Hidili Industry International Development Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1393

ANNUAL REPORT 2021

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CORPORATE INFORMATION

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Xian Yang (Chairman)
Mr. Sun Jiankun
Mr. Zhuang Xianwei

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Shiu Yuen Sammy
Mr. Huang Rongsheng
Ms. Xu Manzhen

AUDIT COMMITTEE

Mr. Chan Shiu Yuen Sammy (Chairman)
Mr. Huang Rongsheng
Ms. Xu Manzhen

REMUNERATION COMMITTEE

Mr. Chan Shiu Yuen Sammy (Chairman)
Mr. Huang Rongsheng
Ms. Xu Manzhen
Mr. Xian Yang

NOMINATION COMMITTEE

Mr. Chan Shiu Yuen Sammy (Chairman)
Mr. Huang Rongsheng
Ms. Xu Manzhen
Mr. Xian Yang

AUDITORS

ZHONGHUI ANDA CPA Limited
23rd Floor, Tower 2
Enterprise Square Five
38 Wang Chiu Road
Kowloon Bay
Kowloon
Hong Kong

COMPANY SECRETARY

Ms. Chu Lai Kuen

AUTHORISED REPRESENTATIVES

Mr. Xian Yang
Ms. Chu Lai Kuen

REGISTERED OFFICE

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

HEAD OFFICE

16th Floor, Dingli Mansion
No. 185 Renmin Road
Panzhihua
Sichuan 617000
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1306, 13th Floor
Tai Tung Building
8 Fleming Road
Wanchai
Hong Kong

CORPORATE INFORMATION

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Suntera (Cayman) Limited
Suite 3204, Unit 2A
Block 3, Building D
P.O. Box 1586
Gardenia Court, Camana Bay
Grand Cayman KY1-1100,
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

LEGAL ADVISER

Kwok Yih & Chan
Suite 1501, 15th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

STOCK CODE

1393

WEBSITE

http://www.hidili.com.cn

PRINCIPAL BANKERS

China Merchants Bank
Shenzhen Che Gong Miao Sub-Branch
A 1/F, Tianxiang Bldg
Tianan Numeral City
Futian, Shenzhen
PRC

China Minsheng Banking Corp. Ltd,
Chengdu Branch
No. 2, Remin Road South
Chengdu, Sichuan Province
PRC

Panzhihua City Commercial Bank Ltd,
Zhuhuyuan Branch
Floor 1, Ping Street, Laodong Building
East District, Panzhihua City
Sichuan Province
PRC

Ping An Bank Co., Ltd.
Chengdu Branch
No. 240-1, Shuncheng Avenue
Chengdu, Sichuan Province
PRC

Ping An Bank Co., Ltd.
Kunming Branch
No. 450, Qingnian Road
Kunming, Yunnan Province
PRC

Wing Lung Bank
16/F, Wing Lung Bank Building
45 Des Voeux Road Central
Central, Hong Kong

CHAIRMAN'S STATEMENT

To the respectful shareholders of Hidili Industry International Development Limited,

On behalf of the board (the "Board") of the directors (the "Directors") of Hidili Industry International Development Limited (the "Company"), I am pleased to present the 2021 Annual Report and the operating results of the Company and the subsidiaries (collectively the "Group") for the year ended 31 December 2021 (the "Year") to the shareholders as follows.

PERFORMANCE OF THE COMPANY'S SHARES

As at 31 December 2021, the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") was HK$0.460, representing an increase of approximately 122.2% from the closing price of HK$0.207 as at 31 December 2020 while the Hang Seng Index has decreased by approximately 14.1%.

THE COMPANY'S OPERATION

The Company recorded a revenue and adjusted EBITDA of approximately RMB2,839.7 million and approximately RMB999.5 million respectively for the year ended 31 December 2021, representing an increase of approximately 110.6% and 65.1% respectively as compared to approximately RMB1,348.6 million and approximately RMB605.5 million respectively for the year ended 31 December 2020.

During the Year, the Company's coal mines in Guizhou province continued to release further production capacity and the production in the Company's coal mines in Sichuan province was suspended for revised consolidated plan. The production volume of raw coal increased from approximately 3,485,000 tonnes in 2020 to 4,078,000 tonnes in the Year, representing an increase of approximately 17.0%. The clean coal production volume increased from approximately 1,398,000 tonnes in 2020 to approximately 1,527,000 tonnes in the Year, representing an increase of approximately 9.2%.

In 2021, the Company's raw coal production cost amounted to approximately RMB322 per tonne, representing an increase of approximately 25.8% as compared to that of approximately RMB256 per tonne in 2020, resulting from the increase in material consumption and headcounts of miners and coal mines management for the enhancement of production capacity upgrade and process optimization during the Year. Accordingly, the average production cost of clean coal of the Company for the Year amounted to approximately RMB806 per tonne, representing an increase of 24.2% as compared to that of approximately RMB649 per tonne in 2020.

The Company reported a gross profit of approximately RMB1,330 million for the Year, representing an increase of approximately RMB710 million or approximately 114.5%, as compared to approximately RMB620 million in 2020. The gross profit margin was approximately 46.8% as compared with that of approximately 46.0% in 2020.

EXTRACT OF THE SIGNIFICANT EVENTS OF THE YEAR

Significant events of the Group are as follows:

RESTRUCTURING

The significant events in relation to restructuring is set out in page 15 to 17 in "Liquidity, financial resources and capital structure" in the section headed "Management Discussion and Analysis".

OTHER EVENTS

On 1 April 2021, at the request of the Company, trading in the Company's shares on the Stock Exchange has been suspended as the Company delayed in publication of the annual results for the year ended 31 December 2020 together with the interim results for the six months period ended 30 June 2021.

On 18 June 2021, the Company received a letter from the Stock Exchange setting the resumption guidance for the resumption of trading in the Company's shares.

On 17 September 2021, the Company has published the annual results for the year ended 31 December 2020 together with the interim results for the six months period ended 30 June 2021. Accordingly, the trading of the shares of the Company has been resumed on 20 September 2021.

MINING RESOURCE CONSOLIDATION

GUIZHOU PROVINCE

The Guizhou provincial government commenced a mining resource consolidation program in September 2005. This program is intended to encourage consolidation of small mines into larger mining enterprises in order to achieve economies of scale and to close down mines which were not economically efficient or environmentally friendly or were exposed to safety hazards. In April 2009, the Guizhou provincial government published a notice re-affirming its commitment to support the consolidation of large-scale mines (defined as those with production volumes exceeding 300,000 tonnes per annum) and the further consolidation of existing smaller mines. The notice stated that the government will continue to support mine consolidation based on principles of market efficiency with the goal of improving the overall structure and quality of the coal mining industry. In accordance with this government policy of resource consolidation, nine consolidated core mines were designated in Guizhou Province.

Under the nine consolidated core mines in Guizhou province, eight mines have commenced the production stage under the requirement of the consolidation plan; one mine is under construction. Details of the nine consolidated core mines are as follows:

Coal Mines	Long term Production Target ('000 tonnes)	2021 Production Volume ('000 tonnes)	2020 Production Volume ('000 tonnes)	Change %	Coal Type
Hongxing Coal Mine	1,500	1,117	775	44.1%	Coking coal
Dechang Coal Mine	900	–	–	–	Coking coal
Dahe Coal Mine	1,000	577	393	46.8%	Coking coal
Yangchang Coal Mine	1,000	659	515	28.0%	Coking coal
Xiangxing Coal Mine	1,000	577	652	(11.5%)	Coking coal
Jichanghe Coal Mine	600	257	73	252.1%	Coking coal
Jinhe Coal Mine	1,500	882	823	7.2%	Coking coal
Xingda Coal Mine	600	9	50	(82.0%)	Coking coal
Xileqing Coal Mine	450	–	–	–	Coking coal
Total	8,550	4,078	3,281	24.3%	

Remarks:

1. Dechang Coal Mine is under construction.

2. Jichanghe Coal Mine is undergoing technical improvement.

3. Xileqing Coal Mine is undertaking adjustments to consolidation plan.

4. Xingda Coal Mine has completed the technical improvement in March 2022 and commenced normal production in April 2022.

Raw coal production in Guizhou province in the Year amounted to approximately 4,078,000 tonnes, representing 107.3% of the forecast production volume of approximately 3,800,000 tonnes estimated in 2020. During the Year, two consolidated core mines were undergoing technical improvement and one consolidated core mine was undertaking adjustments to consolidation plan. During the construction progress, taken into account the resources allocation and production safety of the mines, actual production volume was affected.

The Company estimates the forecast production volume in 2022 can reach approximately 5,500,000 tonnes.

SICHUAN PROVINCE

The Sichuan provincial government commenced a mining resource consolidation program in June 2006. This program was intended to consolidate small mines into larger mines to achieve economies of scale and to close inefficient, environmentally unfriendly or unsafe mines. The consolidation is being implemented primarily through two means: (i) consolidating two or more coal mines with separate mining right permits into a larger mine with one mining right permit and (ii) integrating two or more production portals into one production system comprising one primary production portal, certain secondary production portals and one ventilation system, canceling the production permits for each of the old production portals and issuing one production permit for the new production system. Currently, all coal mines in Sichuan with capacity under 90,000 tonnes per annum are required by the provincial government to revise consolidation plans and upgrade annual capacity to over 300,000 tonnes. Accordingly, the Company is undertaking further improvement to consolidate the existing five consolidated core mines to three consolidated core mines with each target annual production level of 450,000 tonnes.

Under the three consolidated core mines in Sichuan province, all mines have commenced the production stage under the requirement of the consolidation plan. Details of the three consolidated core mines are as follows:

Coal Mines	Long term Production Target ('000 tonnes)	2021 Production Volume ('000 tonnes)	2020 Production Volume ('000 tonnes)	Change %	Coal Type
Zhangjiawan Coal Mine	450	–	–	–	Thermal coal
Dahegou Coal Mine	450	–	–	–	Thermal coal
Luhuan Coal Mine	–	–	35	(100%)	Lean coal
Tianbao Coal Mine I	–	–	2	(100%)	Coking coal and lean coal
Tianbao Coal Mine II	450	–	167	(100%)	Coking coal and lean coal
Total	1,350	–	204	(100%)	

Remarks:

1. Luhuan Coal Mine and Tianbao Coal Mine I have been closed during the Year.

2. In March 2022, Tianbao Coal Mine II has fulfilled safety inspection imposed by relevant government authorities and is scheduled to resume normal production in April 2022.

Following the resumption of production in Tianbao Coal Mine II in the second quarter, the Company estimates the forecast production volume in 2022 to be approximately 250,000 tonnes.

YUNNAN PROVINCE

There are currently eight consolidated core mines in Yunnan province and both of them are located in Fuyuan County. All mines are controlled by a joint venture 雲南東源恒鼎煤業有限公司 (Yunnan Dongyuan Hidili Coal Industry Company Limited*) in which the Group has 50% equity interest.

Currently, the approved consolidated capacity of the mines is approximately 3,600,000 tonnes. The production volume in 2021 was approximately 33,000 tonnes in total, representing 16.5% of the forecast production volume of approximately 200,000 tonnes estimated in 2020. The decrease in production volume during the Year was mainly attributable to the relevant government authorities in Yunnan province which have entirely devoted their time and resources in the coal mines consolidation and debt restructure of a state-owned mining company and led to certain delay in the Company's consolidation progress.

The Company estimates the forecast production volume in 2022 remain approximately 200,000 tonnes.

ESTIMATED COAL RESERVES AND RESOURCES

The table below illustrates the estimated coal reserves and resources of the Company's coal mines in Sichuan and Guizhou provinces respectively.

	Sichuan Province ('000 tonnes)	Guizhou Province ('000 tonnes)	Total ('000 tonnes)
Coal resources summary as at 31 December 2021			
– Measured	–	165,103	165,103
– Indicated	14,972	141,675	156,647
– Inferred	11,480	349,313	360,793
Total	26,452	656,091	682,543
Coal reserves summary as at 31 December 2021			
– Proved	–	92,864	92,864
– Probable	8,457	85,320	93,777
Total	8,457	178,184	186,641

Remarks:

The estimation of coal resources and reserves of the Company's coal mines in Sichuan and Guizhou provinces as at 31 December 2020 are prepared by an independent minerals industry consultant, Behre Dolbear & Company (USA) Inc. ("BDB") in compliance with the JORC Code 2012 Edition guidelines and Chapter 18 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") regarding the applicable disclosure requirements and continuing obligations for Mineral Companies.

Since the coal mine consolidation in Sichuan and Guizhou provinces is still in progress, the estimated coal reserves and resources disclosed above has adjusted for the production volume made by the Company during the Year.

OUTLOOK

During the Year, the Company's coal mines in Guizhou province continued to release further production capacity and the production in the Company's coal mines in Sichuan province was suspended for revised consolidated plan. Benefit from the recovery in the steel industry and infrastructural development, both the sales volume and average selling price in clean coal reported a sharp increase from approximately 1,173,500 tonnes and RMB1,023.3 per tonne in 2020 to that of approximately 1,433,000 tonnes and RMB1,854.5 per tonne during the Year. Turnover of the Company reached approximately RMB2,839.7 million during the Year, representing a significant increase of approximately RMB1,491.1 million or 110.6%, as compared to approximately RMB1,348.6 million in 2020. At the same time, regarding the rising materials prices and the increasing staff cost and overheads spend on enhancement of production capacity upgrade and process optimization, the unit production cost of raw coal and clean coal increased to approximately RMB322 per tonne and RMB806 per tonne respectively. As a result, gross profit of approximately RMB1,329.6 million was recorded and adjusted EBITDA of approximately RMB999.5 million was achieved. The Company believes that the strong market position in coking coal will continue in 2022 and will contribute remarkable revenue and profit to the Company throughout 2022.

The granting of an order to grant permission for the Company to convene a meeting of the holders (the "Holders") of the US$400 million 8.625% senior notes due 2015 (the "Notes") for the purpose of considering and approving the scheme arrangement (the "Scheme") (the "Convening Order") by the High Court of Hong Kong on 9 February 2022 indicated a remarkable progress in the debt restructuring ("the Restructuring"). Currently, the Company is working closely with the professional parties for the preparation of the Scheme, together with an explanatory statement, appendices thereto and related documents containing detailed information regarding the Scheme in addition to other documents that relate to the Restructuring to the Holders in the manner prescribed by the Convening Order. The Company believes that the Scheme will be approved by the Holders and the shareholders by 2022. Upon the completion of the Restructuring, the Company believes that it will have a healthy financial position and sustainable cashflow for operation and development.

By order of the Board
Chairman
Xian Yang

Hong Kong
31 March 2022

FINANCIAL REVIEW

TURNOVER

During the Year, turnover of the Group amounted to approximately RMB2,839.7 million, representing a sharp increase of approximately 110.6%, as compared to that of approximately RMB1,348.6 million in 2020. With the recovery of the economy, especially in the steel industry and infrastructural development, under the strict control of the wild spread of the COVID-19 imposed by the Chinese government, the demand for commodities including coking coal led a gradual growth. Accordingly, both sales volume and average selling price (net of value added tax) of clean coal of the Company were increased during the Year. The sales volume recorded for clean coal for the Year amounted to approximately 1,433,000 tonnes as compared to that of approximately 1,173,500 tonnes in 2020, representing an increase of approximately 22.1%. The average selling price for the Year for clean coal increased from approximately RMB1,023.3 per tonne in 2020 to that of RMB1,854.5 per tonne in the Year, representing an increase of approximately 81.2%.

The following table sets forth the Group's turnover contribution, sales volume and average selling price by products for the Year, together with the comparative amounts for 2020:

	2021			2020		
	Turnover RMB'000	**Sales Volume (thousand tonnes)**	**Average Selling Price (RMB/ Tonne)**	Turnover RMB'000	Sales Volume (thousand tonnes)	Average Selling Price (RMB/ Tonne)
Principal products						
Clean coal	**2,657,380**	**1,433.0**	**1,854.5**	1,200,840	1,173.5	1,023.3
By-products						
High-ash thermal coal	**172,893**	**922.5**	**187.4**	109,491	557.2	196.5
Other products						
Raw coal	**3,904**	**7.4**	**526.9**	25,607	69.2	370.2
Others	**5,561**			12,618		
Other products total	**9,465**			38,225		
Total turnover	**2,839,738**			1,348,556		

COST OF SALES

Cost of sales for the Year was approximately RMB1,510.1 million, representing an increase of approximately RMB781.5 million or 107.3%, as compared to that of approximately RMB728.6 million in 2020. During the Year, the Company's coal mines in Guizhou province continued to release further production capacity and the production in the Company's coal mines in Sichuan province was suspended for revised consolidated plan. The production volume of raw coal increased from approximately 3,485,000 tonnes in 2020 to 4,078,000 tonnes in the Year, representing an increase of approximately 17.0%. Also, the clean coal production volume increased from approximately 1,398,000 tonnes in 2020 to approximately 1,527,000 tonnes in the Year, representing an increase of approximately 9.2%.

The following table illustrates the production volume of the principal products in Sichuan and Guizhou provinces:

	Year ended 31 December			
	2021 Raw coal ('000 tonnes)	**2021 Clean coal ('000 tonnes)**	2020 Raw coal ('000 tonnes)	2020 Clean coal ('000 tonnes)
Production volume				
Sichuan	**–**	**–**	204	96
Guizhou	**4,078**	**1,527**	3,281	1,302
	4,078	**1,527**	3,485	1,398

Material, fuel and power costs for the Year were approximately RMB418.1 million, representing an increase of approximately RMB256.1 million, or approximately 158.1%, as compared to that of approximately RMB162.0 million in 2020. The increase was mainly attributable to the increase in raw coal production volume and rising materials prices. Besides, additional materials were consumed for the enhancement of production capacity upgrade and process optimization during the Year.

Staff costs for the Year were approximately RMB574.0 million, representing an increase of approximately RMB208.2 million or 56.9%, as compared to that of approximately RMB365.8 million in 2020. The increase was in line with the increase in the production of raw coal and clean coal for the Year and the headcounts of miners and coal mines management for enhancement of production capacity upgrade and process optimization.

Depreciation and amortization for the Year were approximately RMB150.5 million, representing an increase of approximately RMB28.2 million, or approximately 23.1%, as compared to that of approximately RMB122.3 million in 2020. The increase was in line with the increase in production volume of raw coal and clean coal.

