

Interim Report **2017**



SHOUGANG FUSHAN RESOURCES GROUP LIMITED

Stock Code : 639

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CORPORATE INFORMATION

Board of Directors

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

Executive Committee

Li Shaofeng (*Chairman*)
Ding Rucai
So Kwok Hoo
Chen Zhaoqiang
Liu Qingshan

Audit Committee

Choi Wai Yin (*Chairman*)
Kee Wah Sze
Chan Pat Lam
Japhet Sebastian Law

Nomination Committee

Li Shaofeng (*Chairman*)
Kee Wah Sze
Choi Wai Yin
Chan Pat Lam
Japhet Sebastian Law

CORPORATE INFORMATION (continued)

Remuneration Committee	Japhet Sebastian Law (<i>Chairman</i>) Li Shaofeng Leung Shun Sang, Tony Kee Wah Sze Choi Wai Yin Chan Pat Lam
Company Secretary	Cheng Man Ching
Auditor	BDO Limited
Share Registrar	Tricor Tengis Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
Registered Office and Principal Place of Business	6th Floor Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong
Stock Code	639
Website	www.shougang-resources.com.hk

FINANCIAL HIGHLIGHTS

<i>(HK\$'000)</i>	For the six months ended 30 June 2017	For the six months ended 30 June 2016	Percentage change
Revenue	1,917,743	677,965	+183%
Gross profit	1,156,023	127,574	+806%
Gross profit margin	60%	19%	
Non-cash impairment loss on goodwill, mining rights and property, plant and equipment	–	(595,854)	
<i>Before non-cash impairment loss on goodwill, mining rights and property, plant and equipment (net of the correspondence deferred tax impact):</i>			
Profit for the period	744,965	658	
Profit/(Loss) attributable to owners of the Company ("Owners")	661,933	(2,104)	
<i>After non-cash impairment loss on goodwill, mining rights and property, plant and equipment (net of the correspondence deferred tax impact):</i>			
Profit/(Loss) for the period	744,965	(491,116)	
Profit/(Loss) attributable to Owners	661,933	(306,588)	
EBITDA ¹	1,235,395	192,834	+541%
Basic earnings/(loss) per share (HK cents)	12.48	(5.78)	
Dividend per share (HK cents)			
– Interim	3.00	–	
– Special	–	15.00	
	As at 30 June 2017	As at 31 December 2016	Percentage change
<i>(HK\$'000)</i>			
Total assets	20,786,043	19,104,456	+9%
of which: Cash and cash equivalents and time deposits with original maturity over three months	4,170,805	3,824,219	+9%
Unpledged bill receivables	1,528,073	942,205	+62%
Total liabilities	(4,152,319)	(3,438,763)	+21%
Total equity	16,633,724	15,665,693	+6%
of which: Equity attributable to Owners	15,221,514	14,519,024	+5%
Net assets per share attributable to Owners (HK\$)	2.87	2.74	+5%
Current ratio ²	3.05 times	3.45 times	–12%

Notes:

- EBITDA is defined as profit/(loss) before income tax plus impairment loss on goodwill, mining rights and property, plant and equipment, finance costs, change in fair value of derivative financial instruments, share of loss of an associate, depreciation and amortisation.
- Current ratio is computed from total current asset divided by total current liabilities.

INDEPENDENT REVIEW REPORT



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REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

TO THE BOARD OF DIRECTORS OF SHOUGANG FUSHAN RESOURCES GROUP LIMITED

(incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated interim financial statements set out on pages 7 to 37, which comprise the condensed consolidated statement of financial position of Shougang Fushan Resources Group Limited and its subsidiaries as of 30 June 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with HKAS 34.

Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

INDEPENDENT REVIEW REPORT (continued)

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with HKAS 34.

BDO Limited

Certified Public Accountants

Hong Kong, 24 August 2017

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The board of directors (the "Board") of Shougang Fushan Resources Group Limited (the "Company") is pleased to report the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2017. These interim results have been reviewed by the Company's Audit Committee and its Auditor.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Notes	Six months ended 30 June	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Revenue	4	1,917,743	677,965
Cost of sales		(761,720)	(550,391)
Gross profit		1,156,023	127,574
Other operating income	5	78,117	51,512
Selling and distribution expenses		(109,176)	(85,652)
General and administrative expenses		(76,369)	(86,975)
Other operating expenses		(110)	(642)
Impairment loss on goodwill, mining rights and property, plant and equipment	6(b)	–	(595,854)
Finance costs	7	(1,991)	(384)
Change in fair value of derivative financial instruments		–	7,899
Share of loss of an associate		(103)	(1,157)
Profit/(Loss) before income tax	8	1,046,391	(583,679)
Income tax (expense)/credit	9	(301,426)	92,563
Profit/(Loss) for the period		744,965	(491,116)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

For the six months ended 30 June 2017

	Notes	Six months ended 30 June	
		2017 HK\$'000 (Unaudited)	2016 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		386,595	(27,251)
Item that will not be reclassified to profit or loss:			
Fair value gain on financial assets measured at fair value through other comprehensive income		1,843	124,749
Total comprehensive income for the period		1,133,403	(393,618)
Profit/(Loss) for the period attributable to:			
Owners of the Company		661,933	(306,588)
Non-controlling interests		83,032	(184,528)
Profit/(Loss) for the period		744,965	(491,116)
Total comprehensive income for the period attributable to:			
Owners of the Company		1,008,957	(207,601)
Non-controlling interests		124,446	(186,017)
Total comprehensive income for the period		1,133,403	(393,618)
		HK(Cents)	HK(Cents)
Earnings/(Loss) per share			
– Basic and diluted	11	12.48	(5.78)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	2,866,795	2,740,973
Prepaid lease payments		49,983	48,965
Mining rights		8,104,970	7,902,244
Goodwill	6(a)	1,276,322	1,233,703
Interest in an associate		12,980	12,641
Financial assets measured at fair value through other comprehensive income	13	476,460	474,617
Deposits, prepayments and other receivables		364,430	312,608
Deferred tax assets		22,225	21,016
Total non-current assets		13,174,165	12,746,767
Current assets			
Inventories		161,922	198,599
Trade receivables	14	941,551	869,556
Bill receivables	15	1,670,779	1,074,095
Deposits, prepayments and other receivables		271,991	114,293
Other financial asset	16	200,000	200,000
Pledged bank deposits	17	194,830	76,927
Time deposits with original maturity over three months	18	1,172,889	2,029,933
Cash and cash equivalents	18	2,997,916	1,794,286
Total current assets		7,611,878	6,357,689
Current liabilities			
Trade and bill payables	19	545,461	441,423
Other financial liability	20	186,138	–
Other payables and accruals		1,312,990	1,160,446
Dividend payable	10	159,055	–
Amounts due to non-controlling interests of subsidiaries		8,193	6,472
Tax payables		282,625	234,836
Total current liabilities		2,494,462	1,843,177
Net current assets		5,117,416	4,514,512
Total assets less current liabilities		18,291,581	17,261,279

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 30 June 2017

	<i>Notes</i>	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Non-current liabilities			
Deferred tax liabilities		1,657,857	1,595,586
Total non-current liabilities		1,657,857	1,595,586
Net assets		16,633,724	15,665,693
EQUITY			
Equity attributable to owners of the Company			
Share capital	21	15,156,959	15,156,959
Reserves		64,555	(637,935)
Total equity attributable to owners of the Company		15,221,514	14,519,024
Non-controlling interests		1,412,210	1,146,669
Total equity		16,633,724	15,665,693

