

The background of the cover features a large yellow dump truck in the upper right and a yellow wheel loader in the lower right. The wheel loader is a LUGONG model, with the number 856 visible on its side. The scene is set in an industrial or mining environment with large piles of material and blue structural elements in the background.

ANNUAL REPORT
2020



Hidili Industry International Development Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1393

CONTENTS

Corporate Information	2
Chairman's Statement	4
Management Discussion and Analysis	9
Profile of Directors and Senior Management	18
Directors' Report	20
Corporate Governance Report	28
Environmental, Social and Governance Report	35
Independent Auditor's Report	40
Consolidated Statement of Profit or Loss and Other Comprehensive Income	42
Consolidated Statement of Financial Position	43
Consolidated Statement of Changes in Equity	45
Consolidated Statement of Cash Flows	46
Notes to the Consolidated Financial Statements	48
Financial Summary	104



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
Unit 701, 7th Floor, Citicorp Centre
18 Whitfield Road
Causeway Bay
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
Panzhuhua
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

Panzhuhua City Commercial Bank Ltd,
Zhuhuyuan Branch
Floor 1, Ping Street, Laodong Building
East District, Panzhuhua 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 2020 Annual Report and the operating results of the Company and the subsidiaries (collectively the "Group") for the year ended 31 December 2020 (the "Year") to the shareholders as follows.

PERFORMANCE OF THE COMPANY'S SHARES

As at 31 December 2020, the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") was HK\$0.207, representing a decrease of approximately 29.8% from the closing price of HK\$0.295 as at 31 December 2019 while the Hang Seng Index has increased by approximately 4.9%.

THE COMPANY'S OPERATION

The Company recorded a revenue and adjusted EBITDA of approximately RMB1,349 million and approximately RMB605 million respectively for the year ended 31 December 2020, representing an increase of approximately 12.9% and 89.5% respectively as compared to approximately RMB1,195 million and approximately RMB320 million respectively for the year ended 31 December 2019.

During the Year, with the gradual release of the production capacity of the Company's consolidated core mines located in Guizhou provinces, production volume of raw coal further increased from approximately 2,300,000 tonnes in 2019 to 3,281,000 tonnes in the Year, representing an increase of approximately 42.7%. In order to cope with the market demand of clean coal, the Company enhanced its production capacity and achieved a high profit margin. The clean coal production volume increased from approximately 1,123,000 tonnes in 2019 to approximately 1,398,000 tonnes in the Year, representing an increase of approximately 24.5%.

In 2020, the Company's coal mining cash cost amounted to approximately RMB256 per tonne of raw coal production, representing a decrease of approximately 8.6% as compared to 2019 as benefited from the streamline of production process under gradually stable raw coal production. Accordingly, the average production costs of clean coal of the Company for the Year amounted to approximately RMB649 per tonne, representing a decrease of 4.8% as compared with 2019.

The Company reported a gross profit of approximately RMB620 million for the Year, representing an increase of approximately RMB278 million or approximately 81.3%, as compared to approximately RMB342 million in 2019. The gross profit margin was approximately 46.0% as compared with that of approximately 28.7% in 2019.

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 14 to 15 in "Liquidity, financial resources and capital structure" under Management Discussion and Analysis.

CHAIRMAN'S STATEMENT



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)	2020 Production Volume (‘000 tonnes)	2019 Production Volume (‘000 tonnes)	Change %	Coal Type
Hongxing Coal Mine	1,500	775	587	32.0%	Coking coal
Dechang Coal Mine	900	–	–	–	Coking coal
Dahe Coal Mine	1,000	393	253	55.3%	Coking coal
Yangchang Coal Mine	1,000	515	194	165.5%	Coking coal
Xiangxing Coal Mine	1,000	652	385	69.4%	Coking coal
Jichanghe Coal Mine	600	73	180	(59.4%)	Coking coal
Jinhe Coal Mine	1,500	823	608	35.4%	Coking coal
Xingda Coal Mine	600	50	93	(46.2%)	Coking coal
Xileqing Coal Mine	450	–	–	–	Coking coal
Total	8,550	3,281	2,300	42.7%	

Remarks:

1. Dechang Coal Mine is under construction.
2. Jichanghe Coal Mine and Xingda Coal Mine are undergoing technical improvement.
3. Xileqing Coal Mine is undertaking adjustments to consolidation plan.

CHAIRMAN'S STATEMENT

Raw coal production in Guizhou province in the Year amounted to approximately 3,281,000 tonnes, representing 93.7% of the forecast production volume of approximately 3,500,000 tonnes estimated in 2019. 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 2021 can reach approximately 3,800,000 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)	2020 Production Volume (‘000 tonnes)	2019 Production Volume (‘000 tonnes)	Change %	Coal Type
Zhangjiawan Coal Mine	450	–	77	(100%)	Thermal coal
Dahegou Coal Mine	450	–	97	(100%)	Thermal coal
Luhuan Coal Mine	–	35	75	(53.3%)	Lean coal
Tianbao Coal Mine I	450	2	20	(90.0%)	Coking coal and lean coal
Tianbao Coal Mine II	–	166	182	(8.8%)	Coking coal and lean coal
Total	1,350	203	451	(55.0%)	

Raw coal production in Sichuan province in the Year amounted to approximately 203,000 tonnes, representing 50.8% of the forecast production volume of approximately 400,000 tonnes estimated in 2019. Regarding the revised consolidation plan, Zhangjiawan Coal Mine, Dahegou Coal Mine and Tianbao Coal Mine I reduced the production level and the actual production volume fell below the forecast.

The revised consolidation plan is still going on during 2021 and no production volume is expected from the Company's coal mines in Sichuan province.

CHAIRMAN'S STATEMENT



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 2020 was approximately 72,000 tonnes in total, representing 36.0% of the forecast production volume of approximately 200,000 tonnes estimated in 2019. 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 2021 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 2020			
– Measured	–	168,537	168,537
– Indicated	14,972	141,675	156,547
– Inferred	11,480	349,313	360,793
Total	26,452	659,525	685,877
Coal reserves summary as at 31 December 2020			
– Proved	–	96,298	96,298
– Probable	8,457	85,320	93,777
Total	8,457	181,618	190,075

Remarks:

The estimation of coal resources and reserves of the Company's coal mines in Sichuan and Guizhou provinces 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.

CHAIRMAN'S STATEMENT

OUTLOOK

During the Year, as the coal mines affected by the coal mine consolidation in Guizhou province gradually resumed normal production, the Company saw a sign of recovery. Its production volume of raw coal increased to approximately 3,485,000 tonnes, an increase of approximately 26.7% as compared with 2,751,000 tonnes in 2019. Accordingly, the unit production cost of raw coal and clean coal further reduced to approximately RMB256 per tonne and RMB649 per tonne respectively. As a result, gross profit of approximately RMB619.9 million was recorded and adjusted EBITDA of approximately RMB605.5 million was achieved. The Company believes that the gradually increasing production capacity of its coal mines will help to further reduce its operating cost and strengthen its working capital.