The following table sets forth the unit production costs of the respective segment:

	2021 **RMB per tonne**	2020 RMB per tonne
Coal mining		
Cash cost	**286**	222
Depreciation and amortisation	**36**	34
Total raw coal production cost	**322**	256
Average cost of clean coal	**806**	649

GROSS PROFIT

As a result of the foregoing, the Company reported a gross profit of approximately RMB1,329.6 million for the Year, representing an increase of approximately RMB709.7 million or approximately 114.5%, as compared to that of approximately RMB619.9 million in 2020. The gross profit margin was approximately 46.8% as compared to that of approximately 46.0% in 2020.

OTHER INCOME

Other income for the Year amounted to approximately RMB26.4 million, representing an increase of approximately RMB11.1 million or approximately 72.5%, as compared to that of approximately RMB15.3 million in 2020. The increase was mainly attributable to the increase in government grant from approximately RMB11.3 million in 2020 to RMB18.5 million for the Year.

OTHER GAINS AND LOSSES

The Company recorded other losses of approximately RMB50.1 million for the Year as compared to approximately RMB190.2 million in 2020. The decrease was mainly attributable to: (i) the decrease in allowance for loss allowance recognized on trade receivables and impairment of trade receivables and other receivables of approximately RMB51.1 million and RMB166.8 million respectively as a result of improving credit recoverability of customers and (ii) waive of other payables of approximately RMB55.7 million during the Year but offset by: (i) an increase in loss on disposal of property, plant and equipment of approximately RMB76.7 million (mainly arising from the closure of Luhuan Coal Mine) and (ii) a decrease in net exchange gain of approximately RMB56.7 million.

DISTRIBUTION EXPENSES

Distribution expenses for the Year were approximately RMB217.8 million, representing an increase of approximately RMB96.0 million or approximately 78.8%, as compared to that of approximately RMB121.8 million in 2020. The increase was mainly attributable to the increase in both volume and unit charge on railway and highway transportation in line with the increase in sales volume of clean coal for the Year.

ADMINISTRATIVE EXPENSES

Administrative expenses for the Year were approximately RMB213.2 million, representing an increase of approximately RMB105.4 million, or approximately 97.8%, as compared to that of approximately RMB107.8 million in 2020. The increase was mainly attributable to: (i) the increase in professional expenses of approximately RMB28.5 million in relation to the fee payable to working parties in debt restructuring and technical consultants, external valuer and auditor for the addition work done on valuation of the Company's mining assets and the interests in a joint venture; (ii) surcharge of approximately RMB20.1 million charged by provincial government for the delay payment of taxes and levies and (iii) research and development expenses of approximately RMB6.6 million for the Year.

FINANCE COSTS

Finance costs for the Year amounted to approximately RMB250.9 million, representing a decrease of approximately RMB190.3 million or approximately 43.1%, as compared with approximately RMB441.2 million in 2020. The decrease was mainly attributable to the provision made in 2020 by the Company of approximately RMB173.0 million for the interest expenses payable and the fees accrued in accordance with the revised termsheet entered into in July 2020 between the Company and a steering committee of Holders (the "Steering Committee").

INCOME TAX CREDIT

During the Year, the Company recorded an income tax credit of approximately RMB72.0 million, representing an overprovision in prior years of approximately RMB9.7 million and the recognition of deferred tax assets of approximately RMB62.3 million (2020: nil provision for income tax and deferred tax). At the end of the Year, the Company has unused tax losses of approximately RMB137.2 million available for offsetting against future profits. All these tax losses will expire during 2022 to 2026. Accordingly, a deferred tax asset has been recognised for the Year.

PROFIT/(LOSS) FOR THE YEAR

As a result of the foregoing, the profit for the Year was approximately RMB644.4 million, representing an increase of approximately RMB914.0 million or approximately 339.0%, as compared with that of a loss of approximately RMB269.6 million in 2020.

ADJUSTED EBITDA

The following table illustrates the Group's adjusted EBITDA for the Year. The Group's adjusted EBITDA margin was 35.2% for the Year as compared with 44.9% in 2020:

	2021 RMB'000	2020 RMB'000
Profit/(Loss) before tax	**572,431**	(269,575)
Adjusted for:		
– Loss allowance for trade receivables	**24,886**	75,943
– Impairment of the trade receivables and other receivables	**36,475**	203,245
– Waive of other payables	**(55,657)**	–
	578,135	9,613
Finance costs	**250,911**	441,196
Depreciation and amortisation	**170,407**	154,650
Adjusted EBITDA	**999,453**	605,459

DISCLAIMER OF OPINION ISSUED BY THE AUDITORS

Regarding the consolidated financial statements of the Company for the year ended 31 December 2021, ZHONGHUI ANDA CPA Limited ("ZHONGHUI ANDA"), the auditors of the Company, issued disclaimer of opinion on the going concern basis ("Disclaimer of Opinion").

The following is an extract of the independent auditor's report on the Group's consolidated financial statements for the year ended 31 December 2021:

DISCLAIMER OF OPINION

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the material uncertainty relating to the going concern basis described in the Basis for Disclaimer of Opinion section of our report, it is not possible for us to form an opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

Going Concern

We draw attention to note 2 to the consolidated financial statements which mentions that as at 31 December 2021 the Group had net current liabilities of RMB9,308,943,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon (i) the successful completion of various debt restructuring measures and (ii) the successful outcome that certain measures to improve its financial position, to provide liquidity and cash flows. The consolidated financial statements do not include any adjustments that would result from the failure to complete various debt restructuring measures and the failure to improve its financial position, to provide liquidity and cash flows. We consider that the material uncertainty has been adequately disclosed in the consolidated financial statements. However, in view of the extent of the multiple uncertainty relating to (i) the successful completion of various debt restructuring measures and (ii) the successful outcome that certain measures to improve its financial position, to provide liquidity and cash flows, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

DETAILS AND THE COMPANY'S VIEW ON THE AUDIT QUALIFICATIONS

During the audit, the Company has provided update progress of the debt restructuring with both onshore and offshore creditors and the status of petitions. The Company and a creditors committee of the onshore lending banks (the "Lending Banks") (the "Onshore Creditors Committee") have reached a preliminary restructuring framework agreement regarding the settlement of the onshore bank borrowings of the Company pursuant to which the Company will convert part of the total indebtedness into newly issued ordinary shares of the Company and extend the remaining indebtedness to February 2025 (the "Preliminary Restructuring Framework"). On the other hand, the Company and the Steering Committee have entered into an amended and restated termsheet (the "Amended and Restated Termsheet") pursuant to which the parties agreed to the key commercial terms for the swap of the Notes into the newly issued ordinary shares of the Company with an option to participate in a share placement programme (the "SPP") to be conducted by the Company. Following the granting of the Convening Order by High Court on 9 February 2022, the Company is working closely with the Onshore Creditors Committee and the Steering Committee together with the professionals and regulated parties to strive to finalize the detailed terms of the debt restructuring as soon as possible and prepare the formal documentation for approval in the creditors' meeting and the shareholders' meeting in 2022. Upon the completion of the restructuring, the Company believes that it will have a healthy financial position and sustainable cashflow for operation and development.

However, as at the date of this report, the timing of creditors' meeting and the shareholders' meeting has not yet been fixed and scheduled. ZHONGHUI ANDA is unable to consider the validity of the going concern basis depending upon (i) the successful completion of the restructuring and (ii) the successful outcome that certain measures to improve its financial position, to provide liquidity and cash flows. The Company will closely communicate with ZHONGHUI ANDA for further information required to substantiate the Group as a going concern for the audit of the financial statements for the year ending 31 December 2022.

AUDIT COMMITTEE'S VIEW ON THE AUDIT QUALIFICATIONS

The audit committee of the Company (the "Audit Committee") has strictly reviewed the audit qualification and the management position and action plan to address the audit qualification. The Audit Committee had also discussed with ZHONGHUI ANDA, by which it understood that the main cause of the audit qualification as mentioned. In light of the above, the Audit Committee concurs with the management's view with respect to the audit qualification, the Group's ability to continue as a going concern and the actions or measures to be implemented by the Group. The Audit Committee is also of the view that the management should continue its efforts in implementing the actions and measures set out in the action plan with the intention of removing the audit qualification.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2021, the Group incurred net current liabilities of approximately RMB9,308.9 million as compared to approximately RMB9,803.9 million at 31 December 2020.

As at 31 December 2021, the bank balances and cash of the Group amounted to approximately RMB14.5 million (2020: approximately RMB32.9 million).

As at 31 December 2021, the total bank borrowings repayable within one year of the Group were approximately RMB5,853.8 million. As at 31 December 2021, loans amounting to RMB5,821.4 million carry interest at a fixed rate of 3.00% per annum. The remaining loans carry interest at variable market rates around 4.00% per annum.

The gearing ratio (calculated as the aggregate of total bank borrowings and senior notes divided by total assets) of the Group as at 31 December 2021 was 58.6% (2020: 63.7%).

RESTRUCTURING

(a) On 30 October 2015, the Company announced that it would not be in a position to pay the principal amount of, or the accrued but unpaid interest on the Notes on the maturity date, i.e. 4 November 2015. The aggregate amount due and payable to the Holders amounted to approximately US$190.6 million.

(b) On 14 December 2015, following initial discussions with certain Holders, the Steering Committee was formed.

(c) On 8 January 2016, the Company announced that it had not repaid a long term secured loan from an onshore bank which fell due on 4 January 2016 and has not paid the accrued interest thereon.

(d) On 19 January 2016, the Company received a winding up petition (the "Winding Up Petition") filed by a bondholder of the Notes with the High Court against the Company for the outstanding principal and interest due to the bondholder under the Notes.

(e) On 11 March 2016, the Company made an announcement and the purpose of such announcement was to provide the Holders with the key indicative terms of a proposed restructuring of the Notes and to facilitate discussion with the Holders.

(f) On 15 April 2016, Hidili Industry (China) Group Limited ("Hidili China"), a wholly owned subsidiary of the Company, received a Notice of Court Action attaching the writ of summons ("2016 Writ") issued by the Higher People's Court of Guangdong Province of the People's Republic of China (廣東省高級人民法院).

(g) On 26 April 2016, the Company held a meeting with all the Lending Banks. Following initial discussion with the Lending Banks, the Onshore Creditors Committee has been set up.

(h) The Board agreed to form a monitoring team, comprising four individuals proposed by the Onshore Creditors Committee, for a term commencing on 1 December 2016 and ending on 30 November 2017 to monitor the mine production, mining operations, mine development, sales of coal products and finance of the Company's mining region in Sichuan and Guizhou provinces.

(i) On 18 January 2017, the Company, the Steering Committee and the Onshore Creditors Committee entered into a term sheet in relation to the proposed restructuring of the onshore and offshore indebtedness of the Company.

(j) On 1 June 2017, both of Sichuan Haohang Trading Company Limited ("Sichuan Haohang"), a wholly owned subsidiary of the Company and Sichuan Hidili Industry Co., Ltd. ("Sichuan Hidili"), a wholly owned subsidiary of the Company, received a Notice of Court Action attaching the writ of summons ("2017 Writ") issued by the Higher People's Court of Sichuan Province of the People's Republic of China (四川省高級人民法院).

(k) On 17 November 2017, the hearing of the amended Winding Up Petition has been adjourned for substantive argument to a date to be fixed.

(l) On 21 April 2020, the Company and the Onshore Creditors Committee have reached an agreement on the Preliminary Restructuring Framework pursuant to which (i) the Company has agreed to convert the interest payable to the Lending Banks from the date of default to 31 December 2018 charged at 4.75% per annum to newly issued ordinary shares of the Company; and (ii) the Company, Hidili China, Mr. Xian Yang and the Lending Banks have agreed to enter into the Post Syndication Agreement to (a) extend the terms of the remaining onshore banks indebtedness to 4 February 2025; (b) charge interest at 3% per annum in the first three years and 4.275% per annum in the fourth to fifth years from the date of the Post Syndication Agreement respectively; and (c) repay the remaining onshore banks indebtedness in accordance with a fixed and variable portion.

As of the date of this report, the terms of the conversion of newly issued ordinary shares of the Company under the Preliminary Restructuring Framework have not yet been finalised. Also, further documents and/or agreements containing detailed terms for the Preliminary Restructuring Framework subject to the latest status of the outstanding onshore banks indebtedness will be concluded and signed by individual Lending Banks with the Company.

(m) On 13 July 2020, the Company and the Steering Committee entered into the 2020 Termsheet pursuant to which the parties agreed to the key commercial terms for the swap of the Notes into Converted Shares with an option to participant in the SPP to be conducted by the Company.

(n) On 30 April 2021, the Company and the Steering Committee entered into the Amended and Restated Termsheet to amend certain timelines and fees of the Restructuring, which replaced and superseded the 2020 Termsheet in its entirety.

(o) On 1 November 2021, the Company, the subsidiary guarantors and the Steering Committee entered into a restructuring support agreement (the "RSA"), pursuant to which they have agreed to support and facilitate the Restructuring. The material terms of the Restructuring have been agreed in the 2020 Termsheet as amended and restated by the Amended and Restated Termsheet. On 28 January 2022, the Company, the subsidiary guarantors and the Steering Committee entered into an extension letter to the RSA to amend certain deadlines in the RSA.

(p) On 4 February 2022, the Company filed an application with the High Court seeking the Convening Order to grant permission for the Company to convene a meeting of the Noteholders for the purpose of considering, and if thought fit, approving (with or without modification) the Scheme pursuant to section 673 and 674 of the Companies Ordinance (Cap.622 of the Laws of Hong Kong) between the Holders and the Company. The hearing for the Convening Order in respect of the Scheme was heard by the High Court on 9 February 2022, during which the High Court granted the Convening Order.

(q) Currently, the Company is working closely with the professional parties for the preparation of the Scheme, together with an explanatory statement, appendices thereto and related documents containing detailed information regarding the Scheme in addition to other documents that relate to the Restructuring to the Holders in the manner prescribed by the Convening Order.

PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2021, the Group pledged assets in an aggregate amount of approximately RMB3,833 million (2020: RMB3,705 million) to banks for credit facilities.

As at 31 December 2021, a director of the Company, Mr. Xian Yang, guaranteed the bank borrowings of approximately RMB4,968 million (2020: RMB4,875 million).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2021, the number of employees of the Group reached 9,232 as compared to 7,486 employees at 31 December 2020. Accordingly, the staff costs (including directors' remuneration in the form of salaries and other allowances) amounted to approximately RMB656.9 million (2020: RMB465.4 million).

The salary and bonus policy of the Group is principally determined by the qualifications, performance working experience of the individual employee and with reference to prevailing market conditions.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the Year.

RISK IN FOREIGN EXCHANGE

Since all of the Group's business activities are transacted in RMB, the Directors consider that the Group's risk in foreign exchange is insignificant. Accordingly, the Group was only exposed to exchange rate risk arising from the foreign currency bank balances of approximately USD0.2 million and HKD0.1 million during the Year.

SIGNIFICANT INVESTMENTS HELD

During the Year, the Group did not hold any significant investments.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the Year, there was no material acquisition or disposal of subsidiaries, associates and joint ventures by the Group.

CONTINGENT LIABILITIES

(a) On 19 January 2016, the Company received the Winding Up Petition filed by a bondholder of the Notes with the Court against the Company for the outstanding principal and interest due to the bondholder under the Notes. The hearing of the amended Winding Up Petition has been adjourned for substantive argument to a date to be fixed.

(b) Hidili China, a wholly owned subsidiary of the Company, received a Notice of Court Action attaching the 2016 Writ issued by the Higher People's Court of Guangdong Province of the People's Republic of China (廣東省高級人民法院) on 15 April 2016. Pursuant to the 2016 Writ, China Merchants Bank, Shenzhen Chegongmiao Branch ("2016 Plaintiff") filed a civil complaint against (i) Hidili China, (ii) Liupanshui Hidili Industry Co., Ltd. ("Liupanshui Hidili"), a wholly owned subsidiary of the Company. (iii) Panxian Xileqing Coal Industry Co., Ltd. ("Panxian Xileqing"), a wholly owned subsidiary of the Company, and (iv) Sichuan Hidili, a wholly owned subsidiary of the Company, in respect of a loan agreement dispute case. The 2016 Plaintiff claimed against Hidili China for relief, among others, the outstanding principal amount and the default interest payment of approximately RMB576 million as of 20 January 2016 under the security agreement entered into between 2016 Plaintiff and Hidili China on 13 January 2013 where Liupanshui Hidili and Panxian Xileqing acted as guarantors and Liupanshui Hidili, Panxian Xileqing and Sichuan Hidili pledged certain assets and mining rights.

(c) Both of Sichuan Haohang and Sichuan Hidili received the 2017 Writ issued by the Higher People's Court of Sichuan Province of the People's Republic of China (四川省高級人民法院) on 1 June 2017. Pursuant to the 2017 Writ, Chengdu Branch of Shanghai Pudong Development Bank ("2017 Plaintiff") filed a civil complaint against (i) Sichuan Haohang, (ii) Sichuan Hidili, (iii) Liupanshui Hidili and (iv) Hidili China in respect of a loan agreement dispute case. The 2017 Plaintiff claimed against Sichuan Haohang and Sichuan Hidili for relief, among others, the outstanding principal amount as of 25 August 2016 and the default interest payment (calculated as at 18 April 2017) of approximately RMB134 million and RMB134 million respectively under the Agreement of Establishing Bank Promissory Note Business entered into between the 2017 Plaintiff and Sichuan Haohang and Sichuan Hidili on 25 February 2016 where Liupanshui Hidili pledged certain assets and mining rights and Hidili China acted as guarantor.

As advised by the legal advisor of the Company, it is not practical to assess the outcome of the cases at this stage, accordingly, no provision was made in the consolidated financial statements.

Save as disclosed above, as at 31 December 2021, the Group did not have any material contingent liabilities.

CONTINUING CONNECTED TRANSACTION

During the year, rental expenses amounting to RMB0.6 million were paid to Mr. Xian Jilun, father of Mr. Xian Yang, the controlling shareholder of the Company and an executive Director, for the leasing of the Company's head office located at 16th Floor, Dingli Mansion, No. 81 Renmin Road, Panzhihua, Sichuan province, the PRC. The rent paid by the Company is determined with reference to the market rent of comparable properties in the market.

