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)

# FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

## FINANCIAL HIGHLIGHTS

| *(HK$'million)* | **For the year ended 31 December 2016** | 2015 | **Percentage change** |
|---|---|---|---|
| Revenue | **1,810** | 1,997 | -9% |
| Gross profit | **607** | 488 | +24% |
| Gross profit margin | **34%** | 24% | |
| Non-cash net impairment loss on goodwill, mining rights and property, plant and equipment | **(195)** | (791) | -75% |
| *Before non-cash net impairment loss on goodwill, mining rights and property, plant and equipment (net of the correspondence deferred tax impact):* | | | |
| Profit/(Loss) for the year | **237** | (79) | |
| Profit/(Loss) attributable to owners of the Company ("Owners") | **234** | (58) | |
| *After non-cash net impairment loss on goodwill, mining rights and property, plant and equipment (net of the correspondence deferred tax impact):* | | | |
| Profit/(Loss) for the year | **68** | (711) | |
| Profit/(Loss) attributable to Owners | **112** | (416) | |
| EBITDA[1] | **694** | 420 | +65% |
| Basic earnings/(loss) per share *(HK cents)* | **2.11** | (7.86) | |
| Final dividend per share *(HK cents)* | **3.00** | 5.00 | |

| *(HK$'million)* | **As at 31 December 2016** | 2015 | **Percentage change** |
|---|---|---|---|
| Net assets | **15,666** | 17,044 | -8% |
| Of which: Equity per share attributable to Owners *(HK$)* | **2.74** | 2.98 | -8% |
| Current ratio[2] | **3.45 times** | 3.69 times | -7% |

The board of directors has proposed a 2016 final dividend of HK3 cents (2015: HK5 cents) per ordinary share.

*Notes:*

1. EBITDA is defined as profit/(loss) before income tax plus impairment loss on goodwill, mining rights and property, plant and equipment, reversal of impairment loss on mining right and property, plant and equipment, finance costs, change in fair value of derivative financial instruments, share of loss of an associate, depreciation and amortisation.

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

The board of directors (the "Board") of Shougang Fushan Resources Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016 with comparative figures for the year ended 31 December 2015. These final results have been reviewed by the Audit Committee of the Company.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2016*

| | Notes | **2016** | 2015 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **Revenue** | *4* | **1,809,885** | 1,996,629 |
| Cost of sales | | **(1,202,842)** | (1,508,441) |
| **Gross profit** | | **607,043** | 488,188 |
| Other operating income | *6* | **107,188** | 168,738 |
| Selling and distribution expenses | | **(167,412)** | (201,907) |
| General and administrative expenses | | **(203,755)** | (341,742) |
| Other operating expenses | | **(8,054)** | (132,830) |
| Impairment loss on goodwill, mining rights and property, plant and equipment | *12(b)* | **(595,854)** | (791,203) |
| Reversal of impairment loss on mining rights and property, plant and equipment | *12(b)* | **401,012** | – |
| Finance costs | *7* | **(490)** | (11,370) |
| Change in fair value of derivative financial instruments | | **6,886** | (13,134) |
| Share of loss of an associate | | **(2,308)** | (674) |
| **Profit/(Loss) before income tax** | *8* | **144,256** | (835,934) |
| Income tax (expense)/credit | *9* | **(76,600)** | 124,459 |
| **Profit/(Loss) for the year** | | **67,656** | (711,475) |

| | Notes | **2016** <br> ***HK$'000*** | 2015 <br> *HK$'000* |
|---|---|---|---|
| **Other comprehensive income for the year** | | | |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of financial statements of foreign operations | | **(568,590)** | (685,870) |
| 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 | | **182,715** | (129,435) |
| **Total comprehensive income for the year** | | **(318,219)** | (1,526,780) |
| **Profit/(Loss) for the year attributable to:** | | | |
| Owners of the Company | | **111,795** | (416,471) |
| Non-controlling interests | | **(44,139)** | (295,004) |
| **Profit/(Loss) for the year** | | **67,656** | (711,475) |
| **Total comprehensive income for the year attributable to:** | | | |
| Owners of the Company | | **(211,723)** | (1,143,976) |
| Non-controlling interests | | **(106,496)** | (382,804) |
| **Total comprehensive income for the year** | | **(318,219)** | (1,526,780) |
| | | ***HK (Cents)*** | *HK (Cents)* |
| **Earnings/(Loss) per share** | *11* | | |
| – Basic and diluted | | **2.11** | (7.86) |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*As at 31 December 2016*

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **2,740,973** | 2,936,672 |
| Prepaid lease payments | | **48,965** | 53,042 |
| Mining rights | | **7,902,244** | 8,580,891 |
| Goodwill | *12(a)* | **1,233,703** | 1,359,290 |
| Interest in an associate | | **12,641** | 15,644 |
| Financial assets measured at fair value through other comprehensive income | | **474,617** | 291,902 |
| Deposits, prepayments and other receivables | | **312,608** | 309,045 |
| Deferred tax assets | | **21,016** | 21,879 |
| **Total non-current assets** | | **12,746,767** | 13,568,365 |
| **Current assets** | | | |
| Inventories | | **198,599** | 167,312 |
| Trade receivables | *13* | **869,556** | 1,059,634 |
| Bill receivables | *13* | **1,074,095** | 698,104 |
| Deposits, prepayments and other receivables | | **114,293** | 116,168 |
| Other financial assets | | **200,000** | – |
| Pledged bank deposits | | **76,927** | 79,905 |
| Time deposits with original maturity over three months | | **2,029,933** | 2,747,304 |
| Cash and cash equivalents | | **1,794,286** | 2,290,877 |
| **Total current assets** | | **6,357,689** | 7,159,304 |

| | Notes | **2016** | 2015 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **Current liabilities** | | | |
| Trade and bill payables | *14* | **441,423** | 526,447 |
| Other payables and accruals | | **1,160,446** | 1,248,905 |
| Derivative financial instruments | | **–** | 17,025 |
| Amounts due to non-controlling interests of subsidiaries | | **6,472** | 3,780 |
| Tax payables | | **234,836** | 146,559 |
| **Total current liabilities** | | **1,843,177** | 1,942,716 |
| **Net current assets** | | **4,514,512** | 5,216,588 |
| **Total assets less current liabilities** | | **17,261,279** | 18,784,953 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | **1,595,586** | 1,740,673 |
| **Total non-current liabilities** | | **1,595,586** | 1,740,673 |
| **Net assets** | | **15,665,693** | 17,044,280 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | | **15,156,959** | 15,156,959 |
| Reserves | | **(637,935)** | 634,156 |
| **Total equity attributable to owners of the Company** | | **14,519,024** | 15,791,115 |
| **Non-controlling interests** | | **1,146,669** | 1,253,165 |
| **Total equity** | | **15,665,693** | 17,044,280 |

*Notes:*

1. **GENERAL INFORMATION**

Shougang Fushan Resources Group Limited ("the Company") is a limited liability company incorporated and domiciled in Hong Kong. Its registered office address 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 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 activity of the Company is investment holding. 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 year.

