SHOUGANG FUSHAN RESOURCES GROUP LIMITED

Stock Code : 639

Annual Report 2017

LOCATIONS OF THE GROUP'S COKING COAL MINES

CORPORATE PROFILE

SHOUGANG FUSHAN RESOURCES GROUP LIMITED is one of the most sizable integrated coking coal corporations in **CENTRAL-WESTERN CHINA.**

Taking Shanxi Province as its major investment base, it is principally engaged in **MINING OF COKING COAL, PRODUCTION AND SALES OF RAW AND CLEAN COKING COAL.**

The Group has three premium operating coking coal mines and three coal preparation plants.

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Ding Rucai *(Chairman)*
Li Shaofeng *(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

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

Japhet Sebastian Law *(Chairman)*
Ding Rucai
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

DIRECTORS' BIOGRAPHIES

Mr. Ding Rucai, aged 53, senior engineer in professor grade. Mr. Ding graduated from the School of Metallurgical and Ecological Engineering of the University of Science and Technology Beijing with a master degree in ferrous metallurgy. Thereafter, he studied senior business administration in The University of Warwick, United Kingdom. Mr. Ding obtained a doctor of philosophy in ferrous metallurgy from the School of Metallurgical and Ecological Engineering of the University of Science and Technology Beijing. He has acted as deputy general manager of the Company from August 2014. Mr. Ding was appointed an Executive Director and the Vice-chairman and Managing Director of the Company in September 2014 and was re-designated as the Chairman of the Company from 29 January 2018. He is the chairman of each of the Executive Committee and the Nomination Committee and a member of the Remuneration Committee of the Company. Mr. Ding joined Shougang Group Co., Ltd. (formerly known as Shougang Corporation) ("Shougang Group"), the current holding company of each of Shougang Holding (Hong Kong) Limited ("Shougang Holding") and Shougang Concord International Enterprises Company Limited ("Shougang International"), in 1989 and thereafter held various senior positions in the group companies of each of Shougang Group and Shougang International. Mr. Ding is a director and deputy managing director of Shougang Holding. Each of Shougang Group, Shougang Holding and Shougang International is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"). Mr. Ding was an executive director and the deputy managing director of Shougang International from September 2014 to January 2018. He has extensive experience in management of listed companies, mergers and acquisitions, production management of steel and coal industries, project management, trading of iron ore and coking coal resources and shipping management.

A service contract was entered into between Mr. Ding and a wholly-owned subsidiary of the Company commencing on 1 September 2014. Under the service contract, Mr. Ding is entitled to a monthly salary as may be determined by the Board or its delegated committee(s) from time to time. For both financial years 2017 and 2018, Mr. Ding's monthly salary is HK$260,000. Such salary was determined by the Remuneration Committee with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Ding's individual performance.

DIRECTORS' BIOGRAPHIES

Mr. Li Shaofeng, aged 51, holds a bachelor degree in Automation from University of Science and Technology Beijing. Mr. Li was appointed an Executive Director and the Chairman of the Company in October 2011 and was re-designated as the Managing Director of the Company from 29 January 2018. He is a member of the Executive Committee of the Company. Mr. Li joined Shougang Group, the current holding company of each of Shougang Holding and Shougang International, in 1989 and is the vice chairman of Shougang International and a director of each of Ultimate Capital Limited ("Ultimate Capital") and Fine Power Group Limited ("Fine Power"). Each of Shougang Group, Shougang Holding, Shougang International, Ultimate Capital and Fine Power is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Li is an executive director of BeijingWest Industries International Limited. He is also a non-executive director of Mount Gibson Iron Limited, a company listed on the Australian Securities Exchange. Mr. Li was the chairman of Shougang Concord Century Holdings Limited ("Shougang Century") from March 2000 to January 2018, the chairman of each of Shougang Concord Grand (Group) Limited ("Shougang Grand") and Global Digital Creations Holdings Limited ("GDC") from May 2010 to June 2017, and a director of China Dynamics (Holdings) Limited ("China Dynamics") from October 2007 to November 2015, all of Shougang Century, Shougang Grand, GDC and China Dynamics are Hong Kong listed companies. Mr. Li has extensive experience in management of listed companies, investments and capital operation.

A service contract was entered into between Mr. Li and a wholly-owned subsidiary of the Company commencing on 20 October 2011. Under the service contract, Mr. Li is entitled to a monthly salary as may be determined by the Board or its delegated committee(s) from time to time. For both financial years 2017 and 2018, Mr. Li's monthly salary is HK$450,000. Such salary was determined by the Remuneration Committee with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Li's individual performance.

Mr. So Kwok Hoo, aged 64, holds bachelor degrees in applied science with major in chemical engineering and business administration in Canada. Mr. So was appointed an Executive Director of the Company in March 1998 and was re-designated as a Deputy Managing Director of the Company in January 2010. He is a member of the Executive Committee of the Company. Mr. So is a non-executive director of APAC Resources Limited, a listed company in Hong Kong. He has extensive experience in marketing of electrochemical and industrial products sales in Asia Pacific Region together with property investment experience in Hong Kong.

A service contract was entered into between Mr. So and a wholly-owned subsidiary of the Company commencing on 1 January 2010. Under the service contract, Mr. So is entitled to a monthly salary as may be determined by the Board or its delegated committee(s) from time to time. For financial year 2017, Mr. So's monthly salary is HK$250,000 and his discretionary bonus is HK$1,250,000. For financial year 2018, Mr. So's monthly salary is HK$250,000. Such salary and bonus were determined by the Remuneration Committee with reference to the then prevailing market conditions, the performance of the Company as well as Mr. So's individual performance.

DIRECTORS' BIOGRAPHIES

Mr. Chen Zhaoqiang, aged 50, graduated from Jiaozuo Mining Institute with a bachelor degree majoring in mining engineering and obtained a master degree in management science from Huazhong University of Science & Technology and a finance executive masters of business administration from Shanghai Advanced Institute of Finance of Shanghai Jiao Tong University. Mr. Chen was appointed an Executive Director and Deputy Managing Director of the Company in January 2010. He is also a member of the Executive Committee of the Company. Mr. Chen had engaged in many important posts in coal mining industry, including in Pingdingshan Coal Co. Ltd., Henan Pingbao Coal Co. Ltd., and Henan Company for Coal Seam Gas Development & Application. He has extensive experience in coal mining industry including in the areas of production safety management for coal mining, purchase and logistics management, mineral resources development and coal trading.

A service contract was entered into between Mr. Chen and a wholly-owned subsidiary of the Company commencing on 1 January 2010. Under the service contract, Mr. Chen is entitled to a monthly salary as may be determined by the Board or its delegated committee(s) from time to time. For financial year 2017, Mr. Chen's monthly salary is HK$220,000 and his discretionary bonus is HK$1,100,000. For financial year 2018, Mr. Chen's monthly salary is HK$220,000. Such salary and bonus were determined by the Remuneration Committee with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Chen's individual performance.

Mr. Liu Qingshan, aged 59, graduated from Shanxi University of Finance and Economics Department of Accounting and obtained a master of business administration from Capital University of Economics and Business. Mr. Liu was appointed an Executive Director of the Company in November 2008 and was re-designated as a Deputy Managing Director of the Company in January 2010. He is a member of the Executive Committee of the Company. Before joining the Group, Mr. Liu worked as chief financial controller in Fortune Dragon Group Limited and in other sizable energy resources companies in the PRC. He has extensive experience in the fields of accounting and finance in the mining industry in the PRC.

A service contract was entered into between Mr. Liu and a wholly-owned subsidiary of the Company commencing on 1 January 2010. Under the service contract, Mr. Liu is entitled to a monthly salary as may be determined by the Board or its delegated committee(s) from time to time. For financial year 2017, Mr. Liu's monthly salary is HK$200,000 and his discretionary bonus is HK$1,000,000. For financial year 2018, Mr. Liu's monthly salary is HK$200,000. Such salary and bonus were determined by the Remuneration Committee with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Liu's individual performance.

DIRECTORS' BIOGRAPHIES

Mr. Leung Shun Sang, Tony, aged 75, holds a bachelor degree of commerce from The Chinese University of Hong Kong and a master degree in business administration from New York State University. Mr. Leung was appointed a Non-executive Director of the Company in March 2009 and is a member of the Remuneration Committee of the Company. He is a non-executive director of Shougang International, a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Leung is also a non-executive director of each of Shougang Century, Shougang Grand, GDC and CWT International Limited (formerly known as HNA Holding Group Co. Limited). Mr. Leung had worked in Citibank N.A. and W.I. Carr Sons & Co. (Overseas) in his early years and he was the managing director of CEF Group. He has extensive experience in securities and banking business, investment, financial markets, corporate strategy and corporate management.

An engagement letter was entered into with Mr. Leung for a term of three years commencing on 1 January 2016. Under the engagement letter, Mr. Leung is entitled to a director's fee as may be determined by the Board from time to time. For both financial years 2017 and 2018, the director's fee of Mr. Leung is HK$420,000 for a full year. Such director's fee was determined by the Board with reference to Mr. Leung's experience and duties as well as the then prevailing market conditions.

Mr. Dong Yansheng, aged 39, holds a bachelor degree in computer statistics from the Capital University of Business and Economics and a master degree in business analysis and finance from the University of Leicester. Mr. Dong was appointed a Non-executive Director of the Company in June 2016. He is the assistant to general manager of the asset management center of Funde Sino Life Insurance Co., Ltd. ("Funde Sino Life") and the general manager of the investment business division II of the asset management center of Funde Sino Life. Mr. Dong previously held various positions in the group of Funde Sino Life. Funde Sino Life is a substantial shareholder of the Company within the meaning of Part XV of the SFO. He has extensive experience in financial and insurance businesses.

An engagement letter was entered into with Mr. Dong for a term commencing on 30 June 2016 and expiring on 31 December 2018. Under the engagement letter, Mr. Dong is entitled to a director's fee as may be determined by the Board from time to time. For both financial years 2017 and 2018, the director's fee of Mr. Dong is HK$420,000 for a full year. Such director's fee was determined by the Board with reference to Mr. Dong's experience and duties as well as the then prevailing market conditions.

DIRECTORS' BIOGRAPHIES

Mr. Kee Wah Sze, aged 70, holds a master degree in Chinese and comparative law from the City University of Hong Kong and a master degree in law from the People's University of the PRC. Mr. Kee was appointed an Independent Non-executive Director of the Company in April 1997 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. He was an independent non-executive director of Theme International Holdings Limited ("Theme International"), a listed company in Hong Kong, from November 2009 to May 2015. Mr. Kee is a partner of Messrs. Michael Cheuk, Wong & Kee and has been a practicing solicitor in Hong Kong specialized in both the commercial and conveyancing fields for many years. He is a Notary Public of Hong Kong and a China Appointed Attesting Officer.

An engagement letter was entered into with Mr. Kee for a term of three years commencing on 1 January 2016. Under the engagement letter, Mr. Kee is entitled to a director's fee as may be determined by the Board from time to time. For both financial years 2017 and 2018, the director's fee of Mr. Kee is HK$420,000 for a full year. Such director's fee was determined by the Board with reference to Mr. Kee's experience and duties as well as the then prevailing market conditions.

Mr. Choi Wai Yin, aged 59, holds a master degree of science in finance from the City University of Hong Kong, a bachelor degree in business administration from The Chinese University of Hong Kong and a bachelor degree in law from the Peking University. Mr. Choi was appointed an Independent Non-executive Director of the Company in July 2004 and is the Chairman of the Audit Committee and a member of each of the Nomination Committee and the Remuneration Committee of the Company. Currently, he is a director and a responsible officer of a company which is carrying the asset management business. Mr. Choi is an investment adviser registered under the SFO. He has extensive experience in the fields of finance and fund management.

An engagement letter was entered into with Mr. Choi for a term of three years commencing on 1 January 2016. Under the engagement letter, Mr. Choi is entitled to a director's fee as may be determined by the Board from time to time. For both financial years 2017 and 2018, the director's fee of Mr. Choi is HK$420,000 for a full year. Such director's fee was determined by the Board with reference to Mr. Choi's experience and duties as well as the then prevailing market conditions.

DIRECTORS' BIOGRAPHIES

Mr. Chan Pat Lam, aged 69. Mr. Chan was appointed an Independent Non-executive Director of the Company in December 2004 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. Currently, he is the consultant of a private company which is an international container shipping agency in the Western region of Pearl River Delta. Mr. Chan is also a partner of a private company which is engaged in trading and wholesaling of grocery items. He was an independent non-executive director of Theme International, a listed company in Hong Kong, from November 2009 to November 2015. Mr. Chan has extensive experience in the field of international banking industry in Hong Kong, Macau and California.

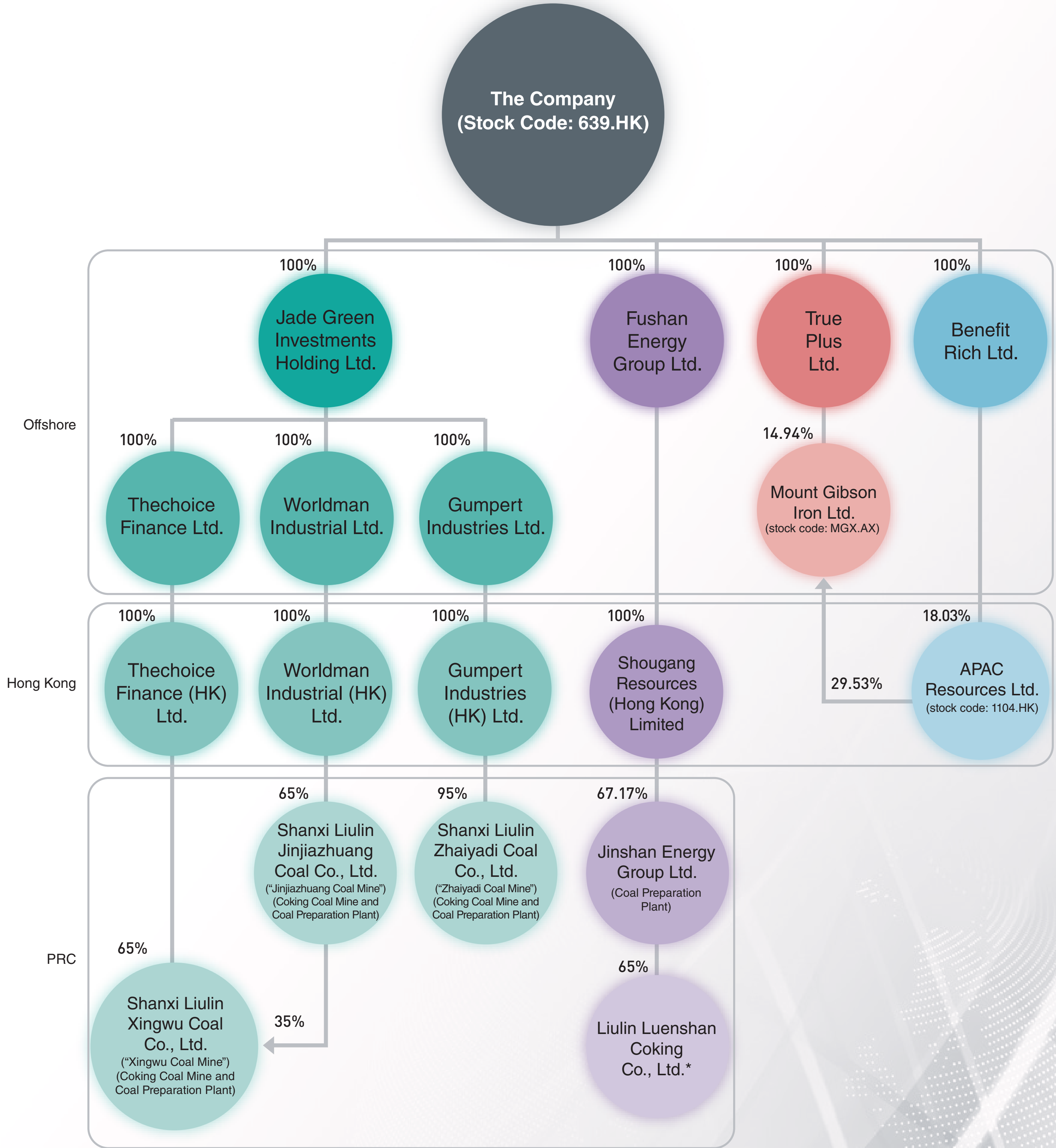
An engagement letter was entered into with Mr. Chan for a term of three years commencing on 1 January 2016. Under the engagement letter, Mr. Chan is entitled to a director's fee as may be determined by the Board from time to time. For both financial years 2017 and 2018, the director's fee of Mr. Chan is HK$420,000 for a full year. Such director's fee was determined by the Board with reference to Mr. Chan's experience and duties as well as the then prevailing market conditions.

Mr. Japhet Sebastian Law, aged 66, graduated from the University of Texas at Austin with a doctor of philosophy degree in mechanical/industrial engineering in 1976. Mr. Law was appointed an Independent Non-executive Director of the Company in September 2013 and is the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee of the Company. He joined The Chinese University of Hong Kong in 1986 and retired in August 2012. Before retirement, Mr. Law was a professor in the Department of Decision Sciences and Managerial Economics. He was the associate dean and subsequently the dean of the Faculty of Business Administration of The Chinese University of Hong Kong from 1993 to 2002. Prior to returning to Hong Kong, Mr. Law was a director of Operations Research at the Cullen College of Engineering and a director of Graduate Studies in Industrial Engineering at the University of Houston and was also involved with the U.S. Space Program in his career with McDonnell Douglas and Ford Aerospace in the United States. He acts as a consultant for various corporations in Hong Kong and overseas. Mr. Law is active in public services and serves as a member of the Provisional Regional Council of the Hong Kong SAR Government and various other committees. He serves on the boards of profit, non-profit and charitable organisations in Hong Kong and overseas. Mr. Law is an independent non-executive director of each of GDC, Tianjin Port Development Holdings Limited, Beijing Capital International Airport Company Limited, Binhai Investment Company Limited, Regal Hotels International Holdings Limited and Tianjin Binhai Teda Logistics (Group) Corporation Limited, all of which are listed companies in Hong Kong. He was an independent non-executive director of Shanghai La Chapelle Fashion Co., Ltd., a listed company in Hong Kong, from August 2013 to July 2016.

An engagement letter was entered into with Mr. Law for a term of three years commencing on 1 January 2016. Under the engagement letter, Mr. Law is entitled to a director's fee as may be determined by the Board from time to time. For both financial years 2017 and 2018, the director's fee of Mr. Law is HK$420,000 for a full year. Such director's fee was determined by the Board with reference to Mr. Law's experience and duties as well as the then prevailing market conditions.

MAIN OPERATIONAL STRUCTURE

THE MAIN OPERATIONAL STRUCTURE OF THE GROUP AS AT 31 DECEMBER 2017 IS AS FOLLOWS:



* The unofficial English translation is for identification purpose only.

FINANCIAL HIGHLIGHTS

(HK$'000)	For the year ended 31 December 2015	2016	**2017**	**Percentage change**
Revenue	1,996,629	1,809,885	**3,471,922**	+92%
Gross profit	488,188	607,043	**1,875,404**	+209%
Gross profit margin	24%	34%	**54%**	
Non-cash net impairment loss on goodwill, mining rights and property, plant and equipment	(791,203)	(194,842)	**–**	
Before non-cash net impairment loss on goodwill, mining rights and property, plant and equipment (net of the correspondence deferred tax impact):				
(Loss)/Profit for the year	(78,718)	236,790	**1,182,584**	+399%
(Loss)/Profit attributable to owners of the Company ("Owners")	(58,374)	233,633	**1,080,649**	+363%
After non-cash net impairment loss on goodwill, mining rights and property, plant and equipment (net of the correspondence deferred tax impact):				
(Loss)/Profit for the year	(711,475)	67,656	**1,182,584**	+1648%
(Loss)/Profit attributable to Owners	(416,471)	111,795	**1,080,649**	+867%
EBITDA[1]	419,885	694,201	**2,027,696**	+192%
Basic (loss)/earnings per share (HK cents)	(7.86)	2.11	**20.38**	+866%
Dividend per share (HK cents)	21.0	18.0	**16.5**	
– Interim (HK cents)	1.0	–	**3.0**	
– Special (HK cents)	15.0	15.0	**6.3**	
– Final (Proposed) (HK cents)	5.0	3.0	**7.2**	

(HK$'000)	As at 31 December 2015	2016	**2017**	**Percentage change**
Total assets	20,727,669	19,104,456	**21,694,645**	+14%
of which: Cash and cash equivalents and time deposits with original maturity over three months	5,038,181	3,824,219	**4,864,467**	+27%
Unpledged bill receivables	504,567	942,205	**1,136,540**	+21%
Total liabilities	(3,683,389)	(3,438,763)	**(4,318,962)**	+26%
of which: Total borrowings	–	–	**–**	–
Current ratio[2]	3.69 times	3.45 times	**2.87 times**	-17%
Gearing ratio[3]	0.00%	0.00%	**0.00%**	–
Total equity	17,044,280	15,665,693	**17,375,683**	+11%
of which: Equity attributable to Owners	15,791,115	14,519,024	**15,934,812**	+10%
Net assets per share attributable to Owners (HK$)	2.98	2.74	**3.01**	+10%

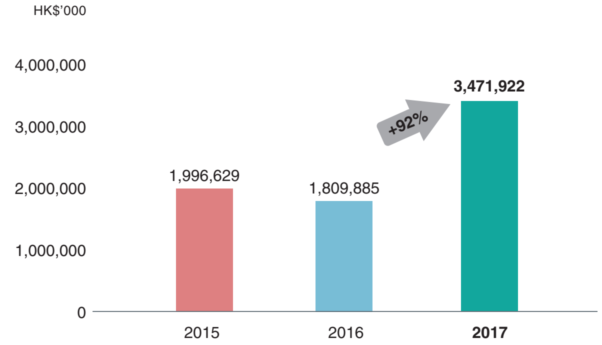
Notes:

1. EBITDA is defined as profit/(loss) before income tax plus impairment loss on goodwill, mining rights and property, plant and equipment, reversal of impairment loss on mining 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 total current assets divided by total current liabilities.
3. Gearing ratio is computed from total borrowings divided by total equity.

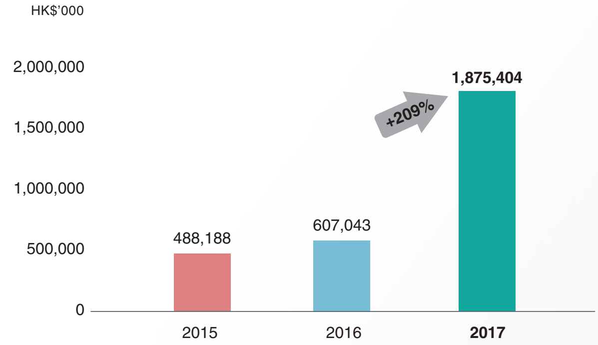
FINANCIAL HIGHLIGHTS

PROFIT & LOSS SUMMARY

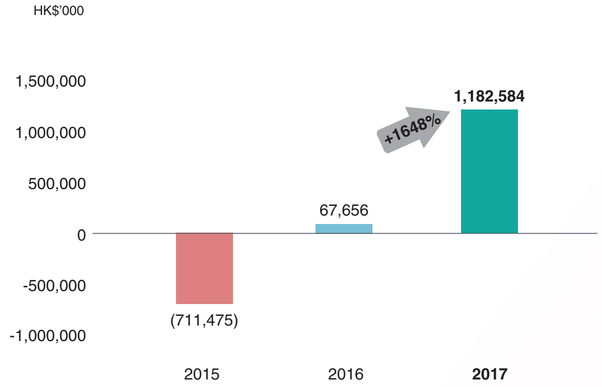
Revenue



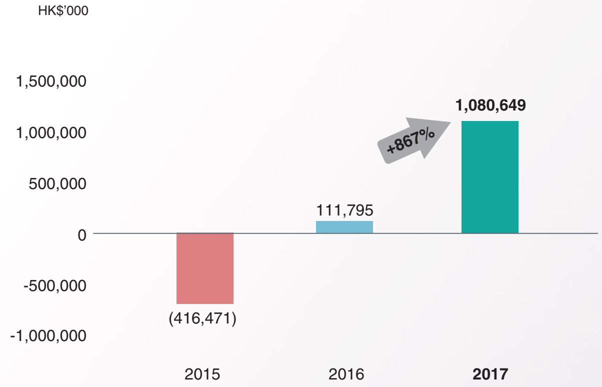
Gross profit



(Loss)/Profit for the year

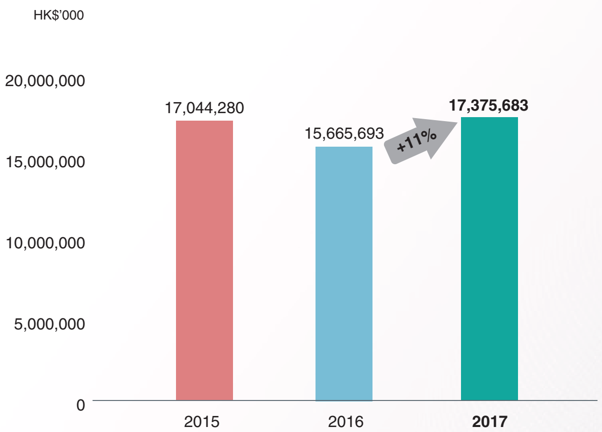


(Loss)/Profit attributable to Owners

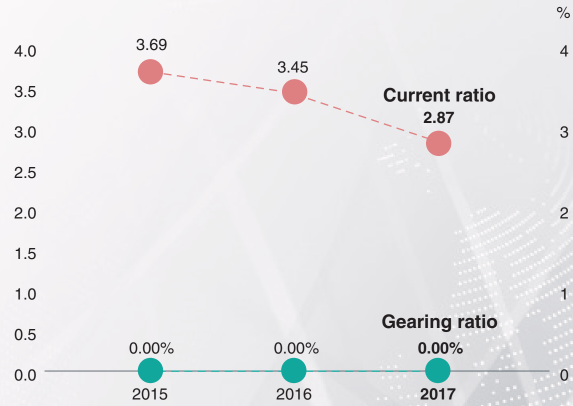


HEALTHY FINANCIAL POSITION

Net assets



Gearing ratio & current ratio



OPERATING MINES

XINGWU COAL MINE

- 6 km south of Liulin County and the mining right area extended over 11.6 sq. km and spans 4.5 km east to west and 4.5 km north to south
- Operation commenced in 1968
- Annual designed raw coking coal production capacity: 2.1 million tonnes
- Operate a coal preparation plant with annual designed input processing capacity of 1.2 million tonnes (put into operation in October 2002)
- Mainly production of hard coking coal

JINJIAZHUANG COAL MINE

- 14 km south of Liulin County and the mining right area extended over 6.08 sq. km and spans 6.8 km east to west and 3.4 km north to south
- Operation commenced in 1996
- Suspended normal production since the second half of 2017 because of undergoing construction. Expected completion of construction by the end of 2018
- Annual designed raw coking coal production capacity: 2.1 million tonnes
- Operate a coal preparation plant with annual designed input processing capacity of 3.0 million tonnes (put into operation in June 2009)
- Mainly production of hard coking coal before, mainly production of semi-hard coking coal since 2018

ZHAIYADI COAL MINE

- 16 km southwest of Liulin County and the mining right area extended over 13.9 sq. km and spans 5.5 km east to west and 5.0 km north to south
- Operation commenced in 1988
- Annual designed raw coking coal production capacity: 2.1 million tonnes
- Operate a coal preparation plant with annual designed input processing capacity of 2.1 million tonnes (put into operation in the 4th quarter of 2010)
- Mainly production of semi-hard coking coal

OPERATING MINES

COAL CHARACTERISTICS

- Located within the Lishi-Liulin mining area of Hedong coalfield, one of China's key reserve areas for high-quality hard coking coal.

- Regarded as "panda coal" because of its scarcity and high economic value.

- The Group's coking coal is of particularly good quality due to its high calorific value and caking index but low ash and sulfur content, characteristics that are highly desirable for coke and steel making.

		Operating Mines			
Coal Quality Characteristic	**Basic**	**Xingwu**		**Jinjiazhuang**	**Zhaiyadi**
Seam		No. 4	No. 5	No. 4	No.9
Moisture (%)	Ad	0.9	0.3	0.7	0.7
Ash (%)	D	11.3	10.1	11.0	10.4
Sulfur Total (%)	D	0.36	0.85	0.47	1.65
Volatile Matter (%)	Daf	21.6	23.4	22.4	18.7
Fixed Carbon (%)	Ad	68.6	67.0	68.4	72.1
Calorific Value (Kcal./kg)	Gr.v.d	7,500	7,200	7,520	7,540
Caking Index (G)		86	75	77	72

Source: J.T. Boyd report as of 31 December 2007

These test results indicate that the test samples from Xingwu Coal Mine and Jinjiazhuang Coal Mine meet the international definition for hard coking coal. Zhaiyadi Coal Mine sample test results indicate that its coal meets international definition for semi-hard coking coal.

OPERATING MINES

OPERATING DATA

Resources and Reserves/Output

	Operating Mines			
	Xingwu	Jinjiazhuang	Zhaiyadi	Total
Resources and Reserves				
In-Place Resources as of 31 December 2007 (Mt)	63.23	64.18	78.34	205.75
Recoverable Reserves as of 31 December 2007 (Mt)				
– Proven reserves	11.11	20.78	13.32	45.21
– Probable reserves	35.23	23.02	38.89	97.14
Total proven and probable recoverable reserves as of 31 December 2007 (Mt)	46.34	43.80	52.21	142.35
Less: Total raw coking coal output in 2008 to 2017 (Mt)	(17.30)	(14.72)	(22.36)	(54.38)
In-Place Resources as of 31 December 2017 (Mt) (NB)	**45.93**	**49.46**	**55.98**	**151.37**
Recoverable Reserves as of 31 December 2017 (Mt) (NB)	**29.04**	**29.08**	**29.85**	**87.97**

NB: Resources and reserves have taken into account the coal reserves prepared by John T. Boyd Company, an independent mining and geological consultant, as of 31 December 2007, in accordance with the JORC Code, after deduction of the total raw coking coal output for the period from 1 January 2008 to 31 December 2017.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors of Shougang Fushan Resources Group Limited ("Shougang Resources" or the "Company"), I am hereby delighted to present the annual report of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017 (the "Review Year"), and report to shareholders on the Group's performance for the Review Year.

The global economy was under strong recovery during 2017, in particular, the recovery of the domestic demand in the United States ("U.S.") and China became an important engine of global economic growth. This year, the U.S. interest rate began an upward track, the U.S. stocks repeatedly struck new high and the biggest scale tax reform plan in 30 years was approved; Eurozone's PMI continued to pick up; Japan expected to end their over ten-year deflation period; and global enterprises achieved good profits in general.

After bottoming out in 2016, China's economy continued to recover beyond expectations in 2017, with real GDP growth rising to 6.9% from 6.7% in 2016, and its fixed assets investment (excluded peasants household) rising by 7.2% year-on-year ("YOY"). The development momentum was good. The country's Supply-side Structural Reform achieved remarkable effects, in turn benefiting the Group's coal businesses. By the end of 2017, China had cut its steel capacity by an approximate total of 110 million tonnes, and achieved closely to the "13th Five-Year Plan" steel sector capacity reduction target of 100-150 million tonnes. China has also cut accumulated coal capacity by approximately 440 million tonnes, likely to achieve its Five-Year Plan target of reducing coal capacity by 500 million tonnes in 2018. At the end of 2017, China had about 7,000 coal mines, down from 10,800 coal mines in 2015. In addition, the tightening of safety and environmental protection requirements and inspections will coal mires also benefit steel and coal sectors to drive prices upwards continuously.

With positive market sentiment and the continued efforts of the Group, Shougang Resources is pleased to report that profit for the Review year was HK$1.18 billion, and profit attributable to the Company's shareholders was HK$1.08 billion, significantly increased by HK$1.11 billion and HK$969 million YOY respectively. For the year ended 31 December 2017, the raw coking coal production volume of the Group was 3.98 million tonnes with a YOY increase of 3%. Due to the increase in the sales volume of raw coking coal by 0.45 million tonnes YOY to 0.93 million tonnes, the clean coking coal production volume of the Group was 2.03 million tonnes, decreased by 0.29 million tonnes YOY, and sales volume was 2.07 million tonnes, decreased by 2% YOY. The average realised selling prices (inclusive of VAT) of raw and clean coking coal were RMB684/tonne and RMB1,386/tonne, with a YOY significant increase of 72% and 80% respectively. During the Review Year, the Group's revenue was HK$3.47 billion with a YOY increase of 92%, and the gross profit margin increased to 54% from 34% in 2016. The Group's financial position continued to maintain a healthy level. The total of free cash and bill receivables of the Group was approximately HK$6 billion.

CHAIRMAN'S STATEMENT

The above achievements were the results of economy recovery, macro policies changing opportunities, the support from our shareholders and the Board of Directors, together with the efforts of all of our staffs working through the hard time during the downturn of the industry in previous years. Even with a relatively positive market situation in 2017, we continue to strengthen our risk awareness, making efforts towards the safety production, cost control, efficiency improvement, flexible marketing strategies, introducing and implementing new technologies, maintained innovation and strengthened our competitiveness.

Looking towards 2018, the overall market of both global development and China economy is considered remaining optimistic in general. Many major financial institutions upgrade their forecasts of the economic growth in global and China. But the sanguine sentiments are relative fragile, with some unfavorable factors such as geopolitical instability in the Middle-East, Asia, Europe and Africa, the rise of protectionism and the expansion of Populism. All of these factors will directly or indirectly affect the development of the economies around the world, including China. China is still under the process of Supply-side Structural Reform, the 19th CPC National Congress has also emphasised that China economy is stepping into a new era, the main stream is on high-quality growth instead of high-speed growth. The country will be focusing on real economy development, speeding up the industries' upgrading, controlling the financial risks and directing economic development to be healthier and more disciplined.

As for the coal sector, the Supply-side Structural Reform will continue to deepen, while the environmental protection related policies will become more tightening and comprehensive. Shougang Resources, as a premium coking coal producer enterprise with advanced capacity, will benefit from these improvements.

In 2018, based on the national development strategy and the overall economic environment, the Group will continue to utilise our competitive edges, including safety working standards, fully implementation of the environmental protection measures to carry forward, and our key construction projects in progress to increase both production volume and efficiency. We will also continue to tap into our potentials, enhance management abilities and explore the opportunities to diversify our investment portfolio on the basis of our main business in order to enhance sustainable development to maximise returns for society, our shareholders and employees.

As a token of our appreciation for the continued support and kindness of our shareholders, the Board of Directors of Shougang Resources have proposed a final dividend of HK7.2 cents per ordinary share and declared a special dividend of HK6.3 cents per ordinary share. Once more, I would like to express my heartfelt gratitude again to our shareholders, management team, employees and business partners for their support for the Group through the years!

Ding Rucai
Chairman

Hong Kong, 22 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The key operational data of our three premium operating coking coal mines in Liulin County, Shanxi Province (Xingwu Coal Mine, Jinjiazhuang Coal Mine and Zhaiyadi Coal Mine) for the year ended 31 December 2017 (the "year under review") together with that of the same period of 2016 is summarised as follows:

	Unit	For the year ended 31 December 2017	2016	Change Quantity/ Amount	Percentage
Production volume:					
Raw coking coal	Mt	**3.98**	3.85	**+0.13**	**+3%**
Clean coking coal	Mt	**2.03**	2.32	**-0.29**	**-13%**
Sales volume:					
Raw coking coal	Mt	**0.93**	0.48	**+0.45**	**+94%**
Clean coking coal	Mt	**2.07**	2.12	**-0.05**	**-2%**
Average realised selling price (inclusive of VAT):					
Raw coking coal	RMB/tonne	**684**	398	**+286**	**+72%**
Clean coking coal	RMB/tonne	**1,386**	769	**+617**	**+80%**

BUSINESS REVIEW (continued)

For the year ended 31 December 2017, the Group produced approximately 3.98 million tonnes ("Mt") (2016: approximately 3.85 Mt) of raw coking coal, representing a year-on-year ("YoY") increase of 3% and also produced approximately 2.03 Mt (2016: approximately 2.32 Mt) of clean coking coal, representing a YoY decrease of 13% as a result of significant increase in sales volume of raw coking coal by approximately 0.45 Mt. Benefit from the cancellation on the 276 working days restriction policy since May 2017 being offset the negative effect of temporarily suspension of normal production in Jinjiazhuang Coal Mine in the second half of 2017, our raw coking coal production volume was increased by 3% YoY in 2017 eventually. Due to the construction for exchange upper and lower coal seams of Jinjiazhuang Coal Mine since the second half of 2016, its raw coking coal production volume declined from approximately 0.65 Mt in 2016 to approximately 0.47 Mt during the year under review. Due to the fact that the infrastructure for extending Jinjiazhuang Coal Mine's mining to lower coal seams under comprehensive construction that is expected to be completed by end of 2018, Jinjiazhuang Coal Mine has stopped normal production, however still produced limited construction coal during the construction period since the second half of 2017. It should be noted that in coal mining industry, it is not uncommon for a coal mine to stop production for a period for construction work. The construction work is actually beneficial to the production of Jinjiazhuang Coal Mine in the long run.

The Production and Safety Permit of Jinjiazhuang Coal Mine (the "Permit") expired on 17 October 2017 and has been renewed on 8 December 2017. The delay in the renewal of the Permit is a result of unexpected changes in the policies in the People's Republic of China (the "PRC") for renewal of Mining Permit which in turn is a pre-requisite for application for renewal of the Permit. Under such new policies, applications for renewal of Mining Permit would need to go through relatively complicated and prolonged procedures than before. As a result, Jinjiazhuang Coal Mine as well as many other coal mines in Shanxi could not successfully apply for renewal of the Permit on time during this period. As Jinjiazhuang Coal Mine has stopped normal production because of extending its mining to lower coal seams under construction in progress before the Permit's expiry date, its production has not been interrupted as a result of the cancellation of the Permit temporarily. Thus, there is no loss in production volume and no violation of production, and also no material financial impact on the Group arose from this temporary cancellation. Nevertheless, we have taken active works to renew the Permit successfully on 8 December 2017.

BUSINESS REVIEW (continued)

Because of the significant increase in sales volume of raw coking coal, production volume of clean coking coal dropped by 13% YoY during the year under review. However, sales volume of clean coking coal slightly dropped by 2% YoY during the year under review as a result of lower inventory level as at 31 December 2017 when compared to that of the last year end. In order to speed up the payback period, sales volume of raw coking coal significant climbed by 94% YoY during the year under review as a result of a good effort of our sales team. Sales of raw and clean coking coal accounted for 18% and 82% of the Group's turnover respectively for the year ended 31 December 2017. They accounted for 11% and 89% respectively of the same period 2016.

China's economy continued to recover beyond expectations in 2017 and the country's Supply-side Structural Reforms achieved remarkable effects, in turn benefiting the Group's coking coal business. The market price of coking coal rose volatility and repeatedly in 2017. For the year ended 31 December 2017, the Group's average realised selling price (inclusive of value added tax "VAT") of raw coking coal significantly increased by 72% YoY to Renminbi ("RMB") 684/tonne when compared with that of the same period of 2016 (2016: RMB398/tonne) and the Group's average realised selling price (inclusive of VAT) of clean coking coal also significantly increased by 80% YoY to RMB1,386/tonne when compared with that of the same period of 2016 (2016: RMB769/tonne). The increase in average realised selling prices of our coal products were in line with the rise in market coal prices even the upside effect was partially offset by the increase in selling proportion of semi-hard coking coal with lower selling price during the year under review. In terms of its sales volume, sales of raw hard coking coal and raw semi-hard coking coal accounted for 29% and 71% (2016: accounted for 62% and 38%) of the total raw coking coal sales volume respectively for the year ended 31 December 2017. In addition, sales of No.1 and No.2 clean coking coal accounted for 47% and 53% (2016: 59% and 41%) of the total clean coking coal sales volume respectively for the year ended 31 December 2017.

FINANCIAL REVIEW

For the year ended 31 December 2017, the Group recorded a turnover of approximately Hong Kong Dollars ("HK$") 3,472 million, representing a substantial increase of approximately HK$1,662 million or 92% as compared with that of approximately HK$1,810 million for the same period of 2016. The substantial increase in turnover was mainly driven by a significant increase in average realised selling prices of raw and clean coking coal by 72% YoY and 80% YoY respectively.

For the year ended 31 December 2017, the total turnover to the top five customers accounted for 76% (2016: 83%) of the Group's turnover. Of which, the total turnover to the largest customer accounted for 26% (2016: 34%) of the Group's turnover.

FINANCIAL REVIEW (continued)

For the year ended 31 December 2017, gross profit margin was 54% while 34% 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$1,268 million or 209% YoY.

For the year ended 31 December 2017, the Group recorded a net considerable profit of approximately HK$1,183 million and profit attributable to the owners of the Company (the “Owner”) of approximately HK$1,081 million. Substantial increase in profit in 2017 is primarily attributable to (i) the substantial increase in gross profit by approximately HK$1,268 million YoY as stated above; (ii) based on the current coking coal prices with a positive market sentiment, no provision of non-cash impairment loss made on goodwill, mining rights and property, plant and equipment is required for the year under review. However, for the same period of last year, a non-cash net impairment loss on goodwill, mining rights and property, plant and equipment (the “Impairment”) amounted to approximately HK$195 million was recognised even the reversal of the related deferred tax liabilities amounted to approximately HK$26 million as income, the net effect on the Impairment was attributable to the reduction of net profit and profit attributable to the Owners amounted to approximately HK$169 million and approximately HK$122 million respectively; (iii) turnaround from net foreign exchange loss of approximately HK$42 million for the year ended 31 December 2016 to net foreign exchange gain (the “Foreign Exchange Gain/Loss”) of approximately HK$56 million for the year under review due to the appreciation of RMB exchange rate by 6.67% as at 31 December 2017 (2016: depreciation of RMB exchange rate by 5.13%); and (iv) dividend income amounted to approximately HK$22 million (2016: nil) from financial assets measured at fair value through other comprehensive income.

During the year under review, basic earnings per share was HK20.38 cents (2016: HK2.11 cents).

The Group recorded EBITDA of approximately HK$2,028 million (2016: approximately HK$694 million) and generated a positive cash flow of approximately HK$1,536 million (2016: approximately HK$222 million) from our operating activities during the year under review. The Group continues to maintain a healthy free cash balance of approximately HK$4,864 million (2016: approximately HK$3,824 million). The substantial increase in cash balance is mainly due to the substantial increase in cash flow generated from our operating activities during the year under review.

FINANCIAL REVIEW (continued)

Cost of Sales

During the year under review, cost of sales was approximately HK$1,597 million, representing an increase of approximately HK$394 million or 33%, as compared with that of approximately HK$1,203 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 rise in prices of materials and services as stated below during the year under review.

Included in cost of sales, amortisation of mining rights was approximately HK$150 million for the year ended 31 December 2017, representing an increase of approximately HK$3 million or 2%, as compared with that of approximately HK$147 million for the same period of 2016. The increase in amortisation of mining rights was mainly due to the increase in actual usage volume of raw coking coal for sales during the year under review.

The unit production costs are summarised as follow:

		For the year ended 31 December		**Change**	
	Unit	**2017**	2016	**Amount**	**Percentage**
Production cost of raw coking coal	RMB/tonne	**316**	257	**+59**	**+23%**
Less: Uncontrollable costs – resources tax and levies	RMB/tonne	**(60)**	(35)	**+25**	**+71%**
Subtotal	RMB/tonne	**256**	222	**+34**	**+15%**
of which, depreciation and amortisation	*RMB/tonne*	***(65)***	*(65)*	**–**	**–**
Processing cost for clean coking coal	RMB/tonne	**55**	46	**+9**	**+20%**
of which, depreciation	*RMB/tonne*	***(15)***	*(13)*	***+2***	***+15%***

FINANCIAL REVIEW (continued)

Due to the substantial increase in average realised selling prices of raw and clean coking coal, resources tax, which is charged on the basis of the selling price of coking coal, and levies of city constructional tax and additional educational surcharge, which is charged on the basis of the VAT, sharp increased by RMB25/tonne YoY, during the year under review. Excluding the effect on the increased in these uncontrollable costs, unit of production cost of raw coking coal increased by 15% YoY resulted from (i) the increase in staff costs by RMB11/tonne YoY due to the pay rise after the recovery of coal market in order to maintain the competitive advantages in the labour market; and (ii) the increase in material cost due to the rise in average prices of materials by approximately 30-50% YoY and also included one-off provision made on obsolescent spare parts and consumables with carrying amount of approximately RMB25 million during the year under review. In addition, the unit processing cost of clean coking coal also increased by 20% YoY as a result of the decrease in production volume of clean coking coal by 13% YoY and the increase in labour and material costs as stated above.

Gross Profit and Gross Profit Margin

As a result of the reasons above, gross profit was approximately HK$1,875 million for the year ended 31 December 2017, representing a significant increase of approximately HK$1,268 million or 209% as compared with that of approximately HK$607 million for the same period of 2016. During the year under review, gross profit margin was 54% compared with 34% for the same period of 2016. The increase in gross profit margin was mainly due to the substantial rise in average realised selling prices of raw and clean coking coal by 72% YoY and 80% YoY respectively for the year ended 31 December 2017 as explained above under "Business Review".

Other Operating Income

During the year under review, other operating income was approximately HK$207 million, representing a significant increase of approximately HK$100 million or 93% as compared with approximately HK$107 million of the same period in 2016. The significant increase in other operating income was mainly attributable to (i) the recorded net foreign exchange gain of approximately HK$56 million (2016: net foreign exchange loss of approximately HK$42 million recognised in general and administrative expenses) as a result of the appreciation of RMB as at 31 December 2017 by approximately 6.67% when compared with that as at 31 December 2016 (2016: depreciation of RMB as at 31 December 2016 by approximately 5.13% when compared with that as at 31 December 2015); (ii) income from sales of scrapped products increased by approximately HK$12 million or 36% YoY as a result of the increase in coal prices; (iii) increase in interest income by approximately HK$10 million or 13% YoY as a result of the higher yield earned in effective cash management; and (iv) dividend income amounted to approximately HK$22 million (2016: nil) from financial assets measured at fair value through other comprehensive income during the year under review.

FINANCIAL REVIEW (continued)

Selling and Distribution Expenses

During the year under review, selling and distribution expenses were approximately HK$207 million, representing an increase of approximately HK$40 million or 24% as compared with that of approximately HK$167 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 price of transportation services and the increase in sales volume of clean coking coal at C&F from approximately 589,000 tonnes for the year ended 31 December 2016 to approximately 688,000 tonnes for the year under review.

General and Administrative Expenses

During the year under review, general and administrative expenses would be approximately HK$202 million for the year ended 31 December 2017, representing a decrease of approximately HK$2 million or 1% as compared with approximately HK$204 million for the same period of 2016.

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

In the view of the coal market recovering beyond expectations and current coking coal market prices with an optimistic market sentiment, after assessment, no non-cash impairment loss on goodwill, mining rights and property, plant and equipment was recognised by the Group during the year under review (2016: approximately HK$195 million non-cash net impairment loss was made on goodwill, mining rights and property, plant and equipment). Details of which are disclosed in note 19(b) to the consolidated financial statements.

Other Operating Expenses

During the year under review, other operating expenses were approximately HK$24 million, representing an increase of approximately HK$16 million or 200% as compared with approximately HK$8 million for the same period of 2016. The increase is mainly attributable to the due diligence professional fees of approximately HK$12 million (2016: nil) for the potential acquisition project during the year under review.

Finance Costs

During the year under review, finance costs were approximately HK$2 million (2016: approximately HK$1 million). Finance costs were derived from the early redemption of bill receivables of the Group. During the year under review, no borrowing costs were capitalised in the construction in progress (2016: nil).

FINANCIAL REVIEW (continued)

Income Tax Expense

During the year under review, it was recorded income tax expense of approximately HK$465 million (2016: approximately HK$77 million) of which approximately HK$75 million (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 PRC ("major PRC Subsidiaries") in accordance with the relevant tax regulations in the PRC. Income tax expense substantially increased which was in line with the substantial increase in profits arising from the major PRC Subsidiaries incorporated in PRC during the year under review. The enterprise income tax rate for the Group's major PRC Subsidiaries is 25%. During the year under review, there is no reversal of deferred tax liabilities arising from impairment loss on mining rights as income tax credit (2016: approximately HK$26 million).

Owner's Attributable Profit

By reasons of the foregoing, the profit attributable to the Owner during the year under review was approximately HK$1,081 million, a sharp increase of HK$969 million YoY, while approximately HK$112 million for the year ended 31 December 2016.

Material Investments and Acquisitions

During the year ended 31 December 2017, the Group had no material investments and acquisitions.

Material Disposals

During the year ended 31 December 2017, the Group had no material disposals.

Charges on Assets

As at 31 December 2017, save for disclosed below, none of the Group's assets was charged or subject to any encumbrance.

As at 31 December 2017, bank deposits of approximately HK$161 million and bill receivables of approximately HK$133 million were used for securing bills facilities of approximately HK$293 million.

Contingent Liabilities

As at 31 December 2017, there were no guarantees given to any banks or financial institutions by the Group.

Gearing Ratio

As at 31 December 2017, the Group had no borrowings. The gearing ratio of the Group was 0%.

FINANCIAL REVIEW (continued)

Exposure to Fluctuations in Exchange Rates

As at 31 December 2017, other than assets and liabilities denominated in Australian Dollars ("AUD") and RMB, the Group had no material exposure to foreign exchange fluctuations. As at 31 December 2017, exchange rate of AUD and RMB were appreciated by approximately 8.52% and approximately 6.67% respectively, when compared to that as at 31 December 2016. The aggregate carrying amount of assets denominated in AUD represented approximately 3% of the Group's net assets value as at 31 December 2017. Thus, such fluctuation in AUD exchange rate is not expected to have any material impact on the financial position of the Group. On the other hand, as the net assets value denominated in RMB represented approximately 74% of the Group's net assets value as at 31 December 2017, the appreciation in RMB exchange rate led to exchange gain of approximately HK$724 million (other than the Foreign Exchange Gain recognised in profit or loss stated above) recognised in the other comprehensive income upon translation of financial statements of foreign operations in the PRC for the year ended 31 December 2017.

Liquidity and Financial Resources

As at 31 December 2017, the Group's current ratio (total current assets divided by total current liabilities) was approximately 2.87 times and the Group's cash and bank deposits amounted to approximately HK$5,027 million, of which approximately HK$161 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$1,427 million (of which approximately HK$158 million represented discounted or endorsed bill receivables and approximately HK$133 million was used for securing bills facilities of same amount) as at 31 December 2017 that were readily convertible into cash, but would be subject to finance cost upon conversion before the maturity. Taking into account for the free bill receivables of approximately HK$1,136 million, the Group's free cash resources would have approximately HK$6,002 million as at 31 December 2017.

Capital Structure

Total equity and borrowings are classified as capital of the Group. As at 31 December 2017, the share capital of the Company was approximately HK$15,157 million, represented approximately 5,302 million shares in number. During the year under review, there is no change in number and amount of issued shares.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES

As at 31 December 2017, the Group had 21 Hong Kong employees and 5,059 PRC employees. The remuneration packages of the employees are subject to annual review. The Group provides mandatory and voluntary provident fund schemes for its employees in Hong Kong and the state-sponsored retirement plan for its employees in the PRC. The Group also provides training to PRC employees. The Group has a share option scheme. During the year under review, no share option was granted or exercised.

SAFETY PRODUCTION AND ENVIRONMENTAL PROTECTION

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

During the year under review, save for disclosed above in relation to the certain infrastructure under construction in Jinjiazhuang Coal Mine, all coal mines of the Group operated smoothly as planned.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in the Mainland China while the Company itself is listed on The Stock Exchange of Hong Kong Limited. Our establishment and operations accordingly shall comply with relevant laws and regulations in the Mainland China and Hong Kong. During the year ended 31 December 2017 and up to the date of this report, we have complied with the relevant laws and regulations in the Mainland China and Hong Kong.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's principal business activities are engaged in coking coal mining, production and sales of coking coal products in the PRC. As the Group's coking coal products are mainly used for refining of coke which is the second largest raw materials for steel, our major customers are steelmakers. The Group exposed to a variety of key risks including financial risks (including market risk, credit risk and liquidity risk), market price risk and operational risks. Details of the aforesaid financial risks and risk mitigation measures are elaborated in note 42 "Risk Management Objectives and Policies" to the consolidated financial statements.

The market price of coking coal is highly depended on the demand of the downstream steel industry and the supply of coking coal. The country's Supply-side Structural Reform achieved remarkable effects, in turn benefiting the Group for the year. At the end of 2017, China had about 7,000 coal mines, down from 10,800 coal mines in 2015. The tightening of safety and environmental protection requirements and inspections will also benefit steel and coal price, allowing price to continue rising repeatedly. However, the peak prices are not expected to be sustained in the long run. Finally coal price would still be under pressure. Thus, the Group's results would be affected.

Operational risks include the estimation of remaining coal reserves, the renewal of mining rights and the mining works. The lives of our coal mines are highly depended on the estimated remaining coal reserves and the possibility to renew the mining rights. Engineering estimates of the Group's coal reserves involved subjective judgements by engineers that the inherent inaccuracy of technical estimation exists. If the past estimates change significantly, the lives of our coal mines would be shorter. In addition, the remaining license periods of the mining rights held by the Group range from around 2 to 25 years which are shorter than the estimated useful lives of the coal mine estimated by the Group. If the Group is unable to renew the license of the mining rights from the relevant authority continuously, the respective mine may need to be closed down. Nevertheless, according to our past experiences and with our competent management team, we have renewed our mining rights license at minimal charges in the past years. Mining works would become more difficult resulting in rise in mining cost in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

RELATIONSHIPS WITH KEY STAKEHOLDERS

The Group's success also depends on the support from key stakeholders which comprise employees, customers, suppliers and shareholders. Employees are regarded as the most important and valuable assets of the Group. Details of employees are disclosed in above under "Employee".

Customers

The Group's principal customers are steel manufacturers. For the year ended 31 December 2017, the total turnover to the top five customers accounted for 76% (2016: 83%) of the Group's turnover, of which, the total turnover to the largest customer, accounted for 26% (2016: 34%) of the Group's turnover. We have maintained long and good co-operation relationship with these top five customers. We possess our competent sales team to establish various means to strengthen the communications between the customers and the Group.

Suppliers

The Group's principal suppliers are material vendors and contractors. The Group will continue to derive cost effectiveness by tendering, negotiating, improving the purchase system and developing new suppliers. In the meantime, various means have been established to maintain the quality of material and construction.

Shareholders

Shougang Group Co., Ltd. is one of the major customers of the Group. To maximise shareholders' interest is one of the corporate goals of the Group. The Group will continue to enhance production management, cost control and strive to increase our production capability, resources and reserves through acquisitions to improve the Group's profitability in order to create better value for our shareholders.

FUTURE PROSPECTS

The International Monetary Fund (the "IMF") improved its estimate of annual global economic growth rate by 0.2 percentage points to 3.9% in January 2018, which is also the most significant amplification since 2011. Therefore it is indicated its acknowledgement of the continual recovery trend of the world economy. In particular, the IMF lifted its estimation of China's annual economic growth rate in 2018, one of the largest economies nowadays, from 6.5%, the previous prediction, to 6.6% by 0.1 percentage point, representing its confidence in the improving economic fundamentals of China.

FUTURE PROSPECTS (continued)

Simultaneously, the Supply-side Structural Reform which aims to generate new momentum for economic development in China is advancing as planned. Benefitting from the above reform, during the first two years of the 13th Five-Year Plan, over 115 million tonnes of the steel capacity has been cut, approaching the upper limit 100 to 150 million tonnes of the comprehensive target. Moreover, the rate of the national industrial capacity utilisation amounted to the highest level in nearly five years. It is predicted that the structure of the steel and coal industries in China will be increasingly optimised as the cutting of capacity would be enhanced further by the Central Government in 2018. More specifically in the coal industry, it is expected that the task which was proposed in 2016: "In the coming three to five years, nearly 500 million tonnes of capacity will be further cut, and another task of reduction and restructure of approximately 500 million tonnes" will be accomplished in 2018. In addition, The National Development and Reform Commission of China and The People's Government of Shanxi Province respectively issued the policies of "Opinions on Further Promoting the Merger, Reorganisation, Restructuring and Upgrading of Coal Enterprises" at the end of 2017, and "Opinions of Implementation on Reduction and Reorganisation of Coal Enterprises" at the beginning of 2018, both of which confirm the development direction in terms of optimising the supply and demand status of the coal industry in the coming year. Thus, the market price of the coal products is expected to remain at a relatively high range position.

The Group's Xingwu Coal Mine has happened electromechanical incident in which one person was killed in the early of March 2018. According to the preliminary investigation being performed by the third party, this incident was directly resulted from non-compliance in operation of machinery by an individual. Currently, the relevant government authorities has classified this incident as a general incident initially. We have taken the relevant aftermath works actively and the respective machinery did not have material damage. According to the relevant rules and regulations in the Mainland, Xingwu Coal Mine currently suspends production approximately for 1 month for comprehensive checking. Our other operating coal mine, Zhaiyadi Coal Mine, had closed approximately for 1 week for inspection and already re-started its production normally. As the Group has adjusted its production plan, the aforesaid incident would neither cause the Group's significant economic loss nor significant negative effect on the operation and production of the Group for the year of 2018.

FUTURE PROSPECTS (continued)

The Group will spare more effort on the construction works in lower coal seams of Jinjiazhuang Coal Mine in order to further maximise its potentials; therefore, production has been impacted temporarily. The completion of construction work mentioned above is expected to be finishing within 2018 and the production capacity will be gradually returned to normal as scheduled. In 2018, the Group being recognised as an Excellent Enterprise with Advanced Capacity by the Shanxi Provincial Government for years, will continue to firmly maintain the technical knowhow in the exploitation of resources in old mining areas and Gob-side entry retainment, and endeavor to develop new technologies to increase production efficiency and cut production costs as well. We will also spare more efforts towards training workers on their mindsets in respect of safety and recycling to maintain a sound record of safe production and environment-friendly behaviors.

In the new year, we will maintain our edge in management and operations, and at the same time, explore opportunities for growth to maximise returns for our shareholders.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining good corporate governance standard and procedures to safeguard the interests of all shareholders and to enhance accountability and transparency.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") during the financial year ended 31 December 2017.

BOARD OF DIRECTORS

Composition

The Board currently comprises a total of eleven Directors, being five Executive Directors, two Non-executive Directors and four Independent Non-executive Directors. The list of Directors is set out in the section headed "Report of the Directors" of this annual report. In addition, an updated list of the Directors and their roles and functions is published on the websites of the Stock Exchange and the Company respectively.

The Board is characterised by significant diversity and has a balance of skills and experience appropriate for the requirements of the business of the Company. The Directors' biographical information is set out in the section headed "Directors' Biographies" of this annual report.

The Directors give sufficient time and attention to the affairs of the Company and its subsidiaries (the "Group"). All Directors are required to disclose to the Company at the time of their appointment and annually the number and the nature of offices held in public companies or organizations and other significant commitments with an indication of the time involved.

Save for those as disclosed in the section headed "Directors' Biographies" as set out on pages 3 to 8 of this annual report, the Board members have no other financial, business, family or other material/relevant relationships with each other.

The Board includes a balanced composition of Executive and Non-executive Directors (including Independent Non-executive Directors) so that there is a sufficient independent element on the Board, which can effectively exercise independent judgement.

BOARD OF DIRECTORS (continued)

Composition (continued)

The Non-executive Directors are of sufficient number and calibre for their views to carry weight. The functions of Non-executive Directors include:

- bringing an independent judgement at Board meetings;
- taking the lead where potential conflicts of interests arise;
- serving on Board committees if invited; and
- scrutinising the Company's performance and monitoring performance reporting.

The Non-executive Directors (including Independent Non-executive Directors) have made a positive contribution to the development of the Company's strategy and policies through independent, constructive and informed comments. They give the Board and the committees on which they serve the benefit of their skills, expertise, varied backgrounds and qualifications through regular attendance and active participation.

Composition of the Board is disclosed, and the Independent Non-executive Directors are identified, in all corporate communications to shareholders.

Board diversity

The Company adopted a board diversity policy (the "Board Diversity Policy") on 28 August 2013 which sets out its approach to achieve diversity on the Board with a view to achieving a sustainable and balanced development of the Company.

The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Company will also take into account factors based on its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Board Diversity Policy is posted on the website of the Company.

Role and function of the Board and the management

The Board is responsible for overall strategic formulation and performance monitoring of the Group. It delegates day-to-day operations of the Company to the Executive Committee and senior management within the control and authority framework set by the Board. In addition, the Board has also delegated various responsibilities to the Audit Committee, the Remuneration Committee and the Nomination Committee. Further details of these committees are set out in this report.

BOARD OF DIRECTORS (continued)

Board meetings

The Board meets regularly and holds at least four Board meetings a year. Additional meetings will be arranged, if and when required. The Directors can attend meetings in person or through electronic means of communication in accordance with the articles of association of the Company (the "Articles").

The Company Secretary assists the Chairman in drawing up the agenda of each Board meeting. Draft agenda of each regular Board meeting will be sent to all Directors for review before the agenda is issued and all Directors may request for inclusion of other matters in the agenda. The Chairman will take into account the matters proposed by the Directors and where appropriate, approve the inclusion of such matters in the agenda of the Board meeting. Generally, at least 14-day notice of a regular Board meeting is given and the Company aims at giving reasonable notice for all other Board meetings. The Company also aims at sending the agenda and the accompanying board papers, which are prepared in a form and quality sufficient to enable the Board to make informed decisions on matters placed before it, to all Directors at least 3 days before the intended date of a Board meeting. Where queries are raised by Directors, prompt and full responses will be given if possible.

There has been procedure in place to enable Directors to seek independent professional advice in appropriate circumstances at the Company's expenses. The Board shall resolve to, upon reasonable request, provide separate independent professional advice to Directors to assist them perform their duties to the Company.

The Company Secretary is responsible for taking minutes of Board meetings and Board committee meetings, draft and final versions of which would be sent to Directors for comments and records respectively, within a reasonable time after each meeting. Minutes are recorded in sufficient detail the matters considered and decisions reached, including any concerns raised by Directors or dissenting views (if any) expressed. Minutes of Board meetings and Board committees meetings are kept by the Company Secretary and are open for inspection by any Director/committee member.

If a substantial shareholder or a Director has a conflict of interest in a matter (including material transaction with connected persons) which the Board has determined to be material, the matter will be dealt with by a physical Board meeting, rather than a written resolution. Independent Non-executive Directors who, and whose close associates, have no material interest in the transaction should be present at that Board meeting.

Except for those circumstances permitted by the Articles and all applicable laws, rules and regulations, a Director shall not vote on any Board resolution approving any contract or arrangement or any other proposal in which he or any of his close associates (or associates where the transaction or arrangement is a connected transaction under Chapter 14A of the Listing Rules) has a material interest nor shall he be counted in the quorum present at the meeting.

BOARD OF DIRECTORS (continued)

Attendance records

During the financial year ended 31 December 2017, the Directors have made active contribution to the affairs of the Group and four physical Board meetings were held to consider, among other things, various projects contemplated by the Group and to review and approve the interim results and annual results of the Group.

Details of the Directors' attendances in 2017 are as follows:

	Number of meeting(s) attended/eligible to attend
Executive Directors	
Li Shaofeng *(Chairman)*	4/4
Ding Rucai	4/4
So Kwok Hoo	4/4
Chen Zhaoqiang	3/4
Liu Qingshan	4/4
Non-executive Directors	
Leung Shun Sang, Tony	4/4
Dong Yansheng	4/4
Independent Non-executive Directors	
Kee Wah Sze	4/4
Choi Wai Yin	3/4
Chan Pat Lam	4/4
Japhet Sebastian Law	4/4

Access to information

The Board is supplied with sufficient explanation and information by the management to enable the Board to make an informed assessment of financial and other information put before it for approval. The management provides all Board members with monthly updates which give a balanced and understandable assessment of the Company's performance, position and prospects in sufficient details to enable the Board as a whole and each Director to discharge their duties. Where any Director requires more information than is volunteered by the management, each Director has the right to separately and independently access to the Company's senior management to make further enquiries if necessary.

BOARD OF DIRECTORS (continued)

Appointment and re-election of Directors

Appointment of new Directors is a matter for consideration by the Nomination Committee. The Nomination Committee will give adequate consideration to the Board Diversity Policy and review the profiles of the candidates and make recommendations to the Board on the appointment, re-appointment and nomination of Directors.

According to the Articles, any Director so appointed by the Board shall hold office, in the case of filling a casual vacancy, only until the next following general meeting of the Company or, in the case of an addition to their number, until the next following annual general meeting of the Company who shall then be eligible for re-election at such general meeting. Every Director is subject to retirement by rotation at least once every three years.

All Non-executive Directors have entered into letters of engagement with the Company for a term of not more than three years.

Independent Non-executive Directors

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed four Independent Non-executive Directors and one of them has appropriate professional qualifications or accounting or related financial management expertise.

Pursuant to Rule 3.10A of the Listing Rules, the number of Independent Non-executive Directors of the Company represents more than one-third of the Board.

The Company has received from each of its Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all of the Independent Non-executive Directors are independent.

Any re-election of an independent non-executive director who has served the board for more than nine years, his further appointment should be subject to a separate resolution to be approved by shareholders.

BOARD OF DIRECTORS (continued)

Independent Non-executive Directors (continued)

Mr. Kee Wah Sze, who will retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting of the Company, has served as an Independent Non-executive Director of the Company for more than 9 years. As an Independent Non-executive Director with extensive experience and knowledge and in-depth understanding of the Company's operations and business, Mr. Kee has expressed objective views and given independent guidance to the Company over the past years, and he continues demonstrating a firm commitment to his role. The Nomination Committee and the Board consider that the long service of Mr. Kee would not affect his exercise of independent judgement and are satisfied that Mr. Kee has the required character, integrity and experience to continue fulfilling the role of Independent Non-executive Directors. The Company will state in a circular which will contain, among other things, the notice convening the forthcoming annual general meeting of the Company the reasons why the Nomination Committee and the Board consider Mr. Kee is still independent and the recommendation to shareholders to vote in favor of the re-election of Mr. Kee as a Director.

Insurance for directors' and officers' liability

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the businesses of the Group.

Directors' training and professional development

Every newly appointed Director will be given an introduction of regulatory requirements. Directors are continually updated on the latest development of the Listing Rules, legal and other regulatory requirements to ensure compliance and upkeep of good corporate governance practice. Directors are also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company Secretary facilitates induction and professional development of Directors and the Company is responsible for arranging and funding suitable training for the Directors.

BOARD OF DIRECTORS (continued)

Directors' training and professional development (continued)

All Directors have provided to the Company their records of training received during the financial year ended 31 December 2017, a summary of which is as follows:

	Continuous professional development	
Directors	**Type** (Note I)	**Subject** (Note II)
Li Shaofeng	B	4
Ding Rucai	A	3
	B	4
So Kwok Hoo	A	1, 3, 4
	B	4
Chen Zhaoqiang	A	3
	B	4
Liu Qingshan	A	1, 3
	B	4
Leung Shun Sang, Tony	B	4
Dong Yansheng	B	4
Kee Wah Sze	A	1, 2
	B	1, 4
Choi Wai Yin	B	4
Chan Pat Lam	A	1, 3
	B	4
Japhet Sebastian Law	A	1, 2, 4
	B	1, 4

Note I:

A: Attending seminars, conferences, forums, in-house briefings or in-house training

B: Reading newspapers, journals and updates

Note II:

1: Laws, rules and regulations

2: Finance, accounting or taxation

3: Management

4: Businesses relating to the Company

CHAIRMAN AND MANAGING DIRECTOR

The roles of Chairman and Managing Director are separate and exercised by different individuals to reinforce their independence and accountability. Currently, Mr. Ding Rucai is the Chairman of the Company and Mr. Li Shaofeng serves as the Managing Director of the Company. During the year, Mr. Li Shaofeng served as the Chairman of the Company and Mr. Ding Rucai served as the Vice-chairman and Managing Director of the Company. With effect from 29 January 2018, Mr. Ding Rucai succeeded Mr. Li Shaofeng as the Chairman of the Company. The Chairman provides leadership for the Board and ensures that the Board works effectively and performs its responsibilities. The Managing Director has overall chief executive responsibility for the Group's business development and day-to-day management generally. The division of responsibilities between the Chairman and the Managing Director is clearly established and set out in writing.

The responsibilities of the Chairman include, amongst other things:

- taking primary responsibility for ensuring that good corporate governance practices and procedures are established;
- ensuring that all Directors are properly briefed on issues arising at Board meetings, and ensuring that Directors receive, in a timely manner, adequate information which must be accurate, clear, complete and reliable;
- encouraging all Directors to make a full and active contribution to the Board's affairs and taking the lead to ensure that the Board acts in the best interest of the Company;
- encouraging Directors with different views to voice their concerns, allowing sufficient time for discussion of issues and ensuring that Board decisions fairly reflect Board consensus;
- ensuring that appropriate steps are taken to provide effective communications with shareholders and that their views are communicated to the Board as a whole; and
- promoting a culture of openness and debate by facilitating the effective contribution of Non-executive Directors in particular and ensuring constructive relations between Executive and Non-executive Directors.

During the year, the Chairman met with the Non-executive Directors (including Independent Non-executive Directors) without the presence of the Executive Directors.

BOARD COMMITTEES

The Board has established the following committees to oversee particular aspects of the Company's affairs and to assist in the execution of the Board's responsibilities. All committees have their own terms of reference. All resolutions passed by the committees will be reported to the Board at the next Board meeting.

Executive Committee

An Executive Committee of the Board was established in May 2009 with specific written terms of reference which deal clearly with its authorities and duties.

The Executive Committee has been conferred with the general powers of the Board (except those matters specifically reserved for the Board) to manage and oversee the operations of the Group and has been assigned with the responsibilities to perform the corporate governance duties as follows:

- to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

- to review and monitor the training and continuous professional development of Directors and senior management;

- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Group's employees and Directors;

- to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and

- to conform to any requirement, direction, regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by legislation.

The Executive Committee comprises all Executive Directors of the Company.

BOARD COMMITTEES (continued)

Executive Committee (continued)

During the year, seven physical meetings of the Executive Committee were held. Amongst those meetings, one meeting was held for the purpose of performing the corporate governance duties and the attendances of the members of the Executive Committee at that meeting are as follows:

Committee members	Number of meeting(s) attended/eligible to attend
Li Shaofeng *(chairman of the committee)*	1/1
Ding Rucai	1/1
So Kwok Hoo	1/1
Chen Zhaoqiang	1/1
Liu Qingshan	1/1

The major work in relation to the corporate governance of the Group performed by the Executive Committee during the year included, amongst other things, the following:

- reviewing the Company's compliance with the CG Code and disclosure in the corporate governance report of the Company for the year ended 31 December 2016.

Audit Committee

An Audit Committee of the Board was established in October 1999 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Audit Committee are posted on the websites of the Stock Exchange and the Company respectively.

The principal duties of the Audit Committee include, amongst other things:

- overseeing the relationship with the Company's auditor;

- reviewing the interim and annual financial statements;

- reviewing the Company's financial reporting system, risk management and internal control systems; and

- reviewing the arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters.

BOARD COMMITTEES (continued)

Audit Committee (continued)

The Audit Committee has explicit authority to investigate any activity within its terms of reference and the authority to obtain outside legal or other independent professional advice, at the Company's expense, to perform its responsibilities if it considers necessary. It is given access to and assistance from the employees and reasonable resources to perform its duties properly.

The chairman of the Audit Committee is an Independent Non-executive Director and the Audit Committee comprises all Independent Non-executive Directors of the Company. None of the members of the Audit Committee are former partners of the auditor of the Company.

During the year, two physical meetings of the Audit Committee were held and the attendances of the members of the Audit Committee are as follows:

Committee members	Number of meeting(s) attended/eligible to attend
Choi Wai Yin *(chairman of the committee)*	2/2
Kee Wah Sze	2/2
Chan Pat Lam	2/2
Japhet Sebastian Law	2/2

The major work performed by the Audit Committee during the year included, amongst other things, the following:

- reviewing the final results of the Group for the financial year ended 31 December 2016;
- reviewing the interim results of the Group for the six months ended 30 June 2017; and
- reviewing the reports on the risk management and internal control systems of the Group prepared by the Internal Audit Department.

During the year, the Board had no disagreement with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor.

BOARD COMMITTEES (continued)

Nomination Committee

A Nomination Committee of the Board was established in May 2009 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Nomination Committee are posted on the websites of the Stock Exchange and the Company respectively.

The principal duties of the Nomination Committee include:

- reviewing the structure, size and composition of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board;
- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors;
- assessing the independence of Independent Non-executive Directors; and
- reviewing the Board Diversity Policy, as appropriate; and reviewing the measurable objectives that have been set for implementing the Board Diversity Policy, and reviewing the progress on achieving the objectives.

Where vacancies exist at the Board, candidates are proposed and put forward to the Nomination Committee for consideration. The recommendations of the Nomination Committee will then be tendered to the Board for approval. In considering the nomination of a new Director, the Nomination Committee will give adequate consideration to the Board Diversity Policy and take into account the qualification, ability, working experience, leadership and professional ethics of the candidates. In determining the independence of Directors, the Board follows the requirements set out in the Listing Rules.

BOARD COMMITTEES (continued)

Nomination Committee (continued)

The Nomination Committee has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice, at the Company's expense, to perform its responsibilities if it considers necessary.

The chairman of the Nomination Committee is the Chairman of the Board and the Independent Non-executive Directors of the Company constitute the majority of the Nomination Committee.

During the year, one physical meeting of the Nomination Committee was held and the attendances of the members of the Nomination Committee are as follows:

Committee members	Number of meeting(s) attended/eligible to attend
Li Shaofeng *(chairman of the committee)*	1/1
Kee Wah Sze	1/1
Choi Wai Yin	1/1
Chan Pat Lam	1/1
Japhet Sebastian Law	1/1

The major work performed by the Nomination Committee during the year included, amongst other things, the following:

- assessing the independence of the Independent Non-executive Directors; and
- considering and making recommendations to the Board on the re-election of Directors at the annual general meeting.

BOARD COMMITTEES (continued)

Remuneration Committee

A Remuneration Committee of the Board was established in September 2005 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Remuneration Committee are posted on the websites of the Stock Exchange and the Company respectively.

The principal duties of the Remuneration Committee include:

- making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management of the Group;

- reviewing and approving the management's remuneration proposals with reference to the Company's goals and objectives;

- determining, with delegated responsibility, the remuneration packages of individual Executive Directors and senior management and making recommendations to the Board on the remuneration of Non-executive Directors;

- reviewing and approving compensation payable to Executive Directors and senior management and compensation arrangements relating to dismissal or removal of Directors for misconduct; and

- ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration.

The Remuneration Committee may consult the Chairman of the Board and/or the Managing Director of the Company about their remuneration proposals for other Executive Directors. It has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice, at the Company's expense, to perform its responsibilities if it considers necessary.

The remuneration policies for the Company as well as the Directors are market alignment and reward for performance. The Company reviews the remuneration package annually taking into consideration of the market practice, competitive market position and individual performance.

The chairman of the Remuneration Committee is an Independent Non-executive Director and the Independent Non-executive Directors of the Company constitute the majority of the Remuneration Committee.

BOARD COMMITTEES (continued)

Remuneration Committee (continued)

During the year, one physical meeting of the Remuneration Committee originally scheduled in December 2017 had been postponed to late January 2018 due to the unavailability of certain members of the Remuneration Committee.

Details of remuneration paid to Directors and senior management for the year are set out in note 15 to the consolidated financial statements.

COMPANY SECRETARY

The Company Secretary supports the Board by ensuring good information flow within the Board and that board policy and procedures are followed. The Company Secretary is also responsible for advising the Board through the Chairman and/or the Managing Director of the Company on corporate governance and the implementation of the CG Code. The Company Secretary is an employee of the Company and has day-to-day knowledge of the Group's affairs.

The Company Secretary reports to the Chairman and the Managing Director. All Directors also have access to the advice and services of the Company Secretary to ensure that board procedures, and all applicable laws, rules and regulations, are followed. The selection, appointment and dismissal of the Company Secretary are subject to the Board approval.

The Company Secretary has confirmed that she has taken no less than 15 hours of relevant professional training during the year.

RISK MANAGEMENT AND INTERNAL CONTROL

Internal Control

The Group adopted and implemented the Group's internal control system by making reference to the Committee of Sponsoring Organization of the Treadway Commission ("COSO") Internal Control – Integrated Framework. The Group's internal control system is to achieve operations, reporting, and compliance objectives, implemented within the Group's entities, divisions, operating units and functions, through various internal control components in the areas of control environment, risk assessment, control activities, information and communication and monitoring activities. The Group's internal control system comprises 17 principles on effective internal controls as illustrated as follows:

The Board is responsible for the Group's internal control system and for reviewing its appropriateness and effectiveness. The Audit Committee is authorized to assist the Board to conduct relevant review. The Group's internal control system manages, but not eliminates, risks against the achievement of the Group's objectives, and provides a reasonable, but not absolute, assurance against material misstatement or loss.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Internal Control (continued)

	Internal Control Components – 17 Principles on Effective Internal Controls
Operations, Reporting and Compliance Objectives	**Control Environment** 1. Demonstrates commitment to integrity and ethical values 2. Exercises oversight responsibility 3. Establishes structure, authority, and responsibility 4. Demonstrates commitment to competence 5. Enforces accountability
	Risk Assessment 6. Specifies suitable objectives 7. Identifies and analyzes risk 8. Assesses fraud risk 9. Identifies and analyzes significant change
	Control Activities 10. Selects and develops control activities 11. Selects and develops general controls over technology 12. Deploys through policies and procedures
	Information and Communication 13. Uses relevant information 14. Communicates internally 15. Communicates externally
	Monitoring Activities 16. Conducts ongoing and/or separate evaluations 17. Evaluates and communicates deficiencies

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Internal Control (continued)

Based on the defined objectives, the management of the Group identifies and evaluates significant risks, and subsequently selects, adopts and implements appropriate internal control procedures. Through continuous monitoring, the management of the Group maintains an effective internal control system. The internal audit department of the Group conducts testing on the internal control system, reports deficiencies, recommends remedy solutions to the management and follows up implementation of recommendations.

The Audit Committee monitors, assesses and reviews the findings of the internal control systems from the management and the internal audit department of the Group on an ongoing basis, and regularly report to the Board.

The Group sets up an internal audit department which directly reports to the Audit Committee. The staffs of the internal audit department comprised of qualified and experienced professional. Based on the risk-based internal audit plan, the internal audit department is authorized unrestrictedly to conduct independent assessment on the Group's business, risk management and internal control system.

The management of the Group provided a confirmation to the Audit Committee on the effectiveness of the internal control system this year, including the effectiveness of the issuer's processes for financial reporting and "Listing Rules" compliance, and considers the system is effective and adequate. The Audit Committee reviewed and reported the review to the Board.

The Audit Committee reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions this year and satisfied the adequacy of the arrangement.

Risk Management

The structure of the Group's risk management system based on: 1) Risk Governance Structure; and 2) Risk Management Procedures.

Risk Governance Structure

The Group's risk governance structure is based on a "Three Lines of Defense" model, with oversight by the Board on an ongoing basis and is reviewed by the Audit Committee and subsequently reported to the Board on the effectiveness of the risk management system.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Risk Governance Structure (continued)

Under the "Three Lines of Defense" model, major risk management functions and measures in each line is as follows:

1st Line of Defense: Risk Management Function	2nd Line of Defense: Risk Monitoring Function	3rd Line of Defense: Independent Assurance Function
1) Identify and evaluate risks, adopt measures to manage risks 2) Self-assessment on the effectiveness of the measures, adjust timely to mitigate risks	1) Monitor design appropriateness and implementation of risk management procedures 2) Promote delivery of risk management information	1) Independent assessment on the appropriateness and effectiveness of risk management system

Risk Management Procedures

The Group adopted and implemented a risk management policy and procedures that is appropriate to the Group by making reference to the Committee of Sponsoring Organization of the Treadway Commission ("COSO") Enterprise Risk Management Framework.

The Board is responsible for assessing and determining the Group's risk appetite regarding the nature and magnitude and constructs a risk management procedures allowing a tone at the top and bottom up reporting.

Top-Down Approach

The Board, through the management of the Group, communicates to entities, divisions, operating units and subsidiaries regarding potential effects on inherent risks and emerging risks, and defines standards on the Group's risk appetite and risk tolerance level.

Bottom Up Approach

Based on the guidance from the Board and incorporation of annual operating plan, the Group's entities, divisions, operating units and subsidiaries identify potential risks that affect the achievement of objectives. Every potential risk is evaluated based on the impact and likelihood. Appropriate risk responses, such as accepting, avoiding, transferring and controlling, are used to manage the risks based on the assessment results and the risk appetite and risk tolerance level defined by the Board.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

The Board is responsible for the Group's risk management system and for reviewing its appropriateness and effectiveness. The Audit Committee is authorized to assist the Board to conduct relevant review. The Group's risk management system manages, but not eliminates, risks against the achievement of the Group's objectives, and provides a reasonable, but not absolute, assurance against material misstatement or loss.

The management monitors the design and implementation of the risk management procedures on an ongoing basis. The internal audit department assesses the effectiveness of the risk management system independently. The Audit Committee monitors, assesses and reviews the findings of risk management systems from the management and the internal audit department of the Group on an ongoing basis, and regularly report to the Board.

The management of the Group provided a confirmation to the Audit Committee on the effectiveness of the risk management system this year, and considers the system is effective and adequate. The Audit Committee reviewed and reported the review to the Board.

INSIDE INFORMATION DISCLOSURE POLICY

The Company adopted an inside information disclosure policy (the "Inside Information Disclosure Policy") on 21 December 2015 which sets out the procedures for the handling and dissemination of inside information with a view to preventing uneven, inadvertent or selective dissemination of inside information and ensuring shareholders and the public are provided with full, accurate and timely information about the activities and the financial condition of the Group. The Inside Information Disclosure Policy covers the following:

- setting out the processes for identifying, assessing and escalating potential inside information to the Board;

- setting out the responsibilities of officers in preserving the confidentiality of inside information, escalating upwards any such potential information and cascading down the message and responsibilities to relevant staff; and

- identifying who are the Company's authorized spokespersons and their responsibilities for communications with stakeholders of the Company.

INSIDE INFORMATION DISCLOSURE POLICY (continued)

In addition, the Company has communicated to all relevant staff regarding the implementation of the Inside Information Disclosure Policy.

The Board considers that the Company's existing measures are effective and appropriate compliance mechanisms to safeguard the Company and its officers in discharging their disclosure obligations in respect of inside information.

The Inside Information Disclosure Policy is posted on the website of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules 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 year ended 31 December 2017.

Employees who are likely to possess inside information in relation to the Company or its shares are required to prohibit from dealing in shares of the Company during the black-out period.

AUDITOR'S REMUNERATION

During the year, the remuneration paid/payable to the Company's auditor, BDO Limited, is set out as follows:

Services rendered	HK$'000
Statutory audit services for 2017	1,575
Non-statutory audit services:	
Review on interim financial report	280
Other services	195
	2,050

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing financial statements of the Group which give a true and fair view of the state of affairs of the Group on a going concern basis and in presenting the annual and interim reports and other financial disclosures required under the Listing Rules, the Directors aim to present a balanced, clear and understandable assessment of the Group's position and prospects.

The statement of the auditor of the Company, BDO Limited, about its reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 85 to 89 of this annual report.

COMMUNICATION WITH SHAREHOLDERS

On 22 March 2012, the Board adopted a Shareholders' Communication Policy reflecting the current practices of the Company for communication with its shareholders. Such policy aims at ensuring the shareholders of the Company are provided with ready, equal and timely access to balanced and understandable information about the Company, in order to enable shareholders to exercise their rights in an informed manner, and to allow shareholders to engage actively with the Company.

To foster effective communications with the shareholders, the Company provides extensive information in its annual and interim reports and announcements. All shareholders' communications are also available on the Company's website at www.shougang-resources.com.hk.

The annual general meeting of the Company provides a useful forum for shareholders to exchange views with the Board. All Directors will make an effort to attend. External auditor is also available at the annual general meeting to address shareholders' queries. In case of any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval, members of the independent Board committee will also make an effort to attend to address shareholders' queries.

During the year, two general meetings were held by the Company. One of the general meetings was the annual general meeting of the Company held on 26 May 2017 (the "2017 AGM") and the other was the general meeting of the Company held on 21 December 2017 (the "GM"). At the GM, the master agreement dated 16 November 2017 between the Company and Shougang Group Co., Ltd.*（首鋼集團有限公司）("Shougang Group") in respect of the continuing connected transactions for (i) the supply of coking coal products by the Group to Shougang Group and/or its associates and the annual caps therefor; and (ii) the supply of steel materials by Shougang Group and/or its associates to the Group and the annual caps therefor during the three financial years ending 31 December 2020 was approved by the independent shareholders.

* *For identification purpose only*

COMMUNICATION WITH SHAREHOLDERS (continued)

The auditor of the Company, BDO Limited, attended the 2017 AGM. Details of the Directors' attendances at the general meetings of the Company held during the year are as follows:

Directors	2017 AGM	GM
Executive Directors		
Li Shaofeng *(Chairman)*	✓	✓
Ding Rucai	✓	✓
So Kwok Hoo	✓	✓
Chen Zhaoqiang	✓	×
Liu Qingshan	✓	✓
Non-executive Directors		
Leung Shun Sang, Tony	✓	✓
Dong Yansheng	×	×
Independent Non-executive Directors		
Kee Wah Sze	✓	✓
Choi Wai Yin	×	×
Chan Pat Lam	✓	✓
Japhet Sebastian Law	✓	✓

During the year, all notices of general meetings despatched by the Company to its shareholders for meetings held were sent for annual general meeting at least 20 clear business days before the meeting and at least 10 clear business days for all other general meetings. Separate resolutions were proposed at general meetings on each substantially separate issue, including the election of individual Directors, and all resolutions put to the vote of a general meeting were taken by way of a poll. At the general meetings, the chairman of the meetings explained the procedures for conducting a poll and answered questions from shareholders on voting by poll, if any. The results of the poll were published on the websites of the Stock Exchange and the Company respectively.

SHAREHOLDERS' RIGHTS

Convene a general meeting

Shareholder(s) representing at least 5% of the total voting rights of all shareholders of the Company having a right to vote at general meetings can request the Directors to call a general meeting pursuant to Section 566 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). The request must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. Such request must be authenticated by the shareholder(s) making it and sent to the Company in hard copy form or in electronic form for the attention of the Company Secretary.

Put forward proposals at shareholders' meetings

Shareholder(s) representing at least 2.5% of the total voting rights of all shareholders of the Company or at least 50 shareholders who have a relevant right to vote at a general meeting can request the Company to circulate to the shareholders of the Company a statement of not more than 1,000 words with respect to a matter mentioned in a proposed resolution or other business to be dealt with at that meeting pursuant to Section 580 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). The expenses shall be borne by the shareholder(s) making the request unless the meeting concerned is an annual general meeting and the statement is received by the Company in time for sending with the notice of the meeting. The request must identify the statement to be circulated, and must be authenticated by the shareholder(s) making it and sent to the Company in hard copy form or in electronic form for the attention of the Company Secretary at least 7 days before the meeting to which it relates.

Shareholder(s) representing at least 2.5% of the total voting rights of all shareholders of the Company or at least 50 shareholders who have a right to vote on the resolution at an annual general meeting can request the Company to give to the shareholders of the Company notice of a resolution that may properly be moved and is intended to be moved at that meeting pursuant to Section 615 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). The request must identify the resolution of which notice is to be given, and must be authenticated by the shareholder(s) making it and sent to the Company in hard copy form or in electronic form for the attention of the Company Secretary no later than 6 weeks before the annual general meeting to which the requests relate, or if later, the time at which notice of the meeting is given.

Shareholders' enquiries

Specific enquiries or suggestions by shareholders can be sent in writing to the Board or the Company Secretary at our registered office or by email to our Company. In addition, shareholders can contact Tricor Tengis Limited, the share registrar of the Company, if they have any enquiries about their shareholdings and entitlement to dividend. Relevant contact details are set out on page 2 of this annual report.

CONSTITUTIONAL DOCUMENTS

There is no change in the Company's constitutional documents during the year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This Environmental, Social and Governance ("ESG") Report is designed to allow shareholders, investors (including potential investors) and the public to have a more comprehensive and profound understanding of the work done on environment, social and governance area of Shougang Fushan Resources Group Limited and its subsidiaries (the "Group"). This report elaborates the philosophy and practice in respect of social responsibility and the achievements of the Group it has made in economic, environment and social aspects. The Group primarily adopts the principles and basis of "Environmental, Social and Governance Reporting Guide" set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its standards, with an aim to establish a sound environmental, social and governance structure. The board of directors believes that a sound environmental, social and governance structure is vital for continued sustainability and development of the Group's activities. The Group is willing to take more responsibilities for the society but with a view to balance the shareholders' interests and the society's benefits.

SCOPE OF THE REPORT

The Group's principal activities are engaged in coking coal mining, production and sales of coking coal products in the People's Republic of China (the "PRC"). This report mainly covers the operations of the Group's major subsidiaries in Liulin County, Shanxi Province, which are engaged in operation of three premium coking coal mines and the associated coal preparation plants for the production of raw and clean coking coal.

REPORTING PERIOD

This report presents details regarding the major environmental and social aspects of the Group for the period from 1 January 2017 to 31 December 2017.

SCOPE OF THE CONTENT

This report focuses on the major aspects in environmental and social issues of the Group. For governance section, please refer to "Corporate Governance Report" on pages 31 to 53 of the Group's 2017 Annual Report.

REPORTING GUIDELINE

This report is prepared in accordance with the "Environmental, Social and Governance Reporting Guide" set out in Appendix 27 to the Listing Rules.

REPORTING FREQUENCY

This report publishes on a yearly basis.

MANAGEMENT OBJECTIVE

The Group firmly believes that an effective environmental, social and governance system will help achieving sustainable development and sharing value of sustainability in the economic, environmental and social dimensions with its stakeholders.

MANAGEMENT OBJECTIVE (continued)

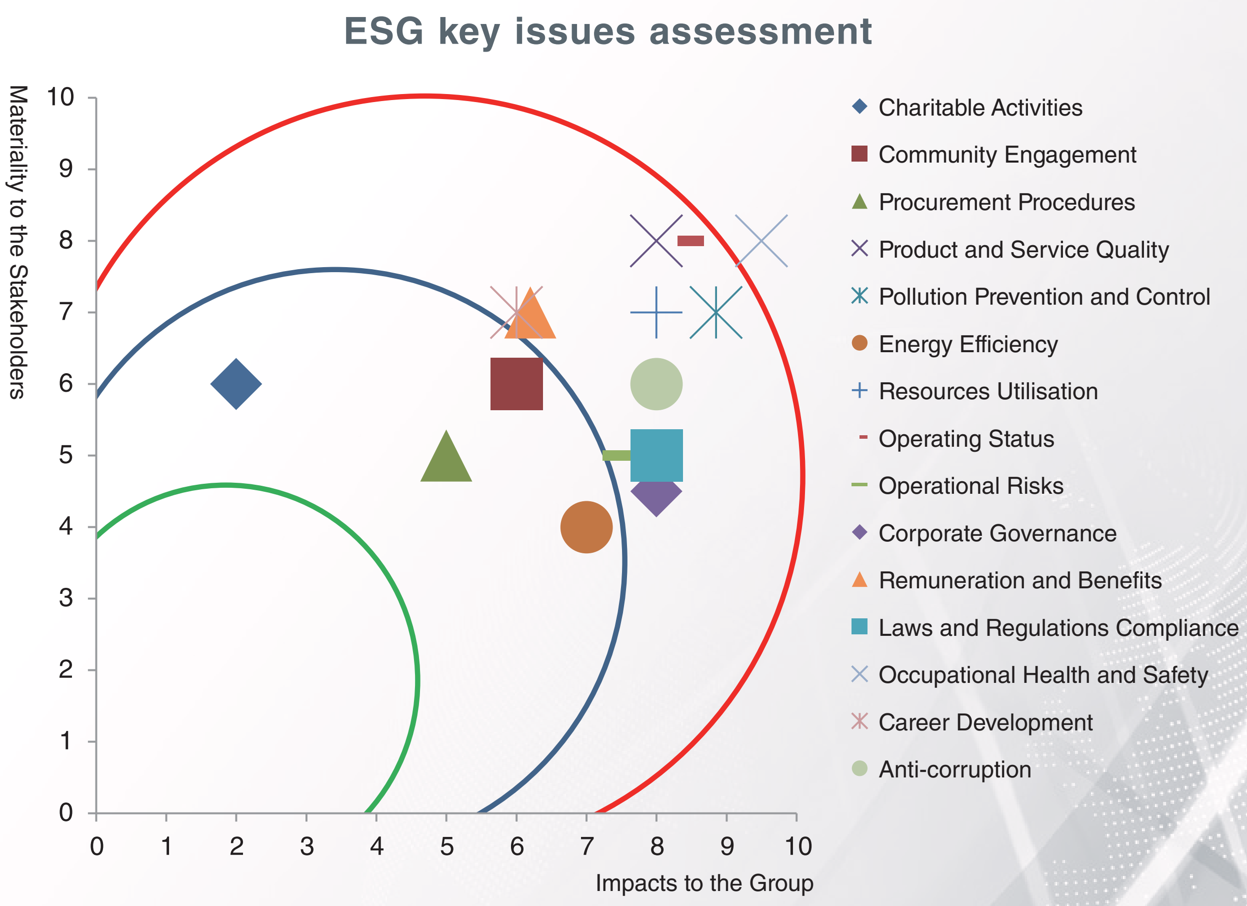
The Group has integrated its objective of sustainable development into daily operation, through by enhancing resource efficiency, reducing pollutant emission and resources consumption and strengthening safe production measures as its fundamental operational policies.

Going beyond the pursuit of economic benefits, the Group has also proactively participated in charitable activities to make contribution to the society, devoting itself in promoting the local economic development and building a harmonious relationship with community.

The Group reviews its environmental, social and governance system on a regular basis to ensure effective undertaking of its social responsibility.

MANAGEMENT ACTIONS

In the preparation of this report, the Group has adopted four stages approach on environmental, social and governance system, namely identification and analysis, assessment and sorting, verification and review, rectification and retrospect. By means of which, the Group has identified 15 key issues in its social responsibility.



STAKEHOLDER ENGAGEMENT

The success of the Group is underpinned by close communication and cooperation with its stakeholders.

Stakeholders	Communication channel	Issues concerned	The Group's responses
Investors	General meetings Announcements Roadshows General receptions	Operating status	Strive to maintain lawful operation
		Operational risks	Formulate risk management strategies
		Corporate governance	Enhance the transparency
Employees	Labour union Performance assessment meetings	Remuneration and benefits	Establish a fair remuneration and benefit mechanism
		Occupational health and safety	Improve the working environment
		Career development	Provide on-job training
Government	Government working conferences Information reporting	Laws and regulation compliance	Ensure lawful operation Paying taxes timely and lawfully
		Contribution to the society	Maintain good relationship with local community
Customers	Product reporting Regular visits	Product quality	Quality inspection before delivery
		Service quality	Provide customised products and services
Suppliers	Annual tender announcement Specific project announcement Conference of special technological topics	Open, fair and justice procedures	Ensure tender process open and transparent
		Sharing technological outcomes	Prioritise in introducing technology of costs control and efficiency enhancement
Community organisation	Town/village visits Community engagement	Environmental protection	Implement the environmental protection policy
		Charity activities	Promote the charity works
		Prioritise the employment	Provide employment opportunities

THE ECONOMICAL RESPONSIBILITIES OF THE GROUP

The Group's principal business activities comprise coking coal mining, production and sales of coking coal products in the PRC. It owns and operates three premium coking coal mines and their associated coal preparation plants in Liulin County, Shanxi Province for the production of raw and clean coking coal.

During the reporting period, the production volume of raw and clean coking coal of the Group were approximately 3.98 million tonnes and approximately 2.03 million tonnes respectively, and the sales volume of raw and clean coking coal were approximately 0.93 million tonnes and approximately 2.07 million tonnes respectively. Turnover of the Group was approximately HK$3,472 million.

The Group shared its profits to stakeholders during the reporting period, of which, 2016 final dividend and 2017 interim dividend paid to shareholders total amounting to approximately HK$318 million, employee cost (including employee benefit expense) amounting to approximately HK$544 million and income tax paid of approximately HK$425 million to the government.

PRODUCT LIABILITY

The Group has been committed to maintain sustainable supply, stable quality and privacy of customers.

Through "Safety Quality Standardisation Construction", the Group has developed and formulated a comprehensive set of system and method for safety and quality management. With all three premium coking coal mines having been awarded "First Class Certificate for Safety and Quality Standardisation", the system enables production safety in the coal mines and keeps safety in a stable and improving level.

Quality of coking coal is the key to the Group's stable development and also a warranty to the Group's good reputation. By strengthening the examination and management of coal quality and timely transmission of information about product standards, the Group uses such information to guide production, and also provide reliable decision-making basis for sales of products. The "Measures of Coal Products Quality Examination" has been optimised by the Group, in which both national and industrial standards have been incorporated, and under the management of the coal quality management of State Bureau.

The "Confidentiality Policy in Sales Transactions" has been set up to prohibit emission of sales related information such as documents, contacts, and statistics by the relevant staff.

During the reporting period, the Group had neither experienced any recovery product due to safety and health issue, nor received any complaint regarding our products and services.

SUPPLY CHAIN MANAGEMENT

Reasonable procure price, stable and timely supply, high quality products and services and willingness to bear social responsibility are the basic criterions for the Group to select qualified suppliers. The "Procurement Management Policy" has been formulated by the Group so as to apply the same set of standards when introducing new suppliers and conducting regular selective inspection and review on the existing suppliers. Supplier who does not meet the standards shall lose its eligibility to become a qualified supplier.

To ensure transparency of the Group's procurement activities and to enhance a corporate image of fair, open and justice, the Group's procurements are carried out through tender which is under the supervision of the Tender Committee.

ANTI-CORRUPTION

The Group has placed high emphasis on professional conduct and integrity of the employees. The "Code of Conducts" and all administrative rules have expressly specified the values, visions and guidelines for maintaining honesty and corresponding operation guidelines. The Group has specially laid down the "Administrative Measures in respect of Prevention of Occupational Crimes" to advocate anti-corruption and honesty, strengthen scrutiny of and restrictions on authority, build up anti-corruption system and capitalise on the effect of disciplinary restraints.

During the reporting period, the Group commenced an in-depth campaign of "two studies, one action" which encouraged employees to study the policies, laws and regulations of the nation and also the internal rules and system of the Group, and to perform strictly implementation of those regulations.

HEALTH AND SAFETY

Production safety is the first priority of the Group. In line with the belief of "Safety is the Best Blessing for Employees and the Greatest Efficiency for the Enterprise", the Group implemented the production safety responsibility system and enhanced the production safety standards. By strengthening the construction of "Five Teams", which covers safety supervision, gas, water detection and drainage, electrical and mechanical and transportation, and reinforcing the safety training for all staffs, the Group has standardised and systematised the safety management and laid a solid foundation for safety production.

HEALTH AND SAFETY (continued)

In accordance with the "Production Safety Law of the People's Republic of China" (《中華人民共和國安全生產法》) and the "Safety Regulations in Coal Mine" (《煤礦安全規程》), the Group has firmly performed its responsibility to maintain safety in the coal mines by strictly executing operational rules of safety and the relevant systems and regulations, carrying out tracings and inspections, conducting stringent evaluation and implementing strict but fair reward and punishment scheme. The front line staff of the Group implemented "dual functions and dual responsibilities" mechanism and conducted special supervision through the safety supervision unit, forming a management system with different levels and dimensions of safety. In accordance with the independent safety management mode of " Self-discipline at Position, Safety production at Team, Self-governance at Regional Unit", strengthening regional unit and team formation, thus the safety foundation being implemented.

Pursuant to the rules in respect of prevention of occupational diseases under the "Safety Regulations in Coal Mine", the Group has set up a function especially responsible for the prevention and management of occupational disease in coal mines. With appropriate facilities and measures, the employees have been well protected from occupational diseases. The prevention and control of occupational diseases have been safeguarded by mass surveillance.

During the reporting period, all three mines of the Group have been verified as Coal Mine with "First Class Certificate for Safety and Quality Standardisation" by the State Administration of Coal Mine Safety.

During the reporting period, the Group has no incident of fatality caused by works.

THE ENVIRONMENTAL RESPONSIBILITY OF THE GROUP

Environment protection is an important issue in the Group's operation policies. An "Environmental Management System" has been established by the Group to define the responsibilities of organisations and employees in all levels in respect of coal mine resources, pollutants and use of resources and to serve as guidelines for planning, prevention, governance and statistical analysis of environmental protection activities. Reference is made to the "Environmental Protection Law of the People's Republic of China" (《中華人民共和國環境保護法》), the "Atmospheric Pollution Prevention and Control Law of the People's Republic of China" (《中華人民共和國大氣污染防治法》), the "Water Pollution Prevention and Control Law of the People's Republic of China" (《中華人民共和國水污染防治法》), the "Law of the People's Republic of China on the Prevention and Control of Environment Pollution Caused by Solid Wastes" (《中華人民共和國固體廢物污染環境防治法》), the "Energy Conservation Law of the People's Republic of China" (《中華人民共和國節約能源法》) and the "Circular Economy Promotion Law of the People's Republic of China" (《中華人民共和國循環經濟促進法》) when formulating the "Environmental Management System". Meanwhile, online monitoring systems has been installed over the emission ports as required by the environmental protection department of the PRC for real-time supervision of the execution of environmental protection policies by the Group.

THE ENVIRONMENTAL RESPONSIBILITY OF THE GROUP (continued)

During the reporting period, there is no material breach of any national environmental laws and regulations by the Group.

COAL MINE RESOURCES

By optimising the manpower arrangement, the Group has enhanced mining efficiency and refined mining and recovery process, striving to raise the mining recovery rate of resources. The Group optimised the construction scheme and technology of gob-side entry retaining in Xingwu Coal Mine and adapted to the requirements of entry retaining under different periods of time and geological conditions. The related technologies were extended to other coal mines to reduce the wastage of coal pillars, thereby enhancing the recovery rate of resources. The Group arranged remining faces at goaf in Xingwu Coal Mine to recover the coal near to the boundary. For the Jinjiazhuang Coal Mine, residual mining face was set up in the safety coal pillar to improve its resource recovery. By overcoming technical obstacles, the Group has successfully increased the level of automated mining technology for thin coal seams, which accelerated the capability of single month recovery of thin coal seam resources in Zhaiyadi Coal Mine and extended the related technology to other coal seam.

POLLUTANTS

In the operation of business, a range of pollutants are inevitably generated by the Group. As a responsible corporation, the Group strives to mitigate the environment pollution from its operation to the greatest extent through the implementation of pollution controls.

1. Atmospheric Pollution Control

The Group's atmospheric pollutants are mainly generated from its boiler system. The Group has fully carried out flue-gas desulfurisation, control of soot emissions and boiler modification to reduce atmospheric pollutant emissions.

During the reporting period, the Group cooperated with a qualified corporation for the gas oxidation cogeneration project to be conducted in Jinjiazhuang Coal Mine, to achieve "Green Mining" and "Zero" gas emission while solving the heating issue in Jinjiazhuang Coal.

POLLUTANTS (continued)

2. **Water Pollution Control**

   The water pollution is caused by mine water and domestic sewage. The Group has established mine water and domestic sewage treatment systems to prevent direct discharge of untreated sewage.

3. **Solid Waste Control**

   The Group's solid waste is mainly the mine tailings generated from underground mining. The solid waste which cannot be reused is stored at the designated site for pile up of the mine tailings. The Group will carry out land reclamation and greening work when appropriate so as to improve the ecological environment.

USE OF RESOURCES

The Group mainly uses power resources and water resources during the course of business in order to achieve its operational objectives. As a responsible corporation, the Group optimises the use of resources through energy saving and consumption minimisation.

1. **Power Resources**

   The Group has enhanced the power consumption of equipment through better organisation and arrangement, reasonable deployment, strengthening the repair, maintenance and modification of the electrical and mechanical equipment. At the same time, the consumption of electricity resources is further reduced by adjusting the sequence of operating procedures of transportation equipment at the mining site, removing the lighting of the unmanned underground area and reasonably shifting electricity use to off-peak hours and preventing the lighting of the ground office from constantly powered on.

2. **Water Resources**

   The Group carries out mine water and domestic sewage treatment through the mine water and domestic sewage treatment stations and reuse the treated waste water to remove soot in underground mines, clean the equipment and perform environment greening work as well as other purposes.

USE OF RESOURCES (continued)

Environmental responsibility performance

Index	2017	2016
Air pollutants emission		
Total emission of sulphur dioxide (kg)	**42,827**	94,320
Emission intensity of sulphur dioxide (mg/m^3)	**117**	417
Total emission of soot (kg)	**29,957**	44,592
Emission intensity of soot (mg/m^3)	**91**	175
Total emission of gas (ten thousand m^3)	**3,408**	818
Water pollution discharge		
Mine water discharge (ten thousand tonnes)	**251**	193
Emission intensity of chemical oxygen demand (mg/L)	**13**	22
Solid waste discharge		
Volume of mine tailing removal (ten thousand tonnes)	**73**	89
Resources consumption		
Recovery rate of coal mining area (%)	**86%**	82%
Comprehensive energy consumption against raw coking coal production (kg standard coal/tonne)	**4**	3
Electricity consumption (ten thousand kwh)	**16,316**	14,616
Fresh water consumption (ten thousand tonnes)	**71**	140
Utilisation of pollution emissions		
Utilisation rate of gas (%)	**46%**	78%
Utilisation rate of mine water (%)	**14%**	42%

EMPLOYEE RESPONSIBILITY OF THE GROUP

The Group attaches great emphasis on the people-oriented principle in respect of employee responsibility and is determined to protect the legal rights and interests of employees. The Group also cares about the physical and mental health of employees and proactively supports talent's growth so as to facilitate the long-term development of employees and enterprises.

1. Compliance with Laws and Regulations

The Group has been strictly complied with the relevant employment laws and regulations in Mainland China, including the "Labor Law of the People's Republic of China" (《中華人民共和國勞動法》), the "Labor Contract Law of the People's Republic of China" (《中華人民共和國勞動合同法》), the "Social Insurance Law of the People's Republic of China" (《中華人民共和國社會保險法》) and other applicable local laws and regulations. Our human resources department has also conducted constant reviews and revisions on internal policies and regulations to ensure that the company complies with the latest laws and regulations promulgated or amendments thereto at all time. The Group also assimilates into the corporate culture of the enterprises located nearby and the social environment in the country and implements an equal, fair and open candidate screening system in order to prohibit any discrimination and illegal employment situation.

2. Remuneration package

The Group makes general assessment on the remuneration of the staff with reference to their roles and responsibilities, performance, skills, working experience, working environment and manpower market indicator, and provides appropriate incentive to the high caliber talents and staff at key positions which requires heavy responsibilities and high-level techniques. The Group establishes a monthly skill-based salary incentive system to award salary incentive to the staff who possesses special skills and bears significant safety responsibility by reference to their skill and safety management performance. Different kinds of bonus rewards are also in place based on different positions and job nature, including bonuses for exceed-target production, production safety, energy saving and target achievement, etc. The human resources department conducts regular review on the remuneration and benefit policies, in order to ensure that the remuneration level stays competitiveness and attractiveness to retain talents. We maintain a complete and effective performance assessment system which involves a monthly assessment and an annual general assessment, and distribution of performance-linked wages and annual bonuses based on the assessment result.

With respect to welfare, staff is entitled to pension insurance, medical cover, unemployment insurance, work-related injury insurance, maternity insurance and provident fund (collectively "5 Insurances and 1 Pension") as well as paid leave. Pregnant staff is entitled to maternity leave according to the national regulation, staff at legal marriage age is entitled to marriage leave and staff who encounters bereavement is entitled to compassionate leave.

EMPLOYEE RESPONSIBILITY OF THE GROUP (continued)

3. Equal Opportunities and Anti-discrimination

Being an equal opportunities employer, the Group is committed to create a working environment with fairness, openness and mutual trust. Adhering to a fair and justifiable attitude toward all aspects from policies of candidate screening and employment, to staff recruitment, selection, training, promotion, re-designation, termination or retirement, the Group opposes to any consideration which involves discrimination not related to work and prohibits all forms of workplace discrimination. There is no child labour and forced labour, while employee of the same position are remunerated on equal basis no matter of what gender they are, thus the rights of female employees are well-protected. Specific industrial regulations are stringently executed that females will never engage in underground mine works.

4. Number of employees

As of 31 December 2017, the Group had a total of 5,059 employees in Mainland China.

5. Trainings and Development

The Group aims at forming a learning enterprise and encourages the staff to enhance operational capability and quality as well as grow with the Group so as to ensure the sustainable development of the enterprise. The human resources department is responsible for the trainings in management level, the safety supervision unit is responsible for the trainings for special skills while the training centers which is directly under the respective mine-operating units assume the duties of providing orientation trainings, on-the-job training and re-designation trainings, resulting in the formation of the three-level training system. In 2017, the Group organised all members safety training with 3,775 staffs, special skills training with 294 staffs, "Three Violations" training with 111 staffs and operational training with 240 staffs respectively.

SOCIAL RESPONSIBILITIES OF THE GROUP

Maintaining harmonic relationship with the community is beneficial to the business development of the Group. Before starting a project, the Group has already engaged an independent third party to carry out environmental impact assessments and has taken every feasible measures to reduce the impact caused by the project to the nearby communities and local residents.

Further, the Group actively maintains close communications with communities and establishes dedicated departments to coordinate with the local residents. During this reporting period, in order to ensure smooth operation of the Group's mining plan and constantly provide employment opportunities to the community, the Group has commenced a relocation project in respect of a coal mining subsidence area to help building new houses for the local residents and improving their living quality.

REPORT OF THE DIRECTORS

The Directors herein present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries and associate are set out in notes 37 and 20 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2017 and the state of affairs of the Group at that date are set out in the financial statements on pages 90 to 177 of this annual report.

The Board of Directors of the Company has proposed a final dividend of HK7.2 cents per ordinary share for the year ended 31 December 2017 (2016: HK3 cents per ordinary share) and has declared a special dividend of HK6.3 cents per ordinary share, payable to shareholders whose names appear on the register of members of the Company at the close of business on Friday, 1 June 2018. The proposed final dividend is subject to shareholders' approval at the Company's annual general meeting to be held on Friday, 18 May 2018. In order to qualify for the proposed final dividend and the declared special dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Friday, 1 June 2018 for registration. The final dividend and the special dividend are expected to be paid on or about Thursday, 12 July 2018.

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.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2017 is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 15 to 16 and pages 17 to 30 of this annual report respectively.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on page 178 of this annual report.

BORROWINGS

As at 31 December 2017, the Group had no borrowings.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 33 to the consolidated financial statements.

DONATIONS

Charitable donations made by the Group during the year amounted to approximately HK$1,191,000.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were as follows:

Ding Rucai
Li Shaofeng
So Kwok Hoo
Chen Zhaoqiang
Liu Qingshan
Leung Shun Sang, Tony
Dong Yansheng
Kee Wah Sze*
Choi Wai Yin*
Chan Pat Lam*
Japhet Sebastian Law*

* *Independent Non-executive Director*

In accordance with article 102(A) of the Company's articles of association, Messrs. Li Shaofeng, So Kwok Hoo, Liu Qingshan and Kee Wah Sze will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

REPORT OF THE DIRECTORS

DIRECTORS OF SUBSIDIARIES

During the year and up to the date of this report, directors of the subsidiaries of the Company include Li Shaofeng, Ding Rucai, So Kwok Hoo, Chen Zhaoqiang, Fu Jinghua, Liu Qingshan, Chen Hui, Gao Xingang, Kang Jizhong, Liang Weiming, Song Yangping, Su Liping, Tian Fengfa, Wang Dongming, Xue Kang, Yang Jianquan, Yin Dengfeng, Zhang Zhiwen and Zhu Deling.

DIRECTORS' INDEMNITIES AND INSURANCE

As permitted by the articles of association of the Company, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto.

The Company has arranged appropriate directors' and officer's liability coverage for the directors and officers of the Company.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company, which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

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

The Directors of the Company who held office at 31 December 2017 had the following interests in the shares of the Company as at 31 December 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 of Hong Kong Limited (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 31.12.2017
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 31 December 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries, its parent company or any subsidiary of its parent company a party to any arrangement to enable the Company's Directors or their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts that is significant in relation to the Group's business to which the Company or any of its subsidiaries, its parent company or any subsidiary of its parent company was a party and in which a Director of the Company or his/her connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Pursuant to Rule 8.10 of the Listing Rules, the following Directors have declared interests in the following businesses (other than those businesses where the Directors of the Company were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group during the year:

Name of Director	Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of interest of the Director in the entity
Li Shaofeng	Shougang Holding (Hong Kong) Limited ("Shougang Holding")#	Trading of coal	Director
Ding Rucai	Shougang Holding#	Trading of coal	Director

Such businesses may be carried out through the subsidiaries or associates of the entity concerned or by way of other forms of investments.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES (continued)

The Board of the Company is independent from the boards of the above-mentioned entities and is accountable to the Company's shareholders. Coupled with the diligence of its Independent Non-executive Directors whose views carry significant weight in the Board's decisions, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of these entities.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2017, according to the register kept by the Company under Section 336 of the SFO, the following companies had interests or short positions 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 31.12.2017	*Note(s)*
Shougang Group Co., Ltd.* （首鋼集團有限公司） ("Shougang Group")	Interests of controlled corporations	1,582,864,490	29.85%	*1*
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*

* *For identification purpose only*

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

Notes:

1. Shougang Group indicated in its disclosure form filed on 21 November 2017 (being the latest disclosure form filed up to 31 December 2017) that as at 16 November 2017, its interests included (i) the interests held by Shougang Holding, a wholly-owned subsidiary of Shougang Group; and (ii) the interests held by Shougang International, a company which was held as to 55.49% by Shougang Holding, as well as Fine Power and Ultimate Capital, each of which was a wholly-owned subsidiary of Shougang International.

2. Mr. Jiang indicated in his disclosure form dated 2 March 2017 (being the latest disclosure form filed up to 31 December 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 31 December 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.

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS OF SIGNIFICANCE

The Company had no controlling shareholder (as defined under the Listing Rules) during the year.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, there is a sufficiency of public float of the Company's securities as required under the Listing Rules as at the date of this annual report.

SHARE OPTION SCHEME

On 25 May 2012, the shareholders of the Company adopted a share option scheme (the "Share Options Scheme").

The purpose of the Share Options Scheme is to enable the Company to grant share options to selected participants as incentives or rewards for their contribution or potential contribution to the Company and/or any of its subsidiaries and/or any entity in which any member of the Group holds any equity interest (the "Invested Entities"). The Share Options Scheme shall be valid and effective from 29 May 2012, being the date on which 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, and ending on 25 May 2022, being the tenth anniversary of the date on which the Share Option Scheme was adopted by the shareholders of the Company (both dates inclusive).

Under the Share Options Scheme, the Board may, at its discretion, offer full-time or part-time employees, executives, officers or directors (including executive and non-executive directors) of the Company or any of its subsidiaries or any of the Invested Entities, and any advisors, consultants, agents, suppliers, customers and distributors, who, in the sole opinion of the Board, will contribute or have contributed to the Company and/or any of its subsidiaries and/or any of the Invested Entities, share options to subscribe for shares of the Company.

SHARE OPTION SCHEME (continued)

No share option has been granted under the Share Options Scheme since its adoption. The maximum number of shares of the Company available for issue upon exercise of all share options which may be granted under the Share Options Scheme is 530,183,784, representing 10% of the shares of the Company in issue as at the date of this annual report. The total number of shares of the Company issued and which may fall to be issued upon the exercise of share options to be granted under the Share Options Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the number of shares of the Company in issue as at the date of grant. Any further grant of share options in excess of this 1% limit shall be subject to the issue of a circular by the Company and shareholders' approval in a general meeting. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, which would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of the offer of such grant (a) representing in aggregate over 0.1% of the shares of the Company in issue on the date of the grant; and (b) having an aggregate value of in excess of HK$5,000,000 (based on the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of each grant), such further grant of options shall be subject to the issue of a circular by the Company and shareholders' approval in a general meeting on a poll at which the grantee, his/her associates and all core connected persons of the Company shall abstain from voting in favour of the resolution concerning the grant of such options, and/or such other requirements prescribed under the Listing Rules from time to time. A connected person of the Company will be permitted to vote against the grant only if his intention to do so has been stated in the circular. Any grant of share options to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, is required to be approved by the Independent Non-executive Directors (excluding the Independent Non-executive Director who is the grantee of the options).

The period during which a share option may be exercised will be determined by the Board at its absolute discretion, save that no share option may be exercised more than ten years after it has been granted under the Share Options Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the Board is empowered to impose at its discretion any such minimum period at the time of offer of any share options.

SHARE OPTION SCHEME (continued)

The exercise price in relation to each share option will be determined by the Board at its absolute discretion and shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of offer of share options; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of a share of the Company on the date of offer of share options. Each of the grantees is required to pay HK$1.00 as a consideration for his acceptance of the grant of share options in accordance with the Share Options Scheme. The offer of share options must be accepted within 30 days from the date of the offer.

Share options to be granted under the Share Options Scheme do not confer rights on the holders to dividends or to vote at general meetings.

No share option has been granted under the Share Options Scheme since its adoption. Accordingly, as at 31 December 2017, there was no share option outstanding under the Share Options Scheme.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the year.

DISTRIBUTION RESERVES

At the end of the reporting period, the Company had approximately HK$1,164,295,000 reserves available for distribution as calculated in accordance with the relevant provisions of the Companies Ordinance, of which approximately HK$715,748,000 has been proposed as final dividend and declared as special dividend for the year.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, revenue from sales of goods to the Group's five largest customers accounted for approximately 75.7% of the total revenue from sales of goods for the year and revenue from sales of goods to the largest customer included therein amounted to approximately 25.7%. Purchases from the Group's five largest suppliers accounted for approximately 41.1% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 14.7%. The ultimate holding company of the substantial shareholder of the Company was Shougang Group, which together with its subsidiaries, was one of the top five customers of the Group. Save as disclosed above, none of the Directors of the Company or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had any interest in the Group's five largest customers and suppliers.

CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS

The following continuing connected transactions and connected transactions were recorded during the year and up to the date of this annual report:

(a) Continuing Connected Transactions

Prior to 16 November 2017, Shougang Group, through its subsidiaries, held approximately 2.24% interest in the Company and is not a connected person of the Company. In September 2017, Shougang International conducted an open offer where Shougang Holding, a wholly-owned subsidiary of Shougang Group, was the underwriter of the open offer. Through Shougang Holding taking up the underwritten shares of Shougang International in the open offer, Shougang International became a subsidiary of Shougang Group upon completion of the open offer on 16 November 2017. As Shougang International is a substantial shareholder of the Company, Shougang Group also became a substantial shareholder of the Company from 16 November 2017. As such, the transactions under the agreements as set out in (i) to (ii) below would constitute continuing connected transactions for the Company.

(i) First Master Agreement dated 16 November 2017

As stated in the announcement of the Company dated 16 November 2017, a first master agreement was entered into between the Company and Shougang Group, a connected person of the Company by virtue of its being the holding company of Shougang International, the substantial shareholder of the Company, on 16 November 2017 (the "First Master Agreement").

CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS (continued)

(a) Continuing Connected Transactions (continued)

(i) First Master Agreement dated 16 November 2017 (continued)

Pursuant to the First Master Agreement, the Group would supply coking coal products to Shougang Group and/or its associates (the "Supply of Fushan Products under the First Master Agreement") and Shougang Group and/or its associates would supply the steel materials to the Group (the "Purchase of Shougang Group Products under the First Master Agreement") from 16 November 2017 to 31 December 2017.

The cap amounts (net of value added tax ("VAT")) of the Supply of Fushan Products under the First Master Agreement and the Purchase of Shougang Group Products under the First Master Agreement from 16 November 2017 to 31 December 2017 are as follows:

	RMB'000
Cap amounts for the Supply of Fushan Products under the First Master Agreement	76,900
Cap amounts for the Purchase of Shougang Group Products under the First Master Agreement	4,000

The pricing terms under the First Master Agreement would be determined based on an arm's length basis, on normal commercial terms and in accordance with the following principles:

(1) by reference to the prevailing market prices of the same or substantially similar products, taking into account of the price of the same or substantially similar products with comparable order quantities and quality being offered on the market;

(2) if there are not sufficient comparable transactions in (1) above, on normal commercial terms comparable to those offered to/received from independent third parties in respect of the same or substantially similar products with comparable quantities; and

(3) if both (1) and (2) above are not applicable, by reference to the average price of similar products previously supply by a party, and on normal commercial terms comparable to those offered by the relevant party to independent third parties.

CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS (continued)

(a) Continuing Connected Transactions (continued)

(i) First Master Agreement dated 16 November 2017 (continued)

The Group supplied coking coal products to Shougang Group and/or its associates since 2010 and purchased steel materials from Shougang Group and/or its associates since 2015 in its usual and ordinary course of business. As Shougang Group became a substantial shareholder of the Company from 16 November 2017 as explained in the above sub-section headed "(a) Continuing Connected Transactions" of this section, the First Master Agreement was entered into to address the immediate business requirements of the Group and to regulate the continuing connected transactions between the Group and Shougang Group and/or its associates for the remaining of 2017 in compliance with the Listing Rules.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive directors of the Company must review the continuing connected transactions carried out under the First Master Agreement during the year and confirm whether the transactions thereunder had been entered into:

(A) in the ordinary and usual course of business of the Group;

(B) on normal commercial terms or better; and

(C) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The auditors of the Company has provided a letter to the Board of Directors of the Company confirming the matters stated in Rule 14A.56 of the Listing Rules in respect of the continuing connected transactions under the First Master Agreement took place during the year.

CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS (continued)

(a) Continuing Connected Transactions (continued)

(ii) Second Master Agreement dated 16 November 2017

As stated in the announcement of the Company dated 16 November 2017 and in the circular of the Company dated 4 December 2017, a second master agreement was entered into between the Company and Shougang Group, a connected person of the Company by virtue of its being the holding company of Shougang International, the substantial shareholder of the Company, on 16 November 2017 (the "Second Master Agreement").

Pursuant to the Second Master Agreement, the Group would supply coking coal products to Shougang Group and/or its associates (the "Supply of Fushan Products under the Second Master Agreement") and Shougang Group and/or its associates would supply the steel materials to the Group (the "Purchase of Shougang Group Products under the Second Master Agreement") during the three financial years ending 31 December 2020.

The cap amounts (net of VAT) of the Supply of Fushan Products under the Second Master Agreement and the Purchase of Shougang Group Products under the Second Master Agreement for each of the three financial years ending 31 December 2020 are as follows:

	Financial year ending 31 December		
	2018	**2019**	**2020**
	RMB'000	RMB'000	RMB'000
Cap amounts for the Supply of Fushan Products under the Second Master Agreement	870,000	1,310,000	1,510,000
Cap amounts for the Purchase of Shougang Group Products under the Second Master Agreement	50,000	52,000	54,000

CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS (continued)

(a) Continuing Connected Transactions (continued)

(ii) Second Master Agreement dated 16 November 2017 (continued)

The pricing terms under the Second Master Agreement will be determined based on an arm's length basis, on normal commercial terms and in accordance with the following principles:

(1) by reference to the prevailing market prices of the same or substantially similar products, taking into account of the price of the same or substantially similar products with comparable order quantities and quality being offered on the market;

(2) if there are not sufficient comparable transactions in (1) above, on normal commercial terms comparable to those offered to/received from independent third parties in respect of the same or substantially similar products with comparable quantities; and

(3) if both (1) and (2) above are not applicable, by reference to the average price of similar products previously supply by a party, and on normal commercial terms comparable to those offered by the relevant party to independent third parties.

The Group supplied coking coal products to Shougang Group and/or its associates since 2010 and purchased steel materials from Shougang Group and/or its associates since 2015 in its usual and ordinary course of business. As Shougang Group became a substantial shareholder of the Company from 16 November 2017 as explained in the above sub-section headed "(a) Continuing Connected Transactions" of this section, the Second Master Agreement was entered into to regulate the continuing connected transactions between the Group and Shougang Group and/or its associates for each of the three financial years ending 31 December 2020 in compliance with the Listing Rules.

The Second Master Agreement was approved, confirmed and ratified by the independent shareholders of the Company on 21 December 2017. Details of the continuing connected transactions contemplated under the Second Master Agreement have been disclosed in the announcement of the Company dated 16 November 2017 and in the circular of the Company dated 4 December 2017.

CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS (continued)

(b) Connected Transactions

As stated in the announcement of the Company dated 29 December 2017, (i) Shougang Resources (Hong Kong) Limited ("Shougang Resources Hong Kong", a wholly-owned subsidiary of the Company) and Shougang Holding Company Limited*（首鋼控股有限責任公司）("Beijing Shougang", a wholly-owned subsidiary of Shougang Group), amongst other parties, entered into a share transfer agreement on 30 December 2016 (the "Share Transfer Agreement"), which was subsequently amended by a supplemental share transfer agreement on 29 December 2017 (the "Supplemental Share Transfer Agreement"); and (ii) Shougang Resources Hong Kong and Beijing Shougang entered into a repurchase agreement on 30 December 2016 (the "Repurchase Agreement"), which was subsequently amended by a supplemental repurchase agreement on 29 December 2017 (the "Supplemental Repurchase Agreement").

Pursuant to the Share Transfer Agreement, Shougang Resources Hong Kong agreed to transfer 27% of the equity interest in Jinshan Energy Group Limited*（山西金山能源有限公司）("Jinshan Energy", a non-wholly owned subsidiary of the Company) to Beijing Shougang for a consideration of RMB162 million. The consideration is payable by Beijing Shougang to Shougang Resources Hong Kong within one year from the date of issue of the new business license of Jinshan Energy. As of 29 December 2017, the consideration has not been paid.

On 29 December 2017, Shougang Resources Hong Kong and Beijing Shougang, amongst other parties, entered into the Supplemental Share Transfer Agreement to supplement the Share Transfer Agreement, pursuant to which the parties agreed that the deadline for the payment of the consideration as stipulated in the Share Transfer Agreement would be extended to 31 December 2019.

Pursuant to the Repurchase Agreement, if certain conditions could not be fulfilled by Jinshan Energy within one year of the execution of the Share Transfer Agreement, Shougang Resources Hong Kong would need to repurchase the 27% equity interest in Jinshan Energy from Beijing Shougang at RMB162 million plus accrued interest, subject to a maximum repurchase price of not exceeding RMB182 million. As of 29 December 2017, certain conditions as stipulated in the Repurchase Agreement could not be fulfilled.

* *For identification purpose only*

CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS (continued)

(b) **Connected Transactions** (continued)

On 29 December 2017, Shougang Resources Hong Kong and Beijing Shougang entered into the Supplemental Repurchase Agreement to supplement the Repurchase Agreement, pursuant to which the parties agreed to extend the deadline for fulfilling the conditions under the Repurchase Agreement to 31 December 2019.

Jinshan Energy, through its subsidiary, has been trying to apply for a mining license of a coal mine held by such subsidiary (the "Coalmine Owner") located in the PRC (the "Coalmine") for years. However, under the relevant PRC measures, exploitation of the Coalmine must be controlled by PRC parties, such that over 50% attributable interests in the Coalmine Owner should be held by PRC parties. In order to facilitate Jinshan Energy, through the Coalmine Owner, to obtain the mining license of the Coalmine and the shareholding structure of the Coalmine Owner can fulfil the requirement of the relevant PRC measures, Shougang Resources Hong Kong and Beijing Shougang entered into the Share Transfer Agreement. As it is expected that the mining license of the Coalmine cannot be obtained by 30 December 2017, the Supplemental Share Transfer Agreement and the Supplemental Repurchase Agreement were entered into to continue the transactions contemplated under the Share Transfer Agreement and the Repurchase Agreement.

As at the date of the Share Transfer Agreement and the Repurchase Agreement, the entering into of such agreements were not connected transactions for the Company for the purpose of Chapter 14A of the Listing Rules. As Beijing Shougang is a wholly-owned subsidiary of Shougang Group, and Shougang Group became a substantial shareholder of the Company from 16 November 2017 as explained in the above sub-section headed "(a) Continuing Connected Transactions" of this section, the entering into of the Supplemental Share Transfer Agreement and the Supplemental Repurchase Agreement constituted connected transactions for the Company under Chapter 14A of the Listing Rules. As the applicable ratios under the Listing Rules in respect of the transactions contemplated under the Supplemental Share Transfer Agreement and the Supplemental Repurchase Agreement are more than 0.1% but are less than 5%, the Supplemental Share Transfer Agreement and the Supplemental Repurchase Agreement are subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS (continued)

As regards the transactions set out in note 41 to the consolidated financial statements under the heading of "Related Party Transactions", the transactions as set out in note 41(i) was connected transaction which was exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

The transactions set out in note 41(ii) to the consolidated financial statements took place prior to 16 November 2017 did not constitute connected transactions of the Company under the Listing Rules. Those transactions took place from 16 November 2017 constituted continuing connected transactions of the Company but were exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

The transactions set out in note 41(iii) to the consolidated financial statements took place prior to 16 November 2017 did not constitute connected transactions of the Company under the Listing Rules. Those transactions took place from 16 November 2017 constituted continuing connected transactions of the Company and had been complied with the disclosure requirements under the Listing Rules.

The transactions set out in notes 41(iv) and (v) to the consolidated financial statements did not constitute connected transactions of the Company under the Listing Rules.

The transactions set out in note 41(vi) to the consolidated financial statements were the emoluments of the Directors as determined under the service contracts entered into between the Directors and the Group which were connected transactions exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 31 to 53 of this annual report.

ENVIRONMENTAL AND SOCIAL MATTERS

The Company's compliance with the relevant provisions set out in the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Listing Rules for the financial year ended 31 December 2017 are set out in the Environmental, Social and Governance Report on pages 54 to 65 of this annual report.

REPORT OF THE DIRECTORS

EVENT AFTER THE REPORTING DATE

Details of significant event occurring after the reporting date are set out in note 45 to the consolidated financial statements.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting to re-appoint BDO Limited as auditor of the Company.

By Order of the Board
Ding Rucai
Chairman

Hong Kong, 22 March 2018

INDEPENDENT AUDITOR'S REPORT

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

To the members of Shougang Fushan Resources Group Limited
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Shougang Fushan Resources Group Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 90 to 177, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (continued)

Impairment of goodwill, mining rights and property, plant and equipment

Refer to note 19 to the consolidated financial statements

Goodwill, mining rights and property, plant and equipment represent significant balance recorded in the consolidated statement of financial position, they are mainly relating to the three subsidiaries acquired in the year of 2008, namely, Shanxi Liulin Xingwu Coal Co., Limited ("Xingwu"), Shanxi Liulin Jinjiazhuang Coal Co., Limited ("Jinjiazhuang") and Shanxi Liulin Zhaiyadi Coal Co., Limited ("Zhaiyadi"). These companies are engaged in coking coal mining, production and sales of coking coal products in the People's Republic of China (the "PRC"). As at 31 December 2017, the Group performed impairment assessments of the relevant assets of these three subsidiaries in accordance with its accounting policy under note 3.7 to the consolidated financial statements.

Details of the Group's impairment assessment are set out in note 19 to the consolidated financial statements. Based on the result of that impairment assessment, no impairment loss was recognised for the year ended 31 December 2017 because the carrying amounts of Xingwu's, Jinjiazhuang's and Zhaiyadi's cash-generating-unit were determined to be lower than or equal to its estimated recoverable amount.

We have identified impairment of goodwill, mining rights and property, plant and equipment as a key audit matter because of its significance to the consolidated financial statements and because the value-in-use calculations involve significant management judgement with respect to the underlying cash flow forecast, in particular the future growth rate and discount rate.

OUR RESPONSE:

Our procedures in relation to management's impairment review of goodwill, mining rights and property, plant and equipment included:

- Evaluating the competence, capabilities and objectivity of the independent valuer who assisted management in the process of impairment review;

- Assessing the methodologies used by the independent valuer to arrive at the value-in-use estimations;

- Considering the reasonableness of the key assumptions and the key underlying input data used to estimate value-in-use amounts for the purpose of the impairment review; and

- Considering the potential impact of reasonably possible downside changes in those key assumption parameters.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited
Certified Public Accountants
Chiu Wing Cheung Ringo
Practising Certificate no. P04434

Hong Kong, 22 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTES	2017 HK$'000	2016 HK$'000
Revenue	6	**3,471,922**	1,809,885
Cost of sales		**(1,596,518)**	(1,202,842)
Gross profit		**1,875,404**	607,043
Other operating income	8	**207,441**	107,188
Selling and distribution expenses		**(206,638)**	(167,412)
General and administrative expenses		**(202,034)**	(203,755)
Other operating expenses		**(23,961)**	(8,054)
Impairment loss on goodwill, mining rights and property, plant and equipment	19(b)	**–**	(595,854)
Reversal of impairment loss on mining rights and property, plant and equipment	19(b)	**–**	401,012
Finance costs	9	**(2,226)**	(490)
Change in fair value of derivative financial instruments		**–**	6,886
Share of loss of an associate		**(368)**	(2,308)
Profit before income tax	10	**1,647,618**	144,256
Income tax expense	11	**(465,034)**	(76,600)
Profit for the year		**1,182,584**	67,656
Other comprehensive income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**723,997**	(568,590)
Item that will not be reclassified to profit or loss:			
Fair value gain on financial assets measured at fair value through other comprehensive income		**155,062**	182,715
Total comprehensive income for the year		**2,061,643**	(318,219)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTES	2017 HK$'000	2016 HK$'000
Profit for the year attributable to:			
Owners of the Company		**1,080,649**	111,795
Non-controlling interests		**101,935**	(44,139)
Profit for the year		**1,182,584**	67,656
Total comprehensive income for the year attributable to:			
Owners of the Company		**1,881,310**	(211,723)
Non-controlling interests		**180,333**	(106,496)
Total comprehensive income for the year		**2,061,643**	(318,219)
		HK (Cents)	HK (Cents)
Earnings per share	13		
– Basic and diluted		**20.38**	2.11

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	NOTES	2017 HK$'000	2016 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	**3,171,773**	2,740,973
Prepaid lease payments	17	**50,781**	48,965
Mining rights	18	**8,275,967**	7,902,244
Goodwill	19(a)	**1,314,569**	1,233,703
Interest in an associate	20	**13,107**	12,641
Financial assets measured at fair value through other comprehensive income	21	**629,679**	474,617
Deposits, prepayments and other receivables	22	**584,543**	312,608
Deferred tax assets	32	**23,121**	21,016
Total non-current assets		**14,063,540**	12,746,767
Current assets			
Inventories	23	**195,983**	198,599
Trade receivables	24	**871,004**	869,556
Bill receivables	24	**1,426,791**	1,074,095
Deposits, prepayments and other receivables		**110,777**	114,293
Other financial assets	25	**–**	200,000
Pledged bank deposits	26	**162,083**	76,927
Time deposits with original maturity over three months	27	**1,540,808**	2,029,933
Cash and cash equivalents	27	**3,323,659**	1,794,286
Total current assets		**7,631,105**	6,357,689
Current liabilities			
Trade and bill payables	28	**612,507**	441,423
Other financial liability	29	**178,358**	–
Other payables and accruals	30	**1,498,032**	1,160,446
Amounts due to non-controlling interests of subsidiaries	31	**37,843**	6,472
Tax payables		**334,660**	234,836
Total current liabilities		**2,661,400**	1,843,177
Net current assets		**4,969,705**	4,514,512
Total assets less current liabilities		**19,033,245**	17,261,279

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	NOTES	2017 HK$'000	2016 HK$'000
Non-current liabilities			
Deferred tax liabilities	32	**1,657,562**	1,595,586
Total non-current liabilities		**1,657,562**	1,595,586
Net assets		**17,375,683**	15,665,693
EQUITY			
Equity attributable to owners of the Company			
Share capital	33	**15,156,959**	15,156,959
Reserves	34	**777,853**	(637,935)
Total equity attributable to owners of the Company		**15,934,812**	14,519,024
Non-controlling interests		**1,440,871**	1,146,669
Total equity		**17,375,683**	15,665,693

On behalf of the directors

Ding Rucai	**Li Shaofeng**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Equity attributable to owners of the Company							Non-controlling interests	Total equity
	Share capital	Statutory reserve	Other reserves	Retained profits	Security investment reserve	Translation reserve	Total		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2017	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 year	–	–	–	1,080,649	–	–	1,080,649	101,935	1,182,584
Other comprehensive income for the year:									
– Exchange differences on translation of financial statements of foreign operations	–	–	–	–	–	645,599	645,599	78,398	723,997
– Fair value gain on financial assets measured at fair value through other comprehensive income	–	–	–	–	155,062	–	155,062	–	155,062
Total comprehensive income for the year	–	–	–	1,080,649	155,062	645,599	1,881,310	180,333	2,061,643
Transfer 27% equity interest of Jinshan Energy Group Limited ("Jinshan")	–	–	44,120	–	–	(5,394)	38,726	141,095	179,821
Obligation to repurchase the 