Save as disclosed above, as at 31 December 2021, the Group did not have any continuing connected transaction.

FUTURE PLANS FOR MATERIAL INVESTMENT AND CAPITAL ASSETS

Save as disclosed in this report, the Group does not have other plans for material investment and capital assets during the Year.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

MR. XIAN YANG (鮮揚)

Mr. Xian, aged 48, is an Executive Director of the Company, Chairman of the Board and founder of the Company. Mr. Xian graduated from The People's Police School of Sichuan (四川省人民警察學校) in 1994, studied law at Southwest University of Political Science and Law (西南政法大學) from 1994 to 1997 and did MBA courses at Sichuan University (四川大學) in 2005 to 2008 and was graduated with Master Degree. He worked in the police force and Customs Bureau of Panzhihua City prior to establishing our Group in May 2000. He was awarded a Grade Three Achievement (三等功) by the Ministry of Public Security for his distinguished service. He chairs our Group's investment management committee and production safety committee. Mr. Xian is also Director of Sanlian Investment Holding Limited, a company which holds approximately 53.81% of the issued share capital of the Company.

MR. SUN JIANKUN (孫建坤)

Mr. Sun, aged 58, is an Executive Director and our Chief Executive Officer, he is a responsible for the overall management and business development of the Company and its subsidiaries. He is a senior engineer and graduated from East China University of Metallurgy (華東冶金學院) (now known as Anhui University of Technology (安徽工業大學)) in 1986 with a bachelor's degree in steel metallurgy. Prior to joining the Group in December 2006, Mr. Sun has worked at Panzhihua Steel Group since 1986 and accumulated broad experience in steel production, quality control and raw material procurement. He served as the vice general manager of Chengdu Steel Company, a subsidiary of Panzhihua Steel Group, from 2003 to 2006 and the vice general manager of Panzhihua New Steel & Vanadium Co., Ltd. (攀枝花新鋼釩股份有限公司), a Shenzhen Stock Exchange listed company, from 2002 to 2003. Mr. Sun is also a Director of Able Accord Enterprises Limited, a company which holds approximately 0.95% of the issued share capital of the Company.

MR. ZHUANG XIANWEI (莊顯偉)

Mr. Zhuang, aged 51, is our Executive Director and the General Manager of Coal Mines of the Company and is responsible for the operation of the Company's coal mines. He is also president of the Company's subsidiary, 恒鼎實業（中國）集團有限公司 (Hidili Industry (China) Group Limited*) and chairman of two of the Company's subsidiaries, namely 雲南東源恒鼎煤業有限公司 (Yunnan Dongyuan Hidili Coal Industry Company Limited*) and 六盤水恒鼎實業有限公司 (Liupanshui Hidili Industry Company Limited*). Mr. Zhuang is a mining engineer. Prior to joining the Company in March 2002, Mr. Zhuang worked for the production technology division at Panzhihua Coal Group for over 10 years with extensive experience in management of coal mines. Mr. Zhuang has 500,000 shares of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR. CHAN SHIU YUEN SAMMY (陳紹源)

Mr. Chan, aged 58, has over 21 years of experience in auditing, accounting, taxation, business consultancy and financial management. Mr. Chan holds a bachelor's degree in Commerce from Dalhousie University, Canada and is a fellow member of the Association of Chartered Certified Accountants and an associate member of Hong Kong Institute of Certified Public Accountants. Mr. Chan was an independent non-executive director of Powerleader Science & Technology Group Limited ("Powerleader") (stock code: 8236), a company listed on the GEM of the Stock Exchange and withdrawn from listing on 30 December 2020, during the period from December 2009 to December 2020. During the period from May 2005 to May 2007, Mr. Chan was the company secretary and qualified accountant of Powerleader. During the period from July 2007 to February 2009, Mr. Chan was the deputy general manager of China Fibretech Limited (company registration no. 40381), a company listed on the main board of the Singapore Stock Exchange Limited. During the period from December 2009 to September 2015, Mr. Chan was the chief financial officer of Newtree Group Holdings Limited (stock code: 1323), a company listed on the main board of the Stock Exchange.

MR. HUANG RONGSHENG (黃容生)

Mr. Huang, aged 75, joined our Board since June 2007. He graduated from Tsinghua University in 1970. He has over 30 years' experience in the steel industry. Prior to his retirement in December 2006, he served as the vice general manager and the vice president of Panzhihua Steel (Group) Company from 1993 to 2003. Then, he worked at Central Iron & Steel Research Institute (鋼鐵研究總院) as secretary of the Party committee and vice president from 2003 to 2006.

MS. XU MANZHEN (徐曼珍)

Ms. Xu, aged 56, graduated from Auhui University of Law. Ms. Xu is the Director of 四川道合律師事務所 (Sichuan Daohe Law Firm*) since 2001. Before joining Sichuan Daohe Law Firm, Ms. Xu worked as deputy Director of Audit division of 四川攀枝花鋼鐵集團公司 (Sichuan Panzhihua Steel Group Limited*). Ms. Xu was a deputy of Panzhihua City to the National People's Congress of PRC.

SENIOR MANAGEMENT

MS. CHU LAI KUEN (朱麗娟)

Ms. Chu, aged 53, is our Chief Financial Officer and Company Secretary. She is responsible for financial and accounting management of our Company. She is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Ms. Chu graduated from Hong Kong Polytechnic University with a bachelor's degree (Hons) in accountancy. Prior to joining the Group in October 2008, Ms. Chu has over 16 years of working experience in auditing and financial management.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statement for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are engaged in coal mining, manufacture and sale of raw coal and clean coal.

BUSINESS REVIEW

Review of the business and a analysis of the performance of the Group during the Year under review are provided in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" in this annual report. A discussion of the Company's environmental policies and performance and the compliance with the relevant laws and regulations that have a significant impact on the Company are provided in the sections headed "Environment, Social and Governance Report" and "Corporate Governance Report" in this annual report. These sections form part of this Directors' Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2021 are set out in the consolidated statement of profit or loss and other comprehensive income on page 45 of this report.

The Directors did not propose any payment of final dividend for the year ended 31 December 2021 to the shareholders (2020: nil).

PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment of the Group for the year ended 31 December 2021 amounted to approximately RMB697 million. Details of the movements during the Year in the Group's property, plant and equipment are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the Year in the share capital of the Company are set out in note 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Details of the movements during the Year in the reserves of the Group are set out in the consolidated statement of changes in equity on page 48 of this report.

As at 31 December 2021, the Company's reserves available for distribution to shareholders amounted to approximately RMB697 million (2020: approximately RMB52 million).

PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2021 are set out in note 40 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 108.

BORROWINGS

Details of the borrowings of the Group are set out in note 28 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2021, sales to the Group's five largest customers amounted to approximately RMB1,786 million, representing 62.9% of the total turnover of the Group. Sales to the single largest customers amounted to approximately RMB602 million, representing 21.2% of the total turnover of the Group.

For the year ended 31 December 2021, the amount of purchases made from the Group's five largest suppliers amounted to approximately RMB555 million, representing 44.4% of the total purchases of the Group. Purchase from the single largest suppliers amounted to approximately RMB231 million, representing 18.5% of the total purchases of the Group.

For the year ended 31 December 2021, none of the Directors or any of their associates and any shareholders (which, to be best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's top five largest customers and suppliers.

DIRECTORS

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

EXECUTIVE DIRECTORS

Mr. Xian Yang
Mr. Sun Jiankun
Mr. Zhuang Xianwei

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Shiu Yuen Sammy
Mr. Huang Rongsheng
Ms. Xu Menzhen

Biographical details of the above Directors are set out in the section headed "Profile of Directors and Senior Management" on pages 20 and 21 of this report.

In accordance with the provisions of the Company's articles of association (the "Articles of Association"), one third of the Directors will retire from directorship by rotation at each annual general meeting and, being eligible, shall offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for a fixed term of three years.

Each of the independent non-executive Directors has entered into a service agreement with the Company for a fixed term of two years.

None of the Directors has entered into any service agreement with the Company which is not determinable within one year without payment of compensation (other than the statutory compensation).

REMUNERATION OF THE DIRECTORS

Details of the remuneration of the Directors are set out in note 13 to the consolidated financial statements.

The remuneration of the Directors is principally determined by the balance of skill and experience appropriate to the Company's business.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent in accordance with Rule 3.13 of the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Year was the Company, its subsidiaries or its other associated corporations a party to any arrangement to enable the Directors and chief executives of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its specified undertakings or other associated corporation.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, subject to the applicable laws and regulations, every Director 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 may incur or sustain in or about the execution of their duty in their offices or otherwise in relation thereto. Such permitted indemnity provision has been in force throughout the year ended 31 December 2021. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Company for the year ended 31 December 2021.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2021, the Directors and chief executive of the Company had the following interests and/or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) which are required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in the Listing Rules, to be notified to the Company and the Stock Exchange:

Name	Name of the entity	Number of issued ordinary shares held	Nature of interest	Approximate percentage of the issued share capital of the Company/ percentage of shareholding *(Note 3)*
Mr. Xian Yang ("Mr. Xian") *(Note 1)*	The Company	1,100,674,000 (L)	Founder and beneficiary of trust	53.81%
Mr. Xian	Sanlian Investment Holding Limited ("Sanlian Investment")	1,000 (L)	Beneficial owner	100%
Mr. Sun Jiankun ("Mr. Sun") *(Note 2)*	The Company	19,380,000 (L)	Interest of controlled corporation	0.95%
Mr. Sun	Able Accord Enterprises Limited ("Able Accord")	1,000 (L)	Beneficial owner	100%
Mr. Zhuang Xianwei	The Company	500,000 (L)	Beneficial owner	0.02%

(L)-Long position

Notes:

1. The 1,100,674,000 shares of the Company are held by Sanlian Investment, the issued share capital of which is jointly held by Xian Yang No.1A Ltd. ("Xian Yang No.1A") and Sanlian No.1 Ltd. ("Sanlian No.1"). Mr. Xian is the only controlling shareholder of Xian Yang No.1A and Sanlian No.1. In 2011, Mr. Xian formed a discretionary trust, The Xian Yang Foundation 1, of which Sarasin Trust Company Guernsey Limited ("Sarasin Trust") was the trustee. Accordingly, Mr. Xian is deemed to be interested in the 1,100,674,000 shares held by Sanlian Investment by virtue of the SFO. Mr. Xian is also the sole Director of Sanlian Investment.

2. The 19,380,000 shares of the Company are held by Able Accord, the entire issued share capital of which is held by Mr. Sun. Accordingly, Mr. Sun is deemed to be interested in 19,380,000 shares held by Able Accord by virtue of the SFO. Mr. Sun is also a Director of Able Accord.

3. The percentage was complied based on the total number of issued shares of the Company (i.e. 2,045,598,399 ordinary shares) as at 31 December 2021.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2021, none of the Directors or chief executive 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 any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Saved as disclosed, at no time during the Year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 December 2021, the following persons, other than the Directors and chief executive of the Company, had an interest and/or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Number of issued ordinary shares held*	Nature of interest	Approximate percentage of the issued share capital of the Company* *(Note 3)*
Sarasin Trust *(Note 1)*	561,343,740 (L)	Trustee	27.44%
Sanlian Investment *(Note 1)*	1,100,674,000 (L)	Beneficial owner	53.81%
Mr. Xian *(Note 1)*	1,100,674,000 (L)	Interest of controlled corporation	53.81%
Ms. Qiao Qian *(Note 2)*	1,100,674,000 (L)	Interest of spouse	53.81%

* (L)-Long position

Notes:

1. The entire issued share capital of Sanlian Investment is jointly owned by Xian Yang No.1A and Sanlian No.1. Mr. Xian is the only controlling shareholder of Xian Yang No.1A and Sanlian No.1. In 2011, Mr. Xian formed a discretionary trust, The Xian Yang Foundation 1, of which Sarasin Trust was the trustee. Accordingly, Mr. Xian is deemed to be interested in 1,100,674,000 shares of the Company held by Sanlian Investment by virtue of the SFO. Mr. Xian is the sole Director of Sanlian Investment.

2. Ms. Qiao Qian is the spouse of Mr. Xian. By virtue of the SFO, Ms. Qiao Qian is also deemed, as the spouse of Mr. Xian, to be interested in all the shares of the Company in which Mr. Xian is deemed to be interested.

3. The percentage was complied based on the total number of issued shares of the Company (i.e. 2,045,598,399 ordinary shares) as at 31 December 2021.

Save as disclosed above, the Company has not been notified by any person (other than the Directors or the chief executive of the Company) who had/would have interests or short positions in the shares or underlying shares of the Company or its associated corporations of 5% or more which were required to be disclosed to the Company under Part XV of the SFO or which were recorded in the register kept by the Company under section 336 of the SFO.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company.

CONTRACTS OF SIGNIFICANCE

No contracts of significant, to which the Company, its holding companies, its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interests, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

No contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries subsisted at the end of the Year or at any time during the Year.

No contracts of significance between the Company or any of its subsidiary companies and a controlling shareholder of the Company or any of its subsidiaries subsisted at the end of the Year or at any time during the Year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

So far as the Directors were aware, none of the Directors or their associates had any interest in a business that competes or may compete with the business of the Group.

CONTINUING CONNECTED TRANSACTION

During the Year, rental expenses amounting to RMB0.6 million were paid to Mr. Xian Jilun, father of Mr. Xian Yang, a controlling shareholder and a Director of the Company, for the leasing of the Company's head office located at 16th Floor, Dingli Mansion, No. 185 Renmin Road, Panzhihua, Sichuan province, the PRC. The rent paid by the Company is determined with reference to the market rent of comparable properties in the market.

Such continuing connected transaction falls under the de minimis provision set forth in Rule 14A.33(3)(a) of the Listing Rules and is therefore exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

AUDIT COMMITTEE

In compliance with the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules, the Company established an audit committee on 25 August 2007. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures.

The audit committee consisted of three independent non-executive Directors, namely, Mr. Chan Shiu Yuen Sammy (Chairman), Mr. Huang Rongsheng and Ms. Xu Menzhen.

The audit committee has reviewed, together with the management of the Company, the accounting principles, accounting standards and methods adopted by the Company, discussed the matters concerning internal control, auditing and financial reporting matters and has reviewed the consolidated financial statements of the Group for the year ended 31 December 2021 and the interim results of the Group for the six months ended 30 June 2021.

PRE-EMPTIVE RIGHTS

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules. All Directors have confirmed their compliance throughout the Year with the required standards set out in the Model Code.

EQUITY-LINKED AGREEMENTS

No equity linked agreement was entered into by or subsisted in the Company, and there was no provision to enter into any agreement which will or may result in the Company issuing shares during the Year.

CORPORATE GOVERNANCE

The Board is of the view that the Company has complied with the code provisions set out in the Code during the Year. The Directors are not aware of any information that reasonably reveals that there is any non-compliance with or derivation from the Code by the Company during any time of the Year.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

SUFFICIENCY OF PUBLIC FLOAT

On the basis of publicly available information and to the best of the Directors' knowledge, information and belief, the Company has maintained sufficient public float throughout the year ended 31 December 2021.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint ZHONGHUI ANDA CPA Limited as auditors of the Company.

On behalf of the Board of
Hidili Industry International Development Limited
Xian Yang
Chairman

Hong Kong
31 March 2022

The Company is committed to maintain a high level of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the success of the Group and for safeguarding and maximizing of the interests of shareholders of the Company (the "Shareholders"). The Company has complied with the provision of the Code during the Year.

In addition to the Code, the Board will also continuously enhance the corporate governance standard of the Company by reference to certain recommended best practices contained in the Code whenever suitable and appropriate.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiry of all Directors, all Directors have confirmed their compliance with the required standards as set out in the Model Code throughout the year ended 31 December 2021.

BOARD OF DIRECTORS

The Board currently consists of six Directors, three of whom are independent non-executive Directors who are expressly identified in all corporate communications that disclose the names of the Directors. At least one of the independent non-executive Directors possesses appropriate professional qualifications (or accounting or related financial management expertise) as required by the Listing Rules. The composition of the Board is as follows:

EXECUTIVE DIRECTORS

Mr. Xian Yang *(Chairman)*
Mr. Sun Jiankun
Mr. Zhuang Xianwei

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Shiu Yuen Sammy
Mr. Huang Rongsheng
Ms. Xu Menzhen

The brief biographical details of the Directors are set out in the section headed "Profile of Directors and Senior Management" on pages 20 and 21 of this report.

Each of the executive Directors has entered into a service agreement with the Company for an initial fixed term of three years but is subject to retirement by rotation and is eligible for re-election.

All of the independent non-executive Directors were appointed for a specific term of two years but are subject to retirement by rotation and are eligible for re-election.

None of the Directors has any financial, business, family or other material or relevant relationships among members of the Board.

The Board is responsible for the overall development and guidance of the Group. The Board determines the overall strategies, monitors and control operating and financial performance and sets appropriate policies to manage risks in pursuit of the Group's strategic objectives. The Board has delegated the day-to-day operation to the Executive Directors and senior management under the supervision of the Board to ensure effectiveness and appropriateness.

ROLE OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer are segregated to reinforce their independence and accountability. Mr. Xian Yang is the Chairman of the Company. Mr. Xian is responsible for the overall management and business development of the Group. Mr. Sun Jiankun is the Chief Executive Officer of the Company. Mr. Sun is responsible for managing the day-to-day business of the Group, attending to the formulation and successful implementation of the Group's policies and assuming full accountability to the Board for all the Group's operations.

APPOINTMENT AND RE-ELECTION OF THE DIRECTORS

The Company's Articles of Association set out a formal, considered and transparent procedure for the appointment of new Directors to the Board. The appointment of Directors are fixed for a specific term, but at every annual general meeting one-third of the Directors, including the Chairman, will be subject to retirement by rotation and re-election by shareholders. All Directors eligible for re-election will have their biographical details made available to the shareholders to enable them to make an informed decision on their re-election. Any other appointment, resignation, removal or re-designation of Director will be timely disclosed to the shareholders by announcement and shall include in such announcement, the reasons given by the Director for his resignation.

The Board selects and recommends candidates for directorship having regard to the balance of skill and experience appropriate to the Company's business.

CONFIRMATION OF INDEPENDENCE

Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills in order to ensure that their contribution to the Board remains informed and relevant.