The financial statements for the year ended 31 December 2016 were approved for issue by the board of directors on 23 March 2017.

2. **BASIS OF PREPARATION**

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") and the provisions of the Hong Kong Companies Ordinance which concern the preparation of financial statements. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange.

The financial information relating to the years ended 31 December 2016 and 2015 included in this preliminary announcement of annual results 2016 do not constitute the Company's statutory annual consolidated financial statements for those years 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 is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2016 in due course.

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

3. **ADOPTION OF HKFRSs**

**3.1 Adoption of new or revised HKFRSs – effective 1 January 2016**

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2016:

| | |
|---|---|
| HKFRSs (Amendments) | Annual Improvements 2012 – 2014 Cycle |
| Amendments to HKAS 1 | Disclosure Initiative |
| Amendments to HKAS 27 | Equity Method in Separate Financial Statements |

*Amendments to HKAS 1 Disclosure Initiative*

The amendments are designed to encourage entities to use judgment in the application of HKAS 1 when considering the layout and content of their financial statements.

The adoption of the amendments has no significant impact on these financial statements.

*Amendments to HKAS 27 Equity Method in Separate Financial Statements*
The amendments allow an entity to apply the equity method in accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements. The amendments are applied retrospectively in accordance with HKAS 8.

The adoption of the amendments has no impact on these financial statements as the Company has not elected to apply the equity method in its separate financial statements.

**3.2 New or revised HKFRSs that have been issued but are not yet effective**

The following new or revised HKFRSs potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group:

| | |
|---|---|
| Amendments to HKAS 7 | Disclosure Initiative[1] |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses[1] |
| Amendments to HKFRS 2 | Classification and Measurement of Share-Based Payment Transactions[2] |
| HKFRS 9 (2014) | Financial Instruments[2] |
| HKFRS 15 | Revenue from Contracts with Customers[2] |
| Amendments to HKFRS 15 | Revenue from Contracts with Customers (Clarifications to HKFRS 15)[2] |
| HKFRS 16 | Leases[3] |

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019

*Amendments to HKAS 7 Disclosure Initiative*
The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

*Amendments to HKAS 12 Recognition of Deferred Tax Assets for Unrealised Losses*
The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

*Amendments to HKFRS 2 Classification and Measurement of Share-Based Payment Transactions*
The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

*HKFRS 9 (2014) Financial Instruments*
The Group has early adopted HKFRS 9 (2010) and will continue to apply HKFRS 9 (2010). HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

*HKFRS 15 Revenue from Contracts with Customers*
The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

*Amendments HKFRS 15 Revenue from Contracts with Customers (Clarifications to HKFRS 15)*
The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

*HKFRS 16 Leases*
HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The directors of the Company anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. The directors of the Company are currently assessing the possible impact of the above new or revised standards on the Group's results and financial position in the first year of application. The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies or financial statements. Other new or revised HKFRSs that have been issued but are not yet effective are unlikely to have material impact on the Group's financial statements upon application.

## 4. REVENUE

The Group's principal activities are disclosed in note 1 on this result announcement. Revenue from the Group's principal activities recognised during the year is as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Sales of raw coking coal | **191,408** | 96,880 |
| Sales of clean coking coal | **1,618,477** | 1,899,749 |
| | **1,809,885** | 1,996,629 |

## 5. SEGMENT INFORMATION

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 by 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 measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that change in fair value of derivative financial instruments, interest income, finance costs, share of result of an associate, income tax expense and corporate income and expenses which are not directly attributable to the business activities of any operating segment, are not included in arriving at the operating results of the operating segment.

Segment assets include property, plant and equipment, prepaid lease payments, mining rights, goodwill, inventories, receivables and operating cash and mainly exclude financial assets measured at fair value through other comprehensive income, deferred tax assets, interest in an associate and corporate assets which are not directly attributable to the business activities of any operating segment.

Segment liabilities comprise operating liabilities and exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment. These include tax payables, derivative financial instruments and deferred tax liabilities.

The operating segment is monitored and strategic decisions are made on the basis of segment operating result. Reconciliation of segment revenue, profit or loss and assets and liabilities is as follows:

| | **Coking coal mining** | | **Consolidated** | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Segment revenue:** | | | | |
| Revenue from external customers | **1,809,885** | 1,996,629 | **1,809,885** | 1,996,629 |
| Segment profit/(loss) | **127,478** | (784,401) | **127,478** | (784,401) |
| Interest income | | | **74,476** | 141,361 |
| Net exchange loss | | | **(12,509)** | (108,814) |
| Employee costs | | | **(33,764)** | (44,393) |
| General and administrative expenses not allocated | | | **(15,513)** | (14,509) |
| Finance costs | | | **(490)** | (11,370) |
| Change in fair value of derivative financial instruments | | | **6,886** | (13,134) |
| Share of loss of an associate | | | **(2,308)** | (674) |
| Profit/(Loss) before income tax | | | **144,256** | (835,934) |

| | Coking coal mining | | Corporate | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2016** | *2015* | **2016** | 2015 | **2016** | 2015 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Depreciation | **209,970** | 242,922 | **424** | 441 | **210,394** | 243,363 |
| Amortisation of mining rights | **147,374** | 194,573 | **–** | – | **147,374** | 194,573 |
| Amortisation of prepaid lease payments | **1,423** | 1,502 | **–** | – | **1,423** | 1,502 |
| Impairment loss on goodwill, mining rights and property, plant and equipment | **595,854** | 791,203 | **–** | – | **595,854** | 791,203 |
| Reversal of impairment loss on mining rights and property, plant and equipment | **(401,012)** | – | **–** | – | **(401,012)** | – |
| Provision for impairment of trade and other receivables | **–** | 101,906 | **–** | – | **–** | 101,906 |

