,812) | (3,812) | – | (3,812) |
| Accumulated impairment charge (Note (b), Note 27) | (30,411) | - | (30,411) | (30,411) | – | (30,411) |
| Net book amount | 99,300 | - | 99,300 | 99,300 | – | 99,300 |

Notes:

(a) There was no amortization for the year ended 31 December 2015 and 2016 as no ore was mined.

(b) Impairment assessment

As at 31 December 2015, management carried out a review of the recoverable amounts of its assets in the mining rights, land use rights, property, plant and equipment. The review has resulted in the recognition of impairment losses on mining rights of Hami Jiatai of RMB19,529,000 (Note 6(b)). And the accumulated impairment was RMB30,411,000 as at 31 December 2015.

As at 31 December 2016, management carried out a review of the recoverable amounts of its assets in the mining rights, land use rights, property, plant and equipment. No impairment loss or reversal of impairment loss on mining rights, land use rights, or property, plant and equipment was recognised in the year 2016 (Note 6(b)). For each of the segment of Hami Jiatai and Hami Jinhua, the key assumptions for impairment review using value-in-use model, including selling price, time to restart production, inflation rate and discount rate used in the value-in-use calculations in 2016, are based on financial budgets approved by management for five years from 2017 to 2021 as set out in Note 6(b).

## 7 MINING RIGHTS AND EXPLORATION RIGHTS (Continued)

| | Hami Jinhua | Hami Jiatai |
|---|---|---|
| VAT included selling price for | | |
| – nickel | – | 100,441~111,382 |
| – copper | – | 45,666~48,788 |
| – lead | 18,833~18,974 | – |
| – zinc | 20,091~20,526 | – |
| Time to restart production | 2018 | 2018 |
| Inflation rate | 3% | 3% |
| Pre-tax discount rate | 23% | 21% |

For each of the segment of Hami Jiatai and Hami Jinhua, the key assumptions for impairment review using value-in-use model, including selling price, time to restart production, inflation rate and discount rate used in the value-in-use calculations in 2015, are as follows. The assumptions are based on financial budgets approved by management for the years from 2016 to 2020.

| | Hami Jinhua | Hami Jiatai |
|---|---|---|
| VAT included selling price for | | |
| – nickel | – | 105,056~112,740 |
| – copper | – | 41,975~42,895 |
| – lead | 14,115~14,765 | – |
| – zinc | 16,470~17,009 | – |
| Time to restart production | 2017 | 2017 |
| Inflation rate | 3% | 3% |
| Pre-tax discount rate | 21% | 19% |

## 8 LAND USE RIGHTS

In Mainland China with remaining land use rights periods ranging from 37 to 40 years as at 31 December 2016:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Year ended 31 December | | |
| Opening net book amount | 9,342 | 9,585 |
| Amortisation charge (Note 27) | (243) | (243) |
| Closing net book amount | 9,099 | 9,342 |
| At 31 December | | |
| Cost | 11,136 | 11,136 |
| Accumulated amortization | (2,037) | (1,794) |
| Net book amount | 9,099 | 9,342 |

## 9 SUBSIDIARIES

The following is a list of the Principal Subsidiaries at 31 December 2016:

| Company name | Country/place of incorporation | Issued and paid-up capital/ registered capital | Interest held | Principal activities and place of operation |
|---|---|---|---|---|
| Right Source International Limited ("Right Source") | The BVI | US$100 | 100% directly held | Investment holdings, the BVI |
| Fortune In Investment Limited ("Fortune In") | The BVI | HK$100 | 100% directly held | Investment holdings, the BVI |
| Surplus Plan Limited ("Surplus Plan") | Hong Kong | HK$1 | 100% directly held | Investment holdings, Hong Kong |
| Realty Investment | Hong Kong | HK$100 | 100% indirectly held | Investment holdings, Hong Kong |
| 滙力潤策投資諮詢(北京)有限公司 (Huili Runce Investment Consultation (Beijing) Limited)* ("Huili Runce") | Beijing, the PRC | HK$10,000,000 | 100% indirectly held | Management and investment consultation, the PRC |
| 哈密市錦華礦產資源開發有限責任公司 (Hami Jinhua Mineral Resource Exploiture Limited)* | Hami, the PRC | RMB100,000,000 | 95% indirectly held | Mining, ore processing and sales of lead and zinc metal products, the PRC |
| 哈密市佳泰礦產資源開發有限責任公司 (Hami Jiatai Mineral Resource Exploiture Limited)* | Hami, the PRC | RMB10,000,000 | 95% indirectly held | Mining, ore processing and sales of nickel and copper metal products, the PRC |
| Jiazhao | The BVI | US$2 | 100% directly held | Investment holdings, the BVI |
| Business Factoring (China) Limited ("Business Factoring") | Hong Kong | HK$40,000,000 | 100% indirectly held | Investment holdings, Hong Kong |
| 嘉屹融資租賃有限公司 (Jiayi Financial Leasing Company Limited)* ("Jiayi") | Tianjin, the PRC | RMB200,000,000 | 100% indirectly held | Financial leasing business, the PRC |
| Xie He Limited | The BVI | US$1 | 100% directly held | Investment holdings, the BVI |

The total non-controlling interests in respect of Hami Jinhua Mineral Resource Exploiture Limited are not material.

