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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018
AND
CONTINUED SUSPENSION OF TRADING

(1) INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board of directors (the "Board") of Huili Resources (Group) Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (together the "Group") for the six months ended 30 June 2018, together with comparative figures for the corresponding period in 2017 as follows:

Interim Condensed Consolidated Balance Sheet

	Note	**30 June 2018 RMB'000 (unaudited)**	31 December 2017 RMB'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**75,559**	61,516
Mining rights and exploration rights		**109,859**	94,539
Land use rights		**8,734**	8,856
Goodwill		**1,115**	–
Deferred tax assets		**2,823**	2,823
Restricted cash at banks		**2,997**	2,648
Other receivables and prepayments	9	**–**	146,559
Total non-current assets		**201,087**	316,941

	Note	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Current assets			
Inventories		**14,920**	3,045
Trade receivables	8	**13,034**	8,975
Other receivables and prepayments	9	**222,270**	171,834
Cash and cash equivalents		**137,209**	54,410
Total current assets		**387,433**	238,264
Total assets		**588,520**	555,205
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	10	**137,361**	137,361
Share premium	10	**668,768**	668,768
Other reserves		**(12,168)**	(12,168)
Accumulated losses		**(307,129)**	(302,225)
		486,832	491,736
Non-controlling interests		**(1,279)**	(1,080)
Total equity		**485,553**	490,656
LIABILITIES			
Non-current liabilities			
Provision for close down, restoration and environmental costs		**5,288**	3,233
Deferred tax liabilities		**24,048**	22,960
Total non-current liabilities		**29,336**	26,193
Current liabilities			
Trade payables	11	**23,193**	12,226
Other payables and accruals		**44,872**	21,029
Income tax payable		**4,566**	4,101
Borrowing		**1,000**	1,000
Total current liabilities		**73,631**	38,356
Total liabilities		**102,967**	64,549
Total equity and liabilities		**588,520**	555,205

Interim Condensed Consolidated Income Statement

	Note	Six months ended 30 June 2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Revenue	6	**14,610**	12,533
Cost of sales	12	**(10,333)**	(4,413)
Gross profit		**4,277**	8,120
Selling and marketing costs	12	**(103)**	–
Administrative expenses	12	**(10,752)**	(11,416)
Other gains - net	13	**177**	4,230
Operating profit/(loss)		**(6,401)**	934
Finance income		**595**	145
Finance gains/(costs)		**1,421**	(853)
Finance income/(cost) – net	14	**2,016**	(708)
Profit/(Loss) before income tax		**(4,385)**	226
Income tax expense	15	**(718)**	(2,301)
Loss for the period		**(5,103)**	(2,075)
Loss attributable to:			
Equity holders of the Company		**(4,904)**	(1,917)
Non-controlling interests		**(199)**	(158)
		(5,103)	(2,075)
Loss per share attributable to the equity holders of the Company (expressed in RMB per share)			
– Basic and diluted	16	**(0.003)**	(0.001)
Loss for the period		**(5,103)**	(2,075)

	Note	Six months ended 30 June 2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Other comprehensive loss:			
Items that may be reclassified to profit or loss			
Available-for-sale financial assets			
– Transferred to profit or loss upon disposal		**–**	(5,057)
Other comprehensive loss for the period, net of tax		**–**	(5,057)
Total comprehensive loss for the period		**(5,103)**	(7,132)
Total comprehensive loss for the period attributable to:			
Equity holders of the Company		**(4,904)**	(6,974)
Non-controlling interests		**(199)**	(158)
Total comprehensive loss for the period		**(5,103)**	(7,132)

Interim Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company									
	Share capital RMB'000	**Share premium** RMB'000	**Safety funds** RMB'000	**Maintenance funds** RMB'000	**Capital reserve** RMB'000	**Available-sale for-financial assets** RMB'000	**Accumulated losses** RMB'000	**Subtotal** RMB'000	**Non-controlling interests** RMB'000	**Total equity** RMB'000
Balance at 1 January 2018	**137,361**	**668,768**	**221**	**1,583**	**(13,972)**	**-**	**(302,225)**	**491,736**	**(1,080)**	**490,656**
Loss for the period (unaudited)	**-**	**-**	**-**	**-**	**-**	**-**	**(4,904)**	**(4,904)**	**(199)**	**(5,103)**
Total comprehensive loss (unaudited)	**-**	**-**	**-**	**-**	**-**	**-**	**(4,904)**	**(4,904)**	**(199)**	**(5,103)**
Balance at 30 June 2018	**137,361**	**668,768**	**221**	**1,583**	**(13,972)**	**-**	**(307,129)**	**486,832**	**(1,279)**	**485,553**
Balance at 1 January 2017	137,361	668,768	221	1,583	(13,972)	5,057	(256,096)	542,922	977	543,899
Loss for the period (unaudited)	–	–	–	–	–	–	(1,917)	(1,917)	(158)	(2,075)
Transferred from OCI and recognized in profi t or loss (unaudited)	–	–	–	–	–	(5,057)	–	(5,057)	–	(5,057)
Total comprehensive loss (unaudited)	–	–	–	–	–	(5,057)	(1,917)	(6,974)	(158)	(7,132)
Balance at 30 June 2017 (unaudited)	137,361	668,768	221	1,583	(13,972)	–	(258,013)	535,948	819	536,767