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Equity attributable to owners of the Company							Total	Non-controlling interests	Total equity
	Share capital	Statutory reserve	Other reserves	Retained profits	Share-based compensation reserve	Security investment reserve	Translation reserve			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2016 (Audited)	15,156,959	448,068	586,286	674,401	537,680	(2,082,934)	470,655	15,791,115	1,253,165	17,044,280
Loss for the period (Unaudited)	-	-	-	(306,588)	-	-	-	(306,588)	(184,528)	(491,116)
Other comprehensive income for the period:										
- Exchange differences on translation of financial statements of foreign operations (Unaudited)	-	-	-	-	-	-	(25,762)	(25,762)	(1,489)	(27,251)
- Fair value gain on financial assets measured at fair value through other comprehensive income (Unaudited)	-	-	-	-	-	124,749	-	124,749	-	124,749
Total comprehensive income for the period (Unaudited)	-	-	-	(306,588)	-	124,749	(25,762)	(207,601)	(186,017)	(393,618)
2015 final dividends approved (Unaudited)	-	-	-	(265,092)	-	-	-	(265,092)	-	(265,092)
Appropriations to other reserves (Unaudited)	-	-	9,640	(9,640)	-	-	-	-	-	-
Lapsed of share options (Unaudited)	-	-	-	11,689	(11,689)	-	-	-	-	-
At 30 June 2016 (Unaudited)	15,156,959	448,068	595,926	104,770	525,991	(1,958,185)	444,893	15,318,422	1,067,148	16,385,570

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
For the six months ended 30 June 2017

	Equity attributable to owners of the Company						Total	Non- controlling interests	Total equity	
	Share capital	Statutory reserve	Other reserves	Retained profits	Security investment reserve	Translation reserve				Total
At 1 January 2017 (Audited)	15,156,959	448,068	570,393	279,401	(1,900,219)	(35,578)	14,519,024	1,146,669	15,665,693	
Profit for the period (Unaudited)	-	-	-	661,933	-	-	661,933	83,032	744,965	
Other comprehensive income for the period:										
- Exchange differences on translation of financial statements of foreign operations (Unaudited)	-	-	-	-	-	345,181	345,181	41,414	386,595	
- Fair value gain on financial assets measured at fair value through other comprehensive income (Unaudited)	-	-	-	-	1,843	-	1,843	-	1,843	
Total comprehensive income for the period (Unaudited)	-	-	-	661,933	1,843	345,181	1,008,957	124,446	1,133,403	
Transfer 27% equity interest of Jinshan Energy Group Limited ("Jinshan") (Unaudited)	-	-	44,120	-	-	(5,394)	38,726	141,095	179,821	
Obligation to repurchase the 27% equity interest of Jinshan (note 20) (Unaudited)	-	-	(186,138)	-	-	-	(186,138)	-	(186,138)	
2016 final dividends approved (note 10) (Unaudited)	-	-	-	(159,055)	-	-	(159,055)	-	(159,055)	
Appropriations to other reserves (Unaudited)	-	-	(22,036)	22,036	-	-	-	-	-	
At 30 June 2017 (Unaudited)	15,156,959	448,068	406,339	804,315	(1,898,376)	304,209	15,221,514	1,412,210	16,633,724	

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)
Cash flows from operating activities		
Profit/(Loss) before income tax	1,046,391	(583,679)
Adjustments for:		
Amortisation of prepaid lease payments	694	724
Amortisation of mining rights	74,008	82,475
Depreciation of property, plant and equipment	112,208	103,818
Finance costs	1,991	384
Impairment loss on goodwill, mining rights and property, plant and equipment	–	595,854
Share of loss of an associate	103	1,157
Interest income	(35,548)	(36,967)
Change in fair value of derivative financial instruments	–	(7,899)
Net exchange (gain)/loss	(24,422)	7,352
Operating profit before working capital changes	1,175,425	163,219
Decrease/(Increase) in inventories	43,655	(45,659)
(Increase)/Decrease in trade receivables	(41,444)	179,613
Increase in bill receivables	(558,727)	(49,784)
Decrease in deposits, prepayments and other receivables	22,734	23,307
Increase/(Decrease) in trade and bill payables	53,136	(38,268)
Increase in other payables and accruals	106,247	476
Increase in amounts due to non-controlling interests of subsidiaries	1,494	1,516
Cash generated from operations	802,520	234,420
Income tax paid	(256,216)	(27,268)
<i>Net cash from operating activities</i>	546,304	207,152

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended 30 June 2017

	Notes	Six months ended 30 June	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Cash flows from investing activities			
Payments to acquire property, plant and equipment		(141,685)	(104,527)
Increase in pledged bank deposits		(117,582)	(53,118)
Decrease/(Increase) in time deposits with original maturity over three months		857,044	(731,899)
Interest received		32,561	17,590
<i>Net cash from/(used in) investing activities</i>		630,338	(871,954)
Cash flows from financing activities			
Finance costs paid		(1,969)	(384)
<i>Net cash used in financing activities</i>		(1,969)	(384)
Net increase/(decrease) in cash and cash equivalents		1,174,673	(665,186)
Cash and cash equivalents at 1 January		1,794,286	2,290,877
Effect of foreign exchange rates changes on cash and cash equivalents		28,957	(21,590)
Cash and cash equivalents at 30 June		2,997,916	1,604,101
Cash and cash equivalents at 30 June, represented by:			
Bank balances and cash	18	2,997,916	1,604,101

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 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 2017.

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six months ended 30 June 2017 (the “Consolidated Interim Financial Statements”) 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 Consolidated Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”).

The preparation of the Consolidated Interim Financial Statements require 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 Consolidated Interim Financial Statements, 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 2016.

The Consolidated Interim Financial Statements are unaudited, but have been reviewed by our auditor in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

The Consolidated Interim Financial Statements were approved for issue by the board of directors on 24 August 2017.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

3. SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Interim Financial Statements have been prepared in accordance with the accounting policies adopted in the last financial statements for the year ended 31 December 2016, except for the adoption of the following standards as of 1 January 2017:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

The adoption of these amended HKFRSs has no material impact on the Consolidated Interim Financial Statements.

4. REVENUE AND 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 for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product lines. The Group has identified one reportable segment as follows:

Coking coal mining:	Mining and exploration of coal resources and production of raw and clean coking coal in the PRC
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For the six months ended 30 June 2017, there has been no change from prior periods in the measurement methods used to determine operating segments and reported segment profit or loss.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

4. REVENUE AND SEGMENT INFORMATION (continued)

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 are as follows:

	Coking coal mining		Consolidated	
	Six months ended 30 June		Six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Segment revenue:				
Revenue from external customers	1,917,743	677,965	1,917,743	677,965
Segment profit/(loss)	1,028,084	(595,982)	1,028,084	(595,982)
Interest income			35,548	36,967
Net exchange gain/(loss)			10,091	(5,274)
Employee costs			(16,453)	(17,662)
General and administrative expenses not allocated			(8,785)	(8,086)
Finance costs			(1,991)	(384)
Change in fair value of derivative financial instruments			-	7,899
Share of loss of an associate			(103)	(1,157)
Profit/(Loss) before income tax			1,046,391	(583,679)