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

## 10 DEFERRED INCOME TAX

The analysis of deferred tax assets and deferred tax liabilities is as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Deferred tax assets: | | |
| – Deferred tax asset to be recovered after more than 12 months | (2,823) | (2,823) |
| – Deferred tax asset to be recovered within 12 months | – | – |
| | (2,823) | (2,823) |
| Deferred tax liabilities: | | |
| – Deferred tax liability to be recovered after more than 12 months | 24,494 | 24,602 |
| – Deferred tax liability to be recovered within 12 months | 54 | – |
| | 24,548 | 24,602 |
| Deferred tax liabilities – net | 21,725 | 21,779 |

The gross movements on the deferred income tax account are as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| At beginning of year | 21,779 | 35,492 |
| (Credited)/charged to the income statement (Note 31) | (54) | 608 |
| Disposal of a subsidiary | – | (14,321) |
| At end of year | 21,725 | 21,779 |

## 10 DEFERRED INCOME TAX (Continued)

The movements in deferred tax assets and liabilities for each of the years ended 31 December 2015 and 2016, without taking into consideration of the offsetting of balances within the same tax jurisdiction, are as follows:

### Deferred tax assets

| | Depreciation and others RMB'000 | Provisions and accruals RMB'000 | Total RMB'000 |
|---|---|---|---|
| At 1 January 2015 | 2,660 | 7,089 | 9,749 |
| Credited/(charged) to the income statement | 163 | (7,089) | (6,926) |
| At 31 December 2015 | 2,823 | – | 2,823 |
| At 1 January 2016 and 31 December 2016 | 2,823 | – | 2,823 |

No deferred income tax assets were recognised for tax losses, provisions and accruals as at 31 December 2016 as there is uncertainty on whether the unused tax losses, provisions and accruals can be utilised in the near future.

The Group did not recognise deferred income tax assets of RMB8,233,000 (2015: RMB7,200,750) in respect of losses incurred by Hami Jiatai and Hami Jinhua amounting to RMB32,932,000 (2015: RMB28,803,000), and the expiry dates are as follows.

| | As at 31 December | |
|---|---|---|
| | 2016 | 2015 |
| expiry date | | |
| 2016 | – | 1,255,000 |
| 2017 | 8,766,000 | 8,766,000 |
| 2018 | 5,186,000 | 5,186,000 |
| 2019 | 6,609,000 | 6,609,000 |
| 2020 | 4,827,000 | 6,987,000 |
| 2021 | 7,544,000 | – |
| Total | 32,932,000 | 28,803,000 |

## 10 DEFERRED INCOME TAX (Continued)

### Deferred tax liabilities

| | Valuation surplus of acquired assets upon business combination RMB'000 |
|---|---|
| At 1 January 2015 | 45,241 |
| Credited to the income statement | (6,318) |
| Disposal of a subsidiary | (14,321) |
| At 31 December 2015 | 24,602 |
| At 1 January 2016 | 24,602 |
| Credited to the income statement (Note 31) | (54) |
| At 31 December 2016 | 24,548 |

## 11 REFUNDABLE DEPOSIT

| | As at 31 December | |
|---|---|---|
| | 2016 RMB'000 | 2015 RMB'000 |
| Refundable deposit | 163,367 | 163,367 |

Note:

The Group entered into a Memorandum of Terms (the "Memorandum") on 3 December 2015 and a Supplemental Terms (the "Supplemental") on 29 March 2016 with certain vendors in relation to a possible acquisition of the entire equity interest of a Target Group, which is principally engaged in exploration, development, production and sale of the coalbed methane in Shanxi Province, at a total consideration of not more than US$ 150 million (equivalent to HK$1,170 million). The consideration will be payable as to: (i) US$ 100 million in cash (including issuance of debt securities, if applicable); and (ii) the remaining consideration of not more than US$50 million by the allotment and issue of up to 600,000,000 ordinary shares of the Company at an issue price of HK$0.65 per share upon completion. Pursuant to the Memorandum, the Group has already paid US$25 million to the vendors in December 2015 as a refundable deposit for the exclusive negotiation rights from the date of the Memorandum to end of March 2016 (which was subsequently extended to end of April 2016 pursuant to the Supplemental and further extended to 30 June 2017 according to another supplemental agreement entered into on 31 December 2016).

The earnest money was secured by the share charge in respect of all the shares of the Vendors in favour of the Company. In the event that no sale and purchase agreement is entered into or the possible acquisition does not proceed on or before 30 June 2017, the earnest money shall be refunded to the Company in no more than 10 days.

## 12 RESTRICTED CASH AT BANKS

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Restricted cash at banks | 2,525 | 2,492 |

Note:

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

## 13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | **2016** | 2015 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| At 1 January | 112,286 | 102,301 |
| Additions | – | – |
| Net gains transfer to equity | 2,539 | 9,985 |
| At 31 December | 114,825 | 112,286 |

Available-for-sale financial assets include the following:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| **Non-current portion** | | |
| Equity investment | | |
| – Investment in a fund | – | 112,286 |
| **Current portion** | | |
| Equity investment | | |
| – Investment in a fund | 114,825 | – |

## 13 AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

Note:

On 29 January 2014, the Company entered into the subscription agreement and acceded to the Limited Partnership Agreement, pursuant to which the Company agreed to subscribe for Class B Limited Partnership Interests with a total capital commitment of not more than US$18 million (equivalent to HK$139.5 million), representing approximately 13.95% of the targeted total capital commitment of HK$1,000 million, in the Fund which is a limited partnership focusing on mining and natural resources industries, which had subscribed the convertible bonds of HK$107,500,000 issued by the Company on 19 December 2013, through its wholly owned special purpose vehicle ("ACE AXIS Limited") (notes 23, 24,25). The Company had paid HK$93,000,000 (equivalent to RMB83,189,000) and HK$46,500,000 (equivalent to RMB41,595,000) to the fund in February 2014 and May 2014 respectively.

Management has assessed the level of influence that the Group has on the Fund and determined that it has no significant influence because of the contractual terms. Consequently, this investment has been classified as an available-for-sale financial instrument.

The contracted period of the fund expired in December 2016, and the liquidation progress of the Fund had not been completed as at 31 December 2016. Subsequent to the year end, net proceeds of HK$76,915,000 (equivalent to RMB68,800,000) was fully collected in February 2017 (Note 23) after netting off against the long-term borrowings of HK$51,452,000 (equivalent to RMB46,025,000) (Note 25).