Interim Condensed Consolidated Statement of Cash Flows

	Note	Six months ended 30 June 2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Cash flows from operating activities			
Cash used in operations		**(1,413)**	(9,246)
Income tax paid		**–**	(27)
Net cash used in operating activities		**(1,413)**	(9,273)
Cash flows from investing activities			
Net proceeds from disposal of available-for-sale financial assets after netting off the borrowings		**–**	68,016
Return of deposit payment for investment		**84,310**	–
Net cash generated from acquisition of subsidiaries		**2**	764
Purchase of property, plant and equipment		**(1,460)**	–
Interest received		**595**	145
Net cash generated from investing activities		**83,447**	68,925
Net increase cash and cash equivalents		**82,034**	59,652
Cash and cash equivalents at beginning of period		**54,410**	8,970
Exchange differences on cash and cash equivalents		**765**	(1,074)
Cash and cash equivalents at end of period		**137,209**	67,548

Notes to the Condensed Consolidated Financial Information

1 General Information

Huili Resources (Group) Limited (the "Company") was incorporated in the Cayman Islands on 19 February 2010 as an exempted company with limited liability under Companies Law (Cap 22, as amended and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 12 January 2012.

The Company is an investment holding company and its subsidiaries (collectively the "Group") are principally engaged in the mining, ore processing, sales of nickel, copper, lead and zinc products, financial services, engineering services and other related services and trading of materials for oil and gas exploration in the People's Republic of China (the "PRC").

This condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated. The condensed consolidated interim financial information, which has not been audited, was approved for issue by the Board of Directors on 10 December 2018.

Significant events and transactions

The operational highlight of the period was Shaanxi Jiahe Mineral Exploitation Limited ("Shannxi Jiahe") becoming an indirect 95%-owned subsidiary of the Company. Further details are given in Note 7.

During the six months ended 30 June 2018, there has been no exploration, development or production activity related to the mineral operation.

2 Basis of Preparation

This condensed consolidated interim financial information for the six months ended 30 June 2018 has been prepared in accordance with HKAS 34, "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

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

2 Basis of Preparation (Continued)

2.1 New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group has changed its accounting policies as a result of adopting the following standards:

- HKFRS 9 Financial Instruments;
- HKFRS 15 Revenue from Contracts with Customers;

The following other standards did not have material impact on the Group's accounting policies and did not require retrospective adjustments.

- Amendments to HKFRS 2 Classification and Measurement of Share-based Payment Transactions;
- Amendments to HKFRS 4 Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts;
- Amendment to HKFRS 1 First time adoption of HKFRS;
- Amendment to HKAS 28 Investments in associates and joint ventures;
- Amendments to HKAS 40 Transfers of investment property;
- HK (IFRIC) 22 Foreign Currency Transactions and Advance Consideration;

The adoption of these new standards and amendments to standards does not have any significant impact to the results and financial position of the Group.

2.2 Impact of standards issued but not yet applied by the Group

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2018 and have not been early adopted by the Group:

Standards	**Effective for annual periods beginning on or after**
HKFRS 16 Leases	1 January 2019
HK (IFRIC) 23 Uncertainty over income tax treatments	1 January 2019
Amendments to HKFRS 10 and HKAS 28 Sale or contribution of assets between an investor and its associate or joint venture	To be determined
HKFRS 17 Insurance contracts	1 January 2021

2 Basis of Preparation (Continued)

2.2 Impact of standards issued but not yet applied by the Group (Continued)

The Group has already commence an assessment of the impact of these new or revised standards which are relevant to the Group's operation. Except as described below, the Group considers that the application of amendments to HKFRS, amendments to HKASs and the new interpretations is unlikely to have a material impact on the Group's financial position and performance as well as disclosure in the future.

HKFRS 16 Leases

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB5,714,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

3. Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

3.1 Impact on the financial statements

There are no adjustments to the amounts recognised in the Group's financial statements related to the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers.

3. Changes in accounting policies (Continued)

3.2 HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018

(i) Investments and other financial assets

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

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

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

3. Changes in accounting policies (Continued)

3.2 HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (Continued)

(i) Investments and other financial assets (Continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

3. Changes in accounting policies (Continued)

3.2 HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (Continued)

(i) Investments and other financial assets (Continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

3. Changes in accounting policies (Continued)

3.3 HKFRS 15 Revenue from Contracts with Customers – Accounting policies

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies. IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

(i) Sale of products

The revenue from sale of products is recognised when control of the products has transferred, being when the products are sold.

