首鋼福山資源集團有限公司

SHOUGANG FUSHAN RESOURCES GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 639)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

(HK$'million)	**Six months ended 30 June 2020**	Six months ended 30 June 2019	Percentage change
Revenue	**1,820**	1,960	-7%
Gross profit	**948**	1,065	-11%
Gross profit margin	**52%**	54%	
Profit for the period	**585**	660	-11%
Profit attributable to owners of the Company ("Owners")	**549**	640	-14%
Adjusted EBITDA[1]	**1,034**	1,185	-13%
Basic earnings per share *(HK cents)*	**10.35**	12.08	-14%

(HK$'million)	**As at 30 June 2020**	As at 31 December 2019	Percentage change
Net assets	**16,799**	17,046	-1%
Equity per share attributable to Owners *(HK$)*	**2.90**	2.96	-2%
Current ratio (times)[2]	**2.63**	2.61	+1%

The Board has declared an interim dividend of HK7.5 cents per ordinary share for the six months ended 30 June 2020 (Six months ended 30 June 2019: HK8.5 cents per ordinary share).

Notes:

1. Adjusted EBITDA is defined as profit before income tax plus finance costs, change in fair value of derivative financial instruments, share of loss of an associate, depreciation, amortisation and one-off written off of property, plant and equipment.

2. Current ratio is computed from total current assets divided by total current liabilities.

INTERIM RESULTS

The board of directors (the "Board") of Shougang Fushan Resources Group Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2020. These interim results have been reviewed by the Company's Audit Committee and its auditor.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue from contracts with customers	*4*	**1,819,727**	1,959,940
Cost of sales		**(871,294)**	(895,424)
Gross profit		**948,433**	1,064,516
Interest income		**59,429**	70,522
Other income and gains, net	*5*	**26,572**	50,284
Selling and distribution expenses		**(137,033)**	(123,979)
General and administrative expenses		**(81,100)**	(80,418)
Other operating expenses	*6*	**(6,370)**	(109,961)
Finance costs	*7*	**(612)**	(4,606)
Change in fair value of derivative financial instruments		**(6,702)**	–
Share of loss of an associate		**–**	(175)
Profit before income tax	*8*	**802,617**	866,183
Income tax expense	*9*	**(217,682)**	(206,156)
Profit for the period		**584,935**	660,027

	Notes	Six months ended 30 June **2020** ***HK$'000*** **(Unaudited)**	2019 *HK$'000* (Unaudited)
Other comprehensive income for the period			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**–**	(13,686)
Item that will not be reclassified to profit or loss:			
Fair value (loss)/gain on financial assets measured at fair value through other comprehensive income		**(370,652)**	407,307
Total comprehensive income for the period		**214,283**	1,053,648
Profit for the period attributable to:			
Owners of the Company		**548,699**	640,388
Non-controlling interests		**36,236**	19,639
Profit for the period		**584,935**	660,027
Total comprehensive income for the period attributable to:			
Owners of the Company		**178,047**	1,034,467
Non-controlling interests		**36,236**	19,181
Total comprehensive income for the period		**214,283**	1,053,648
Earnings per share			
– Basic and diluted *(HK cents)*	*11*	**10.35**	12.08

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	30 June 2020 HK$'000 (Unaudited)	31 December 2019 HK$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**3,662,752**	3,691,435
Land use rights		**59,905**	60,772
Right-of-use assets		**23,519**	26,076
Mining rights		**7,257,201**	7,356,663
Goodwill		**1,222,775**	1,222,775
Interest in an associate		**11,590**	11,590
Financial assets measured at fair value through other comprehensive income	*12*	**713,251**	1,083,903
Deposits, prepayments and other receivables		**592,402**	539,020
Deferred tax assets		**59,465**	55,322
Total non-current assets		**13,602,860**	14,047,556
Current assets			
Inventories		**141,694**	123,530
Trade receivables	*13*	**648,721**	490,613
Bills receivables	*13*	**1,139,941**	1,306,706
Deposits, prepayments and other receivables		**337,366**	319,316
Other financial asset		**–**	232,500
Pledged bank deposits		**363,798**	190,605
Time deposits with original maturity over three months		**2,670,323**	1,049,501
Cash and cash equivalents		**2,416,613**	3,712,383
Total current assets		**7,718,456**	7,425,154
Total assets		**21,321,316**	21,472,710

	Notes	30 June 2020 HK$'000 (Unaudited)	31 December 2019 HK$'000 (Audited)
Current liabilities			
Trade and bills payables	*14*	**615,085**	652,566
Lease liabilities		**6,344**	7,119
Other financial liability		**178,200**	178,200
Other payables and accruals		**1,350,680**	1,501,517
Derivative financial instruments		**1,363**	5,117
Dividend payable		**461,260**	–
Amounts due to non-controlling interests of subsidiaries		**1,095**	98,158
Tax payables		**316,015**	403,277
Total current liabilities		**2,930,042**	2,845,954
Net current assets		**4,788,414**	4,579,200
Total assets less total current liabilities		**18,391,274**	18,626,756
Non-current liabilities			
Deferred tax liabilities		**1,571,489**	1,559,503
Lease liabilities		**20,450**	20,941
Total non-current liabilities		**1,591,939**	1,580,444
Net assets		**16,799,335**	17,046,312
EQUITY			
Equity attributable to owners of the Company			
Share capital		**15,156,959**	15,156,959
Reserves		**241,408**	524,621
Total equity attributable to owners of the Company		**15,398,367**	15,681,580
Non-controlling interests		**1,400,968**	1,364,732
Total equity		**16,799,335**	17,046,312

Notes:

1. GENERAL INFORMATION

Shougang Fushan Resources Group Limited (the "Company") is a limited liability company incorporated and domiciled in Hong Kong. The address of its registered office is 6th Floor, Bank of East Asia Harbour View Centre, No. 56 Gloucester Road, Wanchai, Hong Kong. The Company's shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The principal places of business of the Company and its subsidiaries (collectively referred to as the "Group") are in Hong Kong and the People's Republic of China (the "PRC").