## 14 INVENTORIES

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Raw materials | 1,268 | 4,412 |
| Semi-finished goods | 1,777 | 1,777 |
| Commodity (Note) | – | 337 |
| | 3,045 | 6,526 |

Raw materials mainly included consumables, semi-finished goods included raw ores.

Included in the cost of sales was idle capacity variance of RMB3,601,000 and RMB4,450,000 for the years ended 31 December 2016 and 2015 respectively, which was directly charged to cost of sales.

Note:

As at 31 December 2015, Commodity represented coal purchased by Hami Jinhua from third party supplier. The coal was returned to the supplier due to quality problems in 2016.

## 15 TRADE RECEIVABLES

| | As at 31 December 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Trade receivables | 100 | 3,738 |
| Less: Provision for impairment of trade receivables | – | – |
| Trade receivables – net | 100 | 3,738 |

As at 31 December 2016, the ageing of trade receivables was over 12 months. As at 31 December 2015, the ageing of trade receivables was within 1 month.

## 16 OTHER RECEIVABLES AND PREPAYMENTS

| | As at 31 December 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| **Non-current assets:** | | |
| Other receivables | | |
| – Amounts due from Warburg Energy Development Limited ("Warburg") (Note (a)) | 109,123 | – |
| **Current assets:** | | |
| Other receivables | | |
| – Amounts due from Shanxi Panorama Corporate Management Consulting Co., Ltd. ("Shanxi Panorama") (Note (b)) | 200,318 | – |
| – Amounts due from Warburg (Note (c)) | 100,159 | – |
| – Amounts due from Xiaoyi Dajieshan (Note (d)) | 52,600 | 52,600 |
| – Amounts due from Shaanxi Jiatai (Note (e)) | 39,350 | 39,350 |
| – Amounts due from Mr. Wei Xing (Note (f)) | 26,756 | 26,756 |
| – Deductible VAT input | 1,780 | 1,780 |
| – Others (Note (g)) | 7,644 | 3,055 |
| Less: impairment provision (Note (h), Note 27) | (66,422) | (66,422) |
| | 362,185 | 57,119 |
| Advances to suppliers – third parties | 475 | 475 |
| | 362,660 | 57,594 |

## 16 OTHER RECEIVABLES AND PREPAYMENTS (Continued)

Notes:

(a) In December 2015, Jiayi granted a loan of RMB100 million to Warburg, which was unsecured bearing annual interest of 9% with a fixed term of 5 years. Jiayi was subsequently acquired by the Group (Note 37).

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

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

(d) The amounts of RMB52,600,000 due from Xiaoyi Dajieshan arised from disposal of Shaanxi Jiahe. In December 2015, the Company and Xiaoyi Dajieshan Coal Limited entered into an agreement, pursuant to which i>Hami Jitai sold 100% equity interests in Shaanxi Jiahe to Xiaoyi Dajieshan for a consideration of RMB48,000,000. ii>receivables due from Shaanxi Jiahe to the Company and its subsidiaries, amounted to RMB9,400,000, was transferred to Xiaoyi Dajieshan for a consideration of RMB9,400,000. The transfer was completed in December 2015. Until 31 December 2015, the Group received RMB4,800,000 from Xiaoyi Dajieshan and the remaining balance of RMB52,600,000 would be collected by end of 2016 according to the agreement.

In February 2017, the Company, Hami Jiatai and Xiaoyi Dajieshan entered into a supplemental agreement, pursuant to which, Xiaoyi Dajieshan would pay RMB10,000,000 in February 2017, the due date of remaining RMB42,600,000 was extended to December 2017 and the directors believe no provision would be necessary for the remaining balance. The collection of aforesaid RMB10,000,000 was completed in February 2017.

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

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

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

(g) The balances as at 31 December 2015 and 2016 mainly represented receivables from third parties, which were unsecured, interest free and had no fixed terms of repayment.

(h) As of 31 December 2016, other receivables of RMB66,422,000 (2015: RMB66,422,000) were impaired. The amount of the provision was RMB66,422,000 as of 31 December 2016 (2015: RMB66,422,000) which has been recognised in administrative expenses. The individually impaired receivables mainly related to Shaanxi Jiatai (Note 16(e)) and Mr. Wei Xing (Note 16(f)), which are in dispute with the Group upon the refund of the receivables.

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

## 17 CASH AND CASH EQUIVALENTS

| | As at 31 December 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Cash on hand | – | – |
| Current deposits with banks | 8,970 | 103,333 |
| Cash and cash equivalents | 8,970 | 103,333 |

Balances can be analysed as follows:

| | As at 31 December 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Denominated in: | | |
| – RMB | 1,040 | 6,941 |
| – Hong Kong dollars | 7,927 | 96,389 |
| – US dollars | 3 | 3 |
| | 8,970 | 103,333 |

Notes:

(a) The bank deposits were interest bearing at rates based on bank deposit rates as agreed with banks. The weighted average effective interest rate on deposits ranged from 0.01% to 0.30% per annum as at 31 December 2016 (2015: 0.01% to 0.35%).