(ii) Interest income from financial services

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.

(iii) Engineering service and other related services

Revenue from engineering service and other related services is recognised when the services are rendered.

4 Estimates

The preparation of this condensed consolidated interim financial information require management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

5 Financial Risk Management

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk.

This condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial information, and should be read in conjunction with the Group's annual financial statements as at 31 December 2017.

There have been no changes in the risk management policies since the year end.

5.2 Liquidity risk

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	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
	RMB'000	RMB'000	RMB'000	RMB'000
At 30 June 2018				
Trade and other payables	**54,525**	**–**	**–**	**–**
Borrowing	**1,000**	**–**	**–**	**–**
At 31 December 2017				
Trade and other payables	18,332	–	–	–
Borrowing	1,000	–	–	–

5 Financial Risk Management (Continued)

5.3 Fair value estimation

This section analyses the Group's financial instruments carried at fair value as at 30 June 2018 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

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

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

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

The Group do not have any financial assets or liabilities that are measured at fair value as at 30 June 2018 and 31 December 2017.

6 Segment Information

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

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

For the six months ended 30 June 2018 and 30 June 2017, the Group had three (Note a, b and c) reportable segments:

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

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

6 Segment Information (Continued)

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

For the six months ended 30 June 2017, the Group had three reportable segments:

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

(b) the "Financial service" segment; and

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

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

The CODM assesses the performance of the operating segments based on operating profit. This measurement basis excludes the operating results of other insignificant activities of the Group.

The segment information provided to the CODM for the reportable segments for the six months ended 30 June 2018 and 2017 is as follows:

6 Segment Information (Continued)

	For the six months ended							
	30 June 2018				30 June 2017			
	Mining RMB'000	**Financial service RMB'000**	**Engineering service RMB'000**	**Total RMB'000**	Mining RMB'000	Financial service RMB'000	Engineering service RMB'000	Total RMB'000
		unaudited				unaudited		
Segment Revenue								
– Mineral products	**-**	**-**	**-**	**-**	–	–	–	–
– Interest income from financial service	**-**	**3,345**	**-**	**3,345**	–	5,883	–	5,883
– Engineering service and other related services	**-**	**-**	**11,265**	**11,265**	–	–	6,650	6,650
	-	**3,345**	**11,265**	**14,610**	–	5,883	6,650	12,533
Segment operating profit/(loss)	**(3,901)**	**1,732**	**1,307**	**(862)**	(3,141)	4,103	5,197	6,159
Unallocated operating gains/(losses) (Note (a))	**-**	**-**	**-**	**(5,539)**	–	–	–	(5,225)
Operating profit/(loss)	**(3,901)**	**1,732**	**1,307**	**(6,401)**	(3,141)	4,103	5,197	934
Segment finance costs – net	**(94)**	**1**	**(69)**	**(162)**	(36)	1	7	(28)
Unallocated finance income/(cost) – net	**-**	**-**	**-**	**2,178**	–	–	–	(680)
Finance income/(costs) – net	**(94)**	**1**	**(69)**	**2,016**	(36)	1	7	(708)
Income tax (expense)/credit	**27**	**(435)**	**(310)**	**(718)**	26	(1,026)	(1,301)	(2,301)
Amortisation	**122**	**-**	**-**	**122**	121	–	–	121
Depreciation	**1,122**	**-**	**591**	**1,713**	1,579	–	132	1,711

6 Segment Information (Continued)

Reportable segments' assets and liabilities are reconciled to total assets and liabilities as follow:

	30 June 2018				31 December 2017			
	Mining RMB'000	**Financial service RMB'000**	**Engineering service RMB'000**	**Total RMB'000**	Mining RMB'000	Financial service RMB'000	Engineering service RMB'000	Total RMB'000
		unaudited				audited		
Segment assets	**219,511**	**111,922**	**39,641**	**371,074**	186,866	113,179	24,808	324,853
Unallocated assets (Note (b))	**-**	**-**	**-**	**217,446**	–	–	–	230,352
Total	**219,511**	**111,922**	**39,641**	**588,520**	186,866	113,179	24,808	555,205
Segment liabilities	**66,429**	**7,205**	**28,487**	**102,121**	39,733	6,463	14,583	60,779
Unallocated liabilities (Note (c))	**-**	**-**	**-**	**846**	–	–	–	3,770
Total	**66,429**	**7,205**	**28,487**	**102,967**	39,733	6,463	14,583	64,549

Notes:

(a) Unallocated operating losses for the six months ended 30 June 2018 and 2017 mainly represented administrative expenses incurred by the Company and Realty Investment (Group) Limited ("Realty Investment"), which is a subsidiary of the Company incorporated in Hong Kong.

(b) Unallocated assets as at 30 June 2018 and 31 December 2017 mainly represented the other receivable and the bank deposits held by the Company.

(c) Unallocated liabilities as at 30 June 2018 and 31 December 2017 mainly represented other payables and accruals.

