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首鋼福山資源集團有限公司
SHOUGANG FUSHAN RESOURCES GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 639)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

FINANCIAL HIGHLIGHTS

(HK$'million)	**For the six months ended 30 June 2016**	2015	Percentage change
Revenue	**678**	1,093	-38%
Gross profit	**128**	274	-53%
Gross profit margin	**19%**	25%	
Non-cash impairment loss on goodwill, mining rights and property, plant and equipment	**(596)**	(144)	+314%
Before non-cash impairment loss on goodwill, mining rights and property, plant and equipment (net of the correspondence deferred tax impact):			
Profit for the period	**1**	152	-99%
(Loss)/Profit attributable to owners of the Company ("Owners")	**(2)**	157	
After non-cash impairment loss on goodwill, mining right and property, plant and equipment (net of the correspondence deferred tax impact):			
(Loss)/Profit for the period	**(491)**	32	
(Loss)/Profit attributable to Owners	**(307)**	85	
EBITDA[1]	**193**	382	-49%
Basic (loss)/earnings per share *(HK cents)*	**(5.78)**	1.60	

(HK$'million)	**As at 30 June 2016**	As at 31 December 2015	Percentage change
Net assets	**16,386**	17,044	-4%
Of which: Equity per share attributable to Owners *(HK$)*	**2.89**	2.98	-3%
Current ratio[2]	**3.41 times**	3.69 times	-8%
Gearing ratio[3]	**0.03%**	0.00%	

To reward our shareholders, the board of directors has declared a special dividend of HK15 cents per ordinary share for the six months ended 30 June 2016.

Notes:

1. EBITDA is defined as (loss)/profit 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.
2. Current ratio is computed from current assets divided by current liabilities.
3. Gearing ratio is computed from total borrowings divided by total equity.

INTERIM RESULTS

The board of directors (the "Board") of Shougang Fushan Resources Group Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2016. These interim results have been reviewed by the Company's Audit Committee and its Auditor.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

		Six months ended 30 June	
		2016	2015
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*4*	**677,965**	1,092,612
Cost of sales		**(550,391)**	(818,830)
Gross profit		**127,574**	273,782
Other operating income	*5*	**51,512**	100,574
Selling and distribution expenses		**(85,652)**	(113,663)
General and administrative expenses		**(86,975)**	(110,767)
Other operating expenses		**(642)**	(642)
Impairment loss on goodwill, mining rights and property, plant and equipment	*6*	**(595,854)**	(143,715)
Finance costs	*7*	**(384)**	(7,160)
Change in fair value of derivative financial instruments		**7,899**	47,693
Share of loss of an associate		**(1,157)**	(215)
(Loss)/Profit before income tax	*8*	**(583,679)**	45,887
Income tax credit/(expense)	*9*	**92,563**	(14,105)
(Loss)/Profit for the period		**(491,116)**	31,782

	Notes	Six months ended 30 June 2016 HK$'000 (Unaudited)	2015 HK$'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		**(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		**124,749**	12,708
Total comprehensive income for the period		**(393,618)**	44,490
(Loss)/Profit for the period attributable to:			
Owners of the Company		**(306,588)**	84,783
Non-controlling interests		**(184,528)**	(53,001)
(Loss)/Profit for the period		**(491,116)**	31,782
Total comprehensive income for the period attributable to:			
Owners of the Company		**(207,601)**	97,491
Non-controlling interests		**(186,017)**	(53,001)
Total comprehensive income for the period		**(393,618)**	44,490
		HK (Cents)	*HK (Cents)*
(Loss)/Earnings per share	*11*		
– Basic and diluted		**(5.78)**	1.60