During the Year, the Company, a creditors committee of the onshore lending banks (the "Lending Banks") (the "Onshore Creditors Committee") and a steering committee of the holders of the US\$400 million 8.625% senior notes due 2015 (the "Notes") (the "Steering Committee") have come to a remarkable progress in the debt restructuring plan. In April 2020, the Company and the Onshore Creditors Committee have reached a preliminary restructuring framework (the "Preliminary Restructuring Framework") to convert part of the indebtedness to newly issued ordinary shares of the Company and to extend the remaining indebtedness to 2025. In July 2020, the Company has entered into revised termsheet with the Steering Committee (the "2020 Termsheet") for key commercial terms for the swap of the Notes into 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. In April 2021, the Company and the Steering Committee further entered into revised termsheet to amend certain timelines and fees of the debt restructuring in the 2020 Termsheet (the "Amended and Restated Termsheet"). Currently, the Company is working closely with the Onshore Creditors Committee and the Steering Committee, the professionals and relevant 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 by 2021. Upon the completion of the debt 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
17 September 2021



FINANCIAL REVIEW

TURNOVER

During the year, turnover of the Group amounted to approximately RMB1,348.6 million, representing an increase of approximately 12.9%, as compared to that of approximately RMB1,194.6 million in 2019. The increase was primarily attributable to the increase in sales volumes of clean coal. Accompanying the gradual release in production capacity in Guizhou province, the Company achieved an increase in sales volume in clean coal and its by-products during the Year. The sales volume recorded for clean coal for the Year amounted to approximately 1,173,500 tonnes as compared to that of approximately 1,061,000 tonnes in 2019, representing an increase of approximately 10.6%. The average selling price for the Year for clean coal maintained at approximately RMB1,023.3 per tonne in the Year as compared to that of RMB1,025.3 per tonne in 2019.

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 2019:

	2020			2019		
	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	1,200,840	1,173.5	1,023.3	1,087,882	1,061.0	1,025.3
By-products						
High-ash thermal coal	109,491	557.2	196.5	81,114	479.6	169.1
Other products						
Raw coal	25,607	69.2	370.2	18,186	52.9	343.8
Others	12,618			7,375		
Other products total	38,225			25,561		
Total turnover	1,348,556			1,194,557		

MANAGEMENT DISCUSSION AND ANALYSIS

COST OF SALES

Cost of sales for the Year was approximately RMB728.6 million, representing a decrease of approximately RMB123.6 or 14.5%, as compared with that of approximately RMB852.2 million in 2019. During the Year, the Company's coal mines located in Guizhou provinces originally affected by the coal mine consolidation have gradually resumed normal production. The production volume of raw coal increased from approximately 2,751,000 tonnes in 2019 to 3,485,000 tonnes in the Year, representing an increase of approximately 26.7%. Also, the clean coal production volume increased from approximately 1,123,000 tonnes in 2019 to approximately 1,398,000 tonnes in the Year, representing an increase of approximately 24.5%.

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

	Year ended 31 December			
	2020 Raw coal (‘000 tonnes)	2020 Clean coal (‘000 tonnes)	2019 Raw coal (‘000 tonnes)	2019 Clean coal (‘000 tonnes)
Production volume				
Sichuan	204	96	451	227
Guizhou	3,281	1,302	2,300	896
	3,485	1,398	2,751	1,123

Material, fuel and power costs for the Year were approximately RMB162.0 million, representing a decrease of approximately RMB23.4 million, or approximately 12.6%, as compared with that of approximately RMB185.4 million in 2019. The decrease was mainly attributable to the gradual stable in raw coal production and streamline of production process in Guizhou province.

Staff costs for the Year were approximately RMB365.8 million, representing a decrease of approximately RMB18.8 million or 4.9%, as compared to that of approximately RMB384.6 million in 2019. The decrease was attributable to the decrease in the production of raw coal and clean coal under the coal mine consolidation measures as required by the relevant government authorities in Sichuan province.

Depreciation and amortization for the Year were approximately RMB122.3 million, representing an increase of approximately RMB16.3 million, or approximately 15.4%, as compared to that of approximately RMB106.0 million in 2019. The increase was in line with the increase in production volume of raw coal.

MANAGEMENT DISCUSSION AND ANALYSIS



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

	2020 RMB per tonne	2019 RMB per tonne
Coal mining		
Cash cost	222	244
Depreciation and amortisation	34	36
Total raw coal production cost	256	280
Average cost of clean coal	649	682

GROSS PROFIT

As a result of the foregoing, the Company reported a gross profit of approximately RMB619.9 million for the Year, representing an increase of approximately RMB277.6 million or approximately 81.1%, as compared to that of approximately RMB342.3 million in 2019. The gross profit margin was approximately 46.0% as compared to that of approximately 28.7% in 2019.

OTHER INCOME

Other income for the Year amounted to approximately RMB15.3 million, representing a decrease of approximately RMB13.4 million or approximately 46.7%, as compared to that of approximately RMB28.7 million in 2019. The decrease was mainly attributable to the decrease in government grant from approximately RMB20.5 million in 2019 to RMB11.3 million for the Year.

OTHER GAINS AND LOSSES

The Company recorded other losses of approximately RMB190.2 million for the Year as compared to other gain of approximately RMB56.1 million in 2019. Considering the domestic economic slowdown and the negative impact of the COVID-19 epidemic on various industries which led to increasing downward pressure on the economy, the Company adopted a prudence assessment regarding the recoverability of the receivables. Accordingly, the allowance for loss allowance recognised on trade receivables and impairment of trade receivables and other receivables increased by approximately RMB64.1 million and RMB203.2 million respectively during the Year. Besides, the net exchange gain increased by approximately RMB114.5 million for the Year was set off by the decrease of approximately RMB76.0 million in bad debts recovery.

DISTRIBUTION EXPENSES

Distribution expenses for the Year were approximately RMB121.8 million, representing an increase of approximately RMB37.4 million or approximately 44.3%, as compared to that of approximately RMB84.4 million in 2019. The increase was mainly attributable to the increase in transportation charges in relation to the increase in sales volume of clean coal for the Year.

MANAGEMENT DISCUSSION AND ANALYSIS

ADMINISTRATIVE EXPENSES

Administrative expenses for the Year maintained at approximately RMB107.8 million, representing a slight increase of approximately RMB2.4 million, or approximately 2.3%, as compared to that of approximately RMB105.4 million in 2019.

FINANCE COSTS

Finance costs for the Year amounted to approximately RMB441.2 million, representing an increase of approximately RMB3.6 million or approximately 0.8%, as compared to that of approximately RMB437.6 million in 2019. During the Year, the Company recorded saving in interest expenses payable to Lending Banks of approximately RMB169.0 million, following the Preliminary Restructuring Framework entered into in April 2020 with the Onshore Creditors Committee. However, the Company made provision of approximately RMB173.5 million for the interest expenses payable and the fees accrued in accordance with the revised termsheet entered into in July 2020 entered into between the Company and the Steering Committee.