| | Coking coal mining | | Corporate | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Segment assets** | **14,549,199** | 15,332,918 | **22,764** | 27,145 | **14,571,963** | 15,360,063 |
| Interest in an associate | **–** | – | **12,641** | 15,644 | **12,641** | 15,644 |
| Deferred tax assets | **–** | – | **21,016** | 21,879 | **21,016** | 21,879 |
| Financial assets measured at fair value through other comprehensive income | **–** | – | **474,617** | 291,902 | **474,617** | 291,902 |
| Other financial assets | **–** | – | **200,000** | – | **200,000** | – |
| Time deposits with original maturity over three months | **–** | – | **2,029,933** | 2,747,304 | **2,029,933** | 2,747,304 |
| Cash and cash equivalents | **123,711** | 176,133 | **1,670,575** | 2,114,744 | **1,794,286** | 2,290,877 |
| **Group assets** | | | | | **19,104,456** | 20,727,669 |
| **Segment liabilities** | **1,566,288** | 1,737,215 | **42,053** | 41,917 | **1,608,341** | 1,779,132 |
| Deferred tax liabilities | **–** | – | **1,595,586** | 1,740,673 | **1,595,586** | 1,740,673 |
| Tax payables | **–** | – | **234,836** | 146,559 | **234,836** | 146,559 |
| Derivative financial instruments | **–** | – | **–** | 17,025 | **–** | 17,025 |
| **Group liabilities** | | | | | **3,438,763** | 3,683,389 |

The Group's revenue from external customers and its non-current assets (other than financial instruments and deferred tax assets) are divided into the following geographical areas:

| | Revenue from external customers | | Non-current assets | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Principal markets** | | | | |
| PRC | **1,809,885** | 1,996,629 | **12,250,348** | 13,253,387 |
| Hong Kong | **–** | – | **786** | 1,197 |
| | **1,809,885** | 1,996,629 | **12,251,134** | 13,254,584 |

Geographical location of customers is based on the location at which the goods were delivered whilst geographical location of non-current assets is based on the physical location of the assets.

During the year, revenue from 3 customers of the Group's coking coal mining segment amounted to HK$605,626,000, HK$364,346,000 and HK$249,910,000, which represented 34%, 20% and 14% of the Group's revenue. In last year, revenue from 4 customers of the segment amounted to HK$506,601,000, HK$372,685,000, HK$294,794,000 and HK$274,052,000, which represented 25%, 19% 15% and 14% of the Group's revenue.

## 6. OTHER OPERATING INCOME

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest income | **74,476** | 141,361 |
| Income from sales of scrapped products | **32,712** | 27,377 |
| | **107,188** | 168,738 |

## 7. FINANCE COSTS

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest charged on discounted bill receivables | **490** | 11,370 |

No borrowing costs were capitalised for the years ended 31 December 2016 and 2015.

## 8. PROFIT/(LOSS) BEFORE INCOME TAX

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit/(Loss) before income tax is arrived at after charging: | | |
| Auditor's remuneration | | |
| – audit services | **1,550** | 1,530 |
| – other services | **431** | 297 |
| Cost of inventories recognised as expenses | **1,202,842** | 1,508,441 |
| Amortisation of: | | |
| – prepaid lease payments | **1,423** | 1,502 |
| – mining rights | **147,374** | 194,573 |
| Depreciation of property, plant and equipment | **210,394** | 243,363 |
| Employee costs (including directors' emoluments) | **456,776** | 565,700 |
| Operating lease charges in respect of land and buildings | **7,116** | 6,325 |
| Provision for impairment on: | | |
| – trade receivables *(note 13)* | **–** | 48,821 |
| – other receivables | **–** | 53,085 |
| Provision for litigation settlement | **939** | 16,571 |
| Net exchange loss | **42,027** | 152,947 |
| Loss on disposals of property, plant and equipment | **6,364** | 14,195 |

## 9. INCOME TAX EXPENSE/(CREDIT)

| | 2016<br>*HK$'000* | 2015<br>*HK$'000* |
|---|---|---|
| Current tax – PRC income tax | | |
| – Current year | **135,858** | 75,285 |
| – Over provision in respect of prior years | **(449)** | (2,292) |
| Deferred tax | | |
| – Current year | **(58,501)** | (197,452) |
| – Prior year | **(308)** | – |
| | **76,600** | (124,459) |

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit arising in Hong Kong in 2016 and 2015.

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

The Group is also subject to withholding tax at the rate of 5% (2015: 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.

Reconciliation between income tax expense/(credit) and accounting profit/(loss) at applicable tax rates is as follows:

| | 2016<br>*HK$'000* | 2015<br>*HK$'000* |
|---|---|---|
| Profit/(Loss) before income tax | **144,256** | (835,934) |
| Tax calculated at the rates applicable to the tax jurisdictions concerned | **36,031** | (200,143) |
| Tax effect of non-deductible expenses | **28,595** | 72,387 |
| Tax effect of non-taxable income | **(13,593)** | (18,610) |
| Tax effect of unused tax losses not recognised | **26,324** | 25,437 |
| Effect of withholding tax at 5% on distributable profits of the Group's major PRC subsidiaries | **–** | (1,238) |
| Over provision in respect of prior years | **(757)** | (2,292) |
| Income tax expense/(credit) | **76,600** | (124,459) |

## 10. DIVIDENDS

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Dividends recognised as distributions during the year: | | |
| 2015 final dividend of HK5 cents (2014: HK2.7 cents) per ordinary share | **265,092** | 143,150 |
| 2016 interim dividend of nil (2015: HK1 cent) per ordinary share | **–** | 53,018 |
| 2016 special dividend of HK15 cents (2015: HK15 cents) per ordinary share | **795,276** | 795,276 |
| | **1,060,368** | 991,444 |

On 23 March 2017, the board of directors proposed a final dividend of HK3 cents per ordinary share totalling HK$159,055,000 to the owners of the Company in respect of the year ended 31 December 2016. The final dividend is subject to the shareholder's approval at the forthcoming annual general meeting. The final dividend proposed after 31 December 2016 has not been recognised as a liability as at 31 December 2016.

On 26 March 2016, the board of directors proposed a final dividend of HK5 cents per ordinary share to the owners of the Company in respect of the year ended 31 December 2015. This final dividend was approved by shareholders at the annual general meeting held on 29 June 2016 and total dividend of HK$265,092,000 was paid on 20 July 2016. This final dividend proposed after 31 December 2015 had not been recognised as a liability as at 31 December 2015.