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Notes	**30 June 2016** **HK$'000** **(Unaudited)**	31 December 2015 *HK$'000* (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**2,764,497**	2,936,672
Prepaid lease payments		**52,148**	53,042
Mining rights		**8,060,343**	8,580,891
Goodwill		**1,294,899**	1,359,290
Interest in an associate		**14,452**	15,644
Financial assets measured at fair value through other comprehensive income		**416,651**	291,902
Deposits, prepayments and other receivables		**304,778**	309,045
Deferred tax assets		**22,135**	21,879
Total non-current assets		**12,929,903**	13,568,365
Current assets			
Inventories		**212,399**	167,312
Trade and bill receivables	*12*	**1,626,563**	1,757,738
Deposits, prepayments and other receivables		**111,988**	116,168
Derivative financial instruments		**9,390**	–
Pledged bank deposits		**132,750**	79,905
Time deposits with original maturity over three months		**3,479,203**	2,747,304
Cash and cash equivalents		**1,604,101**	2,290,877
Total current assets		**7,176,394**	7,159,304
Current liabilities			
Trade and bill payables	*13*	**466,764**	526,447
Other payables and accruals		**1,215,820**	1,248,905
Dividend payable	*10*	**265,092**	–
Borrowings		**4,664**	–
Derivative financial instruments		**–**	17,025
Amounts due to non-controlling interests of subsidiaries		**5,283**	3,780
Tax payables		**146,287**	146,559
Total current liabilities		**2,103,910**	1,942,716
Net current assets		**5,072,484**	5,216,588
Total assets less current liabilities		**18,002,387**	18,784,953

	Notes	**30 June 2016** *HK$'000* **(Unaudited)**	31 December 2015 *HK$'000* (Audited)
Non-current liabilities			
Deferred tax liabilities		**1,616,817**	1,740,673
Total non-current liabilities		**1,616,817**	1,740,673
Net assets		**16,385,570**	17,044,280
EQUITY			
Equity attributable to owners of the Company			
Share capital	*14*	**15,156,959**	15,156,959
Reserves		**161,463**	634,156
Total equity attributable to owners of the Company		**15,318,422**	15,791,115
Non-controlling interests		**1,067,148**	1,253,165
Total equity		**16,385,570**	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 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 2016.

2. **BASIS OF PREPARATION**

The unaudited interim consolidated financial statements for the six months ended 30 June 2016 (the "Interim Financial Information") has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure provisions in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange. The Interim Financial Information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs").

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

In preparing this Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2015.

The Interim Financial Information has 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 Interim Financial Information was approved for issue by the board of directors on 25 August 2016.

3. SIGNIFICANT ACCOUNTING POLICIES

The Interim Financial Information has been prepared in accordance with the accounting policies adopted in the last financial statements for the year ended 31 December 2015, except for the adoption of the following standards as of 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

The adoption of these amended HKFRSs has had no material impact on the Interim Financial Information.

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 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

For the six months ended 30 June 2016, there has been no change from prior periods in the measurement methods used to determine operating segments and reported segment profit or loss.

The operating segment is monitored and strategic decisions are made on the basis of adjusted segment operating result. The Group's segment loss reconciles to the Group's (loss)/profit before income tax was as follows:

	Coking coal mining		Consolidated	
	Six months ended 30 June		Six months ended 30 June	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Segment revenue:				
Revenue from external customers	**677,965**	1,092,612	**677,965**	1,092,612
Segment loss	**(595,982)**	(40,263)	**(595,982)**	(40,263)
Interest income			**36,967**	82,662
General and administrative expenses not allocated			**(31,022)**	(36,830)
Finance costs			**(384)**	(7,160)
Change in fair value of derivative financial instruments			**7,899**	47,693
Share of loss of an associate			**(1,157)**	(215)
(Loss)/Profit before income tax			**(583,679)**	45,887

	Coking coal mining		Corporate		Consolidated	
	30 June	31 December	**30 June**	31 December	**30 June**	31 December
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
Segment assets	**14,731,571**	15,509,051	**4,912,098**	4,889,193	**19,643,669**	20,398,244
Segment liabilities	**1,650,757**	1,737,215	**306,866**	41,917	**1,957,623**	1,779,132

5. OTHER OPERATING INCOME

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Bank interest income	**36,967**	82,662
Income from sales of scrapped products	**14,545**	17,912
	51,512	100,574

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

Given global economy remains stagnant and China's economy is still under downward pressure, the coal prices have been decreasing in the first quarter of 2016 although they were slight rebounded in the second quarter. The Group thus 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 2016, an impairment loss of HK$595,854,000 (Six months ended 30 June 2015: HK$143,715,000) was recognised in the consolidated statement of profit or loss and other comprehensive income.

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 2016 were measured by an independent valuer, Asset Appraisal Limited, who is 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 -17% to 27% (As at 31 December 2015: -1% to 42%) and with an average discount rate of 12.11% (As at 31 December 2015: 12.76%) per annum.