	Coking coal mining		Corporate		Consolidated	
	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Segment assets	16,039,034	14,672,910	4,035,344	3,723,272	20,074,378	18,396,182
Segment liabilities	1,837,457	1,566,288	188,242	42,053	2,025,699	1,608,341

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

5. OTHER OPERATING INCOME

	Six months ended 30 June	
	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)
Interest income	35,548	36,967
Income from sales of scrapped products	18,147	14,545
Net exchange gain	24,422	–
	78,117	51,512

6. GOODWILL/IMPAIRMENT LOSS ON GOODWILL, MINING RIGHTS AND PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount of goodwill

	30 June 2017 <i>HK\$'000</i> (Unaudited)	31 December 2016 <i>HK\$'000</i> (Audited)
Gross carrying amount at beginning of the period/year	2,125,852	2,191,726
Exchange retranslation	42,619	(65,874)
Gross carrying amount at end of the period/year	2,168,471	2,125,852
<i>Less:</i>		
Accumulated impairment loss at beginning of the period/year	(892,149)	(832,436)
Impairment loss for the period/year	–	(59,713)
Accumulated impairment loss at end of the period/year	(892,149)	(892,149)
Net carrying amount at end of the period/year	1,276,322	1,233,703

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

6. GOODWILL/IMPAIRMENT LOSS ON GOODWILL, MINING RIGHTS AND PROPERTY, PLANT AND EQUIPMENT (continued)

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

The carrying amount of goodwill was allocated as follows:

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Shanxi Liulin Xingwu Coal Co., Limited ("Xingwu")	728,042	703,331
Shanxi Liulin Jinjiazhuang Coal Co., Limited ("Jinjiazhuang")	–	–
Shanxi Liulin Zhaiyadi Coal Co., Limited ("Zhaiyadi")	527,569	509,661
Jinshan	20,711	20,711
Net carrying amount at end of the period/year	1,276,322	1,233,703

(b) Impairment loss on goodwill, mining rights and property, plant and equipment

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 and the flood in Australia in March 2017, the average market price of raw coking coal increased by 41% in the first half of 2017 when compared with that in the second half of 2016. The Group reassessed its estimates on the recoverable amounts of cash-generated units ("CGUs") of the coking coal mining segment. During the six months ended 30 June 2017, no impairment loss was recognised in the consolidated statement of profit or loss and other comprehensive income (Six months ended 30 June 2016: impairment loss of HK\$595,854,000 was recognised).

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 30 June 2017 were measured by an independent valuer, Asset Appraisal Limited, a member of the Hong Kong Institute of Surveyors.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

6. GOODWILL/IMPAIRMENT LOSS ON GOODWILL, MINING RIGHTS AND PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Impairment loss on goodwill, mining rights and property, plant and equipment (continued)

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 -14% to 3% (As at 31 December 2016: 3% to 25%) and with an average discount rate of 12.93% (As at 31 December 2016: 12.87%) per annum.

The cash flows beyond the 5-year period are extrapolated using a steady percentage growth rate of 3% (As at 31 December 2016: 3%). Cash flow projections during the budget period for each of the above CGU are based on the budgeted revenue and expected gross margin and the same inflation rate of 3% (As at 31 December 2016: 3%) during the budget period. Expected cash inflows or 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. The 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.

There was no impairment loss on goodwill, mining rights and property, plant and equipment incurred during this interim period as the recoverable amount of Xingwu's, Jinjiazhuang's and Zhaiyadi's CGUs equal to or higher than its carrying amount. The impairment loss on goodwill, mining rights and property, plant and equipment in last interim period was incurred on Jinjiazhuang's and Xingwu's CGU.

As of 30 June 2016, the carrying amount of Jinjiazhuang's CGU was determined to be higher than its recoverable amount and an impairment loss of HK\$535,115,000 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 to these assets. Given that the goodwill of Jinjiazhuang had been fully impaired during the year ended 31 December 2015, the impairment loss of HK\$535,115,000 was allocated to other assets during the last interim period. Accordingly, the carrying amounts of its mining rights and property, plant and equipment were reduced by HK\$416,319,000 and HK\$118,796,000 respectively for the last interim period. The key assumptions used in the last interim period were discount rate of 11.74% per annum and the growth rates, covering a 5-year period, of approximately -17% to 27%.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

6. GOODWILL/IMPAIRMENT LOSS ON GOODWILL, MINING RIGHTS AND PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Impairment loss on goodwill, mining rights and property, plant and equipment (continued)

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\$60,739,000 was recognised which was fully allocated to goodwill, as a result, the carrying amount of goodwill on Xingwu was reduced by HK\$60,739,000. The key assumptions used in the last 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 were included in "impairment loss on goodwill, mining rights and property, plant and equipment" in the consolidated statement of profit or loss and other comprehensive income in last interim period.

(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 exceeds its carrying amount by HK\$573,487,000 as at 30 June 2017. The key assumptions are the discount rate of 13.08% per annum and the growth rate of approximately -12% to 3%. If the discount rate increased by 1.38% or the growth rate reduced by 0.58%, the carrying amount of Xingwu's CGU would equal to its recoverable amount.

The recoverable amount of Zhaiyadi's CGU exceeds its carrying amount by HK\$1,375,815,000 as at 30 June 2017. The key assumptions are the discount rate of 13.24% per annum and the growth rate of approximately -16% to 3%. If the discount rate increased by 3.54% or the growth rate reduced by 1.49%, the carrying amount of Zhaiyadi's CGU would equal to its recoverable amount.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

7. FINANCE COSTS

	Six months ended 30 June	
	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)
Interest charged on discounted bill receivables	1,991	384

No borrowing costs were capitalised for the six months ended 30 June 2017 and 2016.

8. PROFIT/(LOSS) BEFORE INCOME TAX

	Six months ended 30 June	
	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)
Profit/(Loss) before income tax is arrived at after charging/(crediting):		
Cost of inventories recognised as expenses	761,720	550,391
Amortisation of:		
– prepaid lease payments	694	724
– mining rights	74,008	82,475
Depreciation of property, plant and equipment	112,208	103,818
Employee costs (<i>including directors' emoluments</i>)	229,224	205,678
Net exchange (gain)/loss	(24,422)	7,352
Operating lease charges in respect of land and buildings	3,632	3,556

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

9. INCOME TAX EXPENSE/(CREDIT)

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax – PRC income tax	261,438	27,499
Deferred tax	39,988	(120,062)
	301,426	(92,563)

No provision for Hong Kong Profits Tax has been made in the Consolidated Interim Financial Statements as the Group had no assessable profit arising in Hong Kong for the six months ended 30 June 2017 and 2016.

In accordance with the Income Tax Law of the PRC for Enterprises with Foreign Investment, the Group's certain major subsidiaries, namely Xingwu, Jinjiazhuang and Zhaiyadi, 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 2016: 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

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interim dividend: HK3 cents per ordinary share (Six months ended 30 June 2016: nil)	159,055	–
Special dividend: nil (Six months ended 30 June 2016: HK15 cents per ordinary share)	–	795,276
	159,055	795,276

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

10. DIVIDENDS (continued)

Interim dividend of HK3 cents per ordinary share (Six months ended 30 June 2016: nil interim dividend, a special dividend of HK15 cents per ordinary share) declared after 30 June 2017 (Six months ended 30 June 2016: 30 June 2016) which have not been recognised as liabilities as at the reporting date.