7 Business combination

On 22 May 2018, Hami Jiatai and Xiaoyi Dajieshan Coal Industry Co. Ltd ("Xiaoyi Dajieshan") has reached the settlement that Shaanxi Jiahe became an indirect 95%-owned subsidiary of the Company according to a civil mediation order issued by the Intermediate People's Court of Lvliang Municipality (the "Court") (Note 9).

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

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

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

8 Trade Receivables

Trade receivables are analysed as follows:

	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
– Third parties	**13,034**	8,975

The aging analysis of trade receivables is as follows:

	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
0-90 days	**7,068**	3,597
91-180 days	**–**	5,378
Over 180 days	**5,966**	–
	13,034	8,975

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

9 Other Receivables and Prepayments

	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
Non-current assets:		
Other receivables		
– Amounts due from Warburg Energy Development Limited ("Warburg") (Note (a))	**–**	113,123
– Amounts due from Merit Progress Investments Limited (Note (b))	**–**	33,436
	–	146,559
Current assets:		
Other receivables		
– Amounts due from Merit Progress Investments Limited (Note (b))	**80,095**	129,566
– Amounts due from Xiaoyi Dajieshan Coal Limited ("Xiaoyi Dajieshan") (Note (c))	**–**	52,600
– Amounts due from Shaanxi Jiatai Hengrun Mineral Resource Exploiture Limited ("Shaanxi Jiatai") (Note (d))	**47,618**	39,350
– Amounts due from Mr. Wei Xing (Note (e))	**26,756**	26,756
– Amounts due from Jinzhong Jinsheng Agricultural Co., Ltd Development Co., Ltd ("Jinsheng") (Note (f))	**99,587**	–
– Amounts due from Warburg Energy Development Limited ("Warburg") (Note (a))	**10,493**	–
– Amounts due from Shaanxi mining Garner Co., Ltd. (Note (g))	**9,502**	–
– Deductible VAT input	**4,406**	2,107
– Others (Note (h))	**10,666**	17,782
Less: impairment provision (Note (i))	**(68,086)**	(98,127)
	221,037	170,034
Advances to suppliers – third parties	**1,233**	1,800
	222,270	171,834

Notes:

(a) In December 2015, Jiayi granted a loan of RMB100 million to Warburg, which was unsecured bearing annual interest of 9% with a fixed term of 5 years. The loan was early repaid to the Group in January 2018, while the interest receivable of approximately RMB10,493,000 was still outstanding as at date of this announcement mainly due to VAT invoices in respect of settlement of the interest receivable to be resolved by Jiayi. Considering (i) the aforesaid VAT invoices issues would be resolved by Jiayi at 1st quarter of 2019; and (ii) the financial position of Warburg as at 30 June 2018, the directors believe no provision is necessary for the interest receivable.

9 Other Receivables and Prepayments (Continued)

Notes: (Continued)

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

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

As at 31 December 2017, the acquisition did not proceed and the exclusive negotiation right was expired, the refundable deposit is reclassified to other receivables. HK$100 million (equivalent to RMB83,590,000) was collected subsequently in March 2018 and HK$135 million (equivalent to RMB112,846,500) was collected as at date of the issue of these financial statements.

Pursuant to the letter received from Merit Progress in August 2018, Merit Progress will pay the remaining HK$60 million (equivalent to RMB50,154,000) by end of February 2019. Considering (i) the value of share charge provided by Merit Progress; (ii) the personal guarantee provided by the ultimate beneficial owner of Merit Progress; and (iii) the value of assets owned by the ultimate beneficial owner and respective associates of Merit Progress, the directors believe no provision is necessary for the remaining balance.

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

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

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

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

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

9 Other Receivables and Prepayments (Continued)

Notes: (Continued)

(c) (Continued)

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

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

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

Pursuant to the investigation report prepared by the Independent Investigation Firm, the Group received the first payment of RMB4,800,000 as the first tranche consideration, which was remitted by an individual on behalf of Xiaoyi Dajieshan to the Group on 30 December 2015 according to the notice issued by Xiaoyi Dajieshan. On 10 March 2017, Xiaoyi Dajieshan presented three bank acceptance notes in the total amount of RMB10,000,000 to the Group, purportedly for the payment of the second tranche consideration for the Disposal. However, as the ex-employee of the Group (the "Relevant Employee") responsible for the matter indicated that he was occupied by various matters at the time when the bank acceptance notes were provided to the Group and Xiaoyi Dajieshan also requested the Relevant Employee to bank in the bank acceptance notes at a later time due to some conflicts with its suppliers, the Relevant Employee had not arranged for the deposit of the bank acceptance notes in time. Subsequently, the representative of Xiaoyi Dajieshan (the "Purchaser Representative") admitted that the three bank acceptance notes were forged, and he was aware of it before he presented them to the Relevant Employee. It is also noted that the Purchaser Representative is also a director of Warburg, which was a subsidiary of Xiaoyi Dajieshan from May 2012 to November 2012.