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

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

## 18 SHARE CAPITAL AND SHARE PREMIUM

| | Authorised Shares of HK$0.1 each |
|---|---|
| As at 31 December 2015 and 2016 | 5,000,000,000 |

| | Number of Share (Thousands) | Share capital RMB'000 | Share premium RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2015 | 1,000,000 | 86,322 | 416,979 | 503,301 |
| – Proceeds from shares issued (Note (a)) | 500,000 | 41,040 | 160,899 | 201,939 |
| At 31 December 2015 | 1,500,000 | 127,362 | 577,878 | 705,240 |
| – Proceeds from shares issued (Note (b)) | 120,000 | 9,999 | 90,890 | 100,889 |
| At 31 December 2016 | 1,620,000 | 137,361 | 668,768 | 806,129 |

Notes:

(a) The Group issued 500,000,000 shares on 25 September 2015 (33.3% of the total ordinary share capital issued) by way of the Open Offer at the Subscription Price of HK$0.50 per Offer Share on the basis of one Offer Share for every two Shares in issue. The fair value of the shares issued amounted to RMB205,200,000 (RMB0.41 per share). The related transaction costs amounting to RMB3,261,000 have been netted off with the deemed proceeds.

(b) The Group issued 120,000,000 shares in March 2016 at the price of HK$1.01 per share as consideration for acquisition of Jiazhao and its subsidiaries (Note 37).

## 19 OTHER RESERVES

| | Safety funds RMB'000 | Maintenance funds RMB'000 | Capital reserve RMB'000 | Available for sale investments RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2015 | 221 | 1,583 | (13,972) | (7,467) | (19,635) |
| Revaluation (Note 13) | – | – | – | 9,985 | 9,985 |
| At 31December 2015 | 221 | 1,583 | (13,972) | 2,518 | (9,650) |
| Revaluation (Note 13) | – | – | – | 2,539 | 2,539 |
| At 31 December 2016 | 221 | 1,583 | (13,972) | 5,057 | (7,111) |

## 20 ACCUMULATED LOSSES

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Accumulated losses at beginning of year | (221,481) | (119,673) |
| Loss for the year | (34,615) | (101,808) |
| Accumulated losses at end of year | (256,096) | (221,481) |

Notes:

(a) In accordance with the PRC Company Law and the PRC subsidiaries' Articles of Association, the PRC subsidiaries are required to transfer 10% of the profit after taxation determined in accordance with PRC GAAP to the statutory reserve until the balance reaches 50% of the paid-up capital. Such reserve can be used to reduce any losses incurred or to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital. There were no appropriation to the statutory reserve for the years ended 31 December 2015 and 2016 as there were losses for the years ended 31 December 2015 and 2016 in the PRC subsidiaries.

(b) Pursuant to certain regulations issued by the State of Administration of Work Safety, the Group is required to set aside an amount to a safety fund at RMB8 per tonne of raw ore mined. The fund can be used for improvements of safety at the mines, and are not available for distribution to shareholders. Upon incurring qualifying safety expenditure, an equivalent amount is transferred from safety fund to retained earnings. There were no appropriation to the safety funds for the years ended 31 December 2015 and 2016 as no ore was mined.

(c) Pursuant to certain regulations issued by the State of Administration of Work Safety and Ministry of Finance, the Group is required to set aside an amount to a maintenance fund calculated based on a rate of RMB18 per tonne of raw ore mined. The fund can be used for improvement of mining structures, and are not available for distributions to shareholders. Upon incurring qualifying capital expenditure, an equivalent amount is transferred from maintenance fund to retained earnings. There were no appropriation to the maintenance fund for the years ended 31 December 2015 and 2016 as no ore was mined.

(d) The directors of the Company did not propose any payment of dividends to the Company's shareholders for the years ended 31 December 2015 and 2016.

## 21 PROVISION FOR CLOSE DOWN, RESTORATION AND ENVIRONMENTAL COSTS

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| At beginning of year | 3,090 | 4,473 |
| Unwinding of discount (Note 30) | 70 | 356 |
| Disposal of a subsidiary | – | (1,739) |
| At end of the year | 3,160 | 3,090 |

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

## 22 TRADE PAYABLES

Trade payables are analysed as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| – Third parties | 1,318 | 2,523 |

The ageing analysis of trade payables is as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| 0 – 90 days | 18 | 1,486 |
| Over 365 days | 1,300 | 1,037 |
| | 1,318 | 2,523 |

## 22 TRADE PAYABLES (Continued)

The carrying amounts of trade payables approximated their fair values. The balances were denominated in RMB.

## 23 CONVERTIBLE BONDS

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Convertible bonds (Note) | – | 62,582 |

Note:

The Company issued HK$107,500,000 convertible bonds of 50,000,000 conversion shares at HK$2.15 per share on 19 December 2013 ("closing date") to ACE AXIS Limited which is a special purpose vehicle of the Fund. The convertible bonds bear interest at 2% per annum which is payable semi-annually. The bonds mature in two years from the closing date and shall be redeemed at 116% of their nominal value or can be converted into ordinary shares of the Company on or after 20 December 2013 up to 19 December 2015 at a price of HK$2.15 per share.

The values of the liability component of the convertible bonds were determined at issuance of the bond.

The convertible bonds matured on 19 December 2015 and the bond holder didn't execute the conversion rights, the bonds shall be redeemed.

On the date the convertible bonds matured, the bond holder and the Company signed a side agreement, pursuant to which, HKD50,000,000 (equivalent to RMB41,889,000) among the matured amount would be converted to a two-year loan with 10% annual interest, and residual amount of HKD74,700,000 (equivalent to RMB62,582,000) would be repaid in January 2016. As a result, HKD50,000,000 (equivalent to RMB41,889,000) was transferred to long-term borrowings (Note 24).