Interim dividend for the six months ended 30 June 2017 is expected to be paid on or about 20 October 2017 to all owners of the Company whose names appear on the register of members of the Company at the close of business on 11 September 2017. As at 30 June 2017, the number of the issued share capital of the Company is 5,301,837,842 (As at 30 June 2016: 5,301,837,842).

A final dividend of HK3 cents per ordinary share totalling HK\$159,055,000 in respect of the year ended 31 December 2016 was approved at the annual general meeting held on 26 May 2017. The 2016 final dividend has been recognised as a liability as at 30 June 2017 and is paid on 5 July 2017.

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:

	Six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Profit/(Loss) used to determine basic and diluted earnings/(loss) per share	661,933	(306,588)
	'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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

11. EARNINGS/(LOSS) PER SHARE (continued)

The Company's share options were all lapsed during the second half of last year and there were no potential ordinary shares following the lapse. Therefore, the diluted earnings per share for this interim period was calculated based on the profit of HK\$661,933,000 for the period 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 interim period.

In calculating the diluted loss per share for the last interim period, the potential issue of shares arising from the Company's share option would decrease the loss per share during the last interim period and was thereby not taken into account as they had an anti-dilutive effect. Therefore, the diluted loss per share for the last interim period was calculated based on the loss for the period of HK\$306,588,000 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.

12. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment at a total cost of HK\$141,966,000 (Six months ended 30 June 2016: HK\$57,929,000) mainly in relation to the additions of mining equipment and construction in progress for mining infrastructure and coal preparation plants. No property, plant and equipment was disposed during the six months ended 30 June 2017 (Six months ended 30 June 2016: nil).

During the current and last interim periods, no interest expense was capitalised in property, plant and equipment.

The Group's buildings are situated in the PRC and are held on leases of between 10 to 50 years. As at 30 June 2017, the Group is still in the process of obtaining the building ownership certificates for certain buildings with net carrying amount of Renminbi ("RMB")127,143,000 (HK\$146,088,000 equivalent) (As at 31 December 2016: RMB131,539,000 (HK\$146,008,000 equivalent)). In the opinion of directors of the Company, the Group has obtained the rights to use the buildings.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(continued)**

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

	30 June 2017	31 December 2016
	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Equity securities, at fair value		
– listed in Australia	324,456	321,179
– listed in Hong Kong	152,004	153,438
	476,460	474,617
Unlisted equity interest *	–	–
	476,460	474,617

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

14. TRADE RECEIVABLES

	30 June 2017	31 December 2016
	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Trade receivables	1,162,663	1,083,161
Less: Provision for impairment loss	(221,112)	(213,605)
	941,551	869,556

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

14. TRADE RECEIVABLES (continued)

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

	30 June 2017	31 December 2016
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
1 to 3 months	547,598	597,366
4 to 6 months	338,124	137,630
7 to 12 months	55,829	134,560
	941,551	869,556

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

15. BILL RECEIVABLES

Ageing analysis of bill receivables, based on bill dates, is as follows:

	30 June 2017	31 December 2016
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
1 to 3 months	682,461	515,508
4 to 6 months	944,746	543,583
7 to 12 months	43,572	15,004
	1,670,779	1,074,095

As at 30 June 2017, bill receivables included an amount of RMB87,000,000 (HK\$99,963,000 equivalent) (As at 31 December 2016: RMB105,254,000 (HK\$116,832,000 equivalent)) (note 19) which was pledged for bill payables of RMB87,000,000 (HK\$99,963,000 equivalent) (As at 31 December 2016: RMB105,254,000 (HK\$116,832,000 equivalent)).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

15. BILL RECEIVABLES (continued)

As at 30 June 2017, 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 30 June 2017, bill receivables of RMB37,200,000 (HK\$42,743,000 equivalent) (As at 31 December 2016: RMB13,565,000 (HK\$15,058,000 equivalent)) continue to be recognised in the Group's consolidated financial statements although they have been legally transferred to the creditors. The proceeds of the endorsement transactions are included in trade payables and other payables until the related bill receivables are collected or the Group settles any losses suffered by the creditors. At 30 June 2017, bill receivables endorsed to trade creditors and other creditors amounted to RMB1,500,000 (HK\$1,723,000 equivalent) (As at 31 December 2016: RMB3,500,000 (HK\$3,885,000 equivalent)) (note 19) and RMB35,700,000 (HK\$41,020,000 equivalent) (As at 31 December 2016: RMB10,065,000 (HK\$11,173,000 equivalent)) 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.

16. OTHER FINANCIAL ASSET

As at 30 June 2017, other financial asset amounting to HK\$200,000,000 represented one-year 3.5% coupon guaranteed bond due in July 2017.

17. PLEDGED BANK DEPOSITS

As at 30 June 2017, pledged bank deposits of RMB168,572,000 (HK\$193,689,000 equivalent) (As at 31 December 2016: RMB68,800,000 (HK\$76,368,000 equivalent)) were denominated in RMB and were pledged for bill payables of RMB168,572,000 (HK\$193,689,000 equivalent) (As at 31 December 2016: RMB68,800,000 (HK\$76,368,000 equivalent)) (note 19).

The directors of the Company consider that the fair value of the pledged bank deposits is not materially different from their carrying amount because of the short maturity period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

18. BANK BALANCES AND CASH

	30 June 2017	31 December 2016
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Cash at banks and on hand	198,179	132,672
Time deposits at banks	3,972,626	3,691,547
Bank balances and cash	4,170,805	3,824,219
<i>Less:</i> Time deposits with original maturity over three months	(1,172,889)	(2,029,933)
Cash and cash equivalents	2,997,916	1,794,286

19. TRADE AND BILL PAYABLES

The Group was granted by its suppliers credit period ranging between 30 to 180 days. Based on the invoice dates, ageing analysis of trade and bill payables as at 30 June 2017 is as follows:

	30 June 2017	31 December 2016
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
1 to 3 months	256,795	249,163
4 to 6 months	214,729	125,195
7 to 12 months	41,962	26,768
Over 1 year	31,975	40,297
Total	545,461	441,423

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

19. TRADE AND BILL PAYABLES (continued)

As at 30 June 2017, bill payables amounted to RMB258,372,000 (HK\$296,869,000 equivalent) (As at 31 December 2016: RMB200,724,000 (HK\$222,804,000 equivalent)) were partially secured by the pledged bank deposits of RMB168,572,000 (HK\$193,689,000 equivalent) (As at 31 December 2016: RMB68,800,000 (HK\$76,368,000 equivalent) (note 17) and bill receivables of RMB87,000,000 (HK\$99,963,000 equivalent) (As at 31 December 2016: RMB105,254,000 (HK\$116,832,000 equivalent)) (note 15).

As at 30 June 2017, included in trade payables of RMB1,500,000 (HK\$1,723,000 equivalent) (As at 31 December 2016: RMB3,500,000 (HK\$3,885,000 equivalent)) (note 15) 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 were included in bill receivables.

20. OTHER FINANCIAL LIABILITY

On 30 December 2016, Shougang Resources (Hong Kong) Limited (the "Transferor"), a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with a wholly owned subsidiary of Shougang Group Co., Ltd. (formerly known as Shougang Corporation) (the "Transferee") for the transfer of 27% equity interests of Jinshan at RMB162,000,000. In addition, the Transferor irrevocably undertakes to repurchase the 27% equity interests of Jinshan from the Transferee at the same consideration of RMB162,000,000 plus interest not more than RMB20,000,000 under certain conditions.