The cash flows beyond the 5-year period are extrapolated using a steady percentage growth rate of 3% (As at 31 December 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% (As at 31 December 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 Shanxi Liulin Jinjiazhuang Coal Co., Limited ("Jinjiazhuang")'s CGU was determined to be higher than its recoverable amount and an impairment loss of HK$535,115,000 (Six months ended 30 June 2015: HK$143,715,000) was recognised during the period. This impairment loss is 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. 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. The impairment loss of HK$143,715,000 for last interim period was allocated to goodwill, mining rights and property, plant and equipment amounting to HK$6,118,000, HK$106,912,000 and HK$30,685,000 respectively. The key assumptions are the discount rate of 11.74% (As at 31 December 2015: 12.18%) per annum and the growth rates, covering a 5-year period, of approximately -17% to 27% (As at 31 December 2015: -1% to 42%).

There was no impairment loss incurred on Shanxi Liulin Xingwu Coal Co., Limited ("Xingwu")'s CGU during the last interim period. 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 are the discount rate of 12.26% (As at 31 December 2015: 12.95%) per annum and the growth rates, covering a 5-year period, of approximately -17% to 27% (As at 31 December 2015: -1% to 42%).

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.

7. FINANCE COSTS

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest charged on discounted bill receivables	**384**	7,160

No borrowing costs were capitalised for the six months ended 30 June 2016 and 2015.

8. (LOSS)/PROFIT BEFORE INCOME TAX

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(Loss)/Profit before income tax is arrived at after charging:		
Cost of inventories recognised as expenses	**550,391**	818,830
Amortisation of:		
– prepaid lease payments	**724**	763
– mining rights	**82,475**	100,590
Depreciation of property, plant and equipment	**103,818**	131,349
Employee benefit expenses *(including directors' emoluments)*	**205,678**	275,888
Loss on disposals of property, plant and equipment	**–**	642
Net exchange loss	**7,352**	7,001
Operating lease charges in respect of land and buildings	**3,556**	3,283

9. INCOME TAX CREDIT/(EXPENSE)

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax – PRC income tax	**27,499**	54,182
Deferred tax	**(120,062)**	(40,077)
	(92,563)	14,105

No provision for Hong Kong Profits Tax has been made in the Interim Financial Information as the Group had no assessable profit arising in Hong Kong for the six months ended 30 June 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 Xingwu, Jinjiazhuang and Shanxi Liulin Zhaiyadi Coal Co., Limited, all established in the PRC, are subject to 25% enterprise income tax in the PRC.

The Group is also subject to withholding tax at the rate of 5% (Six months ended 30 June 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.

10. DIVIDENDS

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interim dividend: Nil (Six months ended 30 June 2015: HK1 cent per ordinary share)	**–**	53,018
Special dividend: HK15 cents per ordinary share (Six months ended 30 June 2015: HK15 cents per ordinary share)	**795,276**	795,276
	795,276	848,294

Special dividend of HK15 cents per ordinary share (Six months ended 30 June 2015: an interim dividend of HK1 cent per ordinary share and a special dividend of HK15 cents per ordinary share) declared after 30 June 2016 (Six months ended 30 June 2015: 30 June 2015) which have not been recognised as liabilities as at the reporting date.

Special dividend for the six months ended 30 June 2016 is expected to be paid on or about 21 October 2016 to all owners of the Company whose names appear on the register of members of the Company at the close of business on 12 September 2016. As at 30 June 2016, the number of the issued share capital of the Company is 5,301,837,842 (As at 30 June 2015: 5,301,837,842).

A final dividend of HK5 cents per ordinary share totalling HK$265,092,000 in respect of the year ended 31 December 2015 was approved at the annual general meeting held on 29 June 2016. The 2015 final dividend has been recognised as a liability as at 30 June 2016 and is paid on 20 July 2016.

11. (LOSS)/EARNINGS PER SHARE

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

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(Loss)/Profit used to determine basic and diluted (loss)/earnings per share	**(306,588)**	84,783
	'000 shares	*'000 shares*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings 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 (loss)/earnings per share	**5,301,837**	5,301,837

In calculating the diluted loss per share for the current period, the potential issue of shares arising from the Company's share option would decrease the loss per share during the period and was thereby not taken into account as they have an anti-dilutive effect. Therefore, the diluted loss per share for the current 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.