The Directors are regularly briefed on the latest changes and development of the Listing Rules, corporate governance practices and other regulatory regime with written materials, as well as attending seminars on professional knowledge and latest development of regulatory requirements related to director's duties and responsibilities.

During the Year, all Directors read materials relevant to the Company's business, director's duties and responsibilities. The Company updates Directors constantly on the latest developments regarding the Group's business and other applicable regulatory requirements, to ensure compliance and enhance and enhance their awareness or good corporate government practices. All Directors have provided record of training attendance to the Company and the Company will continue to arrange the training in accordance with paragraph A.6.5 of the Code.

BOARD MEETINGS

Four board meetings were held during the Year. Details of the attendance of Directors are set out below:

	Attendance of meetings
Executive Directors	
Mr. Xian Yang	4/4
Mr. Sun Jiankun	4/4
Mr. Zhuang Xianwei	4/4
Independent non-executive Directors	
Mr. Chan Shiu Yuen Sammy	4/4
Mr. Huang Rongsheng	4/4
Ms. Xu Menzhen	4/4

Appropriate notices are given to all Directors in advance for attending regular and other Board meetings. Meeting agendas and other relevant information are provided to the Directors in advance of Board meetings. All Directors are consulted to include additional matters in the agenda for Board meetings.

Directors have accessed to the advice and services of the company secretary with a view to ensure that Board procedures, and all applicable rules and regulations, are followed.

Both draft and final versions of the minutes are sent to all Directors for their comment and records.

Minutes of Board meetings are kept by the company secretary and such minutes are open for inspection at any reasonable time on reasonable prior notice by any Director.

ANNUAL GENERAL MEETING

The Company held the annual general meeting on 24 November 2021, Mr Xian Yang, Mr. Zhuang Xianwei, Mr. Huang Rongsheng and Ms. Xu Menzhen were unable to attend the annual general meeting of the Company due to business engagements. Mr. Sun Jiankun, the executive Director, was elected as the chairman of the annual general meeting to ensure effective communication with shareholders of the Company at the meeting.

REMUNERATION COMMITTEE

The remuneration committee (the "Remuneration Committee") was established on 25 August 2007 with written terms of reference in compliance with the Code. The Remuneration Committee consists of an executive Director, Mr. Xian Yang and all the independent non-executive Directors, Mr. Chan Shiu Yuen Sammy, Mr. Huang Rongsheng and Ms. Xu Menzhen. Mr. Chan Shiu Yuen Sammy is the Chairman of the Remuneration Committee. The role of the Remuneration Committee is to review and give recommendations to the Board regarding the remuneration package of the Directors and the senior management of the Company and other remuneration related matters.

The Company's emolument policy of the employees is set up by the Remuneration Committee on the basis of the expertise, capability, performance and responsibility of the employees. In addition to the basic salaries, the Company also provides staff with retirement benefit scheme contributions. The Company may grant bonus to individuals for their contribution on a discretionary basis.

During the Year, one remuneration committee meeting was held to discuss and approve the annual salary review for 2021 for the Directors and the employees and the remuneration policy. All the members of the Remuneration Committee attended the meeting.

NOMINATION COMMITTEE

The nomination committee (the "Nomination Committee") was established on 25 August 2007 with written terms of referable in compliance with the Code. The Nomination Committee consists of an executive Director, Mr. Xian Yang and all the independent non-executive Directors, namely, Mr. Chan Shiu Yuen Sammy, Mr. Huang Rongsheng and Ms. Xu Menzhen. The Nomination Committee will consider the appointment of new Directors first by reviewing the profiles of the candidates and making recommendations to the Board. New Directors appointed by the Board during the Year to fill a casual vacancy shall retire and submit themselves for re-election at the first general meeting immediately followed their appointment.

The Board had adopted a board diversity policy (the "Board Diversity Policy") setting out the approach to diversify members of the Board. The Company believes that a diversified perspective can be achieved through implementation of the Board Diversity Policy. The following measurable objectives were adopted: 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. The ultimate decision will be based on objective criteria, merit and contribution that the selected candidates will bring to the Board having due regard for the benefits of diversity on the Board.

The Nomination Committee had also reviewed the Board Diversity Policy on a regular basis to ensure its continued effectiveness.

During the Year, the Nomination Committee had convened one meeting during which it considered, among other things, the Directors who should retire by rotation pursuant to the Company's Articles of Association and the Code. All the members of the Nomination Committee attended the meeting. During the meeting of the Nomination Committee, it had also reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company and assessed the independence of all the independent non-executive Directors of the Company.

AUDIT COMMITTEE

The audit committee (the "Audit Committee") was established on 25 August 2007 with written terms of reference in compliance with the Code. The Audit Committee consists of three Independent non-executive Directors, namely Mr. Chan Shiu Yuen Sammy, Mr. Huang Rongsheng and Ms. Xu Menzhen. Mr. Chan Shiu Yuen Sammy is the Chairman of the Audit Committee. The primary duties of the Audit Committee include reviewing and supervising the financial reporting process and internal control procedures of the Group, overseeing the audit process and performing other duties and responsibilities as may be assigned by the Board from time to time.

During the Year, two Audit Committee meetings were held. All the members of the Audit Committee attended both meetings. The Audit Committee has reviewed together with the management the accounting principles, accounting standards and methods adopted by the Company, discussed the matters concerning internal control, auditing and financial reporting matters and has reviewed the combined financial statement of the Group for the year ended 31 December 2021 and the interim results for the six months ended 30 June 2021.

AUDITORS' REMUNERATION

The external auditor of the Company is ZHONGHUI ANDA CPA Limited. During the year ended 31 December 2021, the remuneration paid and payable to the auditors of the Company in respect of the audit services provided amounted to approximately RMB2.9 million and no non-audit service was provided during the Year.

The Audit Committee is responsible for making recommendation to the Board as to the appointment, re-appointment and removal of the external auditors, which is subject to the approval by the Board and at the general meetings of the Company by the Shareholders.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the following corporate governance duties of the Company in accordance with the "Terms of Reference of Corporate Governance unction" adopted: (i) to develop and review the Company's policies and practices on corporate governance and make appropriate recommendations; (ii) to review and monitor the training and continuous professional development of Directors and senior management; (iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (iv) to develop, review and monitor the code of conduct applicable to employees and Directors; and (v) to review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

During the Year, the Board has performed the following corporate governance duties: (i) reviewed and approved the contents of the Corporate Governance Report included in the 2021 annual report of the Company; (ii) adopted the "Board Diversity Policy"; and (iii) reviewed the whistle-blowing policy of the Group to ensure the arrangements for employees to raise concerns about possible improprieties in financial reporting and internal control, etc. were adequate.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENT

The Directors acknowledge their responsibility for preparing the consolidated financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and the results and cash flow for that period. The Company deploys appropriate and sufficient resources to prepare audited account. Senior management is required to present and explain the financial reporting and matters that materially affect or may have material impact on the financial performance and operations of the Company to the Audit Committee and the Board and respond to the queries and concerns raised by the Audit Committee and the Board to their satisfaction. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance. The reporting responsibility of the external auditor of the Company on the consolidated financial statements of the Group are set out in the independent auditor's report on pages 43 to 44 of this report.

DISCLAIMER OF OPINION ISSUED BY THE AUDITORS

Pursuant to the Corporate Governance Code, the Board would like to provide more details on the Disclaimer of Opinion regarding the Company's ability to continue as a going concern.

As mentioned in the section head "Management Discussion and Analysis" , ZHONGHUI ANDA has issued Disclaimer of Opinion on the Company's consolidated financial statements for the year ended 31 December 2021, which arose solely from going concern issue of the Group.

Action Plan to Address the Disclaimer of Opinion

In order to address the uncertainties which may cast doubt regarding the Group's ability to continue as a going concern, and with a view to removing the Disclaimer of Opinion, the Company has taken and intends to continue to implement the measures as follows:

(i) The Company kept on positive negotiations with both the Onshore Creditor Committee and the Steering Committee. Update calls or meetings with the creditors representatives are carried out at least once a month. The Holders and the Lending Banks have agreed to standstill and not take action against the Company to allow all parties to formulate the formal documentation and thereafter extend the standstill in accordance with the terms of the formal documentation.

(ii) For the onshore indebtedness, the Company and the Onshore Creditor Committee has commenced the preparation and execution of the formal documentations for further approval.

(iii) On 1 November 2021, the Company and the Steering Committee have entered into the Restructuring Support Agreement to support and facilitate the Restructuring. The material terms of the Restructuring Support Agreement are set out in the announcement dated 1 November 2021 of the Company. At the same time, the Company has invited holders of the Notes who are interested in acceding to the Restructuring Support Agreement to identify themselves by submitting a accession letter to the information agent engaged by the Company in order to receive a share of consent fee and restructuring support agreement fee. The Company believes that finalization of the Restructuring Support Agreement and the payment of the fees can help to encourage the holders of the Notes to actively participate and support the Restructuring so as to minimize any uncertainty and barrier during the forthcoming restructuring process.

(iv) Following the granting of the Convening Order by the High Court, the Company is working closely with the professional parties for the preparation of the Scheme, together with an explanatory statement, appendices thereto and related documents containing detailed information regarding the Scheme in addition to other documents that relate to the Restructuring to the Holders in the manner prescribed by the Convening Order. The Company is proposing to launch the creditors' meeting for the approval of the Scheme and schedule the High Court sanction hearing in June 2022.

(v) Professional parties have been engaged to communicate with regulatory bodies and prepare announcements of the Scheme and the circular to shareholders seeking approval in an extraordinary general meeting to be held in about July 2022 and.

(vi) Final restructuring agreements and loan documents will be entered into between the Company and the Lending Banks by July 2022 for the debt to equity arrangement and the extension of bank borrowings.

Removal of the Disclaimer of Opinion

It is considered that the final approval of the Scheme by the Holders and the shareholders of the Company could help to address the Disclaimer of Opinion. Upon the completion of the Restructuring, it will bring along: (i) enhancement of the financial and liquidity position of the Company as amount of debts of approximately RMB2,641 million (with reference to financial position as at 31 December 2021) will be discharged and extinguished; (ii) lower gearing ratio; (iii) free up cashflow for future business development; and (iv) reducing liquidity risk by enlarging the capital base of the Company. Accordingly, the Company believes that the Disclaimer of Opinion in relation to the Company's going concern will be removed in the audit of the financial statement for the year ending 31 December 2022. The Company will closely communicate with ZHONGHUI ANDA for further information required to substantiate the Group as a going concern for the audit of the financial statements for the year ending 31 December 2022.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for maintaining an effective internal control system of the Group and is committed to the ongoing development of an effective internal control system to safeguard assets, and to enhance risk management and compliance with applicable legislation and regulations. The Group has adopted a set of internal control procedures and policies to safeguard the Group's assets and to ensure the reliability of financial reporting.

The Board, through the Audit Committee, has conducted a review of the effectiveness of the Company's system of internal control during the Year, and the Board confirms that the provision C.2.1 of the Code has been complied with.

The Company have formulated an inside information policy providing guideline on handling inside information. The Company regularly reminds the Directors and employees about compliance with all policies adopted by the Company regarding inside information including the Model Code set out in Appendix 10 of the Listing Rules in relation to dealings in securities of the Company.

COMPANY SECRETARY

Ms. Chu Lai Kuen, the chief financial officer of the Company, is also appointed by the Board as the company secretary of the Company (the "Company Secretary"). She is a full time employee of the Company who has day-to-day knowledge of the Company and is responsible for advising the Board on corporate governance matters. Ms Chu confirmed that she has complied with all the required qualifications, experience and training requirements of the Listing Rules.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Besides, pursuant to the Company's Articles of Association, shareholder(s) holding not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings may request the Company to convene an extraordinary general meeting by sending a written requisition to the Board or the Company Secretary. The objects of the meeting must be stated in the written requisition.

Shareholders may send written enquiries to the Company for putting forward any enquiries or proposals to the Board directly to its head office in Sichuan, PRC or principal place of business in Hong Kong by post or email to ir@hidili.com.cn. The Company will respond to all enquiries on a timely and proper basis.

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

An up-to-date version of the Company's Articles of Association is available on the Company's website and the Stock Exchange's website. Shareholders may refer to the Company's Articles of Association for further details of their rights.

All resolutions put forward at shareholders' meetings will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.hidili.com.cn) immediately after the relevant general meetings.

INVESTOR RELATIONS AND COMMUNICATION

The Company has established and maintained different communication channels with the Shareholders. The Company updates the Shareholders on its latest business developments and financial performance through its corporate publications including annual reports and public announcements. Briefing and meetings with institutional investors and analysts are conducted regularly. The Company also maintains its website to provide the public and its shareholders with an alternative communication channel. All corporate communication and Company's latest updates are available on the Company's website for public's information.

During the Year, there has been no significant change in the Company's constitutional documents.

The environmental, social and governance report of the Company for the year ended 31 December 2021 (the "ESG Report") is prepared in accordance with the Environmental, Social and Governance Reporting Guide as set out in the Appendix 27 of the Listing Rules.

The Company acts as an investment holding company. The activities of its principal subsidiaries are engaged in coal mining, manufacture and sale of clean coal. Under the revised consolidation plan in 2021, the Company closed two consolidated core mines in Sichuan province. Currently, three consolidated core mines in Sichuan province gradually resumed production in 2022. For the nine consolidated core mines in Guizhou province, eight mines have commenced the production stage under the requirement of the consolidation plan; one mine is under construction. The scope of the ESG Report mainly covers the Company's operations in Sichuan and Guizhou provinces together with the head office in Hong Kong.

COMMUNICATION WITH STAKEHOLDERS

The Group has established various channels to allow stakeholders to participate in the Company's operations, and to understand and monitor the Company's operating conditions, so as to promote the formation of a community of harmony and common interest between the Group and stakeholders and realize maximum comprehensive social interest, which includes optimal corporate revenue. Stakeholders can participate in the Company's operations through the following channels:

Major stakeholders	Expectations	Communication and responses
Stock Exchange	• Compliance with Listing Rules • Timely and accurate publication and submission	• Meetings • Training courses, workshops and publications • Website updates and announcements
Shareholders and investors	• Investment returns • Business strategies and performance • Completion of debt restructuring and sustainability	• Company's website • Annual report and interim report • Company's announcements and notices on Stock Exchange website • Shareholders' meetings
Government	• Compliance with laws and regulations • Production safety • Payment of tax in accordance with the law • Fulfillment of social responsibilities	• Inspection and site visits • Company's filings, working reports and submissions • Work conference and discussion
Employees	• Welfare and remuneration • Working environment • Training and development opportunities • Occupational health and safety	• Staff meetings and activities • Staff training and education • Staff handbook • Company's notices
Customers	• Product quality and delivery • Quality control	• Regular visits and business correspondence • Sales framework agreements • After sales service

Major stakeholders	Expectations	Communication and responses
Suppliers	• Long term stable cooperation • Timely settlement	• Regular visits and business correspondence • Sales framework agreements • Review and evaluation report
Community and the public	• Job opportunities • Community development • Social welfare	• Community activities • Media enquiry • Press releases and announcements

MATERIALITY ASSESSMENT

For the year ended 31 December 2021, the Company conducted a comprehensive internal materiality assessment to identify and assess ESG-related concerns and priorities that were shared by the Group and its stakeholders. Since the Group's principal business engaged in the coking coal mining, environmental protection and safety are considered as the most important to the stakeholders and the Group.

ENVIRONMENTAL PROTECTION

The underground coal mines and coal washing plants of the Company are registered with the Industry and Business Administration Bureau and possess the necessary environmental approvals from the Provincial Environmental Protection Bureau to undertake mining and processing activities at their various sites. These permits for air and water emissions stipulate the environmental protection conditions for each site, including the frequency of inspections so as to ensure compliance with the various statutory environmental protection requirements. All facilities are monitored quarterly by the County Environmental Protection Bureau (EPB) to check for compliance with national environmental standards.

The Company has adopted a number of environmentally responsible practices in its operations to minimize the damage of operations to the environment.

(i) Environmental management includes monitoring for waste water quality and air quality. The ISO14000 international environmental protection standards are the basis of the Company's environmental management program.

(ii) Underground mine waste rock is utilized in the mine and excess rock is used on the surface as building material.

(iii) Water management at the coal washing plants is primarily done through a waste water recycling system and water reclaim ponds.

(iv) Plans call for rehabilitation of all facility sites, with a few locations already undergoing re-seeding and re-vegetation projects. Surface water run off goes to the settling ponds for removal of suspended solids.

(v) The direct reduction plant and electric arc furnace operations are modern and well maintained.

Besides, the Company establishes an environmental management office under the direct supervision of the president's office, which is overseen by the president of the Company. The environmental management office reports to the president by weekly phone calls and monthly written reports. It is also responsible for formulating our environmental policies and ensuring that all of the Company's mines and plants are in compliance with applicable environmental laws and regulations.

SOCIAL

EMPLOYMENT

Human resource is essential for sustainable development of enterprises. In 2021, the Company has a total of 9,232 employees, among which, 2 are in Hong Kong, 1 is in Singapore and the remaining is in the PRC.

The Company has established definite employment policy, remuneration and welfare system, incentive and punishment system and conduct of code. In addition to strict compliance with the applicable national and local laws and regulations relating to employment, the Company has also defined specific responsibilities and qualification required for each position to provide reference and basis for employment. In respect of staff recruitment, the Company has adopted a highly transparent recruitment procedure, under which, job applicants, after preliminary selection by our department of human resources, will go through our written examination and interview and then, if qualified, professional tests by relative departments, and it finally comes out with the best suitable candidates.

In order to attract and retain talents, the Company provides competitive remuneration package. Value of post is linked with remuneration, which means that same post shall be offered with the same remuneration. Besides, through construction of remuneration system, the Company is enabled to pay emoluments based on posts, personnel capability and performance.

Moreover, various promotion opportunities are provided by the Company to employees. In addition to promotion made by reference to the normal working performance of individual staff and the annual review and assessment on their capability, the Company has also optimized staff's occupational development direction based on the particular features of various work positions. By adoption of dual-way development model, our employees are enabled to develop their causes either in terms of management sequence or in terms of professional technology sequence.