TAXATION

No income tax was recorded during the Year (2019: Income tax credit of approximately RMB62,000). For the current year EIT, the effective tax rate is considered to be not comparable as there was significant tax effect of tax losses not recognised resulting from loss incurred in certain subsidiaries of the Company.

LOSS FOR THE YEAR

As a result of the foregoing, the loss for the Year was approximately RMB269.6 million, representing a slight increase of approximately RMB0.3 million or approximately 0.1%, as compared with that of approximately RMB269.3 million in 2019.

ADJUSTED EBITDA

The following table illustrates the Group's adjusted EBITDA for the Year. The Group's adjusted EBITDA margin was 44.9% for the Year as compared with 26.8% in 2019:

	2020 RMB'000	2019 RMB'000
Loss before tax	(269,575)	(269,344)
Adjusted for:		
– Loss allowance recognized on trade receivables	75,943	11,813
– Impairment of trade receivables and other receivables	203,245	–
	9,613	(257,531)
Finance costs	441,196	437,635
Depreciation and amortization	154,650	139,446
Adjusted EBITDA	605,459	319,550

MANAGEMENT DISCUSSION AND ANALYSIS



DISCLAIMER OF OPINION ISSUED BY THE AUDITORS

Regarding the consolidated financial statements of the Company for the year ended 31 December 2020, ZHONGHUI ANDA CPA Limited (“ZHONGHUI ANDA”), the auditors of the Company, issued disclaimer of opinion on 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. However, negotiations with the creditors are still in progress and no definitive agreement has been reached. Accordingly, 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.

As at the date of this report, the Company and the Onshore Creditors Committee have reached the Preliminary Restructuring Framework 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. On the other hand, the Company and the Steering Committee have entered into 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 the SPP to be conducted by the Company. Currently, 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. Upon the completion of the restructuring, the Company believes that it will have a healthy financial position and sustainable cashflow for operation and development. 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 2021.

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 2020, the Group incurred net current liabilities of approximately RMB9,803.9 million as compared to approximately RMB9,364.5 million at 31 December 2019.

As at 31 December 2020, the bank balances and cash of the Group amounted to approximately RMB32.9 million (2019: approximately RMB18.0 million).

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2020, the total bank borrowings repayable within one year of the Group were approximately RMB5,885.3 million. As at 31 December 2020, loans amounting to RMB5,845.7 million carry interest at a fixed rate of 3.00% per annum. The remaining loans carry interest at variable market rates ranging from 3.68% to 5.70% 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 2020 was 63.7% (2019: 66.4%).

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 of the Notes (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 of Hong Kong (the "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).

MANAGEMENT DISCUSSION AND ANALYSIS



- (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 debt restructuring, which replaced and superseded the 2020 Termsheet in its entirety.
- (o) Negotiations with the creditors are still in progress and no definitive agreement has been reached as at the date of this report.

PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2020, the Group pledged assets in an aggregate amount of approximately RMB3,704.6 million (2019: RMB3,772.6 million) to banks for credit facilities.

As at 31 December 2020, a director of the Company, Mr. Xian Yang, guaranteed the bank borrowings of approximately RMB4,875 million (2019: RMB4,875 million).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the number of employees of the Group reached 7,486 as compared to 5,795 employees at 31 December 2019. Accordingly, the staff costs (including directors' remuneration in the form of salaries and other allowances) amounted to approximately RMB465.4 million (2019: RMB426.7 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS



- (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 2020, 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 2020, 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 47, 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 57, is an Executive Director and our Chief Executive Officer, he is 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. (攀枝花新鋼鈮股份有限公司), 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 50, 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 57, 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 74, is an independent non-executive Director. He 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 55, is 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 52, 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 2020.

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 2020 are set out in the consolidated statement of profit or loss and other comprehensive income on page 42 of this report.

The Directors did not propose any payment of final dividend for the year ended 31 December 2020 to the shareholders (2019: nil).

PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment of the Group for the year ended 31 December 2020 amounted to approximately RMB367 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 45 of this report.

As at 31 December 2020, the Company's reserves available for distribution to shareholders amounted to approximately RMB52 million (2019: approximately RMB322 million).

PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2020 are set out in note 41 to the consolidated financial statements.

DIRECTORS' REPORT



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 104.

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 2020, sales to the Group's five largest customers amounted to approximately RMB1,016 million, representing 75.4% of the total turnover of the Group. Sales to the single largest customers amounted to approximately RMB418 million, representing 31.0% of the total turnover of the Group.

For the year ended 31 December 2020, the amount of purchases made from the Group's five largest suppliers amounted to approximately RMB237 million, representing 46.5% of the total purchases of the Group. Purchase from the single largest suppliers amounted to approximately RMB80 million, representing 15.6% of the total purchases of the Group.

For the year ended 31 December 2020, none of the Directors or any of their associates and any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's 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 18 and 19 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' REPORT

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 under review 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 2020. 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 2020.

DIRECTORS' REPORT



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

As at 31 December 2020, 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:

- 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.
- 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.
- The percentage was compiled based on the total number of issued shares of the Company (i.e. 2,045,598,399 ordinary shares) as at 31 December 2020.

DIRECTORS' REPORT

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2020, 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 2020, 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

DIRECTORS' REPORT



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 compiled based on the total number of issued shares of the Company (i.e. 2,045,598,399 ordinary shares) as at 31 December 2020.

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.

DIRECTORS' REPORT

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 2020.

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 as its own Code for Securities Transactions by the Directors (the "Code"). All Directors have confirmed their compliance throughout the Year with the required standards set out in the Model Code and the Code.

DIRECTORS' REPORT



CORPORATE GOVERNANCE

The Company failed to timely publish the 2020 audited financial results and lay the audited 2020 financial statements at the 2021 annual general meeting of the Company in accordance with Rules 13.46 and 13.49 of the Listing Rules, and published its environmental, social and governance report for the same period in its 2020 annual report in accordance with rule 13.91 of the Listing Rules. The Company has been reviewing and closely monitoring its internal control systems to avoid delay in publication of its periodic financial and non-financial information under the Listing Rules in the future.

Save as disclosed above, 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 2020.

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
17 September 2021

CORPORATE GOVERNANCE REPORT

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 except for the following deviation.

The Company failed to timely publish the 2020 annual financial information and lay the audited 2020 financial statements at the 2021 annual general meeting of the Company in accordance with Rules 13.46 and 13.49 of the Listing Rules, and published its environmental, social and governance report for the same period covered in this 2020 Annual Results under rule 13.91 of the Listing Rules. The Company has been reviewing and closely monitoring its internal control systems to avoid delay in publication of its periodic financial and non-financial information under the Listing Rules in the future.

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 2020.

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 18 and 19 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.

CORPORATE GOVERNANCE REPORT



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.