The computation of diluted earnings per share for the last interim period did not assume the exercise of the Company's outstanding share options as the exercise price of those options was higher than the average market price for shares for the six months ended 30 June 2015.

12. TRADE AND BILL RECEIVABLES

	30 June 2016 HK$'000 (Unaudited)	31 December 2015 HK$'000 (Audited)
Trade receivables	**1,105,445**	1,284,785
Less: Provision for impairment losses	**(224,383)**	(225,151)
	881,062	1,059,634
Bill receivables	**745,501**	698,104
	1,626,563	1,757,738

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

	30 June 2016 HK$'000 (Unaudited)	31 December 2015 HK$'000 (Audited)
1 to 3 months	**712,706**	918,910
4 to 6 months	**469,358**	387,880
7 to 12 months	**323,532**	387,994
Over 1 year	**120,967**	62,954
	1,626,563	1,757,738

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

As at 30 June 2016, bill receivables included an amount of Renminbi ("RMB") 140,500,000 (HK$163,823,000 equivalent) (As at 31 December 2015: RMB155,700,000 (HK$182,169,000 equivalent)) (Note 13) which was pledged for bill payables of RMB139,600,000 (HK$162,774,000 equivalent) (As at 31 December 2015: RMB152,416,000 (HK$178,327,000 equivalent)).

As at 30 June 2016, the Group discounted and endorsed certain of its bill receivables with full recourse to financial institutions and creditors. In the event of default by the debtors, the Group is obliged to pay the financial institutions and creditors the amount in default. The Group is therefore exposed to the risks of credit losses and late payment in respect of its discounted and endorsed bill receivables.

The discounting and 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 discounted and endorsed bill receivables. As at 30 June 2016, bill receivables of RMB11,004,000 (HK$12,831,000 equivalent) (As at 31 December 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 financial institutions and creditors. The proceeds of the discounting and endorsement transactions are included in borrowings as asset-backed financing, trade payables and other payables until the related bill receivables are collected or the Group settles any losses suffered by the financial institutions and creditors. As at 30 June 2016, the asset-backed financing liabilities and bill receivables endorsed to trade creditors and other creditors amounted to RMB4,000,000 (HK$4,664,000 equivalent) (As at 31 December 2015: Nil), RMB2,934,000 (HK$3,421,000 equivalent) (As at 31 December 2015: RMB3,350,000 (HK$3,920,000 equivalent)) (Note 13) and RMB4,070,000 (HK$4,746,000 equivalent) (As at 31 December 2015: RMB6,366,000 (HK$7,448,000 equivalent)) respectively.

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

13. TRADE AND BILL PAYABLES

The credit period granted to the Group by its suppliers ranges between 30 to 180 days. Based on the invoice dates, ageing analysis of trade and bill payables as at 30 June 2016 is as follows:

	30 June 2016	31 December 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
1 to 3 months	**216,565**	276,622
4 to 6 months	**171,531**	209,840
7 to 12 months	**46,582**	19,589
Over 1 year	**32,086**	20,396
	466,764	526,447

As at 30 June 2016, bill payables amounted to RMB253,393,000 (HK$295,456,000 equivalent) (As at 31 December 2015: RMB284,622,000 (HK$333,008,000 equivalent)) were partially secured by the pledged bank deposits of RMB113,503,000 (HK$132,344,000 equivalent) (As at 31 December 2015: RMB68,000,000 (HK$79,560,000 equivalent)) and bill receivables of RMB140,500,000 (HK$163,823,000 equivalent) (As at 31 December 2015: RMB155,700,000 (HK$182,169,000 equivalent)) (Note 12).

As at 30 June 2016, included in trade payables of RMB2,934,000 (HK$3,421,000 equivalent) (As at 31 December 2015: RMB3,350,000 (HK$3,920,000 equivalent)) (Note 12) represents the amount of bill receivables endorsed to trade creditors which did not meet the de-recognition requirements in HKAS 39. The corresponding financial assets were included in bill receivables.