A full range of employee benefits are available in the Company, including, among other, social insurance and provident fund. The Group attaches great importance to the balance between work and life. An employee works 40 hours per week on an average basis, and is entitled to paid leaves such as marriage leave, maternity leave and annual paid leave. Besides, the Company organizes diversified staff activities from time to time, such as annual dinner and outdoor sports, to enrich staff's life and strengthen their sense of belongingness.

HEALTHY AND SAFETY

The Company has obtained valid safety permits (of 3 years duration), issued by the Provincial Bureau of Coal Mine Safety. The coal washing and related management activities are all covered by certification subject to international and national standard for occupational health and safety management systems.

The PRC government places significant regulatory requirements on coal mines with respect to employee safety. The Company regard occupational health and safety as one of our most important responsibilities and have implemented a number of measures to ensure compliance with the stringent regulatory requirements.

(i) the Company has established safety monitor departments in the respective coal mines, responsible for monitoring and reviewing safety production related matters within the Group. All the employees working in the coal mines are required to comply with an internal safety management manual for mine operations and adopted detailed safety procedures according to the State Coal Mine Safety Guideline (國家煤礦安全規程).

(ii) it has also established a full-time mine rescue team to ensure "professional, prompt and efficient" measures would be taken in treating various safety accidents, which in turn further secures personal safety of staff.

(iii) the Company has determined the in-house safety production administrative rules and emergency planning for safety production accidents which set six specific requirements on its subsidiaries in terms of education and training, hidden danger investigation, costs management, emergency rescue, information reporting as well as accident investigation and solution. Besides, safety production, which is linked with the performance-based remuneration in the remuneration policies of the Company, is taken as one of the key performance indicators adopted by the Company when making annual assessment on the operating results of the management of the subsidiaries, so as to guarantee implementation of various rules and regulations.

(iv) the Company has an independent safety committee that comprises experienced retired mining experts to supervise mine safety.

DEVELOPMENT AND TRAINING

A great importance has been attached to talent reserve and personnel promotion and development. Since then, the Company spares no efforts to propel staff training. Through combination of internal and external trainings, the Company advocates never stop for study and creates enthusiastic study atmosphere to inspire employees' potential and promote development and innovation of the Company.

As such, an overall training and management plan is prepared by the Company at the beginning of each year, targeting to providing comprehensive trainings for employees, including (but not limited to) induction training, safety knowledge training, special business training, qualification education in various high education institutions majoring in mining for those staff who stop working for education purpose with work positions maintained, as well as further continuous education to obtain qualification and titles required for occupation. Besides, our employees also participate in the trainings organized by the local government regulatory departments. The Group emphasizes on cultivation of talent reserve and improvement of employees' quality. Therefore, employees are dispatched regularly to Tsinghua University, Sichuan University, China University of Mining and Technology and other high education institutions to receive professional trainings.

LABOUR STANDARD

The Company established and implemented a "*staff handbook*" which contains policies relating to relevant labor laws, regulations and industry practices, covering areas such as compensation, dismissal, promotion, working hours, dismissal, recruitment, rest periods, diversity and other benefits and welfare.

Each subsidiary of the Company has been in stringent compliance with the PRC employment laws, while subsidiaries in Hong Kong, Singapore and other overseas places have also been observing the local applicable employment laws. In no case would the Company be allowed to engage any forced labor or child labor.

SUPPLY CHAIN MANAGEMENT

The primary raw material of clean coal production, raw coal, is mainly self-produced and, to a limited extent, from external suppliers. Other major raw materials procured in connection with the coal mining, coal washing and mine development and construction include cement, wood, explosives and replacement parts. The Company selects suppliers based on reasonable and clear standards, such as the product quality, after-sale services, prices and credit terms and records on cooperation, to procure most competitive resources and products and services with the best quality.

PRODUCTION RESPONSIBILITIES

The Company has compiled a detailed quality control manual and implemented a comprehensive quality control system. The Company has a quality control department to implement our quality control system. The quality control department performs on-site inspections and monitors internal production procedures and the storage and delivery of raw products, semi-finished products and finished products.

The Company is subject to, among other PRC laws and regulations, the Product Quality Law of the PRC (產品質量法), the Regulations on Quality Responsibility for Industrial Products (工業產品質量責任條例) and the Several Provisions of the Ministry of Coal Industry on Clarifying Quality Responsibility for Coal Products and Improving the Control of Quality of Coal Products (煤炭工業部關於明確煤炭產品質量責任和嚴格煤質管理的若干規定).

ANTI-CORRUPTION

The Company incorporated anti-corruption and bribery clauses into the staff handbook and employment contracts. The Company encourages employees to maintain honesty, refuse corruption, refuse to accept kickbacks.

There was no any concluded legal cases regarding corrupt practices brought against the Company or its employees for the year ended 31 December 2021.

COMMUNITY INVESTMENT

The Group aims to address community concerns through engaging in volunteer work and charity donation. The Group also encourages the employees to pursue their personal passions and dedicate their time and skills to support the local communities.

中汇
ZHONGHUI

TO THE SHAREHOLDERS OF
HIDILI INDUSTRY INTERNATIONAL DEVELOPMENT LIMITED
(Incorporated in the Cayman Islands with limited liability)

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Hidili Industry International Development Limited and its subsidiaries (collectively referred to as the "Group") set out on pages 45 to 107, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the material uncertainty relating to the going concern basis described in the Basis for Disclaimer of Opinion section of our report, it is not possible for us to form an opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

GOING CONCERN

We draw attention to note 2 to the consolidated financial statements which mentions that as at 31 December 2021 the Group had net current liabilities of RMB9,308,943,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon (i) the successful completion of various debt restructuring measures and (ii) the successful outcome that certain measures to improve its financial position, to provide liquidity and cash flows. The consolidated financial statements do not include any adjustments that would result from the failure to complete various debt restructuring measures and the failure to improve its financial position, to provide liquidity and cash flows. We consider that the material uncertainty has been adequately disclosed in the consolidated financial statements. However, in view of the extent of the multiple uncertainty relating to (i) the successful completion of various debt restructuring measures and (ii) the successful outcome that certain measures to improve its financial position, to provide liquidity and cash flows, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards 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.

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

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants and to issue an auditor's report. However, because of the significance of the material uncertainty relating to the going concern basis described in the Basis for Disclaimer of Opinion section of our report, it is not possible for us to form an opinion on these consolidated financial statements.

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

ZHONGHUI ANDA CPA Limited
Certified Public Accountants

Yeung Hong Chun
Audit Engagement Director
Practising Certificate Number P07374

Hong Kong, 31 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTES	**2021 RMB'000**	2020 RMB'000
Revenue	7	**2,839,738**	1,348,556
Cost of sales		**(1,510,107)**	(728,612)
Gross profit		**1,329,631**	619,944
Interest revenue		**5,554**	2,563
Other income	8	**26,424**	15,290
Other gains and losses	9	**(50,120)**	(190,234)
Distribution expenses		**(217,838)**	(121,838)
Administrative expenses		**(213,162)**	(107,771)
Share of loss of a joint venture		**(57,147)**	(46,333)
Finance costs	10	**(250,911)**	(441,196)
Profit/(Loss) before tax		**572,431**	(269,575)
Income tax credit	11	**72,008**	–
Profit/(Loss) and total comprehensive income/ (expense) for the year	12	**644,439**	(269,575)
Profit/(Loss) and total comprehensive income/(expense) for the year attributable to:			
Owners of the Company		**645,145**	(270,190)
Non-controlling interests		**(706)**	615
		644,439	(269,575)
Earning/(Loss) per share	15		
– Basic (RMB cents)		**31.54**	(13.21)
– Diluted (RMB cents)		**31.54**	(13.21)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

	NOTES	2021 RMB'000	2020 RMB'000
Non-current assets			
Property, plant and equipment	16	**8,980,120**	8,536,819
Right-of-use assets	17	**128,354**	134,875
Interests in a joint venture	18	**1,384,081**	1,441,228
Long-term deposits	19	**14,259**	17,042
Deferred tax assets	33	**62,300**	–
		10,569,114	10,129,964
Current assets			
Inventories	20	**310,026**	145,089
Bills and trade receivables	21(a)	**453,775**	126,183
Bills receivables discounted with recourse	21(b)	**–**	67,950
Other receivables and prepayments	22	**638,227**	662,613
Amount due from a joint venture	23	**142,779**	87,536
Pledged bank deposits	24	**820**	847
Bank and cash balances	24	**14,535**	32,909
		1,560,162	1,123,127
Current liabilities			
Bills and trade payables	25(a)	**897,374**	751,272
Contract liabilities	26	**135,319**	278,413
Advances drawn on bills receivables discounted with recourse	25(b)	**–**	67,950
Accruals and other payables	27	**2,679,689**	2,600,875
Lease liabilities	32	**30,479**	31,729
Tax payables		**19,714**	29,422
Senior notes	34	**1,252,737**	1,282,053
Bank borrowings	28	**5,853,793**	5,885,344
		10,869,105	10,927,058
Net current liabilities		**(9,308,943)**	(9,803,931)
Total assets less current liabilities		**1,260,171**	326,033

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

	NOTES	2021 RMB'000	2020 RMB'000
Non-current liabilities			
Other payables	27	**289,980**	–
Provision for restoration and environmental costs	31	**12,597**	11,443
Lease liabilities	32	**26,765**	28,200
Deferred tax liabilities	33	**8,025**	8,025
		337,367	47,668
NET ASSETS		**922,804**	278,365
Capital and reserves			
Share capital	29	**197,506**	197,506
Reserves	30	**696,943**	51,798
Equity attributable to owners of the Company		**894,449**	249,304
Non-controlling interests		**28,355**	29,061
TOTAL EQUITY		**922,804**	278,365

The consolidated financial statements on pages 45 to 107 were approved and authorised for issue by the Board of Directors on 31 March 2022 and are signed on its behalf by:

XIAN YANG
Director

SUN JIANKUN
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

	Attributable to owners of the Company										
	Share capital	Share premium	Share reserve	Statutory surplus reserve	Future development fund	Other reserve	Equity investment revalution reserve	Accumulated losses	Total	Attributable to non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2020	197,506	2,935,794	695,492	451,303	109,346	(99,070)	(18,000)	(3,752,877)	519,494	28,446	547,940
Loss and total comprehensive expense for the year	–	–	–	–	–	–	–	(270,190)	(270,190)	615	(269,575)
Balance at 31 December 2020 and 1 January 2021	**197,506**	**2,935,794**	**695,492**	**451,303**	**109,346**	**(99,070)**	**(18,000)**	**(4,023,067)**	**249,304**	**29,061**	**278,365**
Profit and total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**645,145**	**645,145**	**(706)**	**644,439**
Balance at 31 December 2021	**197,506**	**2,935,794**	**695,492**	**451,303**	**109,346**	**(99,070)**	**(18,000)**	**(3,377,922)**	**894,449**	**28,355**	**922,804**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 RMB'000	2020 RMB'000
Cash flows from operating activities		
Profit/(Loss) before tax	**572,431**	(269,575)
Adjustments for:		
Interest revenue	**(5,554)**	(2,563)
Depreciation and amortisation of property, plant and equipment	**157,321**	141,388
Depreciation on right-of-use assets	**13,086**	13,262
Finance costs	**250,911**	441,196
Loss on disposal of property, plant and equipment	**79,966**	3,259
Impairment of trade receivables and other receivables	**36,475**	203,245
Loss allowance of trade receivable	**24,886**	75,943
Waive of other payables	**(55,657)**	–
Unrealised exchange gains	**(30,244)**	(88,674)
Share of loss of a joint venture	**57,147**	46,333
Provision for restoration and environmental costs	**1,154**	1,172
Operating cash flows before movements in working capital	**1,101,922**	564,986
Increase in inventories	**(164,937)**	(99,537)
Increase in bills and trade receivables	**(284,528)**	(20,144)
Increase in other receivables and prepayments	**(12,089)**	(287,973)
Increase in amount due from a joint venture	**(55,243)**	(16,683)
Increase in bills and trade payables	**78,152**	267,657
(Decrease)/Increase in contract liabilities	**(143,094)**	30,024
(Decrease)/Increase in other payables and accrued expenses	**(22,949)**	111,946
Net cash generated from operating activities	**497,234**	550,276
Cash flows from investing activities		
Withdrawal of pledged bank deposits	**27**	–
Placement of pledged and restricted bank deposits	**–**	(4)
Interest received	**5,554**	2,563
Proceeds from disposal of property, plant and equipment	**14,624**	522
Decrease/(Increase) in long-term deposits	**2,783**	(1,143)
Purchase of property, plant and equipment	**(410,807)**	(367,465)
Net cash used in investing activities	**(387,819)**	(365,527)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 RMB'000	2020 RMB'000
Cash flows from financing activities		
Repayment of bank borrowings	**(30,623)**	(18,068)
Interest paid	**(87,916)**	(142,816)
Repayment of lease liabilities	**(9,250)**	(8,942)
Net cash used in financing activities	**(127,789)**	(169,826)
Net (decrease)/increase in cash and cash equivalents	**(18,374)**	14,923
Cash and cash equivalents at beginning of year	**32,909**	17,986
Cash and cash equivalents at end of year, representing bank and cash balances	**14,535**	32,909

1. GENERAL INFORMATION

Hidili Industry International Development Limited (the "Company") was incorporated in the Cayman Islands under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 1 September 2006. Its shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The address of the registered office is Suite 3204, Unit 2A, Block 3, Building D, P.O. Box 1586, Gardenia Court, Camana Bay, Grand Cayman, KY1-1100, Cayman Islands. The address of its principal place of business is Room 1306, 13th Floor, Tai Tung Building, 8 Fleming Road, Wanchai, Hong Kong. In the opinion of the directors, the Company's parent company is Sanlian Investment Holding Limited, a company incorporated in the British Virgin Islands and the ultimate holding company is Sarasin Trust Company Guernsey Limited, which is controlled by Mr. Xian Yang, the Executive Director of the Company. The Company acts as an investment holding company and its subsidiaries are engaged in mining and sale of raw coal and clean coal.

The Group's principal operations are conducted in the People's Republic of China (the "PRC"). The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. GOING CONCERN BASIS

In the preparation of the consolidated financial statements, the directors of the Company have given due and careful consideration to the future liquidity of the Group in light of the Group's net current liabilities position of approximately RMB9,308,943,000 as at 31 December 2021.

During the years ended 31 December 2016, 2017, 2018, 2019, 2020 and 2021, the Group has breached of several loans covenants, including: (i) repayment of a short-term unsecured loan from a PRC bank which fell due in June 2015 of approximately RMB311 million; (ii) repayment of the outstanding principal and accrued interest of the US$400 million 8.625% senior notes due 2015 (the "Notes") of approximately USD191 million (equivalent to RMB1,282 million) which fell due on 4 November 2015; and (iii) repayment of a loan from a short-term PRC bank which fell due in August 2016 with the default interest payment of approximately RMB268 million. The aforesaid breaches constitute events of default under certain of the Group's loan facilities that contain cross-default provisions. In addition, certain other loan agreements of the Group provide that the lenders have the right to demand immediate repayment of any outstanding amount if the Group experiences material financial crises or other material adverse changes, the business of the Group deteriorates, or there occurs any event that could adversely affect lenders' interest or suggests the Group's inability to repay any outstanding amount. Therefore, it is possible that the lenders to the Group could accelerate their loans as a result of breach of the other loans to the Group.

The Group has renewal or extension of certain loans from certain banks. In addition, representatives of certain banks have stated that the bank does not currently intend to take enforcement action in respect of the loan.

2. GOING CONCERN BASIS *(Continued)*

The Group intended to pursue a consensual restructuring with the Senior Note holders (the "Restructuring") and the Steering Committee of Senior Note holders has been formed in December 2015. On 19 January 2016, the Company received a winding up petition (the "Winding Up Petition") filed by a bondholder of the 8.625% senior notes due 2015 issued by the Company (the "Notes") with the High Court of Hong Kong (the "Court") against the Company for the outstanding principal and interest due to the bondholder under the Notes. On 11 March 2016, the Company provided Senior Note holders with the key indicative terms of a proposed restructuring of the Senior Note.

On 18 January 2017, the Company, the Steering Committee and the Onshore Creditors Committee have entered into a term sheet in relation to the proposed restructuring of the onshore and offshore indebtedness of the Company (the "Termsheet").

Regarding the execution of the Termsheet, the Holders and the Lending Banks have agreed to standstill and not take action against the Company to allow all parties to formulate the formal documentation and thereafter extend the standstill in accordance with the terms of the formal documentation.

The hearing of the Amended Winding Up Petition has been adjourned for substantive argument to a date to be fixed.

On 21 April 2020, the Company and the Onshore Creditors Committee have reached an agreement on a preliminary restructuring framework regarding the settlement of the onshore banks indebtedness of the Company (the "Preliminary Restructuring Framework") pursuant to which (i) the Company has agreed to convert the interest payable to the Lending Banks from the date of default to 31 December 2018 charged at 4.75% per annum to newly issued ordinary shares of the Company; and (ii) the Company, Hidili China, Mr. Xian Yang and Lending Banks have agreed to enter into a post syndication agreement (the "Post Syndication Agreement") to (a) extend the terms of the remaining onshore banks indebtedness to 4 February 2025; (b) charge interest at 3% per annum in the first three years and 4.275% per annum in the fourth to fifth years from the date of the Post Syndication Agreement respectively; and (c) repay the remaining onshore banks indebtedness in accordance with a fixed and variable portion.

On 13 July 2020, the Company and the Steering Committee entered into the 2020 Termsheet, which are binding on the Company and the Steering Committee, pursuant to which the parties agreed to the key commercial terms for the swap of the Notes into the Converted Shares with an option to participate in the SPP to be conducted by the Company. The Company will use its best endeavours to implement a restructuring of the Notes in accordance with the 2020 Termsheet subject to such other terms and conditions as the Company and the Steering Committee may agree in writing and relevant legal and regulatory requirements.

2. GOING CONCERN BASIS *(Continued)*

In order to improve the Group's financial position, to provide liquidity and cash flows and sustain the Group as a going concern, the Group has been implementing a number of measures, including but not limited to:

(i) The Group is negotiating with banks to roll over the loan repayments and extend repayment of interests;

(ii) The Group is negotiating with its lenders to restructure their debts to equity;

(iii) The Group is looking for potential investor to invest to the Company;

(iv) The Group is looking for opportunity for disposal of certain assets of the Group.