The transfer of 27% equity interests of Jinshan to the Transferee had been completed during the six months ended 30 June 2017. This change in the Group's interests in Jinshan does not result in a loss of control and Jinshan is still the Group's subsidiary at the reporting date.

As at 30 June 2017, this financial liability arising from the put option for the repurchase as disclosed above to the Transferee represented the present value of the repurchase obligation amounting to RMB162,000,000 (HK\$186,138,000 equivalent) which was recorded as a current liability with the corresponding decrease in the other reserves.

21. SHARE CAPITAL

	Number of shares		Amount	
	2017 '000 shares (Unaudited)	2016 '000 shares (Audited)	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Audited)
Issued and fully paid:				
At 1 January and at 30 June/31 December	5,301,837	5,301,837	15,156,959	15,156,959

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

22. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

Set out below is an overview of the carrying amount and fair value of financial assets and liabilities held by the Group:

	30 June 2017	31 December 2016
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Non-current assets		
Financial assets measured at amortised cost:		
– Deposits and other receivables	161,870	156,376
Financial assets measured at fair value through other comprehensive income	476,460	474,617
	638,330	630,993
Current assets		
Financial assets measured at amortised cost:		
– Trade receivables	941,551	869,556
– Bill receivables	1,670,779	1,074,095
– Deposits and other receivables	236,343	43,106
– Other financial asset	200,000	200,000
– Pledged bank deposits	194,830	76,927
– Time deposit with original maturity over three months	1,172,889	2,029,933
– Cash and cash equivalents	2,997,916	1,794,286
	7,414,308	6,087,903
Total financial assets	8,052,638	6,718,896
Current liabilities		
Financial liabilities measured at amortised cost:		
– Trade and bill payables	545,461	441,423
– Other financial liability	186,138	–
– Other payables and accruals	776,354	728,258
– Dividend payable	159,055	–
– Amounts due to non-controlling interests of subsidiaries	8,193	6,472
Total financial liabilities	1,675,201	1,176,153

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

22. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY (continued)

(a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade and bill receivables, deposits and other receivables, other financial asset, bank balances and cash, amounts due to non-controlling interests of subsidiaries, trade and bill payables, other financial liability, other payables and accruals and dividend payable.

Due to their short term nature, the carrying values of these financial instruments approximate fair values.

(b) Financial instruments measured at fair value

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

22. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY (continued)

(b) Financial instruments measured at fair value (continued)

The financial assets and liabilities measured at fair value in the consolidated statement of financial position are grouped into the fair value hierarchy as follows:

		30 June 2017			
	Notes	Level 1 HK\$'000 (Unaudited)	Level 2 HK\$'000 (Unaudited)	Level 3 HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Financial assets measured at fair value through other comprehensive income					
– Listed equity securities	(a)	476,460	–	–	476,460
– Unlisted equity securities	(b)	–	–	–	–
		476,460	–	–	476,460
		<hr/>			
		31 December 2016			
	Notes	Level 1 HK\$'000 (Audited)	Level 2 HK\$'000 (Audited)	Level 3 HK\$'000 (Audited)	Total HK\$'000 (Audited)
Financial assets measured at fair value through other comprehensive income					
– Listed equity securities	(a)	474,617	–	–	474,617
– Unlisted equity securities	(b)	–	–	–	–
		474,617	–	–	474,617
		<hr/>			

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

22. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY (continued)

(b) Financial instruments measured at fair value (continued)

There were no transfers between levels during the six months ended 30 June 2017 (Year ended 31 December 2016: nil).

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to previous reporting periods.

(a) *Listed equity securities*

The listed equity securities are denominated in AUD and HK\$. Fair values have been determined by reference to their quoted prices at the reporting date and have been translated using the spot foreign currency rates at the end of the reporting period where appropriate.

(b) *Unlisted equity securities*

The fair value of unlisted equity securities approximates their purchase cost.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

23. COMMITMENTS

(a) Operating lease commitments

As at 30 June 2017, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings payable by the Group are as follows:

	30 June 2017	31 December 2016
	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Within one year	6,405	6,315
In the second to fifth years	16,231	17,750
After the fifth year	28,773	29,076
	51,409	53,141

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

	30 June 2017	31 December 2016
	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Commitments for the:		
– Acquisition of property, plant and equipment	249,306	182,763
– Exploration and design fees for a potential mining project	8,595	8,303
	257,901	191,066

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

24. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in the Consolidated Interim Financial Statements, the following transactions for the six months ended 30 June 2017 and 2016 were carried out with related parties:

- (a) During the period, the Group paid management fees and company secretarial service fees of HK\$780,000 (Six months ended 30 June 2016: HK\$780,000) to Shougang Concord International Enterprises Company Limited ("Shougang International"), which is a substantial shareholder of the Company. As at 30 June 2017, no amounts were outstanding (As at 31 December 2016: nil).
- (b) During the period, the Group paid rental expenses of HK\$1,878,000 (Six months ended 30 June 2016: HK\$1,800,000) to a wholly-owned subsidiary of Shougang Holding (Hong Kong) Limited ("Shougang Holding"), which is the substantial shareholder of Shougang International. As at 30 June 2017, no amounts were outstanding (As at 31 December 2016: nil).
- (c) During the period, the Group sold clean coking coal amounted to HK\$390,378,000 (Six months ended 30 June 2016: HK\$189,941,000) to Shougang Group Co., Ltd., being Shougang Holding's ultimate holding company, and its group companies of Shougang Group Co., Ltd., (collectively referred to as the "Shougang Group"). These sales were made at market prices with a maximum discount of 3%. As at 30 June 2017, amount due from/to the Shougang Group was HK\$524,166,000 (As at 31 December 2016: HK\$630,113,000) and HK\$4,546,000 (As at 31 December 2016: HK\$2,957,000) respectively.
- (d) Included in staff costs are key management personnel compensation, which represents the remuneration to directors of the Company during the period was as follows:

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Salaries, fees, allowances and benefits	9,540	9,540
Retirement benefits scheme contributions	257	257
	9,797	9,797

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

25. REQUIREMENT IN CONNECTION WITH PUBLICATION OF “NON-STATUTORY ACCOUNTS” UNDER SECTION 436 OF THE HONG KONG COMPANIES ORDINANCE CAP. 622 (“THE COMPANIES ORDINANCE”)

The financial information relating to the year ended 31 December 2016 that is included in this Consolidated Interim Financial Statements 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 is as follows:

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

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.

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 six months ended 30 June 2017 (the “period under review”) together with that of the same period of 2016 is summarised as follows:

	Unit	Six months ended		Change		2016FY	Change Percentage
		30 June 2017	2016	Quantity/ Amount	Percentage		
<i>Production volume:</i>							
Raw coking coal	Mt	1.99	2.07	-0.08	-4%	3.85	
Clean coking coal	Mt	0.95	1.21	-0.26	-21%	2.32	
<i>Sales volume:</i>							
Raw coking coal	Mt	0.73	0.27	+0.46	+170%	0.48	
Clean coking coal	Mt	1.00	1.02	-0.02	-2%	2.12	
<i>Average realised selling price (inclusive of VAT):</i>							
Raw coking coal	RMB/tonne	703	280	+423	+151%	398	+77%
Clean coking coal	RMB/tonne	1,467	581	+886	+152%	769	+91%

For the six months ended 30 June 2017, the Group produced approximately 1.99 million tonnes (“Mt”) (Six months ended 30 June 2016: approximately 2.07 Mt) of raw coking coal, representing a year-on-year (“YoY”) decrease of 4% and also produced approximately 0.95 Mt (Six months ended 30 June 2016: approximately 1.21 Mt) of clean coking coal, representing a YoY decrease of 21%. Due to the construction for exchange upper and lower coal seams of Jinjiazhuang Coal Mine since the second half of 2016, the raw coking coal production volume was declined during the period under review.