CORPORATE GOVERNANCE REPORT

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 June 2020, 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. Xian Yang, 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.

CORPORATE GOVERNANCE REPORT



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 2020 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") 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.

CORPORATE GOVERNANCE REPORT

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 2020.

AUDITORS' REMUNERATION

The external auditor of the Company is ZHONGHUI ANDA CPA Limited. During the year ended 31 December 2020, the remuneration paid and payable to the auditors of the Company in respect of the audit services provided amounted to approximately RMB3.9 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 under review, the Board has performed the following corporate governance duties: (i) reviewed and approved the contents of the Corporate Governance Report included in the 2020 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 of 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 40 to 41 of this report.

CORPORATE GOVERNANCE REPORT



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.

CORPORATE GOVERNANCE REPORT

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 2020 (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. Currently, the five consolidated core mines in Sichuan province are undergoing revised coal mines consolidation in order to upgrade the annum production capacity of at least 300,000 tonnes per annum and integrate into three revised consolidated core mines. 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	<ul style="list-style-type: none"> Compliance with Listing Rules Timely and accurate publication and submission 	<ul style="list-style-type: none"> Meetings Training courses, workshops and publications Website updates and announcements
Shareholders and investors	<ul style="list-style-type: none"> Investment returns Business strategies and performance Completion of debt restructuring and sustainability 	<ul style="list-style-type: none"> Company’s website Annual report and interim report Company’s announcements and notices on Stock Exchange website Shareholders’ meetings
Government	<ul style="list-style-type: none"> Compliance with laws and regulations Production safety Payment of tax in accordance with the law Fulfillment of social responsibilities 	<ul style="list-style-type: none"> Inspection and site visits Company’s filings, working reports and submissions Work conference and discussion
Employees	<ul style="list-style-type: none"> Welfare and remuneration Working environment Training and development opportunities Occupational health and safety 	<ul style="list-style-type: none"> Staff meetings and activities Staff training and education Staff handbook Company’s notices
Customers	<ul style="list-style-type: none"> Product quality and delivery Quality control 	<ul style="list-style-type: none"> Regular visits and business correspondence Sales framework agreements After sales service

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Major stakeholders	Expectations	Communication and responses
Suppliers	<ul style="list-style-type: none"> • Long term stable cooperation • Timely settlement 	<ul style="list-style-type: none"> • Regular visits and business correspondence • Sales framework agreements • Review and evaluation report
Community and the public	<ul style="list-style-type: none"> • Job opportunities • Community development • Social welfare 	<ul style="list-style-type: none"> • Community activities • Media enquiry • Press releases and announcements

MATERIALITY ASSESSMENT

For the year ended 31 December 2020, 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 2020, the Company has a total of 7,486 employees, among which, 2 are in Hong Kong, 1 is in Singapore and the remaining 7,483 are 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 2020.

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.

INDEPENDENT AUDITOR'S REPORT



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 42 to 103, which comprise the consolidated statement of financial position as at 31 December 2020, 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 the Group incurred a loss of RMB269,575,000 for the year ended 31 December 2020 and as at 31 December 2020 the Group had net current liabilities of RMB9,803,931,000. 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.

INDEPENDENT AUDITOR'S REPORT



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, 17 September 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTES	2020 RMB'000	2019 RMB'000
Revenue	7	1,348,556	1,194,557
Cost of sales		(728,612)	(852,240)
Gross profit		619,944	342,317
Interest revenue		2,563	1,418
Other income	8	15,290	28,726
Other gains and losses	9	(190,234)	56,132
Distribution expenses		(121,838)	(84,405)
Administrative expenses		(107,771)	(105,396)
Share of loss of a joint venture		(46,333)	(70,501)
Finance costs	10	(441,196)	(437,635)
Loss before tax		(269,575)	(269,344)
Income tax credit	11	-	62
Loss for the year	12	(269,575)	(269,282)
Other comprehensive income after tax: Items that will not be reclassified to profit or loss: Fair value changes of equity investment at fair value through other comprehensive income		-	(18,000)
Total comprehensive expense for the year		(269,575)	(287,282)
Loss for the year attributable to:			
Owners of the Company		(270,190)	(253,743)
Non-controlling interests		615	(15,539)
		(269,575)	(269,282)
Total comprehensive expense for the year attributable to:			
Owners of the Company		(270,190)	(271,743)
Non-controlling interests		615	(15,539)
		(269,575)	(287,282)
Loss per share	15		
- Basic (RMB cents)		(13.21)	(12.40)
- Diluted (RMB cents)		(13.21)	(12.40)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020



	NOTES	2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment	16	8,536,819	8,314,523
Right-of-use assets	17	134,875	147,127
Interests in a joint venture	18	1,441,228	1,487,561
Long-term deposits	19	17,042	15,899
Restricted bank deposits	24	–	2
		10,129,964	9,965,112
Current assets			
Inventories	20	145,089	45,552
Bills and trade receivables	21(a)	126,183	182,888
Bills receivables discounted with recourse	21(b)	67,950	97,649
Other receivables and prepayments	22	662,613	576,979
Amount due from a joint venture	23	87,536	70,853
Pledged bank deposits	24	847	841
Bank and cash balances	24	32,909	17,986
		1,123,127	992,748
Current liabilities			
Bills and trade payables	25(a)	751,272	483,615
Contract liabilities	26	278,413	248,389
Advances drawn on bills receivables discounted with recourse	25(b)	67,950	97,649
Accruals and other payables	27	2,600,875	2,190,549
Lease liabilities	32	31,729	38,476
Tax payables		29,422	29,422
Senior notes	34	1,282,053	1,370,727
Bank borrowings	28	5,885,344	5,903,412
		10,927,058	10,362,239
Net current liabilities		(9,803,931)	(9,369,491)
Total assets less current liabilities		326,033	595,621

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	NOTES	2020 RMB'000	2019 RMB'000
Non-current liabilities			
Provision for restoration and environmental costs	31	11,443	10,271
Lease liabilities	32	28,200	29,385
Deferred tax liabilities	33	8,025	8,025
		47,668	47,681
NET ASSETS			
		278,365	547,940
Capital and reserves			
Share capital	29	197,506	197,506
Reserves	30	51,798	321,988
Equity attributable to owners of the Company		249,304	519,494
Non-controlling interests		29,061	28,446
TOTAL EQUITY			
		278,365	547,940

The consolidated financial statements on pages 42 to 103 were approved and authorised for issue by the Board of Directors on 17 September 2021 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 2020



	Attributable to owners of the Company										
	Share capital	Share premium	Share reserve	Statutory surplus reserve	Future development fund	Other reserve	Equity investment revaluation 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 2019	197,506	2,935,794	695,492	451,303	109,346	(99,070)	-	(3,499,134)	791,237	43,985	835,222
Loss and total comprehensive expense for the year	-	-	-	-	-	-	(18,000)	(253,743)	(271,743)	(15,539)	(287,282)
Balance at 31 December 2019 and 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	197,506	2,935,794	695,492	451,303	109,346	(99,070)	(18,000)	(4,023,067)	249,304	29,061	278,365