The principal activities of the Group's subsidiaries comprise coking coal mining, production and sales of coking coal products. There were no significant changes in the Group's operations during the six months ended 30 June 2020.

2. BASIS OF PREPARATION

The interim financial information for the six months ended 30 June 2020 (the "Interim Financial Information") has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure provisions in Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange. The Interim Financial Information does not include all the notes of the type normally included in the annual financial statements. Accordingly, the Interim Financial Information should be read in conjunction with the annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs").

The preparation of Interim Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019, except for the estimation of income taxes (see note 3).

The Interim Financial Information was approved for issue by the Board on 28 August 2020.

3. SIGNIFICANT ACCOUNTING POLICIES

Taxes on income in the interim periods are accrued using the tax rates that would be applicable to expected total annual earnings. The Interim Financial Information has been prepared in accordance with the accounting policies adopted in the last financial statements for the year ended 31 December 2019, except for the adoption of the following standards and interpretations as of 1 January 2020:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting
Amendments to HKFRS 7, HKFRS 9 and HKAS 39	Hedge Accounting

The above standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

Impact of standards and interpretations issued but not yet applied by the Group

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2020 and have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
Amendments to HKFRS 16	COVID-19 Related Rent Concession	1 June 2020
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16	Property, plant and equipment – proceeds before intended use	1 January 2022
Amendment to HKAS 37	Onerous contracts – cost of fulfilling a contract	1 January 2022
Annual improvements to HKFRSs 2018–2020 cycle	Amendment to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41	1 January 2022
Amendment to HKAS 1	Classification of liabilities are current or non-current	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

None of these is expected to have a significant effect on the Interim Financial Information of the Group.

4. REVENUE FROM CONTRACTS WITH CUSTOMERS AND SEGMENT INFORMATION

Revenue from contracts with customers, which is also the Group's turnover, represents the sales value of coking coal products in the ordinary course of businesses which are recognised at a point in time. Revenue recognised is as follows:

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Sales of clean coking coal	**1,818,861**	1,928,522
Sales of raw coking coal	**866**	31,418
	1,819,727	1,959,940

The executive directors have been identified as the chief operating decision-maker of the Company. The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product lines. The Group has identified one reportable segment as follows:

Coking coal mining: Mining and exploration of coal resources and production of raw and clean coking coal in the PRC

The executive directors regard the Group's business as a single operating segment and review financial information accordingly. Therefore, no segment information is presented. The executive directors primarily use a measure of profit before income tax to assess the performance of the operating segment.

5. OTHER INCOME AND GAINS, NET

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Income from sales of by-products	**20,547**	26,791
Net foreign exchange gain	**3,653**	19,213
Others	**2,372**	4,280
	26,572	50,284

6. OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss on disposals of property, plant and equipment	**749**	5,077
Written off of property, plant and equipment *(Note)*	**–**	103,427
Others	**5,621**	1,457
	6,370	109,961

Note: Upon commencement of trial production of the lower coal seam of Jinjiazhuang Coal Mine, the well entrance of the upper coal seam was closed down in May 2019. Thus, the net carrying amounts of the related underground mining structures of the upper coal seam amounted to Hong Kong Dollars ("HK$") 103,427,000 were written off during the six months ended 30 June 2019.

7. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest charged on discounted bills receivables	**–**	3,889
Interest expense on lease liabilities	**612**	717
	612	4,606

8. PROFIT BEFORE INCOME TAX

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit before income tax is arrived at after charging:		
Cost of inventories sold	**871,294**	895,424
Amortisation of:		
– land use rights	**867**	905
– mining rights	**99,462**	84,448
Depreciation of:		
– property, plant and equipment	**121,177**	122,358
– right-of-use assets	**2,557**	2,596
Staff cost (including directors' emoluments)	**284,270**	316,112

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax – PRC income tax	**209,837**	250,036
Deferred tax	**7,845**	(43,880)
	217,682	206,156

No provision for Hong Kong profits tax has been made in the Interim Financial Information as the Group had no assessable profits arising in Hong Kong for the six months ended 30 June 2020 and 2019.

In accordance with the Income Tax Law of the PRC for Enterprises with Foreign Investment, the Group's major subsidiaries, namely Shanxi Liulin Xingwu Coal Co., Limited, Shanxi Liulin Jinjiazhuang Coal Co., Limited and Shanxi Liulin Zhaiyadi Coal Co., Limited, all established in the PRC, are subject to 25% enterprise income tax in the PRC.