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

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

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

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

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

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

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

9 Other Receivables and Prepayments (Continued)

Notes: (Continued)

(c) (Continued)

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

According to the valuation report, the fair value of 100% equity interests of Shaanxi Jiahe was valued at RMB13,159,000 as at 31 December 2017. On this basis, the Group set aside an impairment provision of RMB30,041,000 against the receivables due from Xiaoyi Dajieshan of RMB52,600,000 at 31 December 2017, being the difference between carrying amount of receivable balance (RMB52,600,000) and the aggregated amount of the fair value of 100% equity interest of Shaanxi Jiahe (RMB13,159,000) and amount due by Shaanxi Jiahe to the Group (RMB9,400,000) (Note 7).

(d) The balance mainly represented prepayment of RMB23,500,000 for acquisition of Shaanxi Jiarun which was lapsed on 30 September 2013, proceeds of RMB8,350,000 receivable from Shaanxi Jiatai arising from disposal of plant, property and equipment and advances of RMB15,768,000 to Shaanxi Jiatai, a company owned by Mr. Wei Xing. The balance of RMB39,350,000 was impaired because of dispute between Shaanxi Jiatai and the Group in 2014 and 2015.

(e) In 2013 and 2014, the Company, Geo-Tech Resources Group Investment Limited and Mr. Wei Xing 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.

(f) In On 19 January 2018, Jiayi entered into the Loan Agreement with Jinsheng and the Guarantor, Mr. Tian Zhifeng, who is the chairman of Jinsheng. Pursuant to the agreement, Jiayi agreed to provide to Jinsheng a revolving loan facility in the aggregate principal amount of up to RMB100,000,000 for a term of 18 months bearing annual interest of 7%. The Guarantor shall guarantee Jinsheng's obligations under the Loan Agreement.

The amount of RMB100,000,000 has been lent to Jinsheng by Jiayi in January 2018 and interest of RMB413,000 was early paid by Jinsheng as at the end of the reporting period. The loan was repaid in December 2018.

(g) The balance mainly represented advances of RMB9,502,000 to Shaanxi mining Garner Co., Ltd., a company owned by Mr. Wei Xing. The balance was not impaired as the management expected the receivable will be collected.

(h) The balances as at 30 June 2018 and 31 December 2017 mainly represented receivables from third parties, which were unsecured, interest free and had no fixed terms of repayment. An impairment of RMB1,980,000 was recognised as the debtors' default in payment.

(i) As of 30 June 2018, other receivables of RMB68,086,000 (as at 31 December 2017: RMB98,127,000) were impaired. The amount of the provision was RMB68,086,000 as of 30 June 2018 (as at 31 December 2017: RMB98,127,000) which has been recognised in administrative expenses. The individually impaired receivables mainly related to uncollectable prepayment due from Shaanxi Jiatai (Note (d)) and Mr. Wei Xing (Note (e)), which are in dispute with the Group on the refund of these receivables.

10 Share Capital and Share Premium

	Authorised Shares of HK$0.1 each
As at 30 June 2018 and 31 December 2017	5,000,000,000

	Number of Shares (Thousands)	Share Capital RMB'000	Share Premium RMB'000	Total RMB'000
As at 1 January 2018 and 30 June 2018	**1,620,000**	**137,361**	**668,768**	**806,129**

11 Trade Payables

Trade payables are analysed as follows:

	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
– Third parties	**23,193**	12,226

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

	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
0-90 days	**16,112**	6,507
91-180 days	**4,354**	3,158
181-365 days	**1,427**	1,261
Over 365 days	**1,300**	1,300
	23,193	12,226

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

12 Expenses by Nature

The following items have been charged to the operating profit/(loss) for the six months ended 30 June 2018 and 2017:

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Purchase of goods	**19,734**	–
Changes in inventories	**(11,181)**	–
Borrowing cost of financial service	**–**	1,773
Depreciation (Note 8)	**1,713**	1,711
Amortisation (Note 10)	**122**	121
Employee benefit expenses	**4,838**	5,197
Office expenses and operating lease payments	**2,260**	2,868
Consulting and professional expenses	**2,979**	3,294
Others	**723**	865
Total of cost of sales and administrative expenses	**21,188**	15,829

13 Other Gains - Net

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net gains transferred from other comprehensive income upon the disposal of available-for-sale financial assets	**–**	5,057
Loss on disposal of available-for-sale financial assets	**–**	(1,310)
Bargain purchase	**–**	523
Others	**177**	(40)
	177	4,230

14 Finance Income/(Cost) – Net

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Finance income		
– Interest income from bank deposits	**595**	145
Finance gains/(costs)		
Foreign exchange gain/(loss)	**1,585**	(817)
Interest expense		
– Unwinding of discount – provision for close down, restoration and environmental costs	**(94)**	(36)
– Others	**(70)**	–
	1,421	(853)
Finance income/(cost) – net	**2,016**	(708)

15 Income Tax Expense

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current income tax	**745**	2,327
Deferred income tax	**(27)**	(26)
Income tax expense	**718**	2,301

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

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

The Group's subsidiaries in Hong Kong were subject to Hong Kong profits tax at a rate of 16.5% for each of the six months ended 30 June 2018 and 2017.