## 23 CONVERTIBLE BONDS (Continued)

The convertible bonds recognised in the consolidated balance sheet is calculated as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Liability component as at 1 January | 62,582 | 84,547 |
| Interest expense (Note 30) | – | 15,945 |
| Interest payable | – | (1,692) |
| Exchange losses | – | 5,671 |
| Matured and transferred to long-term borrowings (Note 24) | – | (41,889) |
| Repayment | (62,582) | – |
| | – | 62,582 |

## 24 LONG-TERM BORROWINGS

| | As at 31 December<br>2016<br>RMB'000 | <br>2015<br>RMB'000 |
|---|---|---|
| Long-term borrowings to ACE Axis Limited (Note 23) | 44,726 | 41,889 |
| Interest expense (Note 30) | 1,299 | – |
| Less: current portion of long-term borrowings (Note 25) | (46,025) | – |
| | – | 41,889 |

On 1 April 2016, the Company, ACE AXIS Limited, the Fund entered into a tripartite agreement, which stated that the loan would bear interest up to 1 April 2016, and the total outstanding amount would be deducted from the liquidation proceeds of the investment in the Fund (Note 13). In January 2017, the loan was netted off against the liquidation proceeds, and net proceeds of HK$76,915,000 (equivalent to RMB68,800,000) was fully collected in February 2017.

## 25 CURRENT-PORTION OF LONG-TERM BORROWINGS

| | As at 31 December<br>2016<br>RMB'000 | <br>2015<br>RMB'000 |
|---|---|---|
| Long-term borrowings to ACE Axis Limited (Note 24) | 46,025 | – |

## 25 CURRENT-PORTION OF LONG-TERM BORROWINGS (Continued)

The two year borrowings of HKD50,000,000 (equivalent to RMB44,726,000) would mature on 19 December 2017, as a result, HKD50,000,000 (equivalent to RMB44,726,000) together with interest payable of HKD1,452,000 (equivalent to RMB1,299,000) were transferred to current portion of long-term borrowings (Note 24). In January 2017, the borrowings was subsequently netted off against the liquidation proceeds from the investment in the Fund (Note 13).

## 26 OTHER PAYABLES AND ACCRUALS

| | As at 31 December | |
|---|---|---|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Other payables (Note (a)) | 303,094 | 3,353 |
| Salary and welfare payables | 5,548 | 5,868 |
| Accrued taxes other than income tax (Note (b)) | 6,969 | 5,138 |
| | 315,611 | 14,359 |

Notes:

(a) Other payables are analysed as follows:

| | As at 31 December | |
|---|---|---|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Other payables | | |
| – Amounts due to Zhong Ou Sheng Shi Asset Management Co., Ltd. ("Zhong Ou Sheng Shi") (note (i)) | 300,477 | – |
| – Amounts due to Mr. Wei Xing (note (ii)) | 186 | 186 |
| – Third parties (note (iii)) | 2,431 | 3,167 |
| | 303,094 | 3,353 |

(i) In January 2016, Jiayi entered into an agreement with an asset management plan operated by Zhong Ou Sheng Shi. Zhong Ou Sheng Shi granted a loan of RMB300 million to Jiayi, which was pledged on 20% equity interests in Warburg held by Shanxi Panorama, bearing interest rate of 9% with fixed term of 13 months. The loan was granted to Warburg and Shanxi Panorama by Jiayi afterwards. The loan was repaid to Zhong Ou Sheng Shi by the Group in January 2017 after Jiayi collected back the loan repayment proceeds from Warburg and Shanxi Panorama in January 2017 (Note 16).

(ii) Amounts due to Mr. Wei Xing were interest free and unsecured, and had no fixed terms of repayment.

(iii) Other payable to third parties mainly included advances from third parties as at 31 December 2015 and 2016.

## 26 OTHER PAYABLES AND ACCRUALS (Continued)

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

| | As at 31 December | |
|---|---|---|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Value added tax | 2,275 | 443 |
| Resource tax | 284 | 284 |
| Resource compensation fee | 4,269 | 4,269 |
| Others | 141 | 142 |
| | 6,969 | 5,138 |

The carrying amounts of other payables approximated their fair values.

## 27 EXPENSES BY NATURE

The following items have been charged to the operating loss for the years ended 31 December 2015 and 2016:

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Borrowing cost of financial service | 20,342 | – |
| Depreciation (Note 6) | 3,585 | 5,093 |
| Amortisation (Note 8) | 243 | 243 |
| Impairment provision for mining assets and mining rights (Note 6, 7) | – | 25,059 |
| Doubtful debt provision for other receivables (Note 16) | – | 41,129 |
| Employee benefit expenses (Note 28) | 9,371 | 9,028 |
| Office expenses and operating lease payments | 7,165 | 6,734 |
| Coal purchased from third party | – | 2,814 |
| Consulting and professional expenses | 8,575 | 1,789 |
| Loss on stock taking of raw materials | 3,144 | – |
| Auditor's remuneration | | |
| – annual audit | 1,259 | 1,259 |
| – others | 1,400 | – |
| Transportation expenses | 799 | 565 |
| Electricity consumed | 44 | 41 |
| Others | 1,233 | 511 |
| Total cost of sales, distribution expenses and administrative expenses | 57,160 | 94,265 |

## 28 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Wages and salaries | 8,559 | 8,348 |
| Contributions to pension plans (Note (a)) | 248 | 348 |
| Housing benefits (Note (b)) | 80 | 116 |
| Welfare and other expenses | 484 | 216 |
| | 9,371 | 9,028 |

Notes:

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

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

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2015: two) directors whose emoluments are reflected in the analysis shown in Note 33. The emoluments payable to the remaining three (2015: three) individuals during the year are as follows:

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| | HK$'000 | HK$'000 |
| Basic salaries, housing allowances, share options, other allowances and benefits in kind | 2,042 | 1,448 |
| Contribution to pension scheme | – | – |
| | 2,042 | 1,448 |

The emoluments fell within the following bands:

| | Number of individuals | |
|---|---|---|
| | 2016 | 2015 |
| Emolument bands (in HK dollars) | | |
| Up to HK$1,000,000 (up to RMB894,500 equivalents) | 2 | 3 |
| HK$1,000,001 and above (RMB894,501 equivalents and above) | 1 | 0 |