In addition, the Group is currently focusing on the integration of coal mines and strengthening its operations of production and sales of clean coal, and the management of the Group is also implementing cost-saving measures to improve its operating cash flows and financial position.

On the basis that the Group can successfully completed the Restructuring and certain measures as mentioned above to improve its operating results and cash flows, the directors of the Company believe that the Group will have sufficient funds to finance its current working capital requirements in the next twelve months from the end of the reporting date. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") issued by International Accounting Standards Board (the "IASB") that are relevant to its operations and effective for its accounting year beginning on 1 January 2021. IFRSs comprise International Financial Reporting Standards ("IFRS"); International Accounting Standards ("IAS"); and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years.

The Group has not applied the new and revised IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised IFRSs but is not yet in a position to state whether these new and revised IFRSs would have a material impact on its results of operations and financial position.

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with IFRSs, accounting principles generally accepted in Hong Kong, and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention.

The preparation of the consolidated financial statements in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgments in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 5 to the consolidated financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

(A) CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, 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. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity’s returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company’s share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(A) CONSOLIDATION *(Continued)*

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non- controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

(B) JOINT ARRANGEMENTS

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Relevant activities are activities that significantly affect the returns of the arrangement. When assessing joint control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has joint control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

A joint arrangement is either a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

In relation to its interest in a joint operation, the Group recognises in its consolidated financial statements, its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly; its revenue from the sale of its share of the output arising from the joint operation; its share of the revenue from the sale of the output by the joint operation; and its expenses, including its share of any expenses incurred jointly, in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(B) JOINT ARRANGEMENTS *(Continued)*

Investment in a joint venture is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the joint venture in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of a joint venture's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post- acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of a joint venture that results in a loss of joint control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that joint venture and (ii) the Group's share of the net assets of that joint venture plus any remaining goodwill relating to that joint venture and any related accumulated foreign currency translation reserve. If an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(C) FOREIGN CURRENCY TRANSLATION

(i) Functional and presentation currency

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

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(D) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation on these assets, other than mining structures and mining rights, is recognised so as to write off the cost of assets less their residual value over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The estimated useful lives are as follows:

Buildings	Over the shorter of terms of relevant lease or 15 or 35 years
Machinery	3 to 15 years
Motor vehicles, office and electronic equipment	5 to 10 years
Mining structures and mining rights	Units of production method over the total proven and probable reserves of the coal mines.

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

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(E) LEASES

The Group as lessee

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal useful life or the lease term of right-of-use assets are as follows:

Land and buildings	1-10 years
Machinery	1-2 years

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below US$5,000.

(F) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(G) RECOGNITION AND DERECOGNITION OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(H) FINANCIAL ASSETS

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets of the Group are classified under the following categories as financial assets at amortised cost;

Financial assets at amortised cost

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

– the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

– the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(I) LOSS ALLOWANCES FOR EXPECTED CREDIT LOSSES

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("lifetime expected credit losses") for trade receivables, contract assets and lease receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

(J) CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(K) FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(L) BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(M) TRADE AND OTHER PAYABLES

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(N) EQUITY INSTRUMENTS

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

(O) REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

– the customer simultaneously receives and consumes the benefits provided by the Group's performance;

– the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

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

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

(P) OTHER REVENUE

Interest income is recognised using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(Q) RETIREMENT BENEFITS COSTS

Payments to state-managed retirement benefit schemes are recognised as expenses when employees have rendered service entitling them to the contributions.

(R) BORROWING COSTS

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 capitalised as part of 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.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

(S) GOVERNMENT GRANTS

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government grants relating to the purchase of assets are deducted from the carrying amount of the assets. The grant is recognised in profit or loss over the life of a depreciable asset by way of a reduced depreciation charge.

Repayment of a grant related to income is applied first against any unamortised deferred income set up in respect of the grant. To the extent that the repayment exceeds any such deferred income, or where no deferred income exists, the repayment is recognised immediately in profit or loss. Repayment of a grant related to an asset is recorded by increasing the carrying amount of the asset or reducing the deferred income by the amount repayable. The cumulative additional depreciation that would have been recognised in profit or loss to date in the absence of the grant is recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(T) TAXATION

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(U) RELATED PARTIES

A related party is a person or entity that is related to the Group.

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

(B) An entity is related to the Group if any of the following conditions applies:

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

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

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

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

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(V) IMPAIRMENT OF ASSETS

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets except investments, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(W) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(X) EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

Going concern basis

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful completion of the Restructuring and certain measures as mentioned in note 2 to improve its operating results and cash flows. The directors of the Company believe that the Group will have sufficient funds to finance its current working capital requirements in the next twelve months from the end of the reporting date. Details are explained in note 2 to consolidated financial statements.

Classification of Yunnan Dongyuan Hidili Coal Industry Company Limited ("Yunnan Hidili") as a joint venture

Yunnan Hidili is a limited liability company whose legal form confers separation between the parties to the joint arrangement and the company itself. Furthermore, there are no contractual arrangements or any other facts and circumstances that specify that the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the joint arrangement. Accordingly, Yunnan Hidili is classified as a joint venture of the Group. See note 18 for details.

KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Depreciation of property, plant and equipment

Property, plant and equipment other than mining structures and mining rights are depreciated on a straight-line basis over their useful lives, after taking into account their estimated residual values. Mining structures and mining rights are amortised using the units of production method based on the total proven and probable reserves of the coal mines.

The Group assesses annually the residual values and the useful lives of the property, plant and equipment, other than mining structures and mining rights, and assesses annually the reserves of the coal mines. If the expectation differs from the original estimate, such difference will impact the depreciation and the amortisation charged in the year in which such estimate is changed. As at 31 December 2021, the carrying amount of property, plant and equipment was approximately RMB8,980 million (2020: RMB8,537 million). Details of property, plant and equipment are disclosed in note 16.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(Continued)*

KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the present value of estimated future cash flows. An impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. Where the future cash flows are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of future estimate cash flow, a material impairment loss may arise. The directors performed impairment assessment of the Group's property, plant and equipment and no impairment was recognised in profit or loss during the year. (2020: no impairment)

Estimated impairment of interests in a joint venture

Interests in a joint venture are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the present value of estimated future cash flows. An impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. Where the future cash flows are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of future estimate cash flow, a material impairment loss may arise.

Reserve estimates

As explained in note 4(d), mining structures and mining rights are amortised using the units of production method based on the total proven and probable reserves of the coal mines.

Engineering estimates of the Group's mineral reserves involved subjective judgements by mineral engineers in developing such information. There is a Chinese system, which is the national standard set by the PRC Government, regarding the engineering criteria that have to be met before estimated mineral reserves can be designated as "proven and probable". Proven and probable reserve estimates are updated on a regular basis and are taken into account as a change in estimate for accounting purposes and are reflected on a prospective basis in related depreciation and amortisation rates. If the expectation differs from the original reserve estimate, such difference will impact the depreciation and amortisation charge in the year in which such estimate is changed. As at 31 December 2021, the carrying amount of mining structures and mining rights was approximately RMB7,653 million (2020: RMB7,253 million).

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(Continued)*

KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated impairment of trade receivables and other receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment 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 (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2021, the carrying amounts of trade and bills receivables and other receivables are approximately RMB454 million (2020: RMB126 million) and RMB638 million (2020: RMB663 million), respectively.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions. The Group will reassess the estimates by the end of each reporting period.

Estimated impairment of mining structures and mining rights and construction in progress

Determining whether there is an impairment loss on mining structures and mining rights and construction in progress requires an estimate of the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Management consider that the Group continues to use the relevant assets and the recoverable amount of the relevant CGUs are determined on the basis of value in use calculation which is higher than its fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. In addition, the Group estimates the mergers and restructuring of mines in the PRC will be completed in one to two years and operations of the various mines will reach full capacity in one to three years after the end of the current reporting period. Where the future cash flows are less than expected or due to changes in estimates, a material impairment loss may arise. As at 31 December 2021, the carrying amount of mining structures and mining rights was approximately RMB7,653 million (2020: RMB7,253 million).

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

FOREIGN CURRENCY RISK

The Group has foreign currency transactions which expose the Group to market risk arising from changes in foreign exchange rates. During the year ended 31 December 2021, the Group had bank and cash balances, senior notes and bank borrowings that are denominated in foreign currencies which exposed the Group to foreign currency risks.

The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2021, if the RMB had weakened 5% against USD with all other variables held constant, consolidated profit (2020: loss) after tax for the year would have been RMB64,255,000 (2020: RMB74,717,000) lower (2020: higher), arising mainly as a result of the foreign exchange loss on senior notes and bank borrowings denominated in USD. If the RMB had strengthened 5% against the USD with all other variables held constant, consolidated profit (2020: loss) after tax for the year would have been RMB64,255,000 (2020: RMB74,717,000) higher (2020: lower), arising mainly as a result of the foreign exchange gain on senior notes and bank borrowings denominated in USD.

CREDIT RISK

At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt and deposit at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Group consider that the Group's credit risk is significantly reduced.

The Group is exposed to concentration of credit risk on trade receivables. At 31 December 2021, the five largest debtors accounted for approximately 76% (2020: 79%) of the Group's total trade receivables. The five largest debtors are well established customers which have good internal credit rating by the Group. The Group has no significant credit risk with any of these customers since the Group maintains long-term and stable business relationship. Apart from delegating a team for determining the credit limits, credit approval and other monitoring procedures on these customers, the Group had also explored new customers in order to minimise the concentration of credit risk.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

In addition, the Group has concentration of credit risk on advance to suppliers.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

The credit risk on deposits paid for environmental rehabilitation paid to the local government is limited because the counterparties are government bodies. The credit risk on the amount due from a joint venture is limited as there is no history of default.

The Group considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following information is used:

– internal credit rating;

– actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;

– actual or expected significant changes in the operating results of the borrower;

– significant changes in the value of the collateral or in the quality of guarantees or credit enhancements; and

– significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group normally categorises a loan or receivable for write off when a debtor fails to make contractual payments greater than 240 days past due. Where loans or receivables have been written off, the Group, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

The Group uses two categories for non-trade loan receivables which reflect their risk and how the loan loss provision is determined for each of the categories. In calculating the expected credit loss rates, the Group considers historical loss rates for each category and adjusts for forward looking data.

Category	Definition	Loss provision
Performing	Low risk of default and strong capacity to pay	12 month expected losses
Non-performing	Significant increase in credit risk	Lifetime expected losses

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

LIQUIDITY RISK

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year or repayable on demand RMB'000	**Between 1 and 5 years RMB'000**	**More than 5 years RMB'000**	**Total RMB'000**
2021				
Bills and trade payables	**897,374**	**–**	**–**	**897,374**
Accruals and other payables	**2,679,689**	**289,980**	**–**	**2,969,669**
Senior notes	**1,252,737**	**–**	**–**	**1,252,737**
Bank and other borrowings	**208,296**	**6,185,274**	**–**	**6,393,570**
Lease liabilities	**31,892**	**18,848**	**13,200**	**63,940**
	5,069,988	**6,494,102**	**13,200**	**11,577,290**

	Less than 1 year or repayable on demand RMB'000	Between 1 and 5 years RMB'000	More than 5 years RMB'000	Total RMB'000
2020				
Bills and trade payables	751,272	–	–	751,272
Advance drawn on bills receivables discounted with recourse	67,950	–	–	67,950
Accruals and other payables	2,600,875	–	–	2,600,875
Senior notes	1,392,630	–	–	1,392,630
Bank and other borrowings	3,444,140	2,839,503	–	6,283,643
Lease liabilities	35,324	17,616	17,600	70,540
	8,292,191	2,857,119	17,600	11,166,910

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

INTEREST RATE RISK

The Group is exposed to fair value interest rate risk related to fixed-rate bank and other borrowings and senior notes. The Group is also exposed to cash flow interest rate risk related to variable-rate bank borrowings and bank balances.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point (2020: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates of variable-rate bank balances had been 50 basis points (2020: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit (2020: loss) would increase/decrease (2020: decrease/increase) by RMB73,000 (2020: RMB169,000).

If interest rates of variable-rate bank borrowings had been 50 basis points (2020: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit (2020: loss) would decrease/increase (2020: increase/decrease) by RMB162,000 (2020: RMB198,000).

CATEGORIES OF FINANCIAL INSTRUMENTS AT 31 DECEMBER 2020

	2021 **RMB'000**	2020 RMB'000
Financial assets		
Financial assets at amortised cost (including cash and cash equivalents)	**722,788**	458,140
Financial liabilities		
Financial liabilities at amortised cost	**10,973,573**	10,529,073

FAIR VALUE

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

7. REVENUE AND SEGMENT INFORMATION

The Group's operation is solely derived from the production and sales of clean coal and its by-products. For the purpose of resources allocation and performance assessment, the chief operating decision maker reviews the overall results and financial position of the Group as a whole prepared based on same accounting policies set out in note 4. Accordingly, the Group has only one single operating segment and no further analysis of this single segment is presented.

An analysis of the Group's revenue from its major products is as follows:

Sales of coal and its by-products:	2021 RMB'000	2020 RMB'000
Clean coal	**2,657,380**	1,200,840
Raw coal	**3,904**	25,607
High-ash thermal coal	**172,893**	109,491
Others	**5,561**	12,618
Revenue from contracts with customers	**2,839,738**	1,348,556

Disaggregation of revenue from contracts with customers:

TIME OF REVENUE RECOGNITION

All timing of revenue recognition is at a point of time for the years ended 31 December 2021 and 2020.

GEOGRAPHICAL INFORMATION

All of the Group's turnover are derived from the operation in the PRC and all the customers of the Group are located in the PRC. In addition, all of the Group's non-current assets are located in the PRC. Therefore, no geographical information is presented.

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

INFORMATION ABOUT MAJOR CUSTOMERS

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2021 **RMB'000**	2020 RMB'000
Customer A[1,2]	**573,575**	213,573
Customer B[1]	**345,139**	120,750
Customer C[1,2]	**325,422**	144,555
Customer D[1,2,3]	***187,080**	417,594

1 Revenue from sales of clean coal.

2 Revenue from sales of raw coal.

3 Revenue from sales of High-ash thermal coal.

* Revenue from this customer did not exceed 10% of the total revenue during the year. These amounts were shown for comparative purpose.

SALES OF COAL PRODUCTS

The Group's revenue is solely derived from the production and sales of clean coal and its by-products to the customers. Sales are recognised when control of the products has transferred, being when the products are delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the products and the customer has obtained legal titles to the products.

Sales to customers are normally made with credit terms of 90 to 120 days. For new customers, deposits or cash on delivery may be required. Deposits received are recognised as a contract liability.

A receivable is recognised when the products are delivered to the customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

8. OTHER INCOME

	2021 RMB'000	2020 RMB'000
Government grant (note)	**18,507**	11,318
Others	**7,917**	3,972
	26,424	15,290

Note: The amounts represent subsidies received from government for closures of certain coal mines. There are no conditions attached to the subsidies granted to the Group and the assets of these closed mines were fully impaired in previous years.

9. OTHER GAINS AND LOSSES

	2021 RMB'000	2020 RMB'000
Allowance for loss allowance recognised on trade receivables	**(24,886)**	(75,943)
Impairment of trade receivables and other receivables	**(36,475)**	(203,245)
Losses on disposal of property, plant and equipment	**(79,966)**	(3,259)
Waives of other payables	**55,657**	–
Rental income	**–**	8,609
Net exchange gains	**34,955**	91,614
Others	**595**	(8,010)
	(50,120)	(190,234)

10. FINANCE COSTS

	2021 RMB'000	2020 RMB'000
Interest expenses on borrowings:		
– bank and other borrowings	**231,510**	426,856
– advances drawn on bills receivable discounted	**14,912**	16,456
	246,422	443,312
Less: Interest capitalised in construction in progress	**–**	(5,745)
	246,422	437,567
Interest expenses on lease liabilities	**4,489**	3,629
	250,911	441,196

11. INCOME TAX CREDIT

	2021 RMB'000	2020 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	**–**	–
Overprovision in prior years	**(9,708)**	–
	(9,708)	–
Deferred taxation (Note 33)	**(62,300)**	–
Income tax credit for the year	**(72,008)**	–

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for 2021 and 2020.

The Company is not subject to any income tax expense in the Cayman Islands as the Cayman Islands levies no tax on the income of the Company (2020: Nil).

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from Hong Kong (2020: Nil).

The taxation for the year can be reconciled to the loss before tax in the consolidated statement of profit or loss and other comprehensive income as follows:

	2021 RMB'000	2020 RMB'000
Loss before tax	**572,431**	(269,575)
Tax at applicable tax rate of 25% (2020: 25%)	**143,108**	(67,394)
Tax effect of losses of a joint venture	**14,287**	11,583
Tax effect of income not taxable and expenses not deductible for tax purpose	**1,823**	949
Tax effect of utilisation of tax losses not previously recognised	**(159,218)**	–
Tax effect of deferred tax assets not recognised	**–**	54,862
Recognition of tax losses previously not recognised	**(62,300)**	–
Overprovision for prior year	**(9,708)**	–
Income tax credit for the year	**(72,008)**	–

12. PROFIT/(LOSS) FOR THE YEAR

	2021 RMB'000	2020 RMB'000
Profit/(Loss) for the year has been arrived at after charging:		
Salaries and other benefits (including directors' remuneration)	**643,178**	464,775
Retirement benefits scheme contribution	**13,695**	608
Total staff costs	**656,873**	465,383
Auditor's remuneration	**2,862**	3,870
Provision for restoration and environmental costs	**1,154**	1,172
Depreciation and amortisation of property, plant and equipment	**157,321**	141,388
Depreciation of right-of-use assets	**13,086**	13,262
Cost of inventories sold	**1,510,107**	728,612

13. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the 6 (2020: 6) directors were as follows:

(A) DETAILS OF DIRECTORS' REMUNERATION PAID OR PAYABLE BY THE GROUP TO THE DIRECTORS OF THE COMPANY ARE AS FOLLOWS:

	2021 RMB'000	2020 RMB'000
Directors:		
Fees	**600**	600
Basic salaries and allowances	**2,101**	2,123
Retirement benefit scheme contributions	**33**	5
	2,734	2,728

13. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS *(Continued)*

(A) DETAILS OF DIRECTORS' REMUNERATION PAID OR PAYABLE BY THE GROUP TO THE DIRECTORS OF THE COMPANY ARE AS FOLLOWS: *(Continued)*

For the year ended 31 December 2021

	Directors' fee RMB'000	Basic salaries and allowances RMB'000	Retirement benefit scheme RMB'000	Total RMB'000
Executive directors				
Xian Yang	–	1,419	11	1,430
Sun Jiankun (CEO)	–	341	11	352
Zhuang Xianwei	–	341	11	352
Independent non-executive directors				
Huang Rongsheng	200	–	–	200
Xu Manzhen	200	–	–	200
Chan Shiu Yuen	200	–	–	200
	600	2,101	33	2,734

For the year ended 31 December 2020

	Directors' fee RMB'000	Basic salaries and allowances RMB'000	Retirement benefit scheme RMB'000	Total RMB'000
Executive directors				
Xian Yang	–	1,470	1	1,471
Sun Jiankun (CEO)	–	314	3	317
Zhuang Xianwei	–	339	1	340
Independent non-executive directors				
Huang Rongsheng	200	–	–	200
Xu Manzhen	200	–	–	200
Chan Shiu Yuen Sammy	200	–	–	200
	600	2,123	5	2,728

13. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS *(Continued)*

(B) FIVE HIGHEST EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group for the year ended 31 December 2021, three (2020: three) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the two (2020: two) individuals were as follows:

	2021 RMB'000	2020 RMB'000
Basic salaries and allowances	**1,270**	1,372
Retirement benefit scheme contributions	**30**	1
	1,300	1,373

Their emoluments were within the following bands:

	2021 No. of employees	2020 No. of employees
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**1**	1

No emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

No director waived any emolument during the year 2021 and 2020.