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

All the Group's subsidiaries in Hong Kong and the Mainland China except for Chang shi and Jiayi did not have any assessable profit for the six months ended 30 June 2018 and 2017.

16 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 period.

	For the six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
Loss attributable to equity holders of the Company (RMB'000)	**(4,904)**	(1,917)
Adjusted weighted average number of shares in issue (in thousands)	**1,620,000**	1,620,000
Basic and diluted loss per share (RMB)	**(0.003)**	(0.001)

Diluted loss per share equals to basic loss per share as there was no dilutive potential share outstanding for the six months ended 30 June 2018 and 2017.

17 Commitments

(a) Capital commitments

There is no contracted capital expenditure as at 30 June 2018 and 31 December 2017.

(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 lease are as follows:

	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
No later than 1 year	**2,017**	2,944
Later than 1 year and no later than 5 years	**3,697**	4,665
	5,714	7,609

BUSINESS REVIEW

The Company mainly participates in non-ferrous ore mining and processing. The diversified non-ferrous metal minerals covered by the Company's operation include nickel, copper, zinc and lead in Xinjiang province, the People's Republic of China (the "PRC") and gold in Shaanxi province, the PRC. The mining and exploration tenements and ore processing plants in Xinjiang are located close to the municipal city of Hami, which is approximately 400 km south east of Urumqi, the capital of Xinjiang Uygur Autonomous Region. Huangjinmei tenement is located 15 km by sealed road from the regional town of Jinchuan, Ningshan County. The town of Jinchuan is located approximately 140 km south of Xi'an City and is connected by the G210 state highway.

The Company's subsidiaries Hami Jinhua Mineral Resource Exploitation Limited ("Hami Jinhua") and Hami Jiatai Mineral Resource Exploitation Limited ("Hami Jiatai"), own two mining permits and three exploration permits of non-ferrous metals in Xinjiang. Another subsidiary of the Company, Shaanxi Jiahe Mineral Exploitation Limited ("Shannxi Jiahe"), owns one mining permit of gold in Shaanxi. Though metal prices have rebound from its preceding low level, they were still below breakeven and thus the Group still deferred the mining activities and scheduled maintenance work in order to extend the mine services lives and preserve the value of the assets during the period ended 30 June 2018 (the "Period"). The Group will be closely monitoring the window to restart its mines production and will also look for cooperative partners to jointly develop the mines in order to maximize their economic values.

Mining Permits

Hami Jinhua and Hami Jiatai hold two mining permits, namely No. 20 Mine and Baiganhu Mine. No. 20 Mine produces copper and nickel ore. The Group has renewed the mining permit of No. 20 Mine during the Period. To meet new requirements of safety production, No. 20 Mine is to upgrade its lifting system before the production relaunching. Baiganhu Mine produces lead and zinc ore. The Group is preparing feasibility study for production commencement.

Shaanxi Jiahe, which became the 95%-owned subsidiary of the Company in May 2018 as detailed below, holds the mining permit of Mine 1 of Project Huangjinmei which produces gold ore. The Group will engage mine construction company or identify potential cooperative parties to develop Project Huangjinmei.

Exploration Permits

Hami Jiatai holds three exploration permits in Xinjiang namely Baiganhu Gold, Huangshan and H-989, with minerals covering gold, nickel and copper and is in the progress of renewing two exploration permits of Baiganhu Gold and H-989 during the Period. Hami Jiatai had conducted some exploration at Baiganhu Gold tenement, and identified the preliminary mineralization band and the ore deposit. Subject to the market condition and local requirements, the Group will devote reasonable resources to carry out further exploration in order to enrich the resources and reserve base. In the meantime, the Group will communicate with the relevant parties on the title transfer of the exploration right of Mine 2 of Project Huangjinmei.

Ore Processing Plants

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

Financial Service

The financial service in the PRC was carried out by the Company's wholly-owned subsidiary Jiayi Financial Leasing Company Limited ("Jiayi"). On 19 January 2018, Jiayi entered into a loan agreement to provide to an independent third party a revolving loan facility in the aggregate principal amount of up to RMB100 million with interest rate of 7% per annum for a term of 18 months. Further details of the loan agreement were disclosed in the announcement of the Company dated 19 January 2018. The loan was repaid in December 2018. Revenue of approximately RMB 3.3 million (2017: RMB5.9 million) was generated by Jiayi during the Period.