## 29 OTHER GAINS/(LOSSES) – NET

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Fair value gains on derivative financial instruments | – | 718 |
| Gains on disposal of a subsidiary | – | 1,162 |
| Gains on acquisition of Jiazhao (Note 37) | 571 | – |
| Losses on disposal of property, plant and equipment | – | (2,150) |
| Others | (224) | 175 |
| | 347 | (95) |

## 30 FINANCE COSTS – NET

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Finance income | | |
| Interest income | 210 | 428 |
| Finance costs | | |
| Exchange (losses)/gains – net | (1,631) | 3,297 |
| Interest expenses | | |
| – Convertible bonds (Note 23) | – | (15,945) |
| – Long-term borrowings (Note 24) | (1,299) | – |
| – Unwinding of discount – provision for close down, restoration and environmental costs (Note 21) | (70) | (356) |
| | (3,000) | (13,004) |
| Finance costs – net | (2,790) | (12,576) |

## 31 INCOME TAX EXPENSE

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Current tax | 1,308 | – |
| Deferred tax (Note 10) | (54) | 608 |
| Income tax expense | 1,254 | 608 |

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.

Right Source, Fortune In, Jiazhao and Xie He are exempted companies incorporated in the BVI and, as such, are not liable for taxation in the BVI on their non-BVI income.

Surplus Plan, Realty Investment and Business Factoring were subject to Hong Kong profits tax at a rate of 16.5% for each of the years ended 31 December 2015 and 2016.

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

The applicable tax rate of Huili Runce, Hami Jinhua, Hami Jiatai and Jiayi for each of the years ended 31 December 2015 and 2016 were 25%.

All the Group's subsidiaries in Hong Kong and the Mainland China except for Jiayi did not have any assessable profit for each of the years ended 31 December 2015 and 2016.

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

## 31 INCOME TAX EXPENSE (Continued)

| | Year ended 31 December 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Loss before income tax | (34,015) | (103,741) |
| Tax calculated at domestic tax rates applicable to results in the respective countries | (4,487) | (13,294) |
| Tax effects of: | | |
| – Expenses not deductible for tax purposes | 493 | 122 |
| – Deductible temporary differences for which no deffered income tax asset recognized | 1,119 | 11,334 |
| – Tax losses for which no deferred income tax asset recognized | 4,129 | 2,446 |
| Income tax expense | 1,254 | 608 |

## 32 LOSS PER SHARE

The basic loss per share is calculated by dividing the loss attributable to the equity holders of the Company by weighted average number of ordinary shares in issue during the year.

| | Year ended 31 December 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Loss attributable to equity holders of the Company | (34,615) | (101,808) |
| Adjusted weighted average number of shares in issue (in thousands) | 1,590,000 | 1,132,877 |
| Basic and diluted loss per share (RMB) | (0.022) | (0.090) |

Diluted loss per share was equal to basic loss per share as there was no dilutive potential share outstanding for the each of the years ended 31 December 2015 and 2016.

## 33 BENEFITS AND INTERESTS OF DIRECTORS

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2016:

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

| Name | Salary RMB'000 | Discretionary bonuses RMB'000 | Housing allowance RMB'000 | Estimated money value of other benefits RMB'000 | Employer's contribution to a retirement benefit scheme RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| Mr. Wang Dayong | 1,125 | - | - | - | - | 1,125 |
| Mr. Lu Qi(Note(a)) | 91 | - | - | - | - | 91 |
| Mr. Shou Xuancheng (Note(f)) | 312 | - | - | - | - | 312 |
| Mr. Cao Shiping | 104 | - | - | - | - | 104 |
| Mr. Cao Kuangyu | 104 | - | - | - | - | 104 |
| Mr. Song Shaohuan | 104 | - | - | - | - | 104 |
| Mr. Xu Zucheng | - | - | - | - | - | - |
| Mrs.Wang Qian(Note(b)) | - | - | - | - | - | - |
| Mr. Liu Ting (Note(c)) | 11 | - | - | - | - | 11 |
| Chief executive: | | | | | | |
| Mr. Sun Zhong (Note(m)) | 832 | - | - | - | - | 832 |

## 33 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

For the year ended 31 December 2015:

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

| Name | Salary RMB'000 | Discretionary bonuses RMB'000 | Housing allowance RMB'000 | Estimated money value of other benefits RMB'000 | Employer's contribution to a retirement benefit scheme RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| Mr. Wang Dayong (Note(d)) | 690 | – | – | 250 | – | 940 |
| Mr. Lu Qi (Note(a)) | 169 | – | – | – | – | 169 |
| Mr. Ma Boping (Note(e)) | 146 | – | – | – | – | 146 |
| Mr. Shou Xuancheng (Note(f)) | 97 | – | – | – | – | 97 |
| Mr. Cao Shiping | 97 | – | – | – | – | 97 |
| Mr. Cao Kuangyu | 97 | – | – | – | – | 97 |
| Mr. Song Shaohuan | 97 | – | – | – | – | 97 |
| Mr. Liu Ting (Note(c)) | 82 | – | – | – | – | 82 |
| Mr. Zhao Guangsheng (Note(g)) | 82 | – | – | – | – | 82 |
| Mr. Wu Guangsheng (Note(h)) | 50 | – | – | – | – | 50 |
| Mr. Zhou Meifu (Note(i)) | 49 | – | – | – | – | 49 |
| Mr. Zhao Bochen (Note(j)) | 35 | – | – | – | – | 35 |
| Mr. Xu Zucheng (Note(k)) | – | – | – | – | – | – |
| Mr. Wang Feng (Note(l)) | – | – | – | – | – | – |
| Chief executive: | | | | | | |
| Mr. Sun Zhong (Note(m)) | 440 | – | – | – | – | 440 |

Notes:

(a) Mr. Lu has resigned as executive director on 8 June 2016.

(b) Mrs. Wang has been appointed as executive director on 26 January 2016.