The Group is also subject to withholding tax at the rate of 5% (Six months ended 30 June 2019: 5%) on the distributions of profits generated from the Group's major PRC subsidiaries which are directly owned by the Group's subsidiaries incorporated in Hong Kong.

10. DIVIDENDS

Dividends payables to shareholders of the Company attributable to the period:

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Declared and payable after interim period:		
2020 interim dividend HK7.5 cents per ordinary share (Six months ended 30 June 2019: 2019 interim dividend HK8.5 cents per ordinary share)	**397,638**	450,656

The total amount of interim dividend for six months ended 30 June 2020 totalling HK$397,638,000 was calculated based on the number of issued ordinary shares as at 30 June 2020. Number of shares qualifying for this interim dividend is subject to change upon the completion of the Offer mentioned in note 16. The interim dividend have not been recognised as liabilities as at 30 June 2020 (Six months ended 30 June 2019: 30 June 2019).

Dividends payable to shareholders of the Company attributable to the previous financial year were approved during the period:

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
2019 final dividend HK8.7 cents per ordinary share (Six months ended 30 June 2019: 2018 final dividend HK8.5 cents per ordinary share)	**461,260**	450,656

Final dividend for the year ended 31 December 2019 and 2018 totalling HK$461,260,000 and HK$450,656,000 respectively were calculated based on the number of issued ordinary shares as at 31 December 2019 and 2018 respectively, and have been reflected as an apportion of retained earnings and recognised as liabilities during the period ended 30 June 2020 and 2019 respectively. Final dividend for the year ended 31 December 2019 and 2018 is paid on 23 July 2020 and 11 July 2019 respectively.

11. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share to owners of the Company are based on the following data:

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit used to determine basic and diluted earnings per share	**548,699**	640,388
	'000 shares	*'000 shares*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**5,301,837**	5,301,837

The diluted earnings per share for the period ended 30 June 2020 and 30 June 2019 were the same as the basic earnings per share as there were no dilutive potential ordinary shares during the periods.

12. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2020	31 December 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Equity securities, at fair value		
– listed in Australia	**532,567**	853,746
– listed in Hong Kong	**180,684**	230,157
	713,251	1,083,903
Unlisted equity interest *	**–**	–
	713,251	1,083,903

* This represents the cost of 7% equity investment in an unlisted company incorporated in the PRC. As the entity ceased operation during the year ended 31 December 2013, a fair value loss of approximately HK$8,890,000 was recorded against the full investment cost in 2013.

13. TRADE AND BILLS RECEIVABLES

	30 June 2020	31 December 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**860,401**	702,293
Less: Provision for impairment loss	**(211,680)**	(211,680)
	648,721	490,613
Bills receivables	**1,139,941**	1,306,706
	1,788,662	1,797,319

Ageing analysis of net trade receivables, based on invoice dates, is as follows:

	30 June 2020	31 December 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Up to 90 days	**648,721**	490,613

As at 30 June 2020, trade receivables generally have credit terms ranging from 60 to 90 days (As at 31 December 2019: 60 to 90 days). Bills receivables are expiring within one year (As at 31 December 2019: one year). As at 30 June 2020 and 31 December 2019, all of the trade and bills receivables are denominated in RMB.

As at 30 June 2020, bills receivables included an amount of RMB115,395,000 (equivalent to HK$126,935,000) (As at 31 December 2019: RMB253,042,000 (equivalent to HK$278,346,000)) were pledged for bills payables of RMB111,764,000 (equivalent to HK$122,941,000) (As at 31 December 2019: RMB244,840,000 (equivalent to HK$269,325,000)) (note 14).

The Group endorsed certain of its bills receivables with full recourse to creditors. In the event of default by the debtors, the Group is obliged to pay the creditors the amount in default. The Group is therefore exposed to the risks of credit losses and late payment in respect of its endorsed bills receivables.

The endorsement transactions do not meet the requirements for de-recognition of financial assets as the Group retains substantially all of the risks and rewards of ownership of the endorsed bills receivables. As at 30 June 2020, bills receivables of RMB37,850,000 (equivalent to HK$41,635,000) (As at 31 December 2019: RMB70,604,000 (equivalent to HK$77,664,000)) continue to be recognised in the Group's consolidated financial statements although they have been legally transferred to the creditors. The proceeds of the endorsement transactions are included in trade payables and other payables until the related bills receivables are collected or the Group settles any losses suffered by the creditors.

As at 30 June 2020, the bills receivables endorsed to trade creditors and other creditors amounted to RMB13,500,000 (equivalent to HK$14,850,000) (As at 31 December 2019: RMB6,964,000 (equivalent to HK$7,660,000)) (note 14) and RMB24,350,000 (equivalent to HK$26,785,000) (As at 31 December 2019: RMB63,640,000 (equivalent to HK$70,004,000)) respectively.

As these bills receivables have been legally transferred to the creditors, the Group does not have the authority to determine the disposition of the bills receivables.