Engineering Service

The Group carried out business of engineering service and other related services in Shanxi Province, the PRC through Changshi which generated revenue of approximately RMB 11.3 million (2017: RMB 6.7 million) during the Period. Changshi was incorporated in Shanxi Province, PRC on 29 January 2016 and was acquired by the Group in May 2017 and is principally engaged in petrol, natural gas and coalbed gas engineering and pre-drilling service. Changshi leased out construction vehicles and was engaged in trading of materials for oil and gas exploration including fracturing sands and water, gas drilling equipments and valves during the Period.

Transfer Back of Shaanxi Jiahe

References are made to announcements of the Company dated 27 March 2018, 30 April 2018, 31 May 2018, 8 June 2018, 15 June 2018, 17 July 2018, 14 August 2018 and 17 August 2018 (the "Announcements"). Unless otherwise stated, capitalised terms used in this announcement shall have the same meaning as those defined in the Announcements.

The Disposal and the Settlement

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

Despite considerable effort was put by the Group in demanding for repayment, Xiaoyi Dajieshan had failed to settle the balance of consideration for the Disposal in the amount of RMB52.6 million. Therefore, in March 2018, Hami Jiatai initiated a legal proceeding against Xiaoyi Dajieshan for the outstanding consideration payable under the Disposal Agreement. Pending the commencement of the said legal proceedings, the Group also sent repeated demands to Xiaoyi Dajieshan. However, taking into consideration of the potential higher legal costs of prolonged litigation proceedings and the low probability of recovering the remaining consideration from Xiaoyi Dajieshan in light of its financial status, the Group considered that the settlement would be in the best interests of the Group.

On 22 May 2018, the Court issued a civil mediation order, pursuant to which Hami Jiatai and Xiaoyi Dajieshan has reached the settlement that the entire equity of Shaanxi Jiahe together with the debts of RMB3.1 million due from Shaanxi Jiahe shall be transferred back to Hami Jiatai, and the RMB4.8 million paid by Xiaoyi Dajieshan to Hami Jiatai as part of the consideration for the disposal shall be retained by Hami Jiatai as liquidated damages (the "Settlement"). Further, on 31 May 2018, the Group and Xiaoyi Dajieshan also entered into the debt settlement agreements, pursuant to which Xiaoyi Dajieshan agreed to re-assign the debts of RMB6.3 million to the Group.

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

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

The Valuation

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

The cash flow projections have taken into account that: (i) based on the technical report, the advice from the PRC legal counsel and the interview by the Company and the Auditors with the representative of the Shaanxi Provincial Department of Land Resources, the Company targets to complete the title transfer of exploration rights of Mine 2 of Project Huangjinmei to Shaanxi Jiahe as soon as practicable and Mine 2 will be able to meet the legal requirement to commence production by the third quarter of 2020; (ii) considering the amount of non-operating payables of Shaanxi Jiahe to a group of third parties outweighs its non-operating receivables from the same group of third parties, the Company considers that no impairment is required for the said non-operating receivables; and (iii) amount due from Shaanxi Jiahe to the Group of RMB9.4 million will be fully repaid by Shaaxi Jiahe. Valuation result of the BEV of Shaanxi Jiahe as at 31 December 2017 was approximately RMB13.2 million.

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

The Independent Investigation

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

Based on the findings of the independent investigation, the special investigating committee is of the view that the Disposal was a legally binding transaction under the PRC laws and the Company had complied with the applicable reporting requirements under the Listing Rules. Further, the Board believes that the Group has taken various measures to protect the Group against losses that might arise from the Disposal. Such measures include but are not limited to the following: (i) the Group has repeatedly chased Xiaoyi Dajieshan for the outstanding payments under the Disposal. The Group eventually took legal action against Xiaoyi Dajieshan and the parties reached the settlement pursuant to which the Group retrieved the assets from Xiaoyi Dajieshan and obtained liquidated damages; and (ii) the Group has reviewed the adequacy and effectiveness of the Group's risk management and internal control systems and has engaged a third party risk management and internal control review adviser to conduct annual review of the risk management and internal control systems including the payment and bills receipts systems of the Group. The Group will strive to improve its accounting, internal audit and financial reporting functions and will strive to ensure that the qualifications and experience of the relevant staff performing such functions will be adequate. Meanwhile, the Group reserves its rights to claim and take actions against any entity and/or individuals in connection with the same.

RESULTS REVIEW

Revenue and cost of sales

The revenue for the Period was approximately RMB14.6 million (2017: RMB12.5 million) which represented revenue generated mainly from trading of materials for oil and gas exploration provided by Changshi of approximately RMB10.5 million (2017: engineering service of RMB6.7 million) and interest income from financial service of approximately RMB3.3 million (2017: RMB5.9 million).

Cost of sales of RMB10.3 million (2017: RMB4.4 million) mainly represented cost for trading of materials for oil and gas exploration of approximately RMB8.6 million (2017: RMB nil). There was no borrowing cost of financial service recognised during the Period (2017: RMB1.8 million). Gross profit for the Period amounted to RMB4.3 million (2017: RMB8.1 million). Gross profit margin for trading of materials for oil and gas exploration and financial service was 18% (2017: nil) and 100% (2017: 70%)respectively.