14. DIVIDENDS

No dividend was proposed for the years ended 31 December 2021 and 2020 or since the end of the reporting period.

15. (EARNING)/LOSS PER SHARE

The calculation of the basic and diluted earning/(loss) per share attributable to the owners of the Company is based on the following data:

PROFIT/(LOSS)

	2021 **RMB'000**	2020 RMB'000
Profit/(Loss) for the purposes of basic and diluted earning/(loss) per share (Profit/(Loss) for the year attributable to owners of the Company)	**645,145**	(270,190)

NUMBER OF SHARES

	2021 **'000**	2020 '000
Weighted average number of ordinary shares for the purposes of basic and diluted earning/(loss) per share	**2,045,598**	2,045,598

The effects of all potential ordinary shares are anti-dilutive for the years ended 31 December 2021 and 2020.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Mining structures and mining rights	Machinery	Motor vehicles	Office and electronic equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2020	649,801	8,477,103	997,197	50,042	32,390	945,195	11,151,728
Additions	445	134,641	46,690	1,194	1,066	183,429	367,465
Transfer	3,581	–	59	–	105	(3,745)	–
Disposals	(2,900)	–	(3,177)	(728)	(687)	–	(7,492)
At 31 December 2020	**650,927**	**8,611,744**	**1,040,769**	**50,508**	**32,874**	**1,124,879**	**11,511,701**
Additions	**14,429**	**255,691**	**369,665**	**5,822**	**4,846**	**44,759**	**695,212**
Transfer	**7,097**	**321,165**	**(73,457)**	**12,641**	**9,710**	**(277,156)**	**–**
Disposals	**(6,753)**	**(88,415)**	**(37,130)**	**(2,645)**	**(2,385)**	**–**	**(137,328)**
At 31 December 2021	**665,700**	**9,100,185**	**1,299,847**	**66,326**	**45,045**	**892,482**	**12,069,585**
DEPRECIATION AND AMORTISATION AND IMPAIRMENT							
At 1 January 2020	197,813	1,283,275	414,193	41,297	25,271	875,356	2,837,205
Provided for the year	14,856	75,784	47,030	1,209	2,509	–	141,388
Eliminated on disposals	(752)	–	(1,835)	(544)	(580)	–	(3,711)
At 31 December 2020	**211,917**	**1,359,059**	**459,388**	**41,962**	**27,200**	**875,356**	**2,974,882**
Provided for the year	**14,684**	**79,393**	**55,888**	**3,524**	**3,832**	**–**	**157,321**
Transfer	**8,985**	**22,095**	**(39,882)**	**5,924**	**2,878**	**–**	**–**
Eliminated on disposals	**(1,976)**	**(13,079)**	**(23,405)**	**(2,311)**	**(1,967)**	**–**	**(42,738)**
At 31 December 2021	**233,610**	**1,447,468**	**451,989**	**49,099**	**31,943**	**875,356**	**3,089,465**
CARRYING AMOUNTS							
At 31 December 2021	**432,090**	**7,652,717**	**847,858**	**17,227**	**13,102**	**17,126**	**8,980,120**
At 31 December 2020	439,010	7,252,685	581,381	8,546	5,674	249,523	8,536,819

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The following estimated useful lives are used for the depreciation of property, plant and equipment, other than mining structures and mining rights as well as construction in progress:

Buildings	Over the shorter of the terms of the relevant lease or 15 to 35 years
Machinery	3 to 15 years
Motor vehicles, office and electronic equipment	5 to 10 years
Mining structures and mining rights	Units of production method over the total proven and probable reserves of the coal mines.

The buildings are situated on the land use rights as disclosed in note 17 and amortised over the shorter of the terms of the relevant lease or 15 to 35 years.

The mining structures and mining rights include the main and auxiliary mine shafts and underground tunnels. The mining rights have average legal lives of 10 to 15 years but in the opinion of the directors of the Company, the Group will be able to renew the mining rights without incurring significant costs.

The construction in progress comprises mainly the main and auxiliary mine shafts and underground tunnels in the course of construction.

Depreciation and amortisation are provided to write off the cost of the mining structures and mining rights using the units of production method over the total proven and probable reserves of the coal mine.

Pursuant to Notices issued by Panzhihua Government and Liupanshui Government in October 2013 and September 2013, respectively (collectively "Mines Restructuring Plans"), Panzhihua Government and Liupanshui Government had formulated mines restructuring plans to improve productivity and safety of coal mining operations. The Group's mines located in Guizhou province and Sichuan province with carrying amounts as at 31 December 2021 of RMB7,669,843,000 (2020: RMB7,502,208,000), which including mining structures and mining rights and construction in progress, are subject to the mines restructuring scheme and hence have to comply with the Mines Restructuring Plans.

17. LEASES AND RIGHT-OF-USE ASSETS

Disclosures of lease-related items:

	2021 RMB'000	2020 RMB'000
At 31 December:		
– Land and buildings	**49,428**	50,023
– Machinery	**78,926**	84,852
	128,354	134,875
The maturity analysis, based on undisconuted cash flows, of the Group's lease liabilities is as follows		
– Less than 1 year	**31,892**	35,324
– Between 1 and 2 years	**5,497**	4,416
– Between 2 and 5 years	**13,351**	13,200
– Over 5 years	**13,200**	17,600
	63,940	70,540
Year ended 31 December:		
Depreciation charge of right-of-use assets		
– Land and buildings	**7,160**	6,667
– Machinery	**5,926**	6,595
	13,086	13,262
Lease interests	**4,489**	3,629
Total cash outflow for leases	**13,739**	12,571
Additions to right-of-use assets	**6,565**	1,010

The Group leases various land and buildings and machinery. Lease agreements are typically made for fixed periods of 1 to 10 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants and the leased assets may not be used as security for borrowing purposes.

18. INTERESTS IN A JOINT VENTURE

Details of the Group's joint venture at the end of the reporting period are as follows:

	2021 RMB'000	2020 RMB'000
Cost of investments in a joint venture – unlisted	**2,400,000**	2,400,000
Share of post-acquisition losses	**(1,015,919)**	(958,772)
	1,384,081	1,441,228

Details of the Group's joint venture at the end of the reporting period are as follows:

Name of joint venture	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group		Principal activity
		2021	2020	
雲南東源恒鼎煤業有限公司 Yunnan Hidili	The PRC	**50%**	50%	Coal mining

18. INTERESTS IN A JOINT VENTURE *(Continued)*

Name of Yunnan Hidili's subsidiaries	Place of incorporation and operation	Proportion of ownership interest and voting power held by Yunnan Hidili 2021	2020	Principal activity
富源縣大河青坪煤業有限公司 Translated as Fuyuan Country Dahe Qingping Coal Industry Co., Ltd.	The PRC	**100%**	100%	Coal mining
富源縣錦泰煤業有限公司 Translated as Fuyuan County Jintai Coal Industry Co., Ltd.	The PRC	**100%**	100%	Coal mining
富源縣坤源煤業有限公司 Translated as Fuyuan County Kunyuan Coal Industry Co., Ltd.	The PRC	**100%**	100%	Coal mining
富源縣通和煤業有限公司 Translated as Fuyuan County Tonghe Coal Industry Co., Ltd.	The PRC	**100%**	100%	Coal mining
富源縣祥達煤礦有限公司 Translated as Fuyuan County Xiangda Coal Mine Co., Ltd.	The PRC	**100%**	100%	Coal mining
雲南恒隆煤業有限公司 Translated as Yunnan Henglong Coal Industry Co., Ltd.	The PRC	**100%**	100%	Coal mining
雲南恒鼎實業有限公司 Translated as Yunnan Hidili Industry Co., Ltd.	The PRC	**100%**	100%	Coal mining
富源縣茂盛選煤有限責任公司 Translated as Fuyuan County Maosheng Coal Preparing Co., Ltd.	The PRC	**100%**	100%	Coal mining
富源縣富德選煤有限公司 Translated as Fuyuan County Fude Coal Washing Co., Ltd.	The PRC	**100%**	100%	Coal mining
富源縣鈺源煤業有限責任公司 Translated as Fuyuan Country Yuyuan Coal Washing Co., Ltd.	The PRC	**100%**	100%	Coal mining
富源東源恒鼎煤焦有限公司 Translated as Fuyuan Dongyuan Hidili Coal Coke Co., Ltd.	The PRC	**100%**	100%	Coking

18. INTERESTS IN A JOINT VENTURE *(Continued)*

All subsidiaries of a joint venture are engaged in coal washing and sales of raw and clean coal in Yunnan. The Group held these joint venture's subsidiaries to maintain mining exposure in Yunnan Province.

Consolidated financial information in respect of Yunnan Hidili and its subsidiaries is set out below. The summarised financial information below represents amounts shown in Yunnan Hidili's consolidated financial statements prepared in accordance with IFRSs.

The joint venture is accounted for using the equity method in Yunnan Hidili's consolidated financial statements.

	2021 RMB'000	2020 RMB'000
Current assets	**98,904**	78,828
Non-current assets	**3,244,074**	3,145,268
Current liabilities	**1,338,329**	981,039
Non-current liabilities	**90,184**	214,296
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**7,743**	5,994
Current financial liabilities (excluding trade and other payables and provisions)	**479,007**	442,222
Non-current financial liabilities (excluding trade and other payables and provisions)	**16,835**	140,947

18. INTERESTS IN A JOINT VENTURE *(Continued)*

	Year ended 31.12.2021 RMB'000	Year ended 31.12.2020 RMB'000
Revenue	**90,959**	164,461
Loss and other comprehensive expense for the year	**(114,296)**	(92,665)
The above loss and other comprehensive expense for the year include the following:		
Depreciation and amortisation	**(20,023)**	(27,968)
Interest income	**3,581**	7,532
Interest expense	**(37,099)**	(37,491)
Income tax credit/(expense)	**144**	(334)

Reconciliation of the above summarised consolidated financial information to the carrying amount of the interest in Yunnan Hidili recognised in the consolidated financial statements:

	2021 RMB'000	2020 RMB'000
Net assets of Yunnan Hidili	**1,914,465**	2,028,761
Proportion of the Group's ownership interest in Yunnan Hidili	**50%**	50%
Effect of fair value adjustments at acquisition on Mining Right and Structure	**426,848**	426,848
Carrying amount of the Groups' interest in Yunnan Hidili	**1,384,081**	1,441,228

There is no significant restriction on transferring the funds to the Group.

19. LONG-TERM DEPOSITS

	2021 **RMB'000**	2020 RMB'000
Deposits for environmental rehabilitation paid to the local government	**14,259**	17,042

Deposits for environmental rehabilitation paid to the local government in the PRC carried interest at market rate determined by local government. The amounts will be refunded at the cessation of mining activities or closure of mines if and only if the environmental rehabilitation work of the relevant mines meets government's requirements. They are not expected to be refunded within the next twelve months.

20. INVENTORIES

	2021 **RMB'000**	2020 RMB'000
Coal products	**129,078**	77,778
Auxiliary materials and spare parts	**180,948**	67,311
	310,026	145,089

21. BILLS AND TRADE RECEIVABLES AND BILLS RECEIVABLES DISCOUNTED WITH RECOURSE

The Group's trading terms with customers are mainly on credit. The Group generally allows an average credit period ranging from 90-120 days to its trade customers and the average credit period for bills receivables is ranging from 90-180 days. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

(A) BILLS AND TRADE RECEIVABLES

	2021 **RMB'000**	2020 RMB'000
Trade receivables	**772,459**	425,031
Less: allowance for doubtful debts	**(323,734)**	(298,848)
	448,725	126,183
Bills receivables	**5,050**	–
	453,775	126,183

21. BILLS AND TRADE RECEIVABLES AND BILLS RECEIVABLES DISCOUNTED WITH RECOURSE *(Continued)*

(A) BILLS AND TRADE RECEIVABLES *(Continued)*

The aged analysis of trade receivables, net of allowances presented based on the invoice date at the end of the reporting period, which approximates the respective revenue recognition dates is as follows:

	2021 **RMB'000**	2020 RMB'000
Aged:		
0 – 90 days	**393,110**	125,980
91 – 120 days	**13,167**	–
121 – 180 days	**42,448**	–
181 – 365 days	**–**	203
	448,725	126,183

Before accepting any new customer, the Group will assess credit worthiness by customer. As the customers are mainly the renowned steel manufacturer, therefore based on the past history, the eventual collectability of the receivables neither past due nor impaired is expected.

Movement in loss allowance

	2021 **RMB'000**	2020 RMB'000
Balance at beginning of the year	**298,848**	222,905
Loss allowance during the year	**24,886**	75,943
Balance at end of the year	**323,734**	298,848

Loss allowance of RMB323,734,000 (2020: RMB298,848,000) included individually impaired trade receivables who have severe financial difficulties or long aged trade receivables. The Group does not hold any collateral over these balances.

21. BILLS AND TRADE RECEIVABLES AND BILLS RECEIVABLES DISCOUNTED WITH RECOURSE *(Continued)*

(A) BILLS AND TRADE RECEIVABLES *(Continued)*

The Group applies the simplified approach under IFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all bills and trade receivables. To measure the expected credit losses, bills and trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

	Current	1-60 days past due	61-240 days past due	Over 240 days past due	Total
At 31 December 2021					
Weighted average expected loss rate	**0%**	**0%**	**N/A**	**100%**	**42%**
Receivable amount (RMB'000)	**406,277**	**42,448**	**–**	**323,734**	**772,459**
Loss allowance (RMB'000)	**–**	**–**	**–**	**323,734**	**323,734**
At 31 December 2020					
Weighted average expected loss rate	0%	N/A	0%	100%	70%
Receivable amount (RMB'000)	125,980	–	203	298,848	425,031
Loss allowance (RMB'000)	–	–	–	298,848	298,848

(B) BILLS RECEIVABLES DISCOUNTED WITH FULL RECOURSE

The Group generally allows an average credit period ranging from 90 – 180 days to its customers. The aged analysis of bills receivables discounted with full recourse is as follows:

	2021 RMB'000	2020 RMB'000
Aged:		
0 – 90 days	**–**	42,950
91 – 120 days	**–**	25,000
	–	67,950

22. OTHER RECEIVABLES AND PREPAYMENTS

	2021 **RMB'000**	2020 RMB'000
Advances and deposit paid for suppliers	**502,548**	511,908
Prepayments	**9,059**	7,990
Staff advances	**25,664**	27,362
Other deposits	**10,891**	22,851
Receivables from disposal of coal mines	**35,000**	36,000
Deposits paid for acquisition of a factory	**30,000**	–
Deposits paid for government	**5,158**	37,755
Others	**19,907**	18,747
	638,227	662,613

23. AMOUNT DUE FROM A JOINT VENTURE

Name of joint venture	**2021** **RMB'000**	2020 RMB'000
Yunnan Hidili (note)	**142,779**	87,536

The amount is repayable on demand and expected to receive within one year.

All above balances are unsecured and interest free. The directors of the Group consider that there has not been a significant change in credit quality of these related parties and there is no recent history of default. The Group does not hold any collateral over the balances.

24. PLEDGED AND RESTRICTED BANK DEPOSITS AND BANK AND CASH BALANCES

Pledged bank deposits amounting to RMB820,000 (2020: RMB847,000) are used to secure the bills payable and bank borrowings which are repayable within one year. Accordingly, the pledged bank deposits are classified as current assets.

Bank and cash balances comprise cash held by the Group with the original maturity of three months or less.

The average effective interest rate of the pledged and restricted bank deposits and bank balances as at 31 December 2021 is 0.39% (2020: 0.39%) per annum.

As at 31 December 2021, the bank and cash balances of the Group denominated in RMB amounted to RMB14,456,000 (2020: RMB32,103,000). Conversion of RMB into foreign currencies is subjected to the PRC's Foreign Exchange Control Regulations.