14. TRADE AND BILLS PAYABLES

	30 June 2020	31 December 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	**229,525**	240,461
Bills payables	**385,560**	412,105
	615,085	652,566

The Group was granted by its suppliers credit period ranging between 30 to 180 days (As at 31 December 2019: 30 to 180 days). As at 30 June 2020 and 31 December 2019, all of the trade and bills payables are denominated in RMB. Based on the invoice dates, ageing analysis of trade payables as at 30 June 2020 is as follows:

	30 June 2020	31 December 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Up to 90 days	**170,718**	170,043
91 to 180 days	**20,717**	38,528
181 to 365 days	**29,049**	11,488
Over 365 days	**9,041**	20,402
	229,525	240,461

As at 30 June 2020, RMB238,744,000 (equivalent to HK$262,619,000) (As at 31 December 2019: RMB129,800,000 (equivalent to HK$142,780,000)) out of RMB350,509,000 (equivalent to HK$385,560,000) (As at 31 December 2019: RMB374,640,000 (equivalent to HK$412,105,000)) were secured by the pledged bank deposit. Remaining bills payables amounted to RMB111,764,000 (equivalent to HK$122,941,000) (As at 31 December 2019: RMB244,840,000 (equivalent to HK$269,325,000)) were secured by bills receivables (note 13).

As at 30 June 2020, trade payables include payables represented bills receivables endorsed to trade creditors, amounted to RMB13,500,000 (equivalent to HK$14,850,000 equivalent) (As at 31 December 2019: RMB6,964,000 (equivalent to HK$7,660,000)), which do not meet the de-recognition requirements. The corresponding financial assets are included in bills receivables (note 13).

15. CAPITAL COMMITMENTS

	30 June 2020	31 December 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Commitments for the:		
– Acquisition of property, plant and equipment	**262,140**	259,903
– Exploration and design fees for a potential mining project	**8,228**	8,228
	270,368	268,131

16. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 20 July 2020, the Board announced that a conditional cash offer (the "Offer") will be made by Octal Capital Limited on behalf of the Company, subject to the fulfilment of certain conditions, to buy-back for cancellation up to 250,000,000 shares (the "Maximum Number of Shares") of the Company ("Shares") at the offer price of HK$2.00 per Share, involving applications of whitewash waivers. The Maximum Number of Shares represented approximately 4.72% of the total issued Shares as at the date of this announcement, The Shares to be bought-back by the Company will not exceed the Maximum Number of Shares and there is no minimum number of Shares proposed to be bought-back under the Offer. If the Offer is fully accepted, it will result in the Company paying approximately HK$500,000,000 in aggregate in cash, which will be funded by internal resources of the Group and the number of issued Shares will be reduced by 250,000,000 Shares.

At the date of this announcement, the Offer has not became unconditional and has not been completed. The details of the Offer are referred to in the announcements of the Company dated 20 July 2020, 22 July 2020, 10 August 2020, 14 August 2020 and 19 August 2020 and the offer document of the Company dated 19 August 2020.

17. STATEMENT REQUIRED BY SECTION 436(3) OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622) IN RELATION TO THE PUBLICATION OF THE NONSTATUTORY ACCOUNTS FOR THE COMPARATIVE FINANCIAL YEAR INCLUDED IN THIS INTERIM FINANCIAL INFORMATION

The financial information relating to the year ended 31 December 2019 that is included in this Interim Financial Information as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance (Cap. 622).

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or 407(3) of the Companies Ordinance (Cap. 622).

INTERIM DIVIDEND

The Board has declared an interim dividend of HK7.5 cents per ordinary share for the six months ended 30 June 2020 (2019: interim dividend of HK8.5 cents per ordinary share) payable to shareholders whose names appear on the register of members of the Company at the close of business on 30 September 2020 (Wednesday). In order to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 30 September 2020 (Wednesday) for registration. The interim dividend is expected to be paid on 22 October 2020 (Thursday).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The key operational data of our three premium operating coking coal mines in Liulin County, Shanxi Province (Xingwu Coal Mine, Jinjiazhuang Coal Mine and Zhaiyadi Coal Mine, collectively referred to as the "Three Mines") for the six months ended 30 June 2020 (the "period under review") together with that of the same period of 2019 is summarised as follows:

		Six months ended 30 June		Change	
	Unit	**2020**	2019	Quantity/ Amount	Percentage
Production volume:					
Raw coking coal	Mt	**2.25**	2.24	+0.01	+0.4%
Clean coking coal	Mt	**1.50**	1.38	+0.12	+9%
Sales volume:					
Raw coking coal	Mt	**0.00**	0.03	-0.03	-100%
Clean coking coal	Mt	**1.47**	1.34	+0.13	+10%
Average realised selling price (inclusive of VAT):					
Raw coking coal	RMB/tonne	**725**	955	-230	-24%
Clean coking coal	RMB/tonne	**1,267**	1,424	-157	-11%

For the six months ended 30 June 2020, the Group produced approximately 2.25 million tonnes ("Mt") (Six months ended 30 June 2019: approximately 2.24 Mt) of raw coking coal, representing a year-on-year ("YoY") increase of 0.4% and also produced approximately 1.50 Mt (Six months ended 30 June 2019: approximately 1.38 Mt) of clean coking coal, representing a YoY increase of 9% resulting from the enhancement of recovery rate in the washing process of clean coking coal. As mentioned in the Annual Report 2019, due to the outbreak of COVID-19, all domestic mines must pass the inspection upon resumption of production after the Lunar New Year holidays in February 2020 resulting in the suspension of production temporarily. Although the three coking coal mines of the Group have taken the lead in passing the inspection and resumed production in the mid of February 2020, it affected our production volume in the first quarter of 2020. On the other hand, the lower coal seam of Jinjiazhuang Coal Mine had resumed production since August 2019 and the management rescheduled the production plan of all mines at once. Eventually, our raw coal production volume was slightly increased by 0.4% YoY.