(c) Mr.Liu has been appointed as executive director on 8 June 2015, and has resigned as executive director on 26 January 2016.

(d) Presents the estimated money value of accommodation provided to Mr. Wang on 2015.

(e) Mr. Ma has resigned as executive director on 25 June 2015.

(f) Mr. Shou has been appointed as non-executive director on 8 September 2015 and re-designated to an executive director on 17 November 2015.

(g) Mr. Zhao has retired on 5 June 2015 as the CEO.

(h) Mr. Wu has resigned as executive director on 8 June 2015.

(i) Mr. Zhou has resigned as executive director on 25 June 2015.

(j) Mr. Zhao has resigned as executive director on 8 June 2015.

(k) Mr. Xu has been appointed as executive director on 17 November 2015.

(l) Mr. Wang has resigned as executive director on 17 November 2015.

(m) Mr. Sun has been appointed as CEO on 5 June 2015.

## 34 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Cash used in operations

| | Year ended 31 December | |
|---|---|---|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Loss before income tax | (34,015) | (103,741) |
| **Adjustments:** | | |
| Depreciation of property, plant and equipment | 3,585 | 5,093 |
| Amortisation | 243 | 243 |
| Loss on disposal of property, plant and equipment | – | 2,150 |
| Fair value gains on derivative financial instruments | – | (718) |
| Finance costs | 3,645 | 17,049 |
| Finance income | (210) | (428) |
| Gains on disposal of subsidiary | – | (1,162) |
| Gains on acquisition of Jiazhao | (571) | – |
| Impairment of long-term assets | – | 25,059 |
| Impairment of other receivables | – | 41,129 |
| Cash used in operations before working capital changes | (27,323) | (15,326) |
| **Changes in working capital:** | | |
| Decrease/(Increase) in inventories | 3,481 | (355) |
| Decrease/(Increase) in trade receivables | 3,638 | (3,738) |
| Increase in other receivables and prepayments | (11,086) | (2,440) |
| (Decrease)/Increase in trade and other payables and accruals | (733) | 5,974 |
| (Increase)/Decrease in restricted cash at banks for environmental recovery | (33) | 308 |
| Cash used in operations | (32,056) | (15,577) |

### (b) Non-cash transactions

The principal non-cash transaction for the year ended 31 December 2016 was the issue of shares as consideration for the acquisition discussed in Note 37.

## 35 CONTINGENCIES

### (a) Environmental contingencies

Historically, the Group has not incurred any significant expenditure for environmental remediation. Save as disclosed in Note 21, 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.

## 35 CONTINGENCIES (Continued)

### (a) Environmental contingencies (Continued)

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.

## 36 COMMITMENTS

### (a) Capital commitments

There is no contracted capital expenditure as at year end of 2016 and 2015.

### (b) Operating lease commitments

The Company leases various offices under non-cancelable operating lease agreements.

The future aggregate minimum lease payments under non-cancelable operating leases are as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| No later than 1 year | 2,979 | 1,845 |
| Later than 1 year and no later than 5 years | 1,739 | – |
| | 4,718 | 1,845 |

## 37 BUSINESS COMBINATION

On 31 March 2016, the Group acquired 100% of the issued shares in Jiazhao and its subsidiaries and the debts due by Jiazhao and its subsidiaries to Ms. He Ying and Ms. Niu Yinyin, previous shareholders of Jiazhao for a total consideration of HK$121,200,000 (equivalent to RMB100,990,000). The consideration was satisfied by the allotment and issue of 120,000,000 new shares to Ms. He Ying and Ms. Niu Yinyin at the issue price of HK$1.01 upon the completion of the acquisition. Jiazhao is principally engaged in financial leasing business through its subsidiary in the PRC.

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

| | 31 March 2016<br>RMB'000 |
|---|---|
| Puchase consideration | |
| – satisfied by issue of shares | 100,990 |
| Less: debts due by Jiazhao to Ms. He Ying and Ms. Niu Yinyin | (100,194) |
| Net consideration for acquisition of 100% equity interests in Jiazhao | 796 |
| **Recognised amounts of identifiable assets acquired and liabilities assumed** | |
| Cash and banks | 59 |
| Receivables | 403,102 |
| Payables | (401,363) |
| Income tax payable | (431) |
| Total identifiable net assets | 1,367 |
| Gains on bargain purchase (Note 29) | (571) |
| Acquisition-related costs (deducted in share premium) | 101 |

| | 31 March 2016<br>RMB'000 |
|---|---|
| Outflow of cash to acquire business, net of cash acquired | |
| – cash paid for acquisition-related costs | (101) |
| – cash and banks in subsidiary acquired | 59 |
| Net cash outflow on the acquisition | (42) |

## 38 RELATED PARTY TRANSACTIONS

(a) For the period from 1 January 2015 to 15 June 2015, the Group's management is of the view that the following persons are related parties of the Group:

| Name of related parties | Relationship with the Group |
|---|---|
| Mr. Wang Dayong | A director and an ultimate shareholder of the Company holds 27.43% equity interest in the Group. |
| Mr. Sun Zhong | A director and an ultimate shareholder of the Company holds 24.3% equity interest in the Group. |
| Mr. Lu Qi | A director and an ultimate shareholder of the Company holds 10% equity interest in the Group. |

(b) For the period from 16 June 2015 to 31 March 2016, the Group's management is of the view that the following persons are related parties of the Group:

| Name of related parties | Relationship with the Group |
|---|---|
| Mr. Wang Dayong | A director and an ultimate shareholder of the Company holds 27.43% equity interest in the Group. |
| Mr. Sun Zhong | A director and an ultimate shareholder of the Company holds 24.3% equity interest in the Group. |