14. SHARE CAPITAL

	Number of shares		Amount	
	2016	2015	**2016**	2015
	'000 shares	*'000 shares*	***HK$'000***	*HK$'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(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

15. COMMITMENTS

(a) Operating lease commitments

As at 30 June 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:

	30 June 2016	31 December 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within one year	**4,489**	6,298
In the second to fifth years	**10,754**	10,791
After the fifth year	**31,887**	33,346
	47,130	50,435

The Group leases a number of land and buildings and other assets under operating lease arrangements. The leases run for an initial period of 1 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 2016 HK$'000 (Unaudited)	31 December 2015 HK$'000 (Audited)
Commitments for the:		
– Acquisition of property, plant and equipment	**188,767**	206,803
– Exploration and design fees for a potential mining project	**8,722**	8,752
	197,489	215,555

16. 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 2015 that is included in this Interim Financial Information as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance 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.

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.

INTERIM DIVIDEND AND SPECIAL DIVIDEND

The Board has resolved not to declare any interim dividend but to declare a special dividend of HK15 cents per ordinary share for the six months ended 30 June 2016 (2015: an interim dividend of HK1 cent per ordinary share and a special dividend of HK15 cents per ordinary share). The special dividend will be payable to shareholders whose names appear on the register of members of the Company at the close of business on Monday, 12 September 2016. In order to qualify for the special 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, 12 September 2016 for registration. The special dividend is expected to be paid on or about Friday, 21 October 2016.

After taken into consideration of the Group's operational and developmental requirements, abundant cash balance and, in particular, the desire to enhance shareholder value, the Board would extend sincere gratitude towards the support from the shareholders by way of declaration of the special dividend. However, the declaration of special dividend should not be construed as a commitment by the Company to declare a similar special dividend in the future or on a regular basis.

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 2016 (the "period under review") together with that of the same period of 2015 is summarised as follows:

		Six months ended 30 June		Change			
	Unit	**2016**	2015	Quantity/ Amount	Percentage	2015FY	Change Percentage
Production volume:							
Raw coking coal	Mt	**2.07**	2.28	-0.21	-9%	4.51	
Clean coking coal	Mt	**1.21**	1.46	-0.25	-17%	2.69	
Sales volume:							
Raw coking coal	Mt	**0.27**	0.09	+0.18	+200%	0.28	
Clean coking coal	Mt	**1.02**	1.36	-0.34	-25%	2.61	
Average realised selling price (inclusive of VAT):							
Raw coking coal	RMB/tonne	**280**	369	-89	-24%	328	-15%
Clean coking coal	RMB/tonne	**581**	731	-150	-21%	694	-16%

For the six months ended 30 June 2016, the Group produced approximately 2.07 million tonnes ("Mt") (Six months ended 30 June 2015: approximately 2.28 Mt) of raw coking coal, representing a year-on-year ("YoY") decrease of 9% and also produced approximately 1.21 Mt (Six months ended 30 June 2015: approximately 1.46 Mt) of clean coking coal, representing a YoY decrease of 17%. Our three premium operating coking coal mines operated smoothly during the period under review.

Because of the implementation of production control policies by the Chinese government, our production volume of raw coking coal decreased by 9% during the period under review. In addition, due to the impact of the economic slowdown in the Mainland China, sales volume of clean coking coal dropped by 25% during the period under review. However, sales volume of raw coking coal significant increased by 200% during the period under review as a result of a good effort of our sales team.

For the six months ended 30 June 2016, the Group's average realised selling price (inclusive of value added tax "VAT") of raw coking coal dropped by 24% to Renminbi ("RMB") 280/tonne when compared with that of the same period of 2015 (Six months ended 30 June 2015: RMB369/tonne) and the Group's average realised selling price (inclusive of VAT) of clean coking coal dropped by 21% to RMB581/tonne when compared with that of the same period of 2015 (Six months ended 30 June 2015: RMB731/tonne). The decline in average realised selling prices of our coal products were in line with the slump in market coal prices. In terms of its sales volume, sales of No.4 and No.9 raw coking coal accounted for 52% and 48% (Six months ended 30 June 2015: 0% and 100%) of the total raw coking coal sales volume respectively for the six months ended 30 June 2016. Moreover, sales of No.1 and No.2 clean coking coal accounted for 61% and 39% (Six months ended 30 June 2015: 48% and 52%) of the total clean coking coal sales volume respectively for the six months ended 30 June 2016.