## 11. EARNINGS/(LOSS) PER SHARE

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

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit/(Loss) used to determine basic and diluted earnings/(loss) per share | **111,795** | (416,471) |
| | ***'000 shares*** | *'000 shares* |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share | **5,301,837** | 5,301,837 |
| Effect of dilutive potential ordinary shares – share options | **–** | – |
| Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share | **5,301,837** | 5,301,837 |

Basic earnings per share is HK2.11 cents (2015: basic loss per share HK7.86 cents), based on the profit for the year attributable to owners of the Company of HK$111,795,000 (2015: loss of HK$416,471,000) and weighted average number of ordinary shares as set out above for basic earnings/(loss) per share.

The Company's share options were all lapsed during the year and there were no potential ordinary shares following the lapse. Therefore, the diluted earnings per share for the year was calculated based on the profit of HK$111,795,000 for the year and on the weighted average of 5,301,837,842 ordinary shares, being the weighted average number of ordinary shares used in the calculation of basic earnings per share in current year.

In calculating the diluted loss per share for the last year, the potential issue of shares arising from the Company's share option would decrease the loss per share during the last year and was thereby not taken into account as they had an anti-dilutive effect. Therefore, the diluted loss per share for the last year was calculated based on the loss of HK$416,471,000 for last year and on the weighted average of 5,301,837,842 ordinary shares, being the weighted average number of ordinary shares used in the calculation of basic loss per share in last year.

## 12. GOODWILL / IMPAIRMENT LOSS ON GOODWILL, MINING RIGHTS AND PROPERTY, PLANT AND EQUIPMENT / REVERSAL OF IMPAIRMENT LOSS ON MINING RIGHTS AND PROPERTY, PLANT AND EQUIPMENT

### (a) Reconciliation of carrying amount of goodwill

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Gross carrying amount at 1 January | **2,191,726** | 2,280,494 |
| Exchange retranslation | **(65,874)** | (88,768) |
| Gross carrying amount at 31 December | **2,125,852** | 2,191,726 |
| Less: | | |
| Accumulated impairment loss at 1 January | **(832,436)** | (825,974) |
| Impairment loss | **(59,713)** | (6,462) |
| Accumulated impairment loss at 31 December | **(892,149)** | (832,436) |
| Net carrying amount at 31 December | **1,233,703** | 1,359,290 |

The carrying amount of goodwill was allocated as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Xingwu | **703,331** | 801,368 |
| Jinjiazhuang | **–** | – |
| Zhaiyadi | **509,661** | 537,211 |
| Jinshan Energy Group Limited | **20,711** | 20,711 |
| Net carrying amount at 31 December | **1,233,703** | 1,359,290 |

### (b) Impairment loss on goodwill, mining rights and property, plant and equipment/Reversal of impairment loss on mining rights and property, plant and equipment

Global economy remained stagnant and China's economy was under downward pressure and the coal price was decreasing in the first quarter of 2016 but rebounded sharply in the second half of 2016 which was mainly resulted from the improvement on the oversupply of coking coal as a result of the implementation of policies of cutting capacity of coal mines and restriction on the coal production volume. The market price of raw coking coal increased by 72% in the second half of 2016 when compared with that in the first half of 2016. The Group reassessed its estimates on the recoverable amounts of cash-generating units ("CGUs") of the coking coal mining segment. During the 2016 interim period, an impairment loss of HK$595,854,000 (2015 interim period: HK$143,715,000) was recognised in the consolidated statement of profit or loss and other comprehensive income of which HK$401,012,000 (2015: nil) relating to mining rights and property plant and equipment was reversed in the consolidated statement of profit or loss and other comprehensive income at the reporting date. Accordingly, impairment loss of HK$194,842,000 (2015: HK$791,203,000) was recognised in the year of 2016. The reversal of impairment loss was mainly attributable to the net effect of the net increase in projected profit from sales of coking coal due to the market coal prices of raw and clean coking coal was outperformed than expected in the interim period at the reporting date.

The recoverable amounts of CGUs have been determined based on value-in-use calculations, which are based on certain key assumptions including discount rates, growth rates, expected changes in direct costs and remaining reserves. The recoverable amounts as at 31 December 2016 were measured by an independent valuer, Asset Appraisal Limited, a member of the Hong Kong Institute of Surveyors.

In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the CGUs.

Cash flows were projected based on the financial budgets prepared by management covering a 5-year period, using a growth rate of approximately 3% to 25% (2015: -1% to 42%) and with average discount rate of 12.87% (2015: 12.76%) per annum.

The cash flows beyond the 5-year period are extrapolated using a steady percentage growth rate of 3% (2015: 3%). Cash flow projections during the budget period for each of the above CGU are based on the budgeted revenue and expected gross margins during the budget period and the same inflation rate of 3% (2015: 3%) during the budget period. Expected cash inflows / outflows, which include budgeted sales, gross margin and inflation rate, have been determined based on market information, past performance and management's expectations for the market development.

The license periods of the mining rights held by the Group range from 3 to 30 years which are shorter than the estimated useful lives of the coal mines estimated by the Group, management is of the opinion that the Group is able to renew the license of the mining rights from the relevant authority continuously and at minimal charges.

The carrying amount of Jinjiazhuang's CGU was determined to be higher than its recoverable amount and an impairment loss of HK$135,129,000 (2015: HK$791,203,000) was recognised. The impairment loss was first allocated to goodwill and then allocated to other assets of the unit, including mining rights and property, plant and equipment, pro-rata on the basis of the carrying amount of these assets. Given that the goodwill of Jinjiazhuang had been fully impaired during the year ended 31 December 2015, the impairment loss of HK$135,129,000 was allocated to other assets during the year ended 31 December 2016. Accordingly, the carrying amount of mining rights and property, plant and equipment, were reduced by HK$102,833,000 and HK$32,296,000 for the year ended 31 December 2016 respectively which were included in "impairment loss on goodwill, mining rights and property, plant and equipment" and "reversal of impairment loss on mining rights and property, plant and equipment" in the consolidated statement of profit or loss and other comprehensive income. The impairment loss of HK$791,203,000 for last year was allocated to goodwill, mining rights and property, plant and equipment amounting to HK$6,462,000, HK$610,529,000 and HK$174,212,000 respectively. The key assumptions are the discount rate of 12.2% (2015: 12.18%) per annum and the growth rates, covering a 5-year period, of approximately 3% to 25% (2015: -1% to 42%).