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 RMB'000	2019 RMB'000
Cash flows from operating activities		
Loss before tax	(269,575)	(269,344)
Adjustments for:		
Interest revenue	(2,563)	(1,418)
Depreciation and amortisation of property, plant and equipment	141,388	122,813
Depreciation on right-of-use assets	13,262	16,633
Finance costs	441,196	437,635
Loss on/(gain) disposal of property, plant and equipment	3,259	(386)
Impairment of trade receivables and other receivables	203,245	–
Loss allowance recognized on trade receivables	75,943	11,813
Unrealised exchange (gains)/losses	(88,674)	22,203
Share of loss of a joint venture	46,333	70,501
Provision for restoration and environmental costs	1,172	921
Operating cash flows before movements in working capital	564,986	411,371
Increase/(Decrease) in inventories	(99,537)	11,418
Increase in bills and trade receivables	(20,144)	(27,280)
Increase in other receivables and prepayments	(287,973)	(198,032)
Increase in amount due from a joint venture	(16,683)	(24,957)
Increase in bills and trade payables	267,657	12,861
Increase in contract liabilities	30,024	5,378
Increase in other payables and accrued expenses	111,946	88,355
Net cash generated from operations	550,276	279,114
Income tax paid	–	(1,705)
Net cash generated from operating activities	550,276	277,409
Cash flows from investing activities		
Withdrawal of pledged bank deposits	–	4
Placement of pledged and restricted bank deposits	(4)	(1)
Interest received	2,563	1,418
Proceeds from disposal of property, plant and equipment	522	3,990
(Increase)/decrease in long-term deposits	(1,143)	45,844
Purchase of property, plant and equipment	(367,465)	(135,853)
Net cash used in investing activities	(365,527)	(84,598)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020



	2020 RMB'000	2019 RMB'000
Cash flows from financing activities		
Repayment of bank borrowings	(18,068)	(21,253)
Interest paid	(142,816)	(88,045)
Repayment of lease liabilities	(8,942)	(76,693)
Net cash used in financing activities	(169,826)	(185,991)
Net increase in cash and cash equivalents	14,923	6,820
Cash and cash equivalents at beginning of year	17,986	11,166
Cash and cash equivalents at end of year, representing bank and cash balances	32,909	17,986

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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 Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KYI-1111, 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 RMB9,803,931,000 as at 31 December 2020 and incurred loss of approximately RMB269,575,000 for the year then ended.

During the years ended 31 December 2016, 2017, 2018, 2019 and 2020, 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 short-term loan from a PRC bank which fell due in August 2016 with default interest 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



2. GOING CONCERN BASIS *(Continued)*

The Group intended to pursue a consensual restructuring with the holders of the Notes (the “Holders”) (the “Debt Restructuring”) and a steering committee of the Holders (the “Steering Committee”) 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 Notes with the High Court of Hong Kong against the Company for the outstanding principal and interest due to the bondholder under the Notes. On 11 March 2016, the Company provided the Holders with the key indicative terms of a proposed restructuring of the Notes.

On 18 January 2017, the Company, the Steering Committee and a creditors committee of the onshore lending banks (the “Lending Banks”) (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 “2017 Termsheet”).

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 Industry (China) Group Limited (“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 a termsheet (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 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. On 30 April 2021, the Company and the Steering Committee further entered into the amended and restated termsheet (the “Amended and Restated Termsheet”) to amend certain timelines and fees of the debt restructuring, which replaced and superseded the 2020 Termsheet in its entirety. The Company will use its best endeavours to implement a restructuring of the Notes in accordance with the Amended and Restated 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.

Regarding the execution of the Debt Restructuring, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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 Debt 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 2020. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



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 except for equity investments at fair value through other comprehensive income which is prepared under fair value.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(B) JOINT ARRANGEMENTS *(Continued)*

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(C) FOREIGN CURRENCY TRANSLATION *(Continued)*

(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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(D) PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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:

- Financial assets at amortised cost; and
- Equity investments at fair value through other comprehensive income.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(H) FINANCIAL ASSETS *(Continued)*

Equity investments at fair value through other comprehensive income

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that are not held for trading as at fair value through other comprehensive income.

Equity investments at fair value through other comprehensive income are subsequently measured at fair value with gains and losses arising from changes in fair values recognised in other comprehensive income and accumulated in the equity investment revaluation reserve. On derecognition of an investment, the cumulative gains or losses previously accumulated in the equity investment revaluation reserve are not reclassified to profit or loss.

Dividends on these investments are recognised in profit or loss, unless the dividends clearly represent a recovery of part of the cost of the investment.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(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;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(O) REVENUE FROM CONTRACTS WITH CUSTOMERS *(Continued)*

- 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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(T) TAXATION *(Continued)*

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(U) RELATED PARTIES *(Continued)*

(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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(V) IMPAIRMENT OF ASSETS *(Continued)*

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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 Debt 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 2020, the carrying amount of property, plant and equipment was approximately RMB8,537 million (2019: RMB8,315 million). Details of property, plant and equipment are disclosed in note 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



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.

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, 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 2020, the carrying amount of mining structures and mining rights was approximately RMB7,253 million (2019: RMB7,194 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020, the carrying amounts of trade receivables and other receivables are approximately RMB126 million (2019: RMB183 million) and RMB663 million (2019: RMB577 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 2020, the carrying amount of mining structures and mining rights was approximately RMB7,253 million (2019: RMB7,194 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



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 2020, 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 2020, if the RMB had weakened 5% against USD with all other variables held constant, consolidated loss after tax for the year would have been RMB74,717,000 (2019: RMB70,407,000) 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 loss after tax for the year would have been RMB74,717,000 (2019: RMB70,407,000) 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 2020, the five largest debtors accounted for approximately 79% (2019:76%) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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

CREDIT RISK *(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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



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
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

	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
2019				
Bills and trade payables	483,615	–	–	483,615
Advance drawn on bills receivables discounted with recourse	97,649	–	–	97,649
Accruals and other payables	2,190,549	–	–	2,190,549
Senior notes	1,488,952	–	–	1,488,952
Bank and other borrowings	6,733,187	–	–	6,733,187
Lease liabilities	42,559	17,368	22,000	81,927
	11,036,511	17,368	22,000	11,075,879

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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 (2019: 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 (2019:50 basis points) higher/lower and all other variables were held constant, the Group's post-tax loss would decrease/increase by RMB169,000 (2019:RMB94,000).

If interest rates of variable-rate bank borrowings had been 50 basis points (2019: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax loss would increase/decrease by RMB198,000 (2019: RMB11,553,000).