FINANCIAL REVIEW

For the six months ended 30 June 2016, the Group recorded a turnover of approximately Hong Kong Dollars ("HK$") 678 million, representing a substantial decrease of approximately HK$415 million or 38% as compared with that of approximately HK$1,093 million for the same period of 2015. The reduction in turnover for the period under review was mainly attributable to the drop in average realised selling prices of raw and clean coking coal by 24% YoY and 21% YoY respectively and the drop in the sales volume of clean coking coal by 25% YoY. In terms of turnover, sales of clean and raw coking coal accounted for 89% and 11% of the Group's turnover respectively for the six months ended 30 June 2016. They accounted for 97% and 3% respectively for the six months ended 30 June 2015.

For the six months ended 30 June 2016, the total turnover to the top five customers accounted for 83% (Six months ended 30 June 2015: 74%) of the Group's turnover. Of which, the total turnover to the largest customer, Shougang Corporation, accounted for 28% (Six months ended 30 June 2015: 29%) of the Group's turnover.

For the six months ended 30 June 2016, gross profit margin was 19% while 25% for the same period in 2015. Decrease in gross profit margin was mainly due to the drop in average realised selling prices as explained under "Business Review". Gross profit was dropped by approximately HK$146 million or 53% YoY.

For the six months ended 30 June 2016, even though the Group was successfully lower the unit production costs and expenses through stringent cost control measures that partially offset the negative impact from the drop in average realised selling prices and sales volume, the Group still recorded net loss of approximately HK$491 million and loss attributable to the owners of the Company (the "Owners") of approximately HK$307 million. Such turn-around from profit to loss for the six months ended 30 June 2016 is primarily attributable to (i) the drop in gross profit by approximately HK$146 million as stated above; and (ii) due to the weak coal market and cut-down the last year-end forecasted coal prices by the market generally, the increase of non-cash impairment loss made on goodwill, mining rights and property, plant and equipment by approximately HK$452 million YoY to approximately HK$596 million for the period under review even the reversal of the related deferred tax liabilities increased by approximately HK$80 million YoY to approximately HK$104 million as income, it is attributable to the net loss and loss attributable to the Owners amounted to approximately HK$492 million and approximately HK$305 million respectively.

Excluding such non-cash impairment loss on goodwill, mining rights and property, plant and equipment (net of the correspondence deferred tax impact), the Group would record net profit of approximately HK$1 million and loss attributable to the Owners of approximately HK$2 million for the six months ended 30 June 2016.

During the period under review, basic loss per share was HK5.78 cents (Six months ended 30 June 2015: basic earnings per share was HK1.60 cents).

Even though the Group recorded loss, the Group still recorded EBITDA of approximately HK$193 million (Six months ended 30 June 2015: approximately HK$382 million) and generated a positive cash flow of approximately HK$207 million (Six months ended 30 June 2015: approximately HK$692 million) from our operating activities during the period under review. The Group continues to maintain a stable and healthy free cash balance of approximately HK$5,083 million as at 30 June 2016 (As at 31 December 2015: HK$5,038 million).

Cost of Sales

During the period under review, cost of sales was approximately HK$550 million, representing a decrease of approximately HK$269 million or 33%, as compared with that of approximately HK$819 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 the decrease in unit production costs as a result of effective cost control as stated below during the period under review.

Included in cost of sales, amortisation of mining rights was approximately HK$82 million for the six months ended 30 June 2016, representing a decrease of approximately HK$19 million or 19%, as compared with that of approximately HK$101 million for the same period of 2015. The decrease in amortisation of mining rights was mainly due to the decrease in actual usage of raw coking coal for sales during the period under review.

The unit production costs are summarised as follow:

		Six months ended 30 June		Change			Change
	Unit	**2016**	2015	Amount	Percentage	2015FY	Percentage
Production cost of raw coking coal	RMB/tonne	**226**	260	-34	-13%	243	-7%
of which, depreciation and amortisation	RMB/tonne	***(63)***	*(68)*	*-5*	*-7%*	*(66)*	*-5%*
Processing cost for clean coking coal	RMB/tonne	**43**	47	-4	-9%	46	-7%
of which, depreciation	RMB/tonne	***(12)***	*(11)*	*+1*	*+9%*	*(11)*	*+9%*

As a result of implementation of the effective cost control by the Group, its unit production cost of raw coking coal was decreased by 13% YoY although the production volume of raw coking coal was dropped by 9% YoY for the six months ended 30 June 2016. In addition, its unit processing cost of clean coking coal was also decreased by 9% YoY.