Selling and marketing costs and administrative expenses

Selling and marketing costs represented marketing cost incurred for trading of materials for oil and gas exploration of approximately RMB0.1 million during the Period (2017: nil).

Administrative expenses for the Period, which included mainly depreciation charges, professional fees, staff costs and office overheads, amounted to approximately RMB10.8 million (2017: RMB11.4 million). There was no material fluctuation noted during the Period.

Other gains – net

Other gains for the Period was approximately RMB0.2 million (2017: RMB4.2 million). In 2017, it mainly represented net gains transferred from other comprehensive income upon the disposal of the investment fund of approximately RMB5.1 million and bargain purchase in respect of acquisition of Changshi of approximately RMB0.5 million netting off against loss on disposal of the investment fund of approximately RMB1.3 million during the Period.

Finance costs – net

Finance cost mainly represented foreign exchange gain of approximately RMB1.6 million (2017: RMB0.8 million) during the Period.

Income tax expense

Income tax expense for the Period was approximately RMB0.7 million (2017: RMB2.3 million). It mainly represented tax provision for operations in the PRC and deferred tax during the Period. No provision for profits tax in Hong Kong was made during the Period.

SIGNIFICANT INVESTMENTS HELD

There were no significant investments held as at 30 June 2018 (2017: nil).

MATERIAL ACQUISITIONS AND DISPOSALS

Save as transfer back of Shannxi Jiahe as detailed above, there were no other material acquisitions and disposals during the Period.

LIQUIDITY AND FINANCIAL REVIEW

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

As at 30 June 2018, current assets of approximately RMB387,4 million (31 December 2017: RMB238.3 million) were comprised of inventories of RMB14.9 million, trade receivables of RMB13 million, other receivables and prepayments of RMB222.3 million and cash and cash equivalents of RMB137.2 million. Current liabilities of RMB73.6 million (31 December 2017: RMB38.4 million) were comprised of trade payables of RMB23.2 million, other payables and accruals of RMB44.9million, income tax payable of RMB4.5 million and borrowings of RMB1 million. Current ratios, being total current assets to total current liabilities, were 6.2 and 5.3 as at 31 December 2017 and 30 June 2018 respectively.

As at 30 June 2018, there was no outstanding interest-bearing bank loan (31 December 2017: nil). As at 30 June 2018 and 31 December 2017, there was a unsecured loan of RMB1 million which was interest bearing of 10% per annum.

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

Gearing Ratio

Gearing ratio of the Group is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings) less cash and cash equivalents. Total capital is calculated as total equity plus net debt. As at 30 June 2018, the gearing ratio was 0% (31 December 2017: 0%).

Charges on Company's assets, Commitments and Contingent Liabilities

As at 30 June 2018, the Group had no contracted capital expenditure (31 December 2017: nil).

As at 30 June 2018, the future aggregate minimum lease payments under non-cancellable operating leases of various offices were approximately RMB5.7 million (31 December 2017: RMB7.6 million).

There was no charge on the Company's assets as at 30 June 2018 (31 December 2017: nil).

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

Save as disclosed above, as at 30 June 2018, the Group had no material contingent liability (31 December 2017: nil).

HUMAN RESOURCES AND SHARE OPTION SCHEME

As at 30 June 2018, the Group employed 35 (31 December 2017: 58) employees. The total staff costs for the Period were approximately RMB4.8 million (2017: RMB5.2 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 issued and outstanding as at 30 June 2018.

FUTURE OUTLOOK

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

DIVIDEND

The directors do not recommend the payment of any interim dividend in respect of the Period.

PURCHASE, REDEMPTION OR SALE OF SECURITIES

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

CODE ON CORPORATE GOVERNANCE PRACTICES

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

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

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules for directors' securities transactions. Having made specific enquiry of all directors, all directors of the Company have complied with required standard set out in the Model Code throughout the Period.

REVIEW BY AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process, internal controls and risk management systems. The audit committee comprises three independent non-executive directors of the Company. The audit committee has reviewed the interim results for Period.

(2) CONTINUED SUSPENSION OF TRADING

As a result of the delay in publication of the annual results of the Group for the year ended 31 December 2017 (the "2017 Annual Results") and the interim results of the Group for the six months ended 30 June 2018 (the "2018 Interim Results") and the requirements of Rule 13.50 of the Listing Rules, trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 am on 28 March 2018, pending the publication of the 2017 Annual Results and the 2018 Interim Results and the fulfilment of resumption conditions imposed by the Stock Exchange as set out in the announcement of the Company dated 8 June 2018.

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

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

Hong Kong, 10 December 2018

As at the date of this announcement, the executive Directors are Mr. Li Xiaobin, Ms. Wang Qian, Mr. Liu Huijie and Ms. Jia Dai and the independent non-executive Directors are Mr. Cao Shiping, Ms. Xiang Siying and Ms. Huang Mei.