Because of the reduction of production volume of raw coking coal and significant increase in sales volume of raw coking coal, production volume of clean coking coal dropped by 21% YoY during the period under review. However, sales volume of clean coking coal slightly dropped by 2% YoY during the period under review as a result of the low inventory level as at 30 June 2017. In order to speed up the payback period, sales volume of raw coking coal significantly increased by 170% YoY during the period under review as a result of a good effort of our sales team. Sales of raw and clean coking coal accounted for 26% and 74% of the Group’s turnover respectively for the six months ended 30 June 2017. They accounted for 11% and 89% respectively for the six months ended 30 June 2016.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

Affected by the gradual improvement in China's economy, the national structural reform on supply side and the flooding in Australia in March 2017, the average market price of raw coking coal increased by 41% in the first half of 2017 when compared with that in the second half of 2016. For the six months ended 30 June 2017, the Group's average realised selling price (inclusive of value added tax "VAT") of raw coking coal significantly increased by 151% YoY to Renminbi ("RMB") 703/tonne when compared with that of the same period of 2016 (Six months ended 30 June 2016: RMB280/tonne) and the Group's average realised selling price (inclusive of VAT) of clean coking coal also significantly increased by 152% YoY to RMB1,467/tonne when compared with that of the same period of 2016 (Six months ended 30 June 2016: RMB581/tonne). The increase in average realised selling prices of our coal products were in line with the rise in market coal prices. In terms of its sales volume, sales of No.1 and No.2 clean coking coal accounted for 51% and 49% (Six months ended 30 June 2016: 61% and 39%) of the total clean coking coal sales volume respectively for the six months ended 30 June 2017.

Financial Review

For the six months ended 30 June 2017, the Group recorded a turnover of approximately Hong Kong Dollars ("HK\$") 1,918 million, representing a substantial increase of approximately HK\$1,240 million or 183% as compared with that of approximately HK\$678 million for the same period of 2016. The substantial increase in turnover for the period under review was mainly driven by a significant increase in average realised selling prices of raw and clean coking coal by 151% YoY and 152% YoY respectively and the increase in sales volume of raw coking coal by 170% YoY even though the slight drop in the sales volume of clean coking coal by 2% YoY.

For the six months ended 30 June 2017, the total turnover to the top five customers accounted for 70% (Six months ended 30 June 2016: 83%) of the Group's turnover. Of which, the total turnover to the largest customer, accounted for 23% (Six months ended 30 June 2016: 28%) of the Group's turnover.

For the six months ended 30 June 2017, gross profit margin was 60% while 19% for the same period in 2016. Significant increase in gross profit margin was mainly due to the substantial rise in average realised selling prices as explained above under "Business Review". Gross profit was substantially increased by approximately HK\$1,028 million or 803% YoY.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review (continued)

For the six months ended 30 June 2017, the Group recorded a net profit of approximately HK\$745 million and profit attributable to the owners of the Company (the "Owners") of approximately HK\$662 million. Such turnaround from loss to considerable profit for the six months ended 30 June 2017 is primarily attributable to (i) the substantial increase in gross profit by approximately HK\$1,028 million YoY as stated above; and (ii) based on the current coking coal prices with a more robust outlook by the market generally, neither provision nor reversal of non-cash impairment loss made on goodwill, mining rights and property, plant and equipment for the period under review. However, for the same period of the last year, a non-cash impairment loss made on goodwill, mining rights and property, plant and equipment (the "Impairment") amounted to approximately HK\$596 million recognised even the reversal of the related deferred tax liabilities amounted to approximately HK\$104 million recorded as income tax credit, the net effect on the Impairment was attributable to the increase in net loss and loss attributable to the Owners amounted to approximately HK\$492 million and approximately HK\$305 million respectively.

During the period under review, basic earnings per share was HK12.48 cents (Six months ended 30 June 2016: basic loss per share was HK5.78 cents).

The Group recorded EBITDA of approximately HK\$1,235 million (Six months ended 30 June 2016: approximately HK\$193 million) and generated a positive cash flow of approximately HK\$546 million (Six months ended 30 June 2016: approximately HK\$207 million) from our operating activities during the period under review. The Group continues to maintain a healthy free cash balance of approximately HK\$4,171 million as at 30 June 2017 (As at 31 December 2016: approximately HK\$3,824 million).

Cost of Sales

During the period under review, cost of sales was approximately HK\$762 million, representing an increase of approximately HK\$212 million or 39%, as compared with that of approximately HK\$550 million for the same period of 2016. The increase in cost of sales was mainly due to the increase in actual usage volume of raw coking coal for sales and the increase in unit production costs mainly as a result of the increase in uncontrollable resources tax and levies and the general price level of goods and services as well as the decrease in production volume of raw coking coal as stated below during the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review (continued)

Cost of Sales (continued)

The unit production costs are summarised as follows:

	Unit	Six months ended		Change		2016FY	Change Percentage
		30 June 2017	2016	Amount	Percentage		
Production cost of raw coking coal	RMB/tonne	295	226	+69	+31%	257	+15%
Less: Uncontrollable costs – resources tax and levies	RMB/tonne	(71)	(24)	+47	+196%	(35)	+103%
Sub-total	RMB/tonne	224	202	+22	+11%	222	+1%
of which, depreciation and amortisation	RMB/tonne	(66)	(63)	+3	+5%	(65)	+2%
Processing cost for clean coking coal	RMB/tonne	49	43	+6	+14%	46	+7%
of which, depreciation	RMB/tonne	(16)	(12)	+4	+33%	(13)	+23%

Due to the significant increase in average realised selling prices of raw and clean coking coal, resources tax which is charged on the basis of the selling prices of coking coal, and levies of city construction tax and additional educational surcharge, which is charged on the basis of the VAT, sharp increased by RMB47/tonne YoY, for the period under review. Excluding the effect on the increased in these uncontrollable costs, unit of production cost of raw coking coal just increased by 11% YoY resulted from (i) the increase in staff costs by RMB6/tonne YoY due to the pay rise after the recovery of coal market in order to maintain the competitive advantages in the labour market; (ii) the increase in material cost by RMB10/tonne YoY due to the rise in general price level of goods; and (iii) the decrease in production volume of raw coking coal by 4% YoY during the period under review. In addition, the unit processing cost of clean coking coal was also increased by 14% YoY as a result of the decrease in production volume of clean coking coal by 21% YoY.