During the period under review, in line with the increase in production volume of clean coking coal, its sales volume increased by 10% YoY. This is in line with the Group's long-term strategy to concentrate on clean coking coal sales. Sales of clean and raw coking coal accounted for approximately 100% and 0% of the Group's turnover respectively for the six months ended 30 June 2020. They accounted for approximately 98% and 2% respectively for the six months ended 30 June 2019.

Following the impact of the economic growth slowdown in the Mainland China and COVID-19, the average market prices of clean coking coal were dropped by 10% to 17% YoY in the first half of 2020. For the six months ended 30 June 2020, the Group's average realised selling price (inclusive of value added tax "VAT") of clean coking coal also dropped by 11% YoY to Renminbi ("RMB") 1,267/tonne (Six months ended 30 June 2019: RMB1,424/tonne), which was in line with the downside market prices trend. In terms of its sales volume, sales of No.1 and No.2 clean coking coal accounted for 34% and 66% (Six months ended 30 June 2019: 31% and 69%) of the total clean coking coal sales volume respectively for the six months ended 30 June 2020.

FINANCIAL REVIEW

For the six months ended 30 June 2020, the Group recorded a turnover of approximately Hong Kong Dollars ("HK$") 1,820 million, representing a decrease of approximately HK$140 million or 7% YoY as compared with that of approximately HK$1,960 million for the same period of 2019. The decrease in turnover was mainly driven by the decrease in average realised selling prices of clean coking coal by 11% YoY and the drop in RMB to HK$ average exchange rate by approximately 5% YoY for the period under review, which outweighed the positive impact on the turnover driven by the increase in sales volume of clean coking coal by 10%.

For the six months ended 30 June 2020, the total turnover to the top five customers accounted for 82% (Six months ended 30 June 2019: 76%) of the Group's turnover. Of which, the total turnover to the largest customer accounted for 37% (Six months ended 30 June 2020: 36%) of the Group's turnover.

For the six months ended 30 June 2020, gross profit margin was 52% while 54% for the same period in 2019. Gross profit was decreased by approximately HK$117 million or 11% YoY. The drop in gross profit was due to the decrease in turnover by approximately 7% for the six months ended 30 June 2020 as explained above and suffered from the depreciation of RMB to HK$ average exchange rate by approximately 5% YoY, the profit derived from the Group's coal business, which RMB is its functional currency, was reduced, even though our production costs could be controlled as the similar level as the last period as mentioned below.

For the six months ended 30 June 2020, the Group recorded a net profit of approximately HK$585 million and profit attributable to the owners of the Company (the "Owner") of approximately HK$549 million. The reduction in the Group's profit is in line with the drop in gross profit by approximately HK$117 million YoY. In addition, (i) decrease in net foreign exchange gain by approximately HK$15 million YoY as a result of the realised exchange gain of approximately HK$19 million arose mainly from the exchange of RMB into other currencies at good time during the same period of the last year; (ii) the decrease in income from sales of coal by-products by approximately HK$6 million YoY as a result of the decrease in market prices of coal; and (iii) the reduction in interest income by approximately HK$11 million YoY as a result of the drop in market interest rates. Nevertheless, the Group had no such a one-off non-cash write off of property, plant and equipment mainly in relation to the carrying amount of underground mining structures of the upper coal seam of Jinjiazhuang Coal Mine upon its closure amounted to approximately HK$103 million as the last period. As a result of the reasons above, the Group's net profit was reduced by 11% YoY for the period under review.

During the period under review, although the drop in market prices of coal had negative impact on the Group's profit, as a result of the effort from the team of the Group, the production volume of raw coking coal of the Group increased 0.4% YoY, optimisation of washing process technique enhanced production volume of clean coking coal by 9% YoY and the production costs have be controlled to maintain the same level as the last period. Eventually, the Group recorded net profit of approximately HK$585 million in the period under review.

During the period under review, basic earnings per share was HK10.35 cents (Six months ended 30 June 2019: HK12.08 cents).

The Group recorded adjusted EBITDA of approximately HK$1,034 million (Six months ended 30 June 2019: approximately HK$1,185 million) and generated a positive cash flow of approximately HK$517 million (Six months ended 30 June 2019: approximately HK$786 million) from our operating activities during the period under review.

As at 30 June 2020, the Group continues to maintain a healthy financial position and has free cash balance of approximately HK$5,087 million (As at 31 December 2019: approximately HK$4,762 million). The Group earned the return on cash resources amounting to approximately HK$59 million (Six months period ended 30 June 2019: approximately HK$71 million) during the period under review.

The Group has reviewed its exposure and risks related to COVID-19 but it would not material impact the financial performance for the period under review or financial position of the Group as at 30 June 2020. The Group believed that current healthy financial position and strong cash position had sufficient headroom to service its operating activities and investments in the foreseeable future.

Cost of Sales

During the period under review, cost of sales was approximately HK$871 million, representing a decrease of approximately HK$24 million or 3% YoY, as compared with that of approximately HK$895 million for the same period of 2019.