Gross Profit and Gross Profit Margin

As a result of the reasons above, gross profit was approximately HK$128 million for the six months ended 30 June 2016, representing a significant decrease of approximately HK$146 million or 53% as compared with that of approximately HK$274 million for the same period of 2015. During the period under review, gross profit margin was 19% compared with 25% for the same period of 2015. The drop in gross profit margin was mainly due to the decline in average realised selling prices of raw and clean coking coal by 24% and 21% respectively for the six months ended 30 June 2016 when compared with that in the same period of 2015 as explained under "Business Review".

Other Operating Income

During the period under review, other operating income was approximately HK$52 million, representing a significant decrease of approximately HK$49 million or 49% as compared with approximately HK$101 million of the same period in 2015. The decrease in other operating income was mainly attributable to (i) the substantial decrease in bank interest income by approximately HK$46 million or 55% YoY which was decreased in line with average bank balance denominated in RMB with relatively earning higher yield from 83% in the last period of 2015 to 8% for the period under review, and (ii) the decrease in income from sales of scrapped products by approximately HK$3 million or 19% YoY as a result of the drop in coal prices and production volume of clean coking coal during the period under review.

Selling and Distribution Expenses

During the period under review, selling and distribution expenses were approximately HK$86 million, representing a decrease of approximately HK$28 million or 25% as compared with that of approximately HK$114 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

During the period under review, general and administrative expenses were approximately HK$87 million, representing a significant decrease of approximately HK$24 million or 22% as compared with approximately HK$111 million for the same period of 2015. The decrease was resulted from the strengthen cost control during the period under review.

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

In the view of the weak coal market and cut-down the last year-end forecasted coal prices by the market generally which are considered impairment indicators, after assessment, the Group recognised a non-cash impairment loss of approximately HK$596 million (Six months ended 30 June 2015: approximately HK$144 million) made on goodwill, mining rights and property, plant and equipment during the period under review. Details of which are disclosed in Note 6 to the Interim Financial Information.

Finance Costs

During the period under review, finance costs were approximately HK$0.4 million, representing a sharp decrease of approximately HK$6.6 million or 94% as compared with that of approximately HK$7 million for the same period of 2015. The decrease in finance costs was resulted from the effective cash management during the period under review. During the period under review, no borrowing costs were capitalised in the construction in progress (Six months ended 30 June 2015: nil).

Income Tax Credit/Expense

During the period under review, it was recorded income tax credit of approximately HK$93 million (Six months ended 30 June 2015: income tax expense of approximately HK$14 million). During the period under review, there is a reversal of deferred tax liabilities of approximately HK$104 million (Six months ended 30 June 2015: approximately HK$24 million) arising from impairment loss on mining rights as income tax credit. In addition, income tax expense was substantial reduced which was in line with the substantial drop in profits arising from the Group's major subsidiaries incorporated in the People's Republic of China ("PRC") ("major PRC Subsidiaries") during the period under review. In addition, no provision (Six months ended 30 June 2015: approximately HK$6 million) of withholding tax of 5% on the dividend declared from the major PRC Subsidiaries is made in accordance with the relevant tax regulations in the PRC. The enterprise income tax rate for the Group's major PRC subsidiaries is 25%.

Owner's Attributable Loss/Profit

By reasons of the foregoing, the loss attributable to the Owners during the period under review was approximately HK$307 million while the profit attributable to the Owners for the same period of 2015 was approximately HK$85 million.

Material Investments and Acquisitions

During the six months ended 30 June 2016, the Group had no material investments and acquisitions.

Material Disposals

During the six months ended 30 June 2016, the Group had no material disposals.

Safety Production and Environmental Protection

The Group has always been paying great attention to production safety and environmental protection while achieving stable coal production. Thus, the Group makes great efforts in promoting safety management and strengthening measures for environmental protection, aiming to build itself into a safety-oriented and environmentally-friendly enterprise. During the period under review, all coal mines of the Group operated smoothly.

Charges on Assets

As at 30 June 2016, save for disclosed below, none of the Group's assets was charged or subject to any encumbrance.

Bank deposits of approximately HK$132 million and bill receivables of approximately HK$164 million were used for securing bills facilities of approximately HK$295 million.

Contingent Liabilities

As at 30 June 2016, there were no guarantees given to any banks or financial institutions by the Group.

Gearing Ratio

As at 30 June 2016, gearing ratio of the Group, computed from the Group's total borrowings divided by the total equity, was only approximately 0.03%. Other than the effect on early redemption of bill receivables amounting to approximately HK$5 million, the Group had no other borrowings.