Included in cost of sales, amortisation of mining rights was approximately HK\$74 million for the six months ended 30 June 2017, representing a decrease of approximately HK\$8 million or 10%, as compared with that of approximately HK\$82 million for the same period of 2016. The decrease in amortisation of mining rights was primarily due to the depreciation of average RMB exchange rate by approximately 4% YoY and the decrease in production volume of raw coking coal by 4% YoY during the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review (continued)

Gross Profit and Gross Profit Margin

As a result of the reasons above, gross profit was approximately HK\$1,156 million for the six months ended 30 June 2017, representing a significant increase of approximately HK\$1,028 million or 803% as compared with that of approximately HK\$128 million for the same period of 2016. During the period under review, gross profit margin was 60% compared with 19% for the same period of 2016. The rise in gross profit margin was mainly due to the substantial increase in average realised selling prices of raw and clean coking coal by 151% YoY and 152% YoY respectively for the six months ended 30 June 2017 when compared with that in the same period of 2016 as explained above under "Business Review".

Other Operating Income

During the period under review, other operating income was approximately HK\$78 million, representing a significant increase of approximately HK\$26 million or 50% as compared with approximately HK\$52 million of the same period in 2016. The increase in other operating income was mainly attributable to the recorded net foreign exchange gain of approximately HK\$24 million (Six months ended 30 June 2016: net foreign exchange loss of approximately HK\$7 million recognised in general and administrative expenses) as a result of the appreciation of RMB as at 30 June 2017 by approximately 3.51% when compared with that as at 31 December 2016 (Six months ended 30 June 2016: depreciation of RMB as at 30 June 2016 by approximately 0.34% when compared with that as at 31 December 2015).

Selling and Distribution Expenses

During the period under review, selling and distribution expenses were approximately HK\$109 million, representing an increase of approximately HK\$23 million or 27% as compared with that of approximately HK\$86 million for the same period of 2016. The increase was mainly as a result of the increase in transportation costs arising from the rise in general price of services and the increase in sales volume of clean coking coal at C&F prices by approximately 14% from approximately 323,000 tonnes for the six months ended 30 June 2016 to approximately 368,000 tonnes for the six months ended 30 June 2017.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review (continued)

General and Administrative Expenses

During the period under review, general and administrative expenses were approximately HK\$76 million, representing a decrease of approximately HK\$11 million or 13% as compared with approximately HK\$87 million for the same period of 2016. The decrease was resulted from the continued cost control during the period under review.

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

In the view of the recovery coal market and current coking coal prices with a more robust outlook by the market generally, after assessment, no non-cash impairment loss on goodwill, mining rights and property, plant and equipment was recognised by the Group during the period under review (Six months ended 30 June 2016: approximately HK\$596 million non-cash impairment loss was made on goodwill, mining rights and property, plant and equipment). Details of which are disclosed in note 6 to the Consolidated Interim Financial Statements.

Finance Costs

During the period under review, finance costs were approximately HK\$2 million, representing an increase of approximately HK\$1.6 million as compared with that of approximately HK\$0.4 million for the same period of 2016. The increase in finance costs was resulted from the increase in early redemption of bill receivables of the Group. During the period under review, no borrowing costs were capitalised in the construction in progress (Six months ended 30 June 2016: nil).

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review (continued)

Income Tax Expense

During the period under review, it was recorded income tax expense of approximately HK\$301 million (Six months ended 30 June 2016: income tax credit of approximately HK\$93 million) of which approximately HK\$42 million (Six months ended 30 June 2016: nil) represented the provision of withholding tax of 5% on the dividend to be declared from the Group's major subsidiaries incorporated in the People's Republic of China ("PRC") ("major PRC Subsidiaries") in accordance with the relevant tax regulations in the PRC. During the period under review, there is no reversal of deferred tax liabilities arising from impairment loss on mining rights as income tax credit (Six months ended 30 June 2016: reversal of approximately HK\$104 million). In addition, income tax expense was substantially increased which was in line with the substantial rise in profits arising from the Group's major PRC Subsidiaries incorporated in PRC during the period 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 profit attributable to the Owners during the period under review was approximately HK\$662 million while the loss attributable to the Owners for the same period of 2016 was approximately HK\$307 million.

Material Investments and Acquisitions

During the six months ended 30 June 2017, the Group had no material investments and acquisitions.

Material Disposals

During the six months ended 30 June 2017, the Group had no material disposals.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review (continued)

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. During the period under review, all coal mines of the Group operated smoothly.

Charges on Assets

As at 30 June 2017, save for disclosed below, none of the Group's assets was charged or subject to any encumbrance.

Bank deposits of approximately HK\$194 million and bill receivables of approximately HK\$100 million were used for securing bills facilities of approximately HK\$294 million.

Contingent Liabilities

As at 30 June 2017, there were no guarantees given to any banks or financial institutions by the Group.

Gearing Ratio

As at 30 June 2017, the gearing ratio of the Group was 0%.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review (continued)

Exposure to Fluctuations in Exchange Rates

As at 30 June 2017, 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 2017, RMB and AUD were appreciated by approximately 3.51% and 6.85% respectively, when compared to that as at 31 December 2016. As the net assets value denominated in RMB represented approximately 74% of the Group's total net assets value as at 30 June 2017, except the net foreign exchange gain of approximately HK\$24 million (recognised in profit or loss) mainly arising from exchange and re-translation of its monetary assets (mainly bank balances and dividend receivables) denominated in RMB into HK\$ or United States Dollars at transaction date and as at reporting date, the appreciation in RMB led to exchange gain of approximately HK\$387 million (other than the foreign exchange gain recognised in profit or loss) recognised in the consolidated statement of other comprehensive income upon translation of financial statements of foreign operations in the PRC for the six months ended 30 June 2017.

Liquidity and Financial Resources

As at 30 June 2017, the Group's current ratio (total current assets divided by total current liabilities) was approximately 3.05 times and the Group's cash and bank deposits amounted to approximately HK\$4,366 million, of which approximately HK\$194 million was deposited to secure bills facilities of same amount. The Group continued to maintain a healthy net cash balance.

The Group has total bill receivables amounting to approximately HK\$1,671 million (of which approximately HK\$43 million represented endorsed bill receivables and approximately HK\$100 million was used for securing bills facilities of same amount) as at 30 June 2017 that were readily convertible into cash, but would be subject to finance cost upon conversion before the maturity. Taking into account for those free bill receivables of approximately HK\$1,528 million, the Group's free cash resources would have approximately HK\$5,700 million as at 30 June 2017.

Capital Structure

Total equity and borrowings are classified as capital of the Group. As at 30 June 2017, the share capital of the Company was approximately HK\$15,157 million, represented approximately 5,302 million shares in number. During the period under review, there is no change in number and amount of issued shares.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Employees

As at 30 June 2017, the Group had 21 Hong Kong employees and 5,139 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 has a share option scheme. During the period under review, no share option was granted or exercised.

Future Prospects

In the first half of 2017, although policy enforcement by the new administration of the United States of America did not meet expectation, its job market, however, bounced back well, which would motivate the economy's continued growth. On the other hand, Europe continues its economic recovery as the largest uncertainty of the Euro Zone was diminished after the French presidential election and the fundamentals of the European economy was gradually improving. The International Monetary Fund raised the forecast growth of the 2017 global economy to 3.5% from 3.4% this April, while the Organisation for Economic Co-operation and Development adjusted the forecast growth of the 2017 global economy up to 3.5% from 3.3% this June as well, which greatly indicates that the global economy will recover continuously in the second half of this year and the economy of China will definitely be benefited by the improving macroeconomic environment and perform stably upward.