The unit production costs are summarised as follows:

Unit: RMB/tonne

	Six months ended 30 June		Change		Full Year	Change
	2020	2019	Amount	Percentage	2019	Percentage
Production cost of raw coking coal	**321**	321	–	–	352	-9%
Less: Depreciation and amortisation	***(78)***	*(67)*	*+11*	*+16%*	*(74)*	*+5%*
Cash production cost of raw coking coal	**243**	254	-11	-4%	278	-13%
Less: Uncontrollable costs – resources tax and levies	***(55)***	*(59)*	*-4*	*-7%*	*(57)*	*-4%*
Total	**188**	195	-7	-4%	221	-15%
Processing cost for clean coking coal	**40**	47	-7	-15%	53	-25%
of which, depreciation	***(8)***	*(11)*	*-3*	*-27%*	*(11)*	*-27%*

Included in cost of sales, amortisation of mining rights was approximately HK$99 million for the six months ended 30 June 2020, representing an increase of approximately HK$15 million or 18% YoY, as compared with that of approximately HK$84 million for the same period of 2019. The increase in amortisation of mining rights was mainly due to the increase in the proportion of production volume of raw coking coal from Jinjiazhuang Coal Mine, which incurred higher unit amortisation cost than the other two mines during the period under review.

Nevertheless, the Group faced the rising concern in cost pressure, among other things, because of the implementation and the strengthen of various environmental protection policies and safety standards, as a result of (i) the continuing improvement in cost efficiencies; (ii) the decrease in labour cost by continuing optimisation of human resources and benefiting from the reduction of social insurances under the central government relief policies as a result of the outbreak of COVID-19; and (iii) the decrease in resources tax, which is calculated on prices, due to the drop in coal market prices, the unit production cost of raw coking coal remained at the same level when compared with that for the same period of 2019 and also reduced by 9% when compared with that of the full year of 2019.

In addition, the unit processing cost of clean coking coal also decreased by 15% YoY as a result of the increase in clean coking coal production volume by 10% YoY.

Gross Profit and Gross Profit Margin

As a result of the reasons above, gross profit was approximately HK$948 million for the six months ended 30 June 2020, representing a decrease of approximately HK$117 million or 11% YoY as compared with that of approximately HK$1,065 million for the same period of 2019. Gross profit margin was 52% for the period under review and 54% for the same period of 2019.

Interest Income

During the period under review, interest income was approximately HK$59 million, representing a decrease of approximately HK$12 million or 17% YoY as compared with approximately HK$71 million of the same period in 2019. The decrease in interest income was the result of the decrease in market interest rates for the period under review.

Other Income and Gains, Net

During the period under review, other income and gains, net was approximately HK$27 million, representing a decrease of approximately HK$23 million or 46% YoY as compared with approximately HK$50 million of the same period in 2019. The other income and gains, net decrease is mainly attributable to (i) the drop of net foreign exchange gain by approximately HK$15 million as a result of the additional exchange gain mainly derived from the exchange of RMB in other currencies at the good time in the same period of the last year; and (ii) the drop in income from sales of coal by-products by approximately HK$6 million or 23% YoY as a result of the drop in market prices of coal during the period under review.

Selling and Distribution Expenses

During the period under review, selling and distribution expenses were approximately HK$137 million, representing an increase of approximately HK$13 million or 10% YoY as compared with that of approximately HK$124 million for the same period of 2019. Selling and distribution expenses mainly included the trucking fee for short distance to train and transportation costs by trucks for sales of clean coking coal, of which are usually re-charged to customers. The increase was mainly due to the net increase in sales volume of clean coking coal by train and trucks by approximately 90,000 tonnes during the period under review.

General and Administrative Expenses

During the period under review, general and administrative expenses (included additional expenses for the purchase of anti-epidemic materials) were approximately HK$81 million, which remained similar level to that of the last period.

Other Operating Expenses

During the period under review, other operating expenses were approximately HK$6 million, representing a significant decrease of approximately HK$104 million or 95% YoY as compared with approximately HK$110 million for the same period of 2019. The significant decrease in other operating expenses is mainly due to no such one-off non-cash write off of net carrying amount of the related underground mining structures of the upper coal seam of Jinjiazhuang Coal Mine amounting to approximately HK$103 million as the last period. For undergoing the trial production of the lower coal seam of Jinjiazhuang Coal Mine, the wellhead of the upper coal seam was closed down at the same time. Thus, net carrying amount of the related underground mining structures of the upper coal seam was written off in the same period of 2019.

Finance Costs

During the period under review, finance costs were approximately HK$1 million (Six months ended 30 June 2019: approximately HK$5 million). During the period under review, finance costs amounted to approximately HK$1 million (Six months ended 30 June 2019: approximately HK$1 million) was the interest expense on lease liabilities recognised under the adoption of HKFRS 16. The remaining balance for the six months ended 30 June 2019 was interest derived from the early redemption of bills receivables of the Group for the short-term financing. During the period under review, no borrowing costs (Six months ended 30 June 2019: nil) were capitalised in the construction in progress.

Income Tax Expense

During the period under review, income tax expense amounted to approximately HK$218 million (Six months ended 30 June 2019: approximately HK$206 million). Income tax expense mainly includes the enterprise income tax calculated at a tax rate of 25% for the Group's major PRC subsidiaries incorporated in the People's Republic of China ("PRC")("major PRC Subsidiaries") and the provision of withholding tax of 5% on the dividend to be declared from the Group's major subsidiaries in accordance with the relevant tax regulations in the PRC. There was written back over-provision of withholding tax amounting to approximately HK$17 million made in the prior years during the six months ended 30 June 2019.