(c) For the period from 31 March 2016 to 19 December 2016, the Group's management is of the view that the following persons are related parties of the Group:

| Name of related parties | Relationship with the Group |
|---|---|
| Mr. Wang Dayong | A director and an ultimate shareholder of the Company holds 25.44% equity interest in the Group. |
| Mr. Sun Zhong | A director and an ultimate shareholder of the Company holds 22.5% equity interest in the Group. |

## 38 RELATED PARTY TRANSACTIONS (Continued)

(d) For the period from 19 December 2016 to 31 December 2016, the Group's management is of the view that the following persons are related parties of the Group:

| Name of related parties | Relationship with the Group |
|---|---|
| Mr. Wang Dayong | A director and an ultimate shareholder of the Company holds 25.44% equity interest in the Group. |
| China Huarong Asset Management Co., Ltd | An ultimate shareholder of the Company holds 19.75% equity interest in the Group. |

During each of the years ended 31 December 2015 and 2016, the Company had not any material transactions with related parties besides of the aforementioned transactions disclosed in this annual report.

### (e) Key management compensation

Key management includes the company secretary and the chief financial officer, vice president of the Company, the chief officer of Hami Jinhua.

The compensation paid or payable to key management for employee services is shown below:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Basic salaries, allowances and other benefits | **1,316** | 1,277 |
| Contributions to pension plan | **–** | 31 |
| | **1,316** | 1,308 |

## 39 EVENTS AFTER BALANCE SHEET DATE

### a. Liquidation of the Fund

The contracted period of the Fund (Note 13) expired on 25 December 2016, and the distribution procedures were in progress as at 31 December 2016. The final distribution procedures were completed on 25 January 2017. All the entitled final distribution proceeds after net off the long-term borrowings (Note 25) is HK$76,915,000 (equivalent to RMB68,800,000), which was collected in 2017.

### b. Settlement of other receivable and payables

Other receivables of RMB300,477,000 and other payables of RMB300,477,000 in relation to the financial leasing business of the Group as at 31 December 2016 were duly settled in February 2017.

## 40 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY

| | | As at 31 December | |
|---|---|---|---|
| | | 2016 | 2015 |
| | Note | RMB'000 | RMB'000 |
| **ASSETS** | | | |
| Non-current assets | | | |
| Interests in subsidiaries | | 204,417 | 119,261 |
| Refundable deposit | | 163,367 | 163,367 |
| Available for sale financial assets | | – | 112,286 |
| Total non-current assets | | 367,784 | 394,914 |
| Current assets | | | |
| Available for sale financial assets | | 114,825 | – |
| Other receivables and prepayments | | 97,853 | 89,959 |
| Cash and cash equivalents | | 7,861 | 94,921 |
| Total current assets | | 220,539 | 184,880 |
| Total assets | | 588,323 | 579,794 |

## 40 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY (Continued)

| | | As at 31 December | |
|---|---|---|---|
| | | 2016 | 2015 |
| | Note | RMB'000 | RMB'000 |
| **EQUITY** | | | |
| Equity attributable to equity holders of the Company | | | |
| Share capital | (18) | 137,361 | 127,362 |
| Share premium | (18) | 668,768 | 577,878 |
| Other reserves | (40(a)) | 5,057 | 2,518 |
| Accumulated losses | (40(a)) | (270,214) | (234,715) |
| Total equity | | 540,972 | 473,043 |
| **LIABILITY** | | | |
| Non-current liabilities | | | |
| Long-term borrowings | | – | 41,889 |
| Total non-current liabilities | | – | 41,889 |
| Current liabilities | | | |
| Other payables | | 2,625 | 2,280 |
| Convertible bonds | | – | 62,582 |
| Current-portion of long-term payable | | 44,726 | – |
| Total current liabilities | | 47,351 | 64,862 |
| Total liabilities | | 47,351 | 106,751 |
| Total equity and liabilities | | 588,323 | 579,794 |

The balance sheet of the Company was approved by the Board of Directors on 28 March 2017 and was signed on its behalf

**Wang Dayong**
*Director*

**Wang Qian**
*Director*

## 40 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY (Continued)

Note (a) Reserves movements of the Company

| | Accumulated losses RMB'000 | Other reserves RMB'000 |
|---|---|---|
| At 1 January 2015 | (78,107) | (7,467) |
| Loss for the year | (156,608) | – |
| Change in value of available-for-sale financial assets | – | 9,985 |
| At 31 December 2015 | (234,715) | 2,518 |
| At 1 January 2016 | (234,715) | 2,518 |
| Loss for the year | (35,499) | – |
| Change in value of available-for-sale financial assets | – | 2,539 |
| At 31 December 2016 | (270,214) | 5,057 |

# FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is set out below:

## RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| REVENUE | 25,588 | 3,195 | 3,504 | 1,097 | 13,016 |
| LOSS BEFORE INCOME TAX | (34,015) | (103,741) | (63,177) | (45,749) | (11,249) |
| Income tax (expense)/credit | (1,254) | (608) | 6,319 | (357) | 1,189 |
| LOSS FOR THE YEAR | (35,269) | (104,349) | (56,858) | (46,106) | (10,060) |
| Attributable to: | | | | | |
| Equity holders of the Company | (34,615) | (101,808) | (54,466) | (45,376) | (8,438) |
| Non-controlling interests | (654) | (2,541) | (2,392) | (730) | (1,622) |
| | (35,269) | (104,349) | (56,858) | (46,106) | (10,060) |

## ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| TOTAL ASSETS | 936,566 | 625,051 | 537,881 | 614,666 | 571,312 |
| TOTAL LIABILITIES | (392,667) | (149,311) | (169,716) | (182,176) | (92,716) |
| NON-CONTROLLING INTERESTS | (977) | (1,631) | (4,172) | (6,564) | (7,294) |
| | 542,922 | 474,109 | 363,993 | 425,926 | 471,302 |