CATEGORIES OF FINANCIAL INSTRUMENTS AT 31 DECEMBER 2020

	2020 RMB'000	2019 RMB'000
Financial assets		
Financial assets at amortised cost (including cash and cash equivalents)	458,140	471,726
Financial liabilities		
Financial liabilities at amortised cost	10,529,073	10,084,428

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



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:	2020 RMB'000	2019 RMB'000
Clean coal	1,200,840	1,087,882
Raw coal	25,607	18,186
High-ash thermal coal	109,491	81,114
Others	12,618	7,375
Revenue from contracts with customers	1,348,556	1,194,557

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 2020 and 2019.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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:

	2020 RMB'000	2019 RMB'000
Customer A ^{1,2}	417,594	623,879
Customer B ²	213,573	–
Customer C	144,555	*114,403

¹ Revenue from sales of clean coal.

² Revenue from sales of raw 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

	2020 RMB'000	2019 RMB'000
Government grant (note)	11,318	20,515
Others	3,972	8,211
	15,290	28,726

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



9. OTHER GAINS AND LOSSES

	2020 RMB'000	2019 RMB'000
Loss allowance recognised on trade receivables	(75,943)	(11,813)
Impairment of trade receivables and other receivables	(203,245)	–
Bad debts recovery	–	75,697
(Loss)/Gain on disposal of property, plant and equipment	(3,259)	386
Waive of trade and other payable	–	14,758
Rental income	8,609	–
Net exchange loss	91,614	(22,896)
Others	(8,010)	–
	(190,234)	56,132

10. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest expenses on borrowings:		
– bank and other borrowings	426,856	422,419
– advances drawn on bills receivable discounted	16,456	14,532
	443,312	436,951
Less: Interest capitalised in construction in progress	(5,745)	(5,331)
	437,567	431,620
Interest expenses on lease liabilities	3,629	6,015
	441,196	437,635

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

11. INCOME TAX CREDIT

	2020 RMB'000	2019 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	–	–
Overprovision in prior years	–	62
Income tax credit for the year	–	62

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 2020 and 2019.

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 (2019: 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 (2019: 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:

	2020 RMB'000	2019 RMB'000
Loss before tax	(269,575)	(269,344)
Tax at applicable tax rate of 25% (2019: 25%)	(67,394)	(67,336)
Tax effect of losses of a joint venture	11,583	17,625
Tax effect of income not taxable and expenses not deductible for tax purpose	949	962
Tax effect of deferred tax assets not recognised	54,862	48,749
Overprovision for prior year	–	(62)
Income tax credit for the year	–	(62)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



12. LOSS FOR THE YEAR

	2020 RMB'000	2019 RMB'000
Loss for the year has been arrived at after charging:		
Salaries and other benefits (including directors' remuneration)	464,775	417,776
Retirement benefits scheme contribution	608	8,885
Total staff costs	465,383	426,661
Auditor's remuneration	3,870	2,293
Provision for restoration and environmental costs	1,172	921
Depreciation and amortisation of property, plant and equipment	141,388	122,813
Depreciation of right-of-use assets	13,262	16,633
Cost of inventories sold	728,612	852,240

13. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the 6 (2019: 7) directors were as follows:

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

	2020 RMB'000	2019 RMB'000
Directors:		
Fees	600	600
Basic salaries and allowances	2,123	2,131
Retirement benefit scheme contributions	5	55
	2,728	2,786

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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 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 (Note ii)	200	–	–	200
	600	2,123	5	2,728

For the year ended 31 December 2019

	Directors' fee RMB'000	Basic salaries and allowances RMB'000	Retirement benefit scheme RMB'000	Total RMB'000
Executive directors				
Xian Yang	–	1,473	12	1,485
Sun Jiankun (CEO)	–	317	31	348
Zhuang Xianwei	–	341	12	353
Independent non-executive directors				
Huang Rongsheng	200	–	–	200
Xu Manzhen	200	–	–	200
Sung Wing Sum (Note i)	83	–	–	83
Chan Shiu Yuen Sammy (Note ii)	117	–	–	117
	600	2,131	55	2,786

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



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)*

Notes:

- (i) Mr. Sung Wing Sum ("Mr. Sung") resigned as an independent non-executive director and the chairman of the audit committee, remuneration committee and nomination committee of the Company on 31 May 2019.
- (ii) Mr. Chan Shiu Yuen ("Mr. Chan") has been appointed as an independent non-executive director and the chairman of the audit committee, remuneration committee and nomination committee of the Company on 31 May 2019.

(B) FIVE HIGHEST EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group for the year ended 31 December 2020, three (2019: three) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the two (2019: two) individuals were as follows:

	2020 RMB'000	2019 RMB'000
Basic salaries and allowances	1,372	1,365
Retirement benefit scheme contributions	1	12
	1,373	1,377

Their emoluments were within the following bands:

	2020 No. of employees	2019 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 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

14. DIVIDENDS

No dividend was proposed for the years ended 31 December 2020 and 2019 or since the end of the reporting period.

15. LOSS PER SHARE

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

LOSS

	2020 RMB'000	2019 RMB'000
Loss for the purposes of basic and diluted loss per share (Loss for the year attributable to owners of the Company)	(270,190)	(253,743)

NUMBER OF SHARES

	2020 '000	2019 '000
Weighted average number of ordinary shares for the purposes of basic and diluted 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 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Mining structures and mining rights RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office and electronic equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2019	643,630	8,306,322	949,391	50,750	28,419	953,871	10,932,383
Additions	7,066	170,781	52,316	413	1,971	72,106	304,653
Transfer	2,499	-	647	-	2,000	(5,146)	-
Transfer to right-of-use-assets	-	-	(76,298)	-	-	(75,636)	(151,934)
Transfer from right-of-use-assets	-	-	74,242	-	-	-	74,242
Disposals	(3,394)	-	(3,101)	(1,121)	-	-	(7,616)
At 31 December 2019	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
DEPRECIATION AND AMORTISATION AND IMPAIRMENT							
At 1 January 2019	183,281	1,227,884	379,762	40,812	22,870	875,356	2,729,965
Provided for the year	15,493	55,391	48,223	1,286	2,420	-	122,813
Transfer to right-of-use-assets	-	-	(11,561)	-	-	-	(11,561)
Eliminated on disposals	(961)	-	(2,231)	(801)	(19)	-	(4,012)
At 31 December 2019	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
CARRYING AMOUNTS							
At 31 December 2020	439,010	7,252,685	581,351	8,546	5,674	249,523	8,536,819
At 31 December 2019	451,988	7,193,828	583,004	8,745	7,119	69,839	8,314,523

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020 of RMB7,502,208,000 (2019: RMB7,263,667,000), 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



17. LEASES AND RIGHT-OF-USE ASSETS

Disclosures of lease-related items:

	2020 RMB'000	2019 RMB'000
At 31 December:		
– Land and buildings	50,023	55,680
– Machinery	84,852	91,447
	134,875	147,127
The maturity analysis, based on undiscounted cash flows, of the Group's lease liabilities is as follows		
– Less than 1 year	35,324	42,559
– Between 1 and 2 years	4,416	4,152
– Between 2 and 5 years	13,200	13,216
– Over 5 years	17,600	22,000
	70,540	81,927
Year ended 31 December:		
Depreciation charge of right-of-use assets		
– Land and buildings	6,667	8,450
– Machinery	6,595	8,183
	13,262	16,633
Lease interests	3,629	6,015
Expenses related to short-term leases	–	570
Total cash outflow for leases	12,571	82,708
Additions to right-of-use assets	1,010	70,258

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

18. INTERESTS IN A JOINT VENTURE

	2020 RMB'000	2019 RMB'000
Cost of investments in a joint venture – unlisted	2,400,000	2,400,000
Share of post-acquisition losses	(958,772)	(912,439)
	1,441,228	1,487,561

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
		2020	2019	
雲南東源恒鼎煤業有限公司 Yunnan Hidili	The PRC	50%	50%	Coal mining

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



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		Principal activity
		2020	2019	
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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.