Owner's Attributable Profit

By reasons of the foregoing, the profit attributable to the Owner during the period under review was approximately HK$549 million, a decrease of HK$91 million or 14% YoY, while approximately HK$640 million for the six months ended 30 June 2019.

Material Investments and Acquisitions

During the six months ended 30 June 2020, the Group had no material investments and acquisitions.

Material Disposals

During the six months ended 30 June 2020, the Group had no material disposals.

Safety Production and Environmental Protection

The Group has always been paying great attention to production safety and environmental protection while achieving stable coal production. Thus, the Group makes great efforts in promoting safety management and strengthening measures for environmental protection, aiming to build itself into a safety-oriented and environmentally-friendly enterprise. The Group has complied with the relevant environmental protection rules and regulations. The Group fulfilled our responsibility of energy saving, emission reduction and environmental protection by strictly managing production procedures, eliminating discharge of waste water and waste gas and controlling vegetation damage, etc. in material aspects. All coal mines of the Group have obtained necessary permission and approval from the relevant Chinese regulators.

During the period under review, because of the outbreak of COVID-19, all domestic mines must pass the inspection upon resumption of production after the 2020 Lunar New Year holidays. The three coking coal mines of the Group have taken the lead in passing the inspection and have resumed to production in the mid of February 2020. Except for the suspension of production temporarily, all coal mines of the Group operated smoothly.

Charges on Assets

As at 30 June 2020, save for disclosed below, none of the Group's assets was charged or subject to any encumbrance.

As at 30 June 2020, bank deposits of approximately HK$310 million and bills receivables of approximately HK$127 million were used for securing bills facilities of approximately HK$386 million.

Contingent Liabilities

As at 30 June 2020, there were no guarantees given by the Group.

Gearing Ratio

As at 30 June 2020, the Group had no borrowings. Thus, the gearing ratio of the Group was 0% (As at 31 December 2019: 0%).

Exposure to Fluctuations in Exchange Rates

As at 30 June 2020, other than assets and liabilities denominated in Australian Dollars ("AUD") and RMB, the Group had no material exposure to foreign exchange fluctuations. As at 30 June 2020, the exchange rate of AUD to HK$ was depreciated by approximately 2% and RMB to HK$ remained the same, when compared to that as at 31 December 2019. The aggregate carrying amount of assets denominated in AUD represented approximately 3% of the Group's net assets value as at 30 June 2020. Thus, such fluctuation in AUD exchange rate is not expected to have any material impact on the financial position and results of the Group.

Liquidity and Financial Resources

As at 30 June 2020, the Group's current ratio (total current assets divided by total current liabilities) was approximately 2.63 times and the Group's cash and bank deposits amounted to approximately HK$5,451 million, of which approximately HK$310 million was deposited to secure bills facilities of approximately HK$263 million. The Group continued to maintain a healthy net cash balance.

The Group has total bills receivables amounting to approximately HK$1,140 million (of which approximately HK$42 million represented endorsed bills receivables and approximately HK$127 million was used for securing bills facilities of approximately HK$123 million) as at 30 June 2020 that were readily convertible into cash, but would be subject to finance cost upon conversion before the maturity. Taking into account for the free bills receivables of approximately HK$971 million, the Group's free cash resources would have approximately HK$6,112 million as at 30 June 2020.

Capital Structure

Total equity and borrowings are classified as capital of the Group. As at 30 June 2020, the share capital of the Company was approximately HK$15,157 million, represented approximately 5,302 million shares in number. During the period under review, there is no change in number and amount of issued shares. The Group had no borrowings as at 30 June 2020.

EMPLOYEES

As at 30 June 2020, the Group had 4,764 PRC and Hong Kong employees. The remuneration packages of the employees are subject to annual review. The Group provides mandatory and voluntary provident fund schemes for its employees in Hong Kong and the state-sponsored retirement plan for its employees in the PRC. The Group also provides training to PRC employees. The Group has a share option scheme. During the period under review, no share option was granted or exercised. As at 30 June 2020, no share options are outstanding.

FUTURE PROSPECTS

China has achieved a 3.2% gross domestic product ("GDP") growth in the second quarter, a great reversal from the 6.8% contraction in the first quarter. As a result, GDP declined 1.6% YoY in the first half of 2020, beats market expectation. Since the outbreak of COVID-19, the whole country coordinated efforts to control the epidemic from spreading and promoting economic growth and social development at the same time. The situation continued to improve and the resumption of work, production, business and market have accelerated. In the first half of the year, China's economy declined first and then rose. Economic growth has turnaround from negative to positive in the second quarter. A number of major investment indicators fell sharply YoY at the beginning of the year, but the month-on-month data has been improving. China's economy is recovering steadily, and market expectation is generally going up.

Under the Chinese government's fiscal stimulus, China economy is gradually recovering from the epidemic. The steel market has also been improved as demand increased gradually. In the first half of 2020, China's pig iron, crude steel and steel output were 430 Mt, 500 Mt, and 610 Mt respectively, with a YoY increase of 2.2%, 1.4% and 2.7%. Besides, the rate of increase accelerated month by month. Benefited from the Chinese government's fiscal stimulus which included vigorous promoting infrastructure construction and tightening control of coking coal import, the overall supply and demand of coking coal has reached a balance.