There was no impairment loss for Xingwu's CGU in last year. As of 30 June 2016, the carrying amount of Xingwu's CGU was determined to be higher than its recoverable amount and an impairment loss of HK$59,713,000 (2015 interim: nil) was recognised during the current year's first interim period. There was no further impairment loss on Xingwu's CGU as the recoverable amount of Xingwu's CGU exceeded its carrying amount as of 31 December 2016. Impairment loss for goodwill is not reversed in subsequent periods, accordingly, carrying amount of goodwill on Xingwu was reduced by HK$59,713,000 during the current year. The key assumptions used in the current year's first interim period were discount rate of 12.26% per annum and the growth rates, covering a 5-year period, of approximately -17% to 27%.

The above impairment losses of HK$194,842,000 (2015: HK$791,203,000) in aggregate were included in "impairment loss on goodwill, mining rights and property, plant and equipment" and "reversal of impairment loss on mining rights and property, plant and equipment" in the consolidated statement of profit or loss and other comprehensive income.

**(c) Sensitivity analysis**

Apart from the considerations described in determining the value-in-use of the CGUs above, the directors are not aware of any other probable changes that would necessitate changes in its key estimates. However, the estimated recoverable amount of the Group's CGUs is particularly sensitive to the long term growth rate applied.

The recoverable amount of Xingwu's CGU exceeded its carrying amount by HK$785,113,000 as of 31 December 2016. The key assumptions are the discount rate of 13.19% and the growth rate of approximately 3% to 25%. If the discount rate increased by 1.94% or the growth rate reduced by 0.92%, the carrying amount of Xingwu's CGU would equal its recoverable amount.

The recoverable amount of Zhaiyadi's CGU exceeded its carrying amount by HK$736,482,000 as of 31 December 2016. The key assumptions are the discount rate of 13.1% and the growth rate of approximately 3% to 25%. If the discount rate increased by 1.95% or the growth rate reduced by 0.96%, the carrying amount of Zhaiyadi's CGU would equal its recoverable amount.

## 13. TRADE AND BILL RECEIVABLES

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **1,083,161** | 1,284,785 |
| Less: Provision for impairment loss | **(213,605)** | (225,151) |
| | **869,556** | 1,059,634 |
| Bill receivables | **1,074,095** | 698,104 |
| | **1,943,651** | 1,757,738 |

Trade receivables generally have credit terms ranging from 60 to 90 days (2015: 60 to 90 days) and no interest is charged.

The carrying amount of trade and bill receivables is considered a reasonable approximation of fair value as these financial assets, which are measured at amortised cost, are expected to be paid within a short timescale, such that the time value of money impact is not significant.

As at 31 December 2016, bill receivables included an amount of RMB105,254,000 (HK$116,832,000 equivalent) (2015: RMB155,700,000 (HK$182,169,000 equivalent)) which was pledged for bill payables of RMB105,254,000 (HK$116,832,000 equivalent) (2015: RMB152,416,000 (HK$178,327,000 equivalent)) (note 14).

As at 31 December 2016, the Group endorsed certain of its bill 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 bill receivables.

The endorsement transactions do not meet the requirements in HKAS 39 for de-recognition of financial assets as the Group retains substantially all of the risks and rewards of ownership of the endorsed bill receivables. At 31 December 2016, bill receivables of RMB13,565,000 (HK$15,058,000 equivalent) (2015: RMB9,716,000 (HK$11,368,000 equivalent)) continue to be recognised in the Group's 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 bill receivables are collected or the Group settles any losses suffered by the creditors. At 31 December 2016, bill receivables endorsed to trade creditors and other creditors amounted to RMB3,500,000 (HK$3,885,000 equivalent) (2015: RMB3,350,000 (HK$3,920,000 equivalent)) (note 14) and RMB10,065,000 (HK$11,173,000 equivalents) (2015: RMB6,366,000 (HK$7,448,000 equivalents)) respectively.

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

At each reporting date, trade and bill receivables are individually assessed for impairment review purpose. The individually impaired receivables, if any, are recognised, based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. The Group does not hold any collateral over these balances.

Impairment losses in respect of trade and bill receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case impairment loss is written off against trade and bill receivables directly. As at 31 December 2016, ageing analysis of net trade and bill receivables, based on the invoice dates, is as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 1 to 3 months | **1,112,874** | 918,910 |
| 4 to 6 months | **681,213** | 387,880 |
| 7 to 12 months | **149,564** | 387,994 |
| Over 1 year | **–** | 62,954 |
| | **1,943,651** | 1,757,738 |

Movement in the provision for impairment of trade receivables is as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At 1 January | **225,151** | 190,480 |
| Exchange retranslation | **(11,546)** | (14,150) |
| Impairment loss recognised *(note 8)* | **–** | 48,821 |
| At 31 December | **213,605** | 225,151 |

As at 31 December 2016, ageing analysis of trade and bill receivables that are not impaired is as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current | **1,668,729** | 1,218,565 |
| Less than 3 months past due | **139,397** | 101,712 |
| 4 to 6 months past due | **113,180** | 314,236 |
| More than 6 months but less than 12 months past due | **22,345** | 123,225 |
| | **274,922** | 539,173 |
| | **1,943,651** | 1,757,738 |

Trade and bill receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Trade and bill receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no provision for impairment is necessary in respect of these balances as there had not been a significant change in credit quality and the balances are considered fully recoverable.

## 14. TRADE AND BILL PAYABLES

The Group was granted by its suppliers credit period ranging between 30 to 180 days (2015: 30 to 180 days). Based on the invoice dates, ageing analysis of trade and bill payables as at 31 December 2016 is as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 1 to 3 months | **249,163** | 276,622 |
| 4 to 6 months | **125,195** | 209,840 |
| 7 to 12 months | **26,768** | 19,589 |
| Over 1 year | **40,297** | 20,396 |
| | **441,423** | 526,447 |

As at 31 December 2016, bill payables amounted to RMB200,724,000 (HK$222,804,000 equivalent) (2015: RMB284,622,000 (HK$333,008,000 equivalent)) were partially secured by the pledged bank deposits of RMB68,800,000 (HK$76,368,000 equivalent) (2015: RMB68,000,000 (HK$79,560,000 equivalent)) and bill receivables of RMB105,254,000 (HK$116,832,000 equivalent) (2015: RMB155,700,000 (HK$182,169,000 equivalent)) (note 13).

As at 31 December 2016, included in trade payables of RMB3,500,000 (HK$3,885,000 equivalent) (2015: RMB3,350,000 (HK$3,920,000 equivalent)) represents the amount of bill receivables endorsed to trade creditors which do not meet the de-recognition requirements in HKAS 39. The corresponding financial assets are included in bill receivables (note 13).