In the first half of this year, China's gross domestic product ("GDP") increased 6.9% year-on-year, which has marked the eighth successive quarter of economic growth within the range of 6.7% to 6.9%. The manufacturing industry contributed approximately 30% of the index, topping all industries. National output growth of industries from their main business operations increased 6.9%, the growth rate of which was 0.9% higher year-on-year; national fixed asset investment (exclusive of peasants) was RMB28.0605 trillion, representing 8.6% increase year-on-year. Figures mentioned above indicate that the economy of China has been progressing stably since 2016 with more positive changes occurring in manufacturing industries. It is predicted that the market environment of China would be further improved in the second half, Public-Private Partnership projects, in particular, will be new growth points of stimulating the investments in infrastructure, which would drive up the steel demand and enhance the development of steel industry and coal industry as well.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Future Prospects (continued)

National Development and Reform Commission issued the “2017 Steel and Coal Production Capacity Elimination Implementation Plan” in April this year, putting forward clearly that the target of phasing out outdated production capacity of approximately 50 million tonnes in the steel industry, and over 150 million tonnes in the coal industry. At the end of this June, a total capacity of 58.39 million tonnes of crude steel had been eliminated nationwide, exceeding the annual target goal of 2017; a total of 111 million tonnes of coal productivity had also been reduced, completing 74% of the annual target goal. In addition, as of the end of this June, the sub-standard steel had been banned nationwide, the capacity of which that had been reduced by 119 million tonnes in the steel industry. The supply-demand structure has been obviously improved and optimised with the aid of strong enforcement of supply-side reform policy, the market prices of steel and coking coal have been increased significantly year-on-year. It is optimistically forecasted that the price trend of these sectors, coking coal price without exception, would remain at a relatively high level after fluctuation in the first half of 2017.

Our group has been awarded as Excellent Enterprise with Advanced Capacity by Shanxi Provincial Government, and in the first half of 2017, our group well adopted the new technology of Exploitation resources-in-depth in old mining areas and Gob-side entry retaining to ensure safety of operation, improve production efficiency and production cost-saving as well. We actively manage self-equipment repairing workshop to maintain machine, process materials and manage warehouse for the purpose of solidifying the base of cutting cost and improving efficiency. We keep a good record of safety production, provide continuous safety training programs, increase the efficiency of the gas ventilation system and improve the recycling of gas to realise the concept of environmental protection. Looking into the second half of this year, we will continue to enhance our advantages in management skill and sales networks to explore more potential to maximise returns for shareholders.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK3 cents per ordinary share for the six months ended 30 June 2017 (2016 interim dividend: nil, 2016 special dividend: HK15 cents per ordinary share) payable to shareholders whose names appear on the register of members of the Company at the close of business on Monday, 11 September 2017. 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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Monday, 11 September 2017 for registration. The interim dividend is expected to be paid on or about Friday, 20 October 2017.

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 period under review.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The Directors of the Company who held office at 30 June 2017 had the following interests in the shares of the Company as at 30 June 2017 as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance (the "SFO") or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

Long positions in the shares of the Company

Name of Director	Capacity in which interests were held	Number of shares in the Company	Interests as to % of the total number of shares of the Company in issue as at 30.06.2017
So Kwok Hoo	Beneficial owner	4,000,000	0.075%
Chen Zhaoqiang	Beneficial owner	2,680,000	0.051%
Kee Wah Sze	Beneficial owner	700,000	0.013%
Choi Wai Yin	Beneficial owner	20,000	0%
Chan Pat Lam	Beneficial owner	200,000	0.004%

Save as disclosed above, as at 30 June 2017, none of the Company's Directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

No right to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any Directors or chief executives (including their spouses or children under 18 years of age) during the six months ended 30 June 2017.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2017, according to the register kept by the Company under Section 336 of the SFO, the following companies and persons had interests in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long positions in the shares/underlying shares of the Company

Name of shareholder	Capacity in which interests were held	Number of shares/ underlying shares	Interests as to % of the total number of shares of the Company in issue as at 30.06.2017	Note(s)
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Beneficial owner, interests of controlled corporations	1,582,864,490	29.85%	1
Shougang Concord International Enterprises Company Limited ("Shougang International")	Beneficial owner, interests of controlled corporations	1,463,962,490	27.61%	1
Fine Power Group Limited ("Fine Power")	Beneficial owner	663,918,497	12.52%	1
Ultimate Capital Limited ("Ultimate Capital")	Beneficial owner	650,000,000	12.25%	1
Funde Sino Life Insurance Co., Ltd.	Beneficial owner	1,539,844,306	29.04%	
Jiang Jinzhi ("Mr. Jiang")	Interests of controlled corporations	313,770,000	5.92%	2

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

Long positions in the shares/underlying shares of the Company (continued)

Notes:

- 1 Shougang Holding indicated in its disclosure form dated 8 December 2011 (being the latest disclosure form filed up to 30 June 2017) that as at 6 December 2011, its interests included the interests held by Shougang International, a company which was held as to 47.78% by Shougang Holding, as well as Fine Power and Ultimate Capital, each of which was a wholly-owned subsidiary of Shougang International.

Shougang International indicated in its disclosure form dated 9 May 2011 (being the latest disclosure form filed up to 30 June 2017) that as at 5 May 2011, its interests included the interests held by Fine Power and Ultimate Capital.

- 2 Mr. Jiang indicated in his disclosure form dated 2 March 2017 (being the latest disclosure form filed up to 30 June 2017) that as at 28 February 2017, amongst the interests in the Company, (i) 66,248,000 shares were held through Shanghai Greenwoods Asset Management Limited which was 75% owned by Mr. Jiang; and (ii) 105,300,000 shares were held by Greenwoods China Alpha Master Fund and 12,000,000 shares were held through Greenwoods Asset Management Limited. Greenwoods China Alpha Master Fund was wholly owned by Greenwoods Asset Management Limited which in turn was a wholly-owned subsidiary of Greenwoods Asset Management Holdings Limited. Greenwoods Asset Management Holdings Limited was held as to 81% by Unique Element Corp. which in turn was wholly owned by Mr. Jiang.

Save as disclosed above, as at 30 June 2017, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTIONS

On 25 May 2012, the shareholders of the Company adopted a new share option scheme (the "Share Options Scheme"), which would be valid for a period of ten years and became effective on 29 May 2012 upon the Listing Committee of the Stock Exchange granting its approval to the listing of, and permission to deal in, the shares of the Company which may fall to be issued upon exercise of the options to be granted under the Share Options Scheme.

No share option has been granted under the Share Options Scheme since its adoption. Accordingly, as at 30 June 2017, there was no share option outstanding under the Share Options Scheme.

AUDIT COMMITTEE

The Company has engaged the Auditor to assist the Audit Committee to review the 2017 interim results of the Group. A meeting of the Audit Committee was held with the Auditor and the management of the Company on 16 August 2017 for, amongst other things, reviewing the interim results of the Group for the six months ended 30 June 2017.

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 Listing Rules during the six months ended 30 June 2017.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as a code of conduct of the Company for Directors' securities transactions. Having made specific enquiry of all Directors, the Directors 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 2017.

DISCLOSURE OF DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

The following is the change in the information of Directors since the date of the 2016 Annual Report of the Company, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

Mr. Li Shaofeng, the Chairman of the Company, resigned as an executive director and the chairman of the board of directors of each of Shougang Concord Grand (Group) Limited and Global Digital Creations Holdings Limited, both are listed companies in Hong Kong, with effect from 14 June 2017.

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 period.

By Order of the Board

Li Shaofeng

Chairman

Hong Kong, 24 August 2017