Exposure to Fluctuations in Exchange Rates

As at 30 June 2016, 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 2016, RMB was depreciated by approximately 0.34% while AUD was appreciated by approximately 2.59%, when compared to that as at 31 December 2015. As the net assets value denominated in RMB represented approximately 69% of the Group's total net assets value as at 30 June 2016, except the net foreign exchange loss of approximately HK$7 million (recognised in profit or loss) mainly arising from exchange and re-translation of its monetary assets (mainly bank balance) denominated in RMB into HK$ or United States Dollars at transaction date and as at reporting date, the depreciation in RMB led to exchange loss of approximately HK$27 million (other than the foreign exchange loss recognised in profit or loss) recognised in the other comprehensive income upon translation of financial statements of foreign operations in the PRC for the six months ended 30 June 2016. No material exchange loss in profit or loss of the Group is expected to be incurred arising from the depreciation of RMB in the future as only 7% of our bank balance is denominated in RMB as at 30 June 2016.

Liquidity and Financial Resources

As at 30 June 2016, the Group's current ratio (current assets divided by current liabilities) was approximately 3.41 times and the Group's cash and bank deposits amounted to approximately HK$5,216 million, of which approximately HK$132 million was deposited to secure bills facilities of approximately HK$132 million. The Group continued to maintain a stable and healthy net cash balance.

Included in trade and bill receivables, the Group has total bill receivables amounting to approximately HK$746 million (of which approximately HK$13 million represented discounted and endorsed bill receivables and approximately HK$164 million was used for securing bills facilities of approximately HK$163 million) as at 30 June 2016 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$569 million, the Group's free cash resources would have approximately HK$5,653 million as at 30 June 2016.

Capital Structure

Total equity and borrowings are classified as capital of the Group. As at 30 June 2016, 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.

As at 30 June 2016, all borrowings of the Group are denominated in RMB and are asset-backed financing.

EMPLOYEES

As at 30 June 2016, the Group had 23 Hong Kong employees and 5,156 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

The subsequent influence of Brexit, collective decisions on interest rates of monthly meetings of The Federal Open Market Committee, the fluctuation of exchange rates, and the stimulus package of major economies indicate that global economy is complicated together with uncertainty will continue.

China's economy would advance along with global economy and run smoothly in the second half of this year. While infrastructure and real estate construction will stabilise and stimulate the domestic economy remarkably at the beginning of economic transformation, we will see moderate development in the real estate market and recovery of profitability of the steel industry.

Policies were issued successively on cutting excessive capacity of steel and coal industries by various ministries and commissions of the Chinese government since this April, and detail measurements of supply-side structural reform in steel and coal industries were announced by many provinces afterwards. Those policies were in good enforcement, which had efficiently regulated the supply-demand relationship of the coal market, and thus the coal price bounced back in the short run. In view of the results of cutting excessive capacity, according to the statistics by National Development and Reform Commission of China, approximately 30% of the established targets in both steel and coal sectors had been completed in the first half of this year respectively. However, instruction that the established targets on cutting excessive capacity of steel and coal industry must be fulfilled this year as scheduled was made by Premier Li Keqiang during an executive meeting of the State Council in July. Therefore, we expect that more strict measurements would be enforced in cutting excessive capacity of the steel and coal industries in the second half of this year, and the supply-demand pattern is anticipated to be further improved in the steel and coking coal markets, which is weighed as supports and incentives to rise in coking coal price in the near future.

Our Group would continue to closely monitor the movement of world's and China's economy in the second half of 2016, and efficiently tackle any difficulty occurred in the process of development. We would also strengthen the long-term strategic partnership with current clients, and spare efforts to diversify client base as well. Meanwhile, production safety is prioritised and we will continue to improve management capabilities; further optimise organisational structure and strengthen cost control. In addition, we have been prudentially seeking for appropriate merger and acquisition opportunities worldwide for sustainable development, and to enlarge our coal reserves and increase output. With our managements' rich experience in administration, operation and investment skills, we have full confidence that our Group would achieve considerable development and shareholders would be benefited greater returns eventually.

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.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange during the six months ended 30 June 2016.

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
Shougang Fushan Resources Group Limited
Li Shaofeng
Chairman

Hong Kong, 25 August 2016

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).