## 15. COMMITMENTS

### (a) Operating lease commitments

At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings payable by the Group are as follows:

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **6,315** | 6,298 |
| In the second to fifth years | **17,750** | 10,791 |
| After the fifth years | **29,076** | 33,346 |
| | **53,141** | 50,435 |

The Group leases a number of land and buildings and other assets under operating leases arrangement. The leases run for an initial period of 3 to 34 years, without an option to renew the leases and renegotiate the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords. None of the leases include contingent rental.

### (b) Capital commitments

| | **2016** | 2015 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Commitments for the: | | |
| – Acquisition of property, plant and equipment | **182,763** | 206,803 |
| – Exploration and design fees for a potential mining project | **8,303** | 8,752 |
| | **191,066** | 215,555 |

## FINAL DIVIDEND

The Board recommends a final dividend of HK3 cents per ordinary share for the year ended 31 December 2016 (2015: HK5 cents per ordinary share) payable to shareholders whose names appear on the register of members of the Company at the close of business on Friday, 2 June 2017. The proposed final dividend together with the special dividend of HK15 cents per ordinary share (2015: an interim dividend of HK1 cent per ordinary share and a special dividend of HK15 cents per ordinary share) will make a total dividend of HK18 cents per ordinary share for the year ended 31 December 2016 (2015: HK21 cents per ordinary share).

Subject to shareholders' approval of the proposed final dividend at the Company's annual general meeting to be held on Friday, 26 May 2017 (the "AGM"), the final dividend is expected to be paid on or about Wednesday, 5 July 2017. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Friday, 2 June 2017 for registration.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 22 May 2017 to Friday, 26 May 2017 (both days inclusive) to determine the entitlement to attend and vote at the AGM. During such period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to attend and vote at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Friday, 19 May 2017 for registration.

## 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) for the year ended 31 December 2016 (the "year under review") together with that of the same period of 2015 is summarised as follows:

| | | **For the year ended 31 December** | | **Change** | |
|---|---|---|---|---|---|
| | Unit | **2016** | 2015 | **Quantity/ Amount** | **Percentage** |
| *Production volume:* | | | | | |
| Raw coking coal | Mt | **3.85** | 4.51 | **-0.66** | **-15%** |
| Clean coking coal | Mt | **2.32** | 2.69 | **-0.37** | **-14%** |
| *Sales volume:* | | | | | |
| Raw coking coal | Mt | **0.48** | 0.28 | **+0.20** | **+71%** |
| Clean coking coal | Mt | **2.12** | 2.61 | **-0.49** | **-19%** |
| *Average realised selling price (inclusive of VAT):* | | | | | |
| Raw coking coal | RMB/tonne | **398** | 328 | **+70** | **+21%** |
| Clean coking coal | RMB/tonne | **769** | 694 | **+75** | **+11%** |

For the year ended 31 December 2016, the Group produced approximately 3.85 million tonnes ("Mt") (2015: approximately 4.51 Mt) of raw coking coal, representing a year-on-year ("YoY") decrease of 15% and also produced approximately 2.32 Mt (2015: approximately 2.69Mt) of clean coking coal, representing a YoY decrease of 14%. Nevertheless the Chinese government implemented certain reduction volume policies, our three mines were approved as one of the release advanced capacity mines in the fourth quarter of 2016. However, our raw coking coal production volume was also decreased in the first three quarter of 2016 because of those polices. In addition, the raw coking coal production volume of Jinjiazhuang Coal Mine was also declined due to the construction for exchange upper and lower coal seams in the second half of 2016.

Because of the reduction of production volume of raw coking coal, sales volume of clean coking coal dropped by 19% YoY during the year under review. In order to speed up the payback period, sales volume of raw coking coal significant increased by 71% YoY during the year under review as a result of a good effort of our sales team. Sales of raw and clean coking coal accounted for 11% and 89% of the Group's turnover respectively for the year ended 31 December 2016. They accounted for 5% and 95% respectively for the year ended 31 December 2015.

Even though China's economy has been slowing down, affected by the national structural reform on supply side and the policies of reduction in production capacity of the coal industry in 2016, the market price of coal became stable in the second quarter of 2016 and has rebounded sharply since the third quarter of 2016. For the year ended 31 December 2016, the Group's average realised selling price (inclusive of value added tax "VAT") of raw coking coal increased by 21% YoY to Renminbi ("RMB") 398/tonne when compared with that of the same period of 2015 (2015: RMB328/tonne) and the Group's average realised selling price (inclusive of VAT) of clean coking coal increased by 11% YoY to RMB769/tonne when compared with that of the same period of 2015 (2015: RMB694/tonne). Except for the rise in market price of coal, the increase in average realised selling price of raw coking coal was also due to the increase in selling proportion of No.4 raw coking coal with higher selling price for the year under review. In terms of its sales volume, sales of No.4 and No.9 raw coking coal accounted for 62% and 38% (2015: 44% and 56%) of the total raw coking coal sales volume respectively for the year ended 31 December 2016. In addition, sales of No.1 and No.2 clean coking coal accounted for 59% and 41% (2015: 59% and 41%) of the total clean coking coal sales volume respectively for the year ended 31 December 2016.

## FINANCIAL REVIEW

For the year ended 31 December 2016, the Group recorded a turnover of approximately Hong Kong Dollars ("HK$") 1,810 million, representing a decrease of approximately HK$187 million or 9% as compared with that of approximately HK$1,997 million for the same period of 2015. The reduction in turnover was mainly attributable to the drop in sales volume of clean coking coal by 19% YoY even though the average realised selling prices of raw and clean coking coal increased by 21% YoY and 11% YoY respectively for the year under review.

For the year ended 31 December 2016, the total turnover to the top five customers accounted for 83% (2015: 78%) of the Group's turnover. Of which, the total turnover to the largest customer, Shougang Corporation, accounted for 34% (2015: 25%) of the Group's turnover.

For the year ended 31 December 2016, gross profit margin was 34% while 24% for the same period in 2015. Increase in gross profit margin was mainly due to the rise in average realised selling prices as explained above under "Business Review". Gross profit was increased by approximately HK$119 million or 24% YoY in 2016.