	2020 RMB'000	2019 RMB'000
Current assets	78,828	148,584
Non-current assets	3,145,268	3,087,068
Current liabilities	981,039	877,930
Non-current liabilities	214,296	236,296
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	5,994	34,255
Current financial liabilities (excluding trade and other payables and provisions)	442,222	400,477
Non-current financial liabilities (excluding trade and other payables and provisions)	140,947	162,947

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



18. INTERESTS IN A JOINT VENTURE (Continued)

	Year ended 31.12.2020 RMB'000	Year ended 31.12.2019 RMB'000
Revenue	164,461	362,519
Loss and other comprehensive expense for the year	(92,665)	(141,002)
The above loss and other comprehensive expense for the year include the following:		
Depreciation and amortisation	(27,968)	(25,233)
Interest income	7,532	564
Interest expense	(37,491)	(39,757)
Income tax expense	(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:

	2020 RMB'000	2019 RMB'000
Net assets of Yunnan Hidili	2,028,761	2,121,426
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	1,441,228	1,487,561

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

19. LONG-TERM DEPOSITS

	2020 RMB'000	2019 RMB'000
Deposits for environmental rehabilitation paid to the local government	17,042	15,899

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

	2020 RMB'000	2019 RMB'000
Coal products	77,778	12,065
Auxiliary materials and spare parts	67,311	33,487
	145,089	45,552

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

	2020 RMB'000	2019 RMB'000
Trade receivables	425,031	402,293
Less: allowance for doubtful debts	(298,848)	(222,905)
	126,183	179,388
Bills receivables	-	3,500
	126,183	182,888

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



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:

	2020 RMB'000	2019 RMB'000
Aged:		
0 – 90 days	125,980	139,567
91 – 120 days	–	399
121 – 180 days	–	32,624
181 – 365 days	203	6,798
	126,183	179,388

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

	2020 RMB'000	2019 RMB'000
Balance at beginning of the year	222,905	211,092
Loss allowance during the year	75,943	11,813
Balance at end of the year	298,848	222,905

Loss allowance of RMB298,848,000 (2019: RMB222,905,000) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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

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

Movement in loss allowance *(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 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
At 31 December 2019					
Weighted average expected loss rate	0%	0%	0%	100%	55%
Receivable amount (RMB'000)	139,966	32,624	6,798	222,905	402,293
Loss allowance (RMB'000)	–	–	–	222,905	222,905

(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:

	2020 RMB'000	2019 RMB'000
Aged:		
0 – 90 days	42,950	97,649
91 – 120 days	25,000	–
	67,950	97,649

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



22. OTHER RECEIVABLES AND PREPAYMENTS

	2020 RMB'000	2019 RMB'000
Advances and deposit paid for suppliers	511,908	458,713
Prepayments	7,990	16,757
Staff advances	27,362	15,847
Other deposits	22,851	18,591
Receivables from disposal of coal mines	36,000	36,000
Deposits paid for government	37,755	23,785
Others	18,747	7,286
	662,613	576,979

23. AMOUNTS DUE FROM A JOINT VENTURE

Name of joint venture	2020 RMB'000	2019 RMB'000
Yunnan Hidili (note)	87,536	70,853

Note:

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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

The restricted bank deposits of RMBNil (2019: RMB2,000) are amounts held in a bank under the requirement of the relevant government authority of the PRC in respect of environmental rehabilitation. The amounts will be released 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. Such deposits are classified as non-current assets.

Pledged bank deposits amounting to RMB847,000 (2019: RMB841,000) 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 2020 is 0.39% (2019: 0.30%) per annum.

As at 31 December 2020, the bank and cash balances of the Group denominated in RMB amounted to RMB32,103,000 (2019: RMB13,010,000). 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:

	2020 RMB'000	2019 RMB'000
Aged:		
0 – 90 days	89,139	15,912
91 – 180 days	49,584	33,492
181 – 365 days	128,934	219,849
Over 365 days	483,615	214,362
	751,272	483,615

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



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

(B) ADVANCES DRAWN ON BILLS RECEIVABLES DISCOUNTED WITH RECOURSE

	2020	2019
Effective interest rate	4.95%	5.00%

26. CONTRACT LIABILITIES

	As at 31 December 2020 RMB'000	2019 RMB'000	As at 1 January 2019 RMB'000
Contract liabilities	278,413	248,389	243,011

	As at 31 December 2020 RMB'000	2019 RMB'000	As at 1 January 2019 RMB'000
Contract receivables (included in bills and trade receivables)	126,183	182,888	167,421

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

	2020 RMB'000	2019 RMB'000
2020	N/A	248,389
2021	278,413	–

	2020 RMB'000	2019 RMB'000
Revenue recognised in the year that was included in contract liabilities at beginning of year	248,389	243,011

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

26. CONTRACT LIABILITIES *(Continued)*

SIGNIFICANT CHANGES IN CONTRACT LIABILITIES DURING THE YEAR

	2020 RMB'000	2019 RMB'000
Increase due to operations in the year	278,413	248,389
Transfer of contract liabilities to revenue	(248,389)	(243,011)

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

	2020 RMB'000	2019 RMB'000
Accrued wages	234,952	234,423
Accrued expenses	169,343	133,341
Welfare payables	1,963	1,377
Interest payables	1,683,880	1,385,500
Payables for acquisition of property, plant and equipment	174,918	182,011
Other long-term payables (Note)	52,380	33,541
Others	283,439	220,356
	2,600,875	2,190,549

Note

Pursuant to the mining right agreements entered into between the Group and the relevant government authorities of the PRC from 2008 to 2011, the consideration payables for the mining rights in respect of the mining sites located at Guizhou Province carried interest at prevailing market rates and are repayable in instalments over two to ten years. The effective interest rate is 4.35% (2019: 4.35%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



28. BANK BORROWINGS

	2020 RMB'000	2019 RMB'000
Bank loans		
– Secured	5,885,344	5,903,412

The bank borrowings are repayable as follows:

	2020 RMB'000	2019 RMB'000
Bank borrowings		
On demand or within one year	5,885,344	5,903,412
Less: amount due within one year shown under current liabilities (Note)	(5,885,344)	(5,903,412)
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 RMB5,885,344 (2019: RMB5,903,412,000) 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:

	2020 RMB'000	2019 RMB'000
At variable rates in USD	39,642	42,384
At fixed rates in RMB	5,845,702	3,592,727
At variable rates in RMB	–	2,268,301
	5,885,344	5,903,412

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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:

	2020	2019
Effective interest rates:		
Fixed-rate bank borrowings	3.00%	3.00%-11.50%
Variable-rate bank borrowings	3.68%-5.70%	3.68%-5.70%

29. SHARE CAPITAL

	Number of shares (in thousand)		Amount HK\$'000		Equivalent to RMB'000	
	2020	2019	2020	2019	2020	2019
Ordinary shares of HK\$0.1 each						
Authorised:						
At 1 January 2019, 31 December 2019 and 31 December 2020	10,000,000	10,000,000	1,000,000	1,000,000		
Issued and fully paid:						
At 1 January 2019, 31 December 2019 and 31 December 2020	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



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 2019	9,350
Provision for the year	921
At 31 December 2019	10,271
Provision for the year	1,172
At 31 December 2020	11,443

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

32. LEASE LIABILITIES

	Group		Group	
	Minimum lease payments 2020 RMB'000	Present value of minimum lease payments 2020 RMB'000	Minimum lease payments 2019 RMB'000	Present value of minimum lease payments 2019 RMB'000
Within one year	35,324	31,729	42,559	38,476
In the second to fifth years, inclusive	17,616	12,764	17,368	10,529
After five years	17,600	15,436	22,000	18,856
	70,540	59,929	81,927	67,861
Less: Future finance charges	(10,611)	N/A	(14,066)	N/A
Present value of lease obligations	59,929		67,861	
Less: Amount due for settlement within 12 months (show under current liabilities)		(31,729)		(38,476)
Amount due for settlement after 12 months		28,200		29,385

At 31 December 2020, the average effective borrowing rate was 4.9% and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



33. DEFERRED TAX 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:

	2020 RMB'000	2019 RMB'000
Deferred tax liabilities	8,025	8,025

Deferred tax liabilities	Fair value adjustment on property, plant and equipment at acquisition RMB'000
At 1 January 2019, 31 December 2019 and 31 December 2020	8,025

Note:

At the end of the reporting period, the Group has unused tax losses of approximately RMB846,130,000 (2019: RMB1,244,867,000) available for offsetting against future profits. All these tax losses will expire during 2021 to 2025 (2019: 2020 to 2024).

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 Debt Restructuring up to the date of this report and negotiations are still undergoing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

34. SENIOR NOTES *(Continued)*

On 19 January 2016, the Company received the Winding Up Petition filed by a bondholder of 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 the 2017 Termsheet in relation to the proposed restructuring of the offshore indebtedness of the Company.

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 newly issued ordinary shares of the Company with an option to participate in the SPP to be conducted by the Company. On 30 April 2021, the Company and the Steering Committee further entered into the Amended and Restated Termsheet to amend certain timelines and fees of the debt restructuring, which replaced and superseded the 2020 Termsheet in its entirety.

Regarding the execution of the Termsheet, the Holders 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.

35. CAPITAL COMMITMENTS

	2020 RMB'000	2019 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of – acquisition of property, plant and equipment	588,863	414,970

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

	2020 RMB'000	2019 RMB'000
Commitments to contribute funds for the acquisition of property, plant and equipment	48,512	49,952

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:

	2020 RMB'000	2019 RMB'000
Property, plant and equipment	3,703,760	3,721,780
Bank deposits	847	841
	3,704,607	3,722,621

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



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	2020 RMB'000	2019 RMB'000
Mr. Xian Jilun	Father of Mr. Xian Yang	Rental payable by the Group	600	600

As at 31 December 2020, the director, Mr. Xian Yang guaranteed the bank borrowings of approximately RMB4,875 million (2019: RMB4,875 million).

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

	2020 RMB'000	2019 RMB'000
Short-term benefits	4,095	4,096
Post-employment benefits	6	67
	4,101	4,163

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 2020 and 2019, the Group had no significant obligation apart from the contribution as stated above.

39. EVENTS AFTER THE REPORTING PERIOD

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 debt restructuring, which replaced and superseded the 2020 Termsheet (and any amendment and variation thereto) in its entirety. For details, please refer to the Company announcement dated 30 April 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

40. 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 2020, the Group did not have any material contingent liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



41. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries as at 31 December 2020 and 2019 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
Panzhuhua 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

42. FINANCIAL INFORMATION OF THE COMPANY

STATEMENT OF FINANCIAL POSITION

	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	1,211	1,211
Amounts due from subsidiaries	1,615,599	1,976,644
	1,616,810	1,977,855
CURRENT ASSET		
Other receivables	–	1
Bank and cash balances	264	284
	264	285
CURRENT LIABILITIES		
Accruals and other payables	46,075	5,413
Amounts due to subsidiaries	–	40,122
Senior notes	1,282,053	1,370,727
Bank borrowings	39,642	42,384
	1,367,770	1,458,646
NET CURRENT LIABILITIES	(1,367,506)	(1,458,361)
NET ASSETS	249,304	519,494
CAPITAL AND RESERVES		
Share capital	197,506	197,506
Reserves	51,798	321,988
	249,304	519,494

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



43. 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 payables for bank and other borrowings RMB'000	Bank and other borrowings RMB'000	Finance lease payables RMB'000	Lease liabilities RMB'000	Total liabilities from financing activities RMB'000
At 1 January 2019	1,035,910	5,924,665	74,296	–	7,034,871
Changes in cash flows	(82,030)	(21,253)	–	(82,708)	(185,991)
Non-cash changes					
– addition	–	–	–	70,258	70,258
– reallocation to lease liabilities	–	–	(74,296)	74,296	–
– interest charged	431,620	–	–	6,015	437,635
At 31 December 2019 and 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	1,683,880	5,885,344	–	59,929	7,629,153

44. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 17 September 2021.

FINANCIAL SUMMARY

	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Turnover	1,348,556	1,194,557	1,072,199	814,554	370,702
Loss attributable to owners of the Company	(270,190)	(253,743)	(413,506)	(1,074,862)	(999,801)

	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Non-current assets	10,129,964	9,965,112	9,867,494	9,873,516	10,496,628
Current assets	1,123,127	992,748	768,382	555,032	660,640
Current liabilities	(10,927,058)	(10,362,239)	(9,762,604)	(9,151,099)	(8,806,198)
Non-current liabilities	(47,668)	(47,681)	(38,050)	(42,792)	(38,658)
Total equity	278,365	547,940	835,222	1,234,657	2,312,412
Minority interests	(29,061)	(28,446)	(43,985)	(29,914)	(32,807)
Equity attributable to owners of the Company	249,304	519,494	791,237	1,204,743	2,279,605



Hidili Industry International Development Limited