25. BILLS AND TRADE PAYABLES AND ADVANCES DRAWN ON BILLS RECEIVABLES DISCOUNTED WITH RECOURSE

(A) BILLS AND TRADE PAYABLES

The aged analysis of the Group's bills and trade payables based on invoice date at the end of the reporting period is as follows:

	2021 **RMB'000**	2020 RMB'000
Aged:		
0 – 90 days	**249,596**	89,139
91 – 180 days	**73,232**	49,584
181 – 365 days	**142,475**	128,934
Over 365 days	**432,071**	483,615
	897,374	751,272

The average credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

25. BILLS AND TRADE PAYABLES AND ADVANCES DRAWN ON BILLS RECEIVABLES DISCOUNTED WITH RECOURSE *(Continued)*

(B) ADVANCES DRAWN ON BILLS RECEIVABLES DISCOUNTED WITH RECOURSE

	2021	2020
Effective interest rate	**N/A**	4.95%

26. CONTRACT LIABILITIES

	As at 31 December		As at 1 January
	2021	2020	2020
	RMB'000	RMB'000	RMB'000
Contract liabilities	**135,319**	278,413	248,389

	As at 31 December		As at 1 January
	2021	2020	2020
	RMB'000	RMB'000	RMB'000
Contract receivables (included in bills and trade receivables)	**453,775**	126,183	182,888

Transaction prices allocated to performance obligations unsatisfied at end of years and expected to be recognised as revenue in:

	2021	2020
	RMB'000	RMB'000
2021	**N/A**	278,413
2022	**135,319**	–

	2021	2020
	RMB'000	RMB'000
Revenue recognised in the year that was included in contract liabilities at beginning of year	**278,413**	248,389

26. CONTRACT LIABILITIES *(Continued)*

SIGNIFICANT CHANGES IN CONTRACT LIABILITIES DURING THE YEAR

	2021 **RMB'000**	2020 RMB'000
Increase due to operations in the year	**135,319**	278,413
Transfer of contract liabilities to revenue	**(278,413)**	(248,389)

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

27. ACCRUALS AND OTHER PAYABLES

	2021 **RMB'000**	2020 RMB'000
Accrued wages and welfare	**160,347**	236,915
Accrued expenses	**175,189**	169,343
Interest payables	**1,846,875**	1,683,880
Payables for acquisition of property, plant and equipment	**459,323**	174,918
Others	**327,935**	335,819
	2,969,669	2,600,875

Reallocated to:

	2021 **RMB'000**	2020 RMB'000
Current liabilities	**2,679,689**	2,600,875
Non-current liabilities	**289,980**	–
	2,969,669	2,600,875

28. BANK BORROWINGS

	2021 **RMB'000**	2020 RMB'000
Bank loans		
– Secured	**5,853,793**	5,885,344

The bank borrowings are repayable as follows:

	2021 **RMB'000**	2020 RMB'000
Bank borrowings		
On demand or within one year	**5,853,793**	5,885,344
Less: amount due within one year shown under current liabilities (Note)	**(5,853,793)**	(5,885,344)
Amount due after one year	**–**	–

Notes:

(i) The amounts due are based on scheduled repayment dates set out in the loan agreements.

The above bank loans of RMB5,853,793,000 (2020: RMB5,885,344,000) is not repayable within one year pursuant to the scheduled repayment dates set out in the loan agreements but the loan agreements contain a repayable on demand clause.

An analysis of the carrying amounts of the borrowings by nature and currency is as follows:

	2021 **RMB'000**	2020 RMB'000
At variable rates in USD	**32,359**	39,642
At fixed rates in RMB	**5,821,434**	5,845,702
	5,853,793	5,885,344

28. BANK BORROWINGS *(Continued)*

The ranges of effective interest rates (which are also equal to contractual interest rates) on the Group's borrowings are as follows:

	2021	2020
Effective interest rates:		
Fixed-rate bank borrowings	**3.00%**	3.00%
Variable-rate bank borrowings	**4.00%**	3.68%-5.70%

29. SHARE CAPITAL

	Number of shares (in thousand)		**Amount HK$'000**		**Equivalent to RMB'000**	
	2021	2020	**2021**	2020	**2021**	2020
Ordinary shares of HK$0.1 each						
Authorised:						
At 1 January 2020, 31 December 2020 and 31 December 2021	**10,000,000**	10,000,000	**1,000,000**	1,000,000		
Issued and fully paid:						
At 1 January 2020, 31 December 2020 and 31 December 2021	**2,045,598**	2,045,598	**204,560**	204,560	**197,506**	197,506

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from that of prior year.

The capital structure of the Group consists of net debt, which included bank and other borrowings and senior notes net of cash and cash equivalents and equity attributable to owners of the company, comprised share capital and reserves.

Management of the Group reviews the capital structure regularly, taking into account of the cost and risk associated with the capital. The Group will then balance its capital structure through the new shares issues as well as the issue of new debt or the redemption of the existing debt.

30. RESERVES

(A) STATUTORY SURPLUS RESERVE

According to the Articles of Association of the Company's subsidiaries incorporated/registered in the PRC, these companies are required to make an appropriation of 10% of their profit after taxation each year, as shown in the PRC statutory financial statements which are prepared in accordance with the accounting principles generally accepted in the PRC, to the statutory surplus reserve until the balance reaches 50% of the registered capital of the relevant subsidiaries. According to the provision of the Articles of Association, in normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of the production and operation of the relevant subsidiaries.

(B) FUTURE DEVELOPMENT FUND

Pursuant to the relevant regulations in the PRC, the Company's subsidiaries registered in the PRC are required to make a transfer to future development fund based on a fixed amount per tonne of raw coal mine (net of usage). The fund can only be used for the future development of the coal mining business of the relevant PRC subsidiaries and is not available for distribution to shareholders.

(C) SPECIAL RESERVE

The special reserve represents the aggregate amount of the capital of the subsidiaries which were acquired by the Company upon the group reorganisation in 2007 less the consideration payable to the shareholders and the amount contributed by a shareholder for waive of the balance due to him.

31. PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

	RMB'000
At 1 January 2020	10,271
Provision for the year	1,172
At 31 December 2020	11,443
Provision for the year	1,154
At 31 December 2021	12,597

Mining activities may result in land subsidence and damage to the environment of the mining areas. Pursuant to the relevant PRC regulations, the Group is required to restore the mining areas back to certain acceptable conditions.

The provision for the restoration and environmental clean up costs has been determined by management based on their past experience with reference to the coal produced each year to the coal reserve and the unit restoration costs governed by respective regulation and best estimate of future expenditure by discounting the expected expenditures to their net present value at market rate. The amounts provided in relation to 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 updated accordingly.

32. LEASE LIABILITIES

	Group		Group	
	Minimum lease payments 2021 RMB'000	**Present value of minimum lease payments 2021 RMB'000**	Minimum lease payments 2020 RMB'000	Present value of minimum lease payments 2020 RMB'000
Within one year	**31,892**	**30,479**	35,324	31,729
In the second to fifth years, inclusive	**18,848**	**14,760**	17,616	12,764
After five years	**13,200**	**12,005**	17,600	15,436
	63,940	**57,244**	70,540	59,929
Less: Future finance charges	**(6,696)**	**N/A**	(10,611)	N/A
Present value of lease obligations	**57,244**		59,929	
Less: Amount due for settlement within 12 months (show under current liabilities)		**(30,479)**		(31,729)
Amount due for settlement after 12 months		**26,765**		28,200

At 31 December 2021, the average effective borrowing rate was 4.9% (2020: 4.9%) and 6.4%-9.5% (2020:6.4%-9.5%) for lease. Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk.

The Group's finance lease payables are secured by the lessor's title to the leased assets.

33. DEFERRED TAX ASSETS AND LIABILITIES

The following are the major deferred tax asset and liabilities provided by the Group and movements thereon during the current and prior reporting periods:

	2021 RMB'000	2020 RMB'000
Deferred tax assets	**62,300**	–
Deferred tax liabilities	**(8,025)**	(8,025)

	Deferred tax assets Tax losses RMB'000	**Deferred tax liabilities Fair value adjustment on property, plant and equipment at acquisition RMB'000**
At 1 January 2020 and 31 December 2020	–	(8,025)
Credit to profit of loss for the year	62,300	–
At 31 December 2021	62,300	(8,025)

Note:

At the end of the reporting period, the Group has unused tax losses of approximately RMB137,151,000 (2020: RMB846,130,000) available for offsetting against future profits. All these tax losses will expire during 2022 to 2026 (2020: 2021 to 2025). A deferred tax asset has been recognised in respect of RMB62,300,000 (2020: Nil) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB74,851,000 (2020: RMB846,130,000) due to the unpredictability of future profit streams.

34. SENIOR NOTES

On 28 October 2010, the Company issued guaranteed senior fixed rate notes at par with aggregate nominal value of US$400,000,000 which carry fixed interest of 8.625% per annum (interest payable semi-annually in arrear) and will be fully repayable by 4 November 2015.

The Senior Notes were listed on the Singapore Exchange Securities Trading Limited. They were secured on the capital stock of, and guaranteed by, certain of the Company's existing subsidiaries at the date of issue other than those established under the laws of the PRC.

The guarantees are effectively subordinated to secure obligations of each guarantor, to the extent of the value of assets serving as security.

At any time on or after 4 November 2013, the Company may redeem the Senior Note in whole or in part at the pre-determined redemption prices. The fair value of the redemption right was insignificant as at 31 December 2014 and 2015.

On 17 September 2014, the Group proposed amendments to restrictive covenants and certain events of default of the Senior Note and became operative on 22 October 2014.

At the mature date of the Senior Note on 4 November 2015, the Company failed to repay outstanding principal amount of the Senior Note and accrued interest thereon. Following several discussions with certain Senior Note holders, there is no agreement on the Restructuring up to the date of this report and negotiations are still undergoing.

On 19 January 2016, the Company received a winding up petition (the "Winding Up Petition") filed by a bondholder of the 8.625% senior notes due 2015 issued by the Company (the "Notes") with the High Court of Hong Kong (the "Court") against the Company for the outstanding principal and interest due to the bondholder under the Notes. On 11 March 2016, the Company provided Senior Note holders with the key indicative terms of a proposed restructuring of the Senior Note.

On 18 January 2017, the Company, the Steering Committee has entered into a term sheet in relation to the proposed restructuring of the offshore indebtedness of the Company (the "Termsheet").

Regarding the execution of the Termsheet, the Holders have agreed to standstill and not take action against the Company until 31 March 2017 to allow all parties to formulate the formal documentation and thereafter extend the standstill in accordance with the terms of the formal documentation.

The hearing of the Amended Winding Up Petition has been adjourned for substantive argument to a date to be fixed.

35. CAPITAL COMMITMENTS

	2021 RMB'000	2020 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of – acquisition of property, plant and equipment	**526,316**	588,863

The Group's share of the capital commitments made jointly with other joint venturers relating to its joint venture, Yunnan Hidili, is as follows:

	2021 RMB'000	2020 RMB'000
Commitments to contribute funds for the acquisition of property, plant and equipment	**50,530**	48,512

36. PLEDGE OF ASSETS

At the end of respective reporting period, the Group pledged the following assets to secure bank and other borrowings of the Group:

	2021 RMB'000	2020 RMB'000
Property, plant and equipment	**3,831,811**	3,703,760
Bank deposits	**820**	847
	3,832,631	3,704,607

37. RELATED PARTY TRANSACTIONS

(A) DURING THE YEAR, THE GROUP ENTERED INTO THE FOLLOWING TRANSACTIONS WITH RELATED PARTIES:

Name of Company/person	Relationship	Nature of transaction	2021 RMB'000	2020 RMB'000
Mr. Xian Jilun	Father of Mr. Xian Yang	Rental payable by the Group	**600**	600

As at 31 December 2021, the director, Mr. Xian Yang guaranteed the bank borrowings of approximately RMB4,968 million (2020: RMB4,875million).

(B) THE REMUNERATION OF DIRECTORS AND OTHER MEMBERS OF KEY MANAGEMENT DURING THE YEAR WAS AS FOLLOWS:

	2021 RMB'000	2020 RMB'000
Short-term benefits	**3,971**	4,095
Post-employment benefits	**63**	6
	4,034	4,101

38. RETIREMENT BENEFITS SCHEME

The Group participates in a defined contribution retirement scheme organised by the relevant local government authority in the PRC. Eligible employees of the Group to participate in the retirement scheme are entitled to retirement benefits from the scheme. The local government authority is responsible for the pension liabilities to these retired employees. The Group is required to make monthly contributions to the retirement scheme up to the time of retirement of the eligible employees, at 16% of the local standard basic salaries.

As at 31 December 2021 and 2020, the Group had no significant obligation apart from the contribution as stated above.

39. CONTINGENT LIABILITIES

(a) On 19 January 2016, the Company received a Winding Up Petition filed by a bondholder of the Notes with the Court against the Company for the outstanding principal and interest due to the bondholder under the Notes. The hearing of the amended Winding Up Petition has been adjourned for substantive argument to a date to be fixed.

(b) Hidili China, a wholly owned subsidiary of the Company, received a Notice of Court Action attaching the 2016 Writ issued by the Higher People's Court of Guangdong Province of the People's Republic of China (廣東省高級人民法院) on 15 April 2016.

Pursuant to the 2016 Writ, China Merchants Bank, Shenzhen Chegongmiao Branch ("2016 Plaintiff") filed a civil complaint against (i) Hidili China, (ii) Liupanshui Hidili Industry Co., Ltd. ("Liupanshui Hidili"), a wholly owned subsidiary of the Company, (iii) Panxian Xileqing Coal Industry Co., Ltd. ("Panxian Xileqing"), a wholly owned subsidiary of the Company, and (iv) Sichuan Hidili, a wholly owned subsidiary of the Company, in respect of a loan agreement dispute case. The 2016 Plaintiff claimed against Hidili China for relief, among others, the outstanding principal amount and the default interest payment of approximately RMB576 million as of 20 January 2016 under the security agreement entered into between 2016 Plaintiff and Hidili China on 13 January 2013 where Liupanshui Hidili and Panxian Xileqing acted as guarantors and Liupanshui Hidili, Panxian Xileqing and Sichuan Hidili pledged certain assets and mining rights.

(c) Both of Sichuan Haohang and Sichuan Hidili received the 2017 Writ issued by the Higher People's Court of Sichuan Province of the People's Republic of China (四川省高級人民法院) on 1 June 2017.

Pursuant to the 2017 Writ, Chengdu Branch of Shanghai Pudong Development Bank ("2017 Plaintiff") filed a civil complaint against (i) Sichuan Haohang, (ii) Sichuan Hidili, (iii) Liupanshui Hidili and (iv) Hidili China in respect of a loan agreement dispute case. The 2017 Plaintiff claimed against Sichuan Haohang and Sichuan Hidili for relief, among others, the outstanding principal amount as of 25 August 2016 and the default interest payment (calculated as at 18 April 2017) of approximately RMB134 million and RMB134 million respectively under the Agreement of Establishing Bank Promissory Note Business entered into between the 2017 Plaintiff and Sichuan Haohang and Sichuan Hidili on 25 February 2016 where Liupanshui Hidili pledged certain assets and mining rights and Hidili China acted as guarantor.

As advised by the legal advisor of the Company, it is not practical to assess the outcome of the cases at this stage, accordingly, no provision was made in the consolidated financial statements.

Save as disclosed above, as at 31 December 2021 and 2020, the Group did not have any material contingent liabilities.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries as at 31 December 2021 and 2020 are as follows:

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Hidili Investment Holding Limited	British Virgin Islands	HKD1,250,000	100%	–	Investment holding
Sichuan Hidili Industry Co. Ltd.[1]	The PRC	RMB1,800,000,000	–	100%	Manufacture and sale of clean coal
Panzhihua Yanjiang Industry Co. Ltd.[1]	The PRC	RMB7,812,500	–	100%	Coal mining and development
Liupanshui Hidili Industry Co., Ltd.[1]	The PRC	RMB2,000,000,000	–	100%	Mine holding and development
Panxian Panyi Coal Preparation Co., Ltd.[2]	The PRC	RMB15,000,000	–	70%	Clean coal washing
Hidili (China) Coal Distribution Co., Ltd.[2]	The PRC	RMB1,310,933,000	–	100%	Sale of coal and coal products

Notes:

(1) Sino-foreign owned enterprise established in the PRC.

(2) Domestic enterprise established in the PRC.

The above companies are limited liabilities companies.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

41. FINANCIAL INFORMATION OF THE COMPANY

STATEMENT OF FINANCIAL POSITION

	2021	2020
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**1,211**	1,211
Amounts due from subsidiaries	**2,227,411**	1,615,599
	2,228,622	1,616,810
CURRENT ASSET		
Other receivables	**1,354**	–
Bank and cash balances	**6,634**	264
	7,988	264
CURRENT LIABILITIES		
Accruals and other payables	**50,689**	46,075
Senior notes	**1,252,737**	1,282,053
Bank borrowings	**38,735**	39,642
	1,342,161	1,367,770
NET CURRENT LIABILITIES	**(1,334,173)**	(1,367,506)
NET ASSETS	**894,449**	249,304
CAPITAL AND RESERVES		
Share capital	**197,506**	197,506
Reserves	**696,943**	51,798
	894,449	249,304

42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

The following table shows the Company changes in liabilities arising from financing activities during the year:

	Interest payable for bank and other borrowings RMB'000	Bank and other borrowings RMB'000	Lease liabilities RMB'000	Total liabilities from financing activities RMB'000
At 1 January 2020	1,385,500	5,903,412	67,861	7,356,773
Changes in cash flows	(139,187)	(18,068)	(12,571)	(169,826)
Non-cash changes				
– addition	–	–	1,010	1,010
– interest charged	437,567	–	3,629	441,196
At 31 December 2020 and 1 January 2021	1,683,880	5,885,344	59,929	7,629,153
Changes in cash flows	(83,427)	(30,623)	(13,739)	(127,789)
Non-cash changes				
– addition	–	–	6,565	6,565
– unrealised exchange gains	–	(928)	–	(928)
– interest charged	246,422	–	4,489	250,911
At 31 December 2021	1,846,875	5,853,793	57,244	7,757,912

43. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 31 March 2022.

FINANCIAL SUMMARY

	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**2,839,738**	1,348,556	1,194,557	1,072,199	814,554
Profit/(loss) attributable to owners of the Company	**645,145**	(270,190)	(253,743)	(413,506)	(1,074,862)

	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	**10,569,114**	10,129,964	9,965,112	9,867,494	9,873,516
Current assets	**1,560,162**	1,123,127	992,748	768,382	555,032
Current liabilities	**(10,869,105)**	(10,927,058)	(10,362,239)	(9,762,604)	(9,151,099)
Non-current liabilities	**(337,367)**	(47,668)	(47,681)	(38,050)	(42,792)
Total equity	**922,804**	278,365	547,940	835,222	1,234,657
Minority interests	**(28,355)**	(29,061)	(28,446)	(43,985)	(29,914)
Equity attributable to owners of the Company	**894,449**	249,304	519,494	791,237	1,204,743

Hidili 恒鼎

Hidili Industry International Development Limited