For the year ended 31 December 2016, the Group recorded a net profit of approximately HK$68 million and profit attributable to the owners of the Company (the "Owner") of approximately HK$112 million. Such turnaround from loss to profit in 2016 is primarily attributable to (i) the substantial increase in gross profit by approximately HK$119 million as a result of rise in selling prices and effective cost control; (ii) the significant rebounded market coal price since the third quarter of 2016, the non-cash net impairment loss on goodwill, mining rights and property, plant and equipment (the "Impairment") was reduced sharply by approximately HK$596 million YoY to approximately HK$195 million (2015: approximately HK$791 million) for the year under review; even the reversal of the related deferred tax liabilities was decreased by approximately HK$ 132 million YoY to approximately HK$26 million (2015: approximately HK$158 million) as income, the net effect on the Impairment is attributable to the reduction of net profit and profit attributable to the Owners amounted to approximately HK$169 million (2015: approximately HK$633 million) and approximately HK$122 million (2015: approximately HK$358 million) respectively; and (iii) for minimum exchange risk arising from the deprecation of RMB, only 5% (2015: 68%) of our average bank balance is denominated in RMB during the year under review. Thus, the impact on the depreciation in RMB was minimised sharply. The Group substantial reduced the relevant net foreign exchange loss by approximately HK$131 million YoY to approximately HK$35 million (2015: approximately HK$166 million) ("the Foreign Exchange Loss").

Excluding above stated net effect on the Impairment and the Foreign Exchange Loss, the Group would record net profit of approximately HK$272 million (2015: approximately HK$88 million) and profit attributable to the Owners of approximately HK$269 million (2015: approximately HK$108 million) for the year ended 31 December 2016.

During the year under review, basic earnings per share was HK2.11 cents (2015: basic loss per share was HK7.86 cents).

The Group recorded EBITDA of approximately HK$694 million (2015: approximately HK$420 million). The Group continues to maintain a healthy free cash balance of approximately HK$3,824 million as at 31 December 2016 (as at 31 December 2015: approximately HK$5,038 million). The drop in cash balance is mainly due to the payment of total dividend amounting to HK$1,060 million to our shareholders of the Company during the year of under review.

**Cost of Sales**

During the year under review, cost of sales was approximately HK$1,203 million, representing a decrease of approximately HK$305 million or 20%, as compared with that of approximately HK$1,508 million for the same period of 2015. The decrease in cost of sales was mainly due to the decrease in actual usage volume of raw coking coal for sales and effective cost control during the year under review.

Included in cost of sales, amortisation of mining rights was approximately HK$147 million for the year ended 31 December 2016, representing a decrease of approximately HK$48 million or 25%, as compared with that of approximately HK$195 million for the same period of 2015. The decrease in amortisation of mining rights was mainly due to the decrease in actual usage volume of raw coking coal for sales during the year under review.

The unit production costs are summarised as follows:

| | | **For the year ended 31 December** | | **Change** | |
|---|---|---|---|---|---|
| | Unit | **2016** | 2015 | **Amount** | **Percentage** |
| Production cost of raw coking coal | RMB/tonne | **257** | 243 | **+14** | **+6%** |
| *of which, depreciation and amortisation* | RMB/tonne | **(65)** | (66) | **-1** | **-2%** |
| Processing cost for clean coking coal | RMB/tonne | **46** | 46 | **–** | **–** |
| *of which, depreciation* | RMB/tonne | **(13)** | (11) | **+2** | **+18%** |

Due to the increase in average realised selling prices of raw and clean coking coal, resources tax which is charged on the basis of the selling price of coking coal, and levies of city constructional tax and additional educational surcharge which is charged on the basis of the VAT, the related unit costs increased by HK$9/tonne YoY, for the year ended 31 December 2016. Excluding the effect on the increase in these uncontrollable costs, unit cost was only increased by 2% YoY even though the production volume of raw coking coal decreased by 15% YoY. It is the result of the implementation of the effective cost control measures by the Group including optimisation of human resources.

**Gross Profit and Gross Profit Margin**

As a result of the reasons above, gross profit was approximately HK$607 million for the year ended 31 December 2016, representing an increase of approximately HK$119 million or 24% as compared with that of approximately HK$488 million for the same period of 2015. During the year under review, gross profit margin was 34% compared with 24% for the same period of 2015. The increase in gross profit margin was mainly due to the rise in average realised selling prices of raw and clean coking coal by 21% and 11% respectively for the year ended 31 December 2016 when compared with that in the same period of 2015 as explained above under "Business Review".

**Other Operating Income**

During the year under review, other operating income was approximately HK$107 million, representing a significant decrease of approximately HK$62 million or 37% as compared with approximately HK$169 million of the same period in 2015. The significant decrease in other operating income was mainly attributable to the significant decrease in interest income by approximately HK$67 million or 47% YoY which was decreased in line with average bank balance denominated in RMB with relatively earning higher yield from 68% in the same period of 2015 to 5% for the year under review. In other words, income from sales of scrapped products was increased by approximately HK$5 million or 19% YoY as a result of the increase in coal prices during the year under review.

**Selling and Distribution Expenses**

During the year under review, selling and distribution expenses were approximately HK$167 million, representing a significant decrease of approximately HK$35 million or 17% as compared with that of approximately HK$202 million for the same period of 2015. The decrease was mainly as a result of the drop in sales volume of clean coking coal.

**General and Administrative Expenses**

Included in general and administrative expenses, net exchange loss of approximately HK$42 million (2015: approximately HK$153 million), excluding such net exchange loss, general and administrative expenses would be approximately HK$162 million for the year ended 31 December 2016, representing a decrease of approximately HK$27 million or 14% as compared with approximately HK$189 million for the same period of 2015. The decrease was resulted from the effective cost control including the decrease in staff costs by approximately HK$18 million during the year under review.

## Net Impairment Loss on Goodwill, Mining Rights and Property, Plant and Equipment

Due to the improvement in the overcapacity in the coal market and substantial rebound of market coal prices since September 2016 which led to rise the forecasted coal prices by the market, after assessment, the Group recognised a non-cash net impairment loss of approximately HK$195 million (2015: approximately HK$791 million) made on goodwill, mining rights and property, plant and equipment during the year under review, which was substantial decreased by approximately HK$596 million YoY. Details of which are disclosed in note 12(b) on this result announcement.

## Other Operating Expenses

During the year under review, other operating expenses were approximately HK$8 million, represent a significant decrease of approximately HK$125 million or 94% as compared with approximately HK$133 million for the same period of 2015. The significant decrease is mainly attributable to no provision for impairment on trade and other receivables with aging over one year during the year under review (2015: approximately HK$102 million); provision of the litigation settlement of approximately HK$1 million (2015: approximately HK$17 million) and the loss on disposal of useless plant and equipment reduced to approximately HK$6 million (2015: approximately HK$14 million).

## Finance Costs

During the year under review, finance costs were approximately HK$1 million (2015: approximately HK$11 million). The finance costs were derived from the early redemption of bill receivables of the Group. The decrease in finance costs was resulted from the effective cash management during the year under review. During the year under review, no borrowing costs were capitalised in the construction in progress (2015: nil).

## Income Tax Expense

During the year under review, it was recorded income tax expense of approximately HK$77 million (2015: income tax credit of approximately HK$124 million). For the year under review, there is a reversal of deferred tax liabilities of approximately HK$26 million (2015: approximately HK$158 million) arising from impairment loss on mining rights and property, plant and equipment as income tax credit. In addition, income tax expense was substantial increased which was in line with the substantial increase in profits arising from the major PRC subsidiaries during the year under review. The enterprise income tax rate for the Group's major PRC subsidiaries is 25%.

## Owner's Attributable Profit

By reasons of the foregoing, the Group recorded a turnover from loss to profit during the year under review. Profit attributable to the Owner of approximately HK$112 million for the year ended 31 December 2016 while loss attributable to the Owner of approximately HK$416 million for the year ended 31 December 2015.

## Material Investments and Acquisitions

During the year ended 31 December 2016, the Group had no material investments and acquisitions.

**Material Disposals**

During the year ended 31 December 2016, the Group had no material disposals.

**Charges on Assets**

As at 31 December 2016, save for disclosed below, none of the Group's assets was charged or subject to any encumbrance.

As at 31 December 2016, bank deposits of approximately HK$76 million and bill receivables of approximately HK$117 million were used for securing bills facilities of approximately HK$193 million.

**Contingent Liabilities**

As at 31 December 2016, there were no guarantees given to any banks or financial institutions by the Group.

**Gearing Ratio**

As at 31 December 2016, the Group had no borrowings. The gearing ratio of the Group was 0%.

**Exposure to Fluctuations in Exchange Rates**

As at 31 December 2016, other than assets and liabilities denominated in Australian Dollars ("AUD") and RMB, the Group had no material exposure to foreign exchange fluctuations. As at 31 December 2016, AUD and RMB were depreciated by approximately 1% and approximately 5% respectively, when compared to that as at 31 December 2015. The aggregate carrying amount of assets denominated in AUD represented approximately 2% of the Group's net assets value as at 31 December 2016. Thus, such fluctuation in AUD exchange rate is not expected to have any material impact on the financial position of the Group. On the other hand, as the net assets value denominated in RMB represented approximately 72% of the Group's net assets value as at 31 December 2016, the depreciation in RMB led to exchange loss of approximately HK$569 million (other than the Foreign Exchange Loss recognised in profit or loss stated above) recognised in the other comprehensive income upon translation of financial statements of foreign operations in the PRC for the year ended 31 December 2016.

**Liquidity and Financial Resources**

As at 31 December 2016, the Group's current ratio (total current assets divided by total current liabilities) was approximately 3.45 times and the Group's cash and bank deposits amounted to approximately HK$3,901 million, of which approximately HK$76 million was deposited to secure bills facilities of same amount. The Group continued to maintain a healthy net cash balance.

The Group has bill receivables amounting to approximately HK$1,074 million (of which approximately HK$15 million represented discounted or endorsed bill receivables and approximately HK$117 million was used for securing bills facilities of same amount) as at 31 December 2016 that were readily convertible into cash, but would be subject to finance cost upon conversion before the maturity. Taking into account for the free bill receivables of approximately HK$942 million, the Group's free cash resources would have approximately HK$4,767 million as at 31 December 2016.

### Capital Structure

Total equity and borrowings are classified as capital of the Group. As at 31 December 2016, the amount of capital was approximately HK$15,666 million.

During the year under review, there is no change in number of issued shares. As at 31 December 2016, the share capital of the Company was approximately HK$15,157 million, represented approximately 5,302 million shares in number.

As at 31 December 2016, the Group had no borrowings.

## EMPLOYEES

As at 31 December 2016, the Group had 23 Hong Kong employees and 5,127 PRC 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 year under review, no share option was granted or exercised.

## FUTURE PROSPECTS

In 2017, the Central government will continuously carry on the tasks of deepening the supply-front reform and cutting over-capacity of steel and coal industry. The real estate market will continuously put forward regulatory policies, however, the One Belt One Road policies, Public-Private Partnership projects volume including significant demand of infrastructure industry with municipal works and manufacturing industry increases remarkably. Local debt and foreign exchange outflow still need to pay attention continuously.

The Group will pay close attention to developments in China and the global economy, and take effective measures to solve the problems encountered in the development. We will continue to consolidate and strengthen the long-term strategic partnerships with existing customers. At the same time, we will always pay attention to safety and strengthen management. For the Group to achieve sustainable development in the future, we have been actively and prudently to find suitable mergers and acquisitions in China and around the world, and strive to enhance the reserves and improve the existing capacity. We are confident that with the rich industry management, investment and operational experience, to achieve better development of the Group, and for the shareholders to create more value.

## SCOPE OF WORK OF BDO LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

## 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 of Hong Kong Limited (the "Stock Exchange") or otherwise) during the year.

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange during the financial year ended 31 December 2016. Details of the Company's compliance with the provisions of the CG Code during the year will be set out in the Corporate Governance Report in the Company's 2016 annual report.

## 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 extend my gratitude and appreciation to all management and staff for their hard work and dedication throughout the year.

By order of the Board
**Shougang Fushan Resources Group Limited**
**Li Shaofeng**
*Chairman*

Hong Kong, 23 March 2017

*As at the date of this announcement, the Board comprises Mr. Li Shaofeng (Chairman), Mr. Ding Rucai (Vice-chairman and Managing Director), Mr. So Kwok Hoo (Deputy Managing Director), Mr. Chen Zhaoqiang (Deputy Managing Director), Mr. Liu Qingshan (Deputy Managing Director), Mr. Leung Shun Sang, Tony (Non-executive Director), Mr. Dong Yansheng (Non-executive Director), Mr. Kee Wah Sze (Independent Non-executive Director), Mr. Choi Wai Yin (Independent Non-executive Director), Mr. Chan Pat Lam (Independent Non-executive Director) and Mr. Japhet Sebastian Law (Independent Non-executive Director).*