Looking forward to the second half of 2020, as China is promoting "Domestic Economic Circulation", the central government's "six priorities" and stability in six areas for steady economic momentum, prudent monetary policy, proactive fiscal policy and others measures are implemented, it is expected that economic activities will further increase. Initiation of the new and old infrastructure projects will drive fixed asset investment and manufacturing investment to continue to rebound. The market generally believes that China's economy follows the "first-in, first-out" principle and will achieve a positive growth in 2020. We believe that the recovery of the steel industry will be continued to pick up and then steel demand will also continue to increase. As the upstream of the steel industry, coking coal sector will also benefit, among others, from the increasing in steel demand as well as tightening the coal import control. The Group expects that the prices of coking coal products remain relatively stable.

Inevitably, with the on-going spreading of epidemics globally, the second wave of epidemics in many countries, and the rapid deterioration of Sino-US relations etc., there are still many uncertainties and pressures on global economic development and investment incentive.

All three coal mines of the Group have resumed normal production currently after government inspection in mid of February. With the resumption of production of lower coal seam of Jinjiazhuang Mine since August 2019, the Group expects that the annual raw coal production volume this year will be greater than 2019.

The Group has maintained a good record in occupational safety for many years. We will continue to strengthen production safety, insist on technological and management innovation and gradually improve the level of intelligent mining, enhance environmental protection measures to ensure smooth production, cost control and enhance productivity. At this very time, the Group's stable financial position and stable cash flow become an exceptional advantage, while the Board announced a conditional cash offer to buy-back up to 250 million shares of the Company ("Shares") at HK$2 per share (the "Offer") on 20 July 2020. The Board believes that it is appropriate to utilise certain of the funds of the Company to buy-back the Shares in order to provide an opportunity for the qualifying shareholders of the Company either to sell their Shares at a premium to the prevailing market prices of the Shares and receive cash or to increase their proportionate interests in the Company by retaining their holdings of the Shares and participating in the future prospects of the Company, and have the effect of increasing the consolidated net asset value per Share and earnings per Share upon the completion of the Offer, thus benefiting all shareholders of the Company. The details of the Offer are referred to in the announcements of the Company dated 20 July 2020, 22 July 2020, 10 August 2020, 14 August 2020 and 19 August 2020 and the offer document of the Company dated 19 August 2020.

Due to epidemic development at home and abroad, the domestic and international economies are still in an challenging period with uncertainties. The Group will timely adjust our operating strategy and identify potential investment opportunities. Looking forward to 2020, the Group will continue to promote stringent corporate governance and leverage our competitive advantages to create greater value for our shareholders, employees and society.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the six months ended 30 June 2020.

As described under the section headed "FUTURE PROSPECTS" above, on 20 July 2020, the Board announced that a conditional cash offer will be made by Octal Capital Limited on behalf of the Company, subject to the fulfilment of certain conditions, to buy-back for cancellation up to a maximum of 250,000,000 shares of the Company (representing approximately 4.72% of the total issued shares of the Company as at the date of this announcement) at an offer price of HK$2.00 per share of the Company.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange during the six months ended 30 June 2020, save for the deviations from code provision A.4.1 as follows:

Under code provision A.4.1, non-executive directors should be appointed for a specific term and subject to re-election.

None of the existing non-executive directors of the Company ("Non-executive Directors") and independent non-executive directors of the Company ("Independent Non-executive Directors") is appointed for a specific term, but according to the Articles of Association of the Company ("Articles"), every director of the Company is subject to retirement by rotation at least once every 3 years.

Since all directors of the Company, including the Non-executive Directors and Independent Non-executive Directors, are also subject to retirement by rotation and re-election by shareholders at annual general meeting pursuant to the Articles, the Board therefore considers this requirement is sufficient to meet the underlying objective of the said code provision.

COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 of the Listing Rules ("Model Code") as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors of the Company, all directors of the Company have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the six months ended 30 June 2020.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.shougang-resources.com.hk).

The 2020 interim report containing all the information required under the Listing Rules will be despatched to shareholders of the Company and available on the above websites in due course.

APPRECIATION

On behalf of the Board, I would like to extend our sincere thanks to our customers, suppliers and shareholders for their continuous support to the Group. I would also like to extend my gratitude and appreciation to all management and staff for their hard work and dedication throughout the period.

By Order of the Board
Shougang Fushan Resources Group Limited
Ding Rucai
Chairman

Hong Kong, 28 August 2020

As at the date of this announcement, the Board comprises Mr. Ding Rucai (Chairman), Mr. Fan Wenli (Managing Director), Mr. Chen Zhaoqiang (Deputy Managing Director), Mr. Liu Qingshan (Deputy Managing Director), Mr. Wang Dongming (Executive Director), Ms. Chang Cun (Non-executive Director), Mr. Shi Yubao (Non-executive Director), Mr. Kee Wah Sze (Independent Non-executive Director), Mr. Choi Wai Yin (Independent Non-executive Director), Mr. Japhet Sebastian Law (Independent Non-executive Director) and Mr. Chen Jianxiong (Independent Non-executive Director).