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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 2021

FINANCIAL HIGHLIGHTS

(HK$ million)	**For the six months ended 30 June 2021**	2020	Percentage change
Revenue	**2,444**	1,820	+34%
Gross profit	**1,218**	948	+28%
Gross profit margin	**50%**	52%	
Profit for the period	**774**	585	+32%
Profit attributable to owners of the Company (“Owners”)	**673**	549	+23%
EBITDA[1]	**1,358**	1,027	+32%
Basic earnings per share *(HK cents)*	**13.33**	10.35	+29%

(HK$ million)	**As at 30 June 2021**	As at 31 December 2020	Percentage change
Net assets	**17,998**	17,291	+4%
Equity per share attributable to Owners *(HK$)*	**3.25**	3.13	+4%
Current ratio *(times)*[2]	**2.58**	2.77	-7%

The board of directors has declared an interim dividend of HK8 cents per ordinary share for the six months ended 30 June 2021 (Six months ended 30 June 2020: HK7.5 cents per ordinary share).

Notes:

1. EBITDA is defined as profit before income tax plus finance costs, depreciation and amortisation.

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 2021. These interim results have been reviewed by the audit committee and the auditor of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue from contracts with customers	*4*	**2,444,193**	1,819,727
Cost of sales		**(1,226,431)**	(871,294)
Gross profit		**1,217,762**	948,433
Interest income		**31,409**	59,429
Other income and gains, net	*5*	**89,801**	26,572
Selling and distribution expenses		**(146,478)**	(137,033)
General and administrative expenses		**(93,073)**	(81,100)
Other operating expenses	*6*	**(41,521)**	(6,370)
Finance costs	*7*	**(690)**	(612)
Change in fair value of derivative financial instruments		**–**	(6,702)
Share of loss of an associate		**(841)**	–
Profit before income tax	*8*	**1,056,369**	802,617
Income tax expense	*9*	**(282,760)**	(217,682)
Profit for the period		**773,609**	584,935

	Note	Six months ended 30 June 2021 HK$'000 (Unaudited)	2020 HK$'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		**290,752**	–
Item that will not be reclassified to profit or loss:			
Fair value gain/(loss) on financial assets measured at fair value through other comprehensive income		**97,409**	(370,652)
Total comprehensive income for the period		**1,161,770**	214,283
Profit for the period attributable to:			
Owners of the Company		**673,389**	548,699
Non-controlling interests		**100,220**	36,236
Profit for the period		**773,609**	584,935
Total comprehensive income for the period attributable to:			
Owners of the Company		**1,025,620**	178,047
Non-controlling interests		**136,150**	36,236
Total comprehensive income for the period		**1,161,770**	214,283
Earnings per share			
– Basic and diluted *(HK cents)*	*11*	**13.33**	10.35

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	**30 June 2021** **HK$'000** **(Unaudited)**	31 December 2020 *HK$'000* (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**3,986,903**	3,863,758
Land use rights		**64,047**	63,365
Right-of-use assets		**21,678**	21,915
Mining rights		**7,526,616**	7,458,999
Goodwill		**1,310,198**	1,277,415
Interest in an associate		**11,402**	11,918
Financial assets measured at fair value through other comprehensive income	*12*	**1,179,873**	1,082,464
Deposits, prepayments and other receivables		**739,029**	710,182
Deferred income tax assets		**50,168**	42,131
Total non-current assets		**14,889,914**	14,532,147
Current assets			
Inventories		**157,745**	131,170
Trade receivables	*13*	**626,231**	666,382
Bills receivables	*13*	**1,591,987**	1,382,762
Deposits, prepayments and other receivables		**336,898**	368,772
Pledged bank deposits		**365,010**	290,298
Time deposits with original maturity over three months		**2,372,802**	656,500
Cash and cash equivalents		**2,411,136**	3,405,615
Total current assets		**7,861,809**	6,901,499
Total assets		**22,751,723**	21,433,646

	Note	30 June 2021 HK$'000 (Unaudited)	31 December 2020 HK$'000 (Audited)
Current liabilities			
Trade and bills payables	*14*	**527,570**	592,618
Lease liabilities		**6,980**	5,721
Other financial liability		**180,817**	186,300
Other payables and accruals		**1,501,220**	1,375,271
Dividend payable		**454,665**	–
Borrowings		**5,900**	–
Amounts due to non-controlling interests of subsidiaries		**–**	52,778
Tax payables		**373,590**	275,507
Total current liabilities		**3,050,742**	2,488,195
Net current assets		**4,811,067**	4,413,304
Total assets less total current liabilities		**19,700,981**	18,945,451
Non-current liabilities			
Deferred income tax liabilities		**1,683,521**	1,635,064
Lease liabilities		**19,285**	19,317
Total non-current liabilities		**1,702,806**	1,654,381
Net assets		**17,998,175**	17,291,070
EQUITY			
Equity attributable to owners of the Company			
Share capital		**15,156,959**	15,156,959
Reserves		**1,251,162**	680,207
Total equity attributable to owners of the Company		**16,408,121**	15,837,166
Non-controlling interests		**1,590,054**	1,453,904
Total equity		**17,998,175**	17,291,070

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 2021.

2. BASIS OF PREPARATION

The interim financial information for the six months ended 30 June 2021 (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 2020, 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 2020, except for the estimation of income taxes (see note 3).

The Interim Financial Information was approved for issue by the board of directors of the Company on 26 August 2021.

3. **SIGNIFICANT ACCOUNTING POLICIES**

Taxes on income in the interim periods are accrued using the tax rate 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 2020, except for the adoption of the following standards and interpretations as of 1 January 2021:

Amendments to HKFRS 16	COVID-19 Related Rent Concession
Amendments to HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

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 2021 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 Beyond 30 June 2021	1 April 2021
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
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to Accounting Guideline 5	Merger Accounting for Common Control Combinations	1 January 2022
Annual improvements to HKFRSs 2018–2020 cycle	Amendments to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41	1 January 2022
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimate	1 January 2023
Amendments to HKAS 12	Deferred Tax Related to Assets and Liabilities Arising from Single Transaction	1 January 2023
Revised Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	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	
	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Sales of clean coking coal	**2,444,193**	1,818,861
Sales of raw coking coal	**–**	866
	2,444,193	1,819,727

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 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 coking coal mining, which represents 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	
	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Income from sales of by-products	**20,029**	20,547
Net foreign exchange gain	**69,320**	3,653
Others	**452**	2,372
	89,801	26,572

6. OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Additional depreciation on property, plant and equipment *(Note)*	**36,405**	–
Loss on disposals of property, plant and equipment	**684**	749
Others	**4,432**	5,621
	41,521	6,370

Note: As disclosed in the 2020 Annual Report, according to the plan of transferring the production from upper coal seam to lower coal seam of Xingwu Coal Mine in 2023, the additional part arising from accelerated depreciation on the related underground mining structures of the upper coal seam was charged in the other operating expenses during the six months ended 30 June 2021.

7. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest charged on discounted bills receivables	**106**	–
Interest expense on lease liabilities	**584**	612
	690	612

8. PROFIT BEFORE INCOME TAX

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit before income tax is arrived at after charging:		
Cost of inventories sold	**1,226,431**	871,294
Amortisation of:		
– land use rights	**987**	867
– mining rights	**129,118**	99,462
Depreciation of:		
– property, plant and equipment	**170,337**	121,177
– right-of-use assets	**822**	2,557
Staff cost (including directors' emoluments)	**375,437**	284,270

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax – PRC income tax	**277,004**	209,837
Deferred tax	**5,756**	7,845
	282,760	217,682

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 2021 and 2020.

In accordance with the Income Tax Law of the PRC for Enterprises with Foreign Investment, the Group's major operating 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 2020: 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

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

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Declared and payable after interim period:		
2021 interim dividend HK8 cents per ordinary share (Six months ended 30 June 2020: 2020 interim dividend HK7.5 cents per ordinary share)	**404,147**	378,888

The interim dividend for six months ended 30 June 2021 totalling Hong Kong Dollars ("HK$") 404,147,000 was calculated based on the number of issued ordinary shares as at 30 June 2021. As at 30 June 2021, the number of the issued share capital qualifying for the interim dividend of the Company is 5,051,837,842 (As at 30 June 2020: 5,051,837,842). The interim dividend has not been recognised as liabilities as at 30 June 2021 (Six months ended 30 June 2020: 30 June 2020).

Dividend payables to shareholders of the Company attributable to the previous financial year were approved during the period:

	Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
2020 final dividend HK9 cents per ordinary share (Six months ended 30 June 2020: 2019 final dividend HK8.7 cents per ordinary share)	**454,665**	461,260

Final dividend for the years ended 31 December 2020 and 2019 totalling HK$454,665,000 and HK$461,260,000 respectively were calculated based on the number of issued ordinary shares as at 31 December 2020 and 2019 respectively, and have been reflected as an appropriation of retained earnings and recognised as liabilities during the periods ended 30 June 2021 and 2020 respectively. Final dividend for the years ended 31 December 2020 and 2019 was paid on 29 July 2021 and 23 July 2020 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	
	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit used to determine basic and diluted earnings per share	**673,389**	548,699
	'000 shares	*'000 shares*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**5,051,837**	5,301,837

The diluted earnings per share for the periods ended 30 June 2021 and 30 June 2020 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 2021	31 December 2020
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Equity securities, at fair value		
− listed in Australia	**904,545**	899,629
− listed in Hong Kong	**275,328**	182,835
	1,179,873	1,082,464
Unlisted equity interest *	**–**	–
	1,179,873	1,082,464

* 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 2021	31 December 2020
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**829,708**	864,685
Less: Provision for impairment loss	**(203,477)**	(198,303)
	626,231	666,382
Bills receivables	**1,591,987**	1,382,762
	2,218,218	2,049,144

As at 30 June 2021 and 31 December 2020, ageing analysis of net trade receivables, based on invoice dates, is as follows:

	30 June 2021	31 December 2020
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Up to 90 days	**626,231**	666,382

Trade receivables generally have credit terms ranging from 60 to 90 days (As at 31 December 2020: 60 to 90 days). Bills receivables mature within one year (As at 31 December 2020: one year). As at 30 June 2021 and 31 December 2020, all of the trade and bills receivables are denominated in Renminbi ("RMB").

Details of pledged bills receivables are as follows:

	30 June 2021	31 December 2020
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Pledged bills receivables	**110,105**	218,458
Associated bills payables	**(101,488)**	(200,339)

The carrying amounts of the bills receivables include receivables which are transferred to financial institutions or creditors by discounting or endorsing these receivables on a full recourse basis. Under these arrangements, the Group has not transferred the significant risks and rewards relating to these receivables. The Group therefore continues to recognise the transferred bills receivables in its consolidated statement of financial position and measure at amortised cost.

The relevant carrying amounts are as follows:

	30 June 2021	31 December 2020
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Bills receivables discounted to financial institutions with full recourse:		
Transferred bills receivables	**5,900**	–
Associated secured borrowings	**(5,900)**	–
Bills receivables endorsed to creditors with full recourse:		
Transferred bills receivables	**85,609**	115,575
Associated trade payables	**(7,670)**	(2,185)
Associated other payables	**(77,939)**	(95,335)
Associated amounts due to non-controlling interests of subsidiaries	**–**	(18,055)

14. TRADE AND BILLS PAYABLES

	30 June 2021	31 December 2020
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	**229,927**	243,803
Bills payables	**297,643**	348,815
	527,570	592,618

The Group was granted by its suppliers credit period ranging between 30 to 180 days (As at 31 December 2020: 30 to 180 days). As at 30 June 2021 and 31 December 2020, 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 2021 and 31 December 2020 is as follows:

	30 June 2021	31 December 2020
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Up to 90 days	**131,765**	152,054
91 to 180 days	**43,835**	53,784
181 to 365 days	**32,641**	14,769
Over 365 days	**21,686**	23,196
	229,927	243,803

As at 30 June 2021, bills payables amounted to HK$196,155,000 (As at 31 December 2020: HK$148,476,000) were secured by the pledged bank deposits. Remaining bills payables amounted to HK$101,488,000 (As at 31 December 2020: HK$200,339,000) were secured by bills receivables (note 13).

As at 30 June 2021, trade payables of HK$7,670,000 (As at 31 December 2020: HK$2,185,000) were settled by bills receivables endorsed to corresponding creditors which did not meet the de-recognition requirements (note 13).

15. CAPITAL COMMITMENTS

	30 June 2021	31 December 2020
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Commitments for the:		
– Acquisition of property, plant and equipment	**294,498**	254,210
– Exploration and design fees for a potential mining project	**8,826**	8,602
	303,324	262,812

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

The financial information relating to the year ended 31 December 2020 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 2020 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 HK8 cents per ordinary share for the six months ended 30 June 2021 (2020 interim dividend: HK7.5 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 2021 (Thursday). 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 2021 (Thursday) for registration. The interim dividend is expected to be paid on 28 October 2021 (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 2021 (the "Period Under Review") together with that of the same period of 2020 (the "Last Period") is summarised as follows:

		Six months ended 30 June		Change	
	Unit	**2021**	2020	Quantity/ Amount	Percentage
Production volume:					
Raw coking coal	Mt	**2.61**	2.25	+0.36	+16%
Clean coking coal	Mt	**1.45**	1.50	-0.05	-3%
Sales volume:					
Raw coking coal *(Note)*	Mt	**–**	0.00	-0.00	-100%
Clean coking coal	Mt	**1.63**	1.47	+0.16	+11%
Average realised selling price (inclusive of VAT):					
Raw coking coal	RMB/tonne	**N/A**	725	N/A	N/A
Clean coking coal	RMB/tonne	**1,415**	1,267	+148	+12%

Note: No sales of raw coking coal for the six months ended 30 June 2021 while sales volume of raw coking coal was 1,227 tonnes for the Last Period.

For the six months ended 30 June 2021, the Group produced approximately 2.61 million tonnes ("Mt") (Six months ended 30 June 2020: approximately 2.25 Mt) of raw coking coal, representing a year-on-year ("YoY") increase of 16% and also produced approximately 1.45 Mt (Six months ended 30 June 2020: approximately 1.50 Mt) of clean coking coal, representing a YoY slightly decrease of 3%.

As the lower coal seam of Jinjiazhuang Coal Mine has been gradually operating smoothly since the resumption of production in August 2019, the raw coking coal production volume of Jinjiazhuang Coal Mine sharply increased by 89% YoY. As planned, the total production volume of raw coking coal of approximately 2.61 Mt for the six months ended 30 June 2021 represented 50% of total annual approved production volume even though Three Mines had temporarily suspended production in the late of June 2021. An incident has occurred in Zhaiyadi Coal Mine in the late of June 2021 in which one person died. According to the preliminary investigation being performed by the third party, this incident would be classified as a general incident. According to the relevant rules and regulations in the Mainland China, Zhaiyadi Coal Mine had suspended production for comprehensive checking and it had already passed all checking and resumed its normal production in the early of August 2021. In addition, according to the notice of the local industry management department on 22 June 2021, all domestic mines, including Xingwu Coal Mine and Jinjiazhuang Coal Mine, had temporarily closed for safety inspection. Xingwu Coal Mine and Jinjiazhuang Coal Mine have already resumed their normal production in the early of July 2021 after closed for approximately 10 days. As the aforesaid events happened in the late of June 2021 and the Group has also adjusted its production plan for the second half of 2021, there is neither significant economic loss nor significant negative effect on the operation and production of the Group for the Period Under Review and for the year ending 31 December 2021. Eventually, our raw coking coal production volume was increased by 16% YoY for the Period Under Review. The slight decrease in production volume of clean coking coal by 3% YoY is mainly due to the temporary drop in clean coking coal washing yield resulting from the different qualities of raw coking coal produced during the Period Under Review.

Although the production volume of clean coking coal declined slightly, together with the purchase of clean coking coal of approximately 0.13 Mt from outsiders for sales for the purpose of over-quality control and sales of inventory as at 31 December 2020 of approximately 0.07 Mt, the sales volume of clean coking coal increased by 11% YoY for the Period Under Review. For the six months ended 30 June 2021 and the Last Period, sales of clean coking coal accounted for approximately 100% of the Group's turnover. This is in line with the Group's long-term strategy to concentrate on clean coking coal sales.

Benefit from China's economy rebound rapidly and certain policies on restriction of imported coal to China, etc., the average market prices of clean coking coal surged by approximately 19% YoY in the first half of 2021. For the six months ended 30 June 2021, the Group's average realised selling price (inclusive of value added tax "VAT") of clean coking coal also increased by 12% YoY to Renminbi ("RMB") 1,415/tonne (Six months ended 30 June 2020: RMB1,267/tonne), which was in line with the upside trend of market prices. The growth rate in average realised selling price of clean coking coal was less than that of market price because of the reduction in selling proportion of No.1 clean coking coal with higher selling price for the Period Under Review and adjustments of long term contract selling prices quarterly in general. In terms of its sales volume, sales of No.1 and No.2 clean coking coal accounted for 31% and 69% (Six months ended 30 June 2020: 34% and 66%) of the total clean coking coal sales volume respectively for the six months ended 30 June 2021.

FINANCIAL REVIEW

For the six months ended 30 June 2021, the Group recorded a turnover of approximately Hong Kong Dollars ("HK$") 2,444 million, representing a sharp increase of approximately HK$624 million or 34% YoY as compared with that of approximately HK$1,820 million for the Last Period. The sharp increase in turnover was mainly driven by the increase in average realised selling prices of clean coking coal by 12% YoY, the increase in sales volume of clean coking coal by 11% YoY and the rise in RMB to HK$ average exchange rate by approximately 9.09% YoY for the Period Under Review. The turnover was solely derived from the Group's coal business, which RMB is its functional currency, increased with appreciation of RMB.

For the six months ended 30 June 2021, the total turnover to the top five customers accounted for 86% (Six months ended 30 June 2020: 82%) of the Group's turnover. Of which, the total turnover to the largest customer accounted for 46% (Six months ended 30 June 2020: 37%) of the Group's turnover.

For the six months ended 30 June 2021, gross profit margin was 50% while 52% for the Last Period. The drop in gross profit margin was due to the purchase of clean coking coal of approximately 0.13 Mt from outsiders for sales. Excluding the effect of the purchase increased both of turnover and cost of sales by approximately HK$181 million, gross profit margin would be approximately 54%, increased YoY. Gross profit was significantly increased by approximately HK$270 million or 28% YoY. The rise in gross profit was due to the increase in turnover by approximately 34% for the six months ended 30 June 2021 as explained above.

For the six months ended 30 June 2021, the Group recorded a net profit of approximately HK$774 million and profit attributable to the owners of the Company (the "Owners") of approximately HK$673 million. The significant increase in the Group's net profit by 32% YoY is in line with the surge in gross profit by approximately HK$270 million or 28% YoY. In addition, the increase in net foreign exchange gain by approximately HK$66 million YoY as a result of the appreciation in RMB to HK$ exchange rate by approximately 2.61% as at reporting date on 30 June 2021 when compared with that as at 31 December 2020 together with the realised exchange gain of approximately HK$7 million derived mainly from the exchange of RMB into other currencies at good time during the Period Under Review. Nevertheless, during the Period Under Review, the Group had recognised additional depreciation of approximately HK$36 million arising from the accelerated depreciation related to the underground mining structures of the upper coal seam of Xingwu Coal Mine, as it was expected that production will be transferred from upper to lower coal seam in 2023 as disclosed in the 2020 Annual Report, and the interest income reduced by approximately HK$28 million YoY as a result of the drop in market interest rates. As a result of the reasons above for the increases in profit, the Group's net profit and profit attributable to the Owners were increased by 32% and 23% YoY respectively for the Period Under Review.

For the Period Under Review, basic earnings per share was HK13.33 cents (Six months ended 30 June 2020: HK10.35 cents), representing an increase of 29% YoY as a result of the increase in profit attributable to the Owners by 23% YoY and reduction of number of issued share capital of the Company by approximately 5% YoY resulting from the repurchase of 250 million shares in September 2020 by the Company.

For the Period Under Review, the Group recorded EBITDA of approximately HK$1,358 million (Six months ended 30 June 2020: approximately HK$1,027 million) and generated a positive cash flow of approximately HK$1,046 million (Six months ended 30 June 2020: approximately HK$517 million) from our operating activities.

As at 30 June 2021, the Group continues to maintain a healthy financial position and has free bank balances and cash of approximately HK$4,784 million (As at 31 December 2020: approximately HK$4,062 million).

The Group has reviewed its exposure and risks related to COVID-19 and variants of coronavirus but it would not material impact the financial performance for the Period Under Review and financial position of the Group as at 30 June 2021. The Group believed that current healthy financial position and strong cash position had sufficient headroom to serve its operating activities and investments in the foreseeable future.

Cost of Sales

For the Period Under Review, cost of sales was approximately HK$1,226 million, representing an increase of approximately HK$355 million or 41% YoY, as compared with that of approximately HK$871 million for the Last Period. The increase in cost of sales was mainly due to the purchase of approximately 0.13 Mt of clean coking coal from outsiders amounting to approximately HK$181 million, the increase in actual usage volume of raw coking coal for sales and the appreciation in average exchange rate of RMB to HK$ by approximately 9.09%. In fact, the unit production costs of raw coking coal in RMB was only slightly increase by 1% YoY.

The unit production costs are summarised as follows:

Unit: RMB/tonne

	Six months ended 30 June		Change		Full Year	Change
	2021	2020	Amount	Percentage	2020	Percentage
Production cost of raw coking coal	**325**	321	+4	+1%	313	+4%
Less: Depreciation and amortisation	***(74)***	*(78)*	*-4*	*-5%*	*(76)*	*-3%*
Cash production cost of raw coking coal	**251**	243	+8	+3%	237	+6%
Less: Uncontrollable costs – resources tax and levies	***(50)***	*(55)*	*-5*	*-9%*	*(48)*	*+4%*
Total	**201**	188	+13	+7%	189	+6%
Processing cost for clean coking coal	**44**	40	+4	+10%	47	-6%
of which, depreciation	***(8)***	*(8)*	–	–	*(8)*	–

Included in cost of sales, amortisation of mining rights was approximately HK$129 million for the six months ended 30 June 2021, representing an increase of approximately HK$30 million or 30% YoY, as compared with that of approximately HK$99 million for the Last Period. The increase in amortisation of mining rights was mainly due to the increase in actual usage volume of raw coking coal for sales and 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 and also inflation, the unit production cost of raw coking coal slightly raised by 1% when compare with that for the Last Period. This was mainly resulted from the increase in labour cost due to the reduction of social insurances under the central government relief policies as a result of the outbreak of COVID-19 for the Last Period. During the Period Under Review, there is no such reduction and thus unit labour cost increased by approximately RMB8/tonne.

In addition, the unit processing cost of clean coking coal also increased by 10% YoY mainly as a result of the increase in labour cost due to the reason mentioned above and the increase in drainage fee for gangue.

Gross Profit and Gross Profit Margin

As a result of the reasons above, gross profit was approximately HK$1,218 million for the six months ended 30 June 2021, representing a sharp increase of approximately HK$270 million or 28% YoY as compared with that of approximately HK$948 million for the Last Period. Gross profit margin was 50% for the Period Under Review and 52% for Last Period. As mentioned above, excluding the effect of the purchase of clean coking coal for sales, gross profit would be approximately 54%, increased YoY.

Interest Income

During the Period Under Review, interest income was approximately HK$31 million, representing a significant decrease of approximately HK$28 million or 47% YoY as compared with approximately HK$59 million for the Last Period. The significant decrease in interest income was mainly 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$90 million, representing a significant increase of approximately HK$63 million YoY as compared with approximately HK$27 million for the Last Period. This significant increase is mainly attributable to the increase of net foreign exchange gain by approximately HK$66 million YoY as a result of the appreciation in RMB to HK$ exchange rate by approximately 2.61% as at reporting date on 30 June 2021 when compared with that as at 31 December 2020 (Six months ended 30 June 2020: remained the same) and additional exchange gain mainly derived from the exchange of RMB in other currencies at the good time during the Period Under Review.

Selling and Distribution Expenses

For the Period Under Review, selling and distribution expenses were approximately HK$146 million, representing an increase of approximately HK$9 million or 7% YoY as compared with that of approximately HK$137 million for the Last Period. Selling and distribution expenses mainly included the trucking fee for short distance to train stations and transportation costs by trucks for sales of clean coking coal, of which are usually re-charged to customers. The increase was mainly due to the rise in average exchange rate of RMB to HK$ by approximately 9.09% YoY for the Period Under Review.

General and Administrative Expenses

For the Period Under Review, general and administrative expenses were approximately HK$93 million, representing an increase of approximately HK$12 million or 15% YoY as compared with that of approximately HK$81 million for the Last Period. The increase was mainly resulted from the rise in average exchange rate of RMB to HK$ by approximately 9.09% YoY and the increase in office and business related expenses after resumed normal business activities from the second half of 2020 during the Period Under Review.

Other Operating Expenses

During the Period Under Review, other operating expenses were approximately HK$42 million, representing a significant increase of approximately HK$36 million YoY as compared with approximately HK$6 million for the Last Period. The significant increase in other operating expenses is mainly attributable from the additional depreciation arising from the accelerated depreciation related to the underground mining structures of the upper coal seam of Xingwu Coal Mine amounted to approximately HK$36 million, as it was expected that production will be transferred from upper to lower coal seam in 2023 as disclosed in the 2020 Annual Report.

Finance Costs

For the Period Under Review, finance costs were approximately HK$0.7 million (Six months ended 30 June 2020: approximately HK$0.6 million), of which approximately HK$0.6 million (Six months ended 30 June 2020: approximately HK$0.6 million) was the interest expense on lease liabilities recognised under the adoption of HKFRS 16 and the remaining balance was interest derived from the early redemption of bills receivables of the Group for the short-term financing. For the Period Under Review, no borrowing costs (Six months ended 30 June 2020: nil) were capitalised in the construction in progress.

Income Tax Expense

For the Period Under Review, income tax expense amounted to approximately HK$283 million (Six months ended 30 June 2020: approximately HK$218 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 (the "PRC") ("major PRC Subsidiaries") and the provision of withholding tax of 5% on the dividend to be declared from the major PRC Subsidiaries in accordance with the relevant tax regulations in the PRC.

Owner's Attributable Profit

By reasons of the foregoing, the Group's profit attributable to the Owners during the Period Under Review was approximately HK$673 million, an increase of approximately HK$124 million or 23% YoY, while approximately HK$549 million for the six months ended 30 June 2020.

Material Investments and Acquisitions

During the six months ended 30 June 2021, the Group had no material investments and acquisitions.

Material Disposals

During the six months ended 30 June 2021, 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.

For the Period Under Review, except for the events as mentioned in "Business Review" above, all coal mines of the Group operated smoothly.

Charges on Assets

As at 30 June 2021, save for disclosed below, none of the Group's assets was charged or subject to any encumbrance.

As at 30 June 2021, bank deposits of approximately HK$365 million and bills receivables of approximately HK$110 million were used for securing bills facilities of approximately HK$298 million.

Contingent Liabilities

As at 30 June 2021, there were no guarantees given by the Group and the Group has no material contingent liabilities.

Gearing Ratio

As at 30 June 2021, other than the discounted bills receivables amounting to approximately HK$6 million, the Group had no other borrowings. Thus, the gearing ratio of the Group was 0.03% (As at 31 December 2020: 0%). Excluding the discounted bills receivables, the gearing ratio would be 0%.

Exposure to Fluctuations in Exchange Rates

As at 30 June 2021, other than assets and liabilities denominated in RMB and Australian Dollars ("AUD"), the Group had no material exposure to foreign exchange fluctuations. As at 30 June 2021, the exchange rate of RMB to HK$ appreciated by approximately 2.61% and AUD to HK$ was depreciated by approximately 2.13% when compared to that as at 31 December 2020. As the net assets value of PRC business operations denominated in RMB represented approximately 74% of the Group's net assets value as at 30 June 2021, the appreciation in RMB also led to an exchange gain of approximately HK$291 million (other than the foreign exchange difference recognised in profit or loss stated above) recognised in the other comprehensive income upon translation of its net assets in the financial statements of coal business operations in the PRC for the six months ended 30 June 2021. Besides, the aggregate carrying amount of assets denominated in AUD represented approximately 5% of the Group's net assets as at 30 June 2021. Thus, such fluctuation in AUD exchange rate is not expected to have any material impact on the financial position and results of the Group. The above exposure to fluctuation in exchange rates did not have any material impact on the financial position of the Group.

Liquidity and Financial Resources

As at 30 June 2021, the Group's current ratio (total current assets divided by total current liabilities) was approximately 2.58 times and the Group's cash and bank deposits amounted to approximately HK$5,149 million, of which approximately HK$365 million was deposited to secure bills facilities of approximately HK$196 million. The Group continued to maintain a healthy net cash balance.

The Group has total bills receivables amounting to approximately HK$1,592 million (of which approximately HK$92 million represented discounted and endorsed bills receivables and approximately HK$110 million was used for securing bills facilities of approximately HK$101 million) as at 30 June 2021. The free bills receivables 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$1,390 million, the Group's free cash resources would have approximately HK$6,174 million as at 30 June 2021.

Capital Structure

Total equity and borrowings are classified as capital of the Group. As at 30 June 2021, the share capital of the Company was approximately HK$15,157 million, represented approximately 5,052 million shares in number. During the Period Under Review, there is no change in number and amount of issued shares. As at 30 June 2021, all borrowings of the Group are denominated in RMB and are discounted bills receivables.

EMPLOYEES

As at 30 June 2021, the Group had 4,711 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. For the Period Under Review, no share option was granted or exercised. As at 30 June 2021, no share options are outstanding.

FUTURE PROSPECTS

In the first half of 2021 ("1H 2021"), China's gross domestic product ("GDP") increased by 12.7% YoY. Since the effective control of the epidemic in China in the first quarter of the last year, China's economy has rebounded rapidly and maintained an upward momentum. After China's economy V-shaped recovery, the growth rate is gradually slowing down, and the GDP growth rate in the second quarter of 2021 was 7.9%, returning to a normal growth regime.

Driven by proactive economic and fiscal measures, the cumulative domestic fixed asset investment growth rate in 1H 2021 reached 12.1%, the growth of fixed asset investment in manufacturing, real estate and infrastructure remained strong and showed resilience. In the coal-coke-steel industry chain, steel price rose in 1H 2021 and hit a historical high. Steel enterprises, driven by large profit margins, were willing to produce more. In 1H 2021, China's crude steel, pig iron and steel production increased by 12%, 4% and 14% YoY respectively. The Group benefited from the strong demand from the downstream steel industry. At the same time, coking coal imports were disrupted by epidemic abroad and the geopolitical issue, drastically reduced by more than 40% YoY. Moreover, a series of local coal mining accidents in recent months have prompted local authorities to temporarily suspend production and carry large scale safety inspection on coal mines, affecting the domestic supply of coking coal. Local coking coal price in 1H 2021, especially in the second quarter increased sharply and hit a historical high. The average price of local benchmark coking coal in 1H 2021 increased by nearly 20% compared to the same period of the last year.

Looking forward to the second half of 2021, variants of coronavirus such as the Delta mutant strain once again bring great uncertainty to the recovery and normalisation of the economy. In addition, risks like the growing tension in geopolitical issues, potential tightening of monetary policy by US Federal Reserve and financial debt risk etc. are all causing volatility and uncertainty in both domestic and international macro-economic environment. The International Monetary Fund also updated its forecast in July to reflect that the recovery may be slower than previously expected, and lowered its latest outlook for China's economic growth this year by 0.3% to 8.1%. For the steel industry, the Ministry of Industry and Information Technology explicitly ordered that this year's steel output should not exceed last year. Since July, several cities and provinces in China have introduced relevant policy and formulated output breakdown table, requiring the actual output of steel enterprises in 2021 shall not exceed 2020. The steel output will be expected to come down in the second half of the year, and hence the demand for coking coal products may reduce. On the macro level, the government has issued a number of policies to maintain economic resilience. For the coal industry, it will continuously be restricted by environmental and safety inspection. The shortage in coal supply, especially coking coal supply, cannot be alleviated in a short period of time. We believe that coking coal will continue to benefit from economic growth, policy stimulus and domestic supply tightening. The coking coal price is expected to continue to fluctuate at a relatively high level in the second half of 2021.

The Group will further strengthen safety awareness among all employees to ensure production safety. We will also introduce advanced mining technology and gradually promote Smart Mining to improve mine production efficiency, safety and reduce costs. The operation, financial position, and cash flow of the Group continue to be stable. We will closely monitor the development of the pandemic, economic development, and policy changes to timely adjust our business strategy. We will also continue to maintain rigorous corporate governance and leverage our competitive edge to create greater returns for society, our shareholders and employees.

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 2021.

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 2021, 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 2021.

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 2021 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, 26 August 2021

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. Choi Wai Yin (Independent Non-executive Director), Mr. Japhet Sebastian Law (Independent Non-executive Director), Mr. Chen Jianxiong (Independent Non-executive Director) and Mr. Shen Zongbin (Independent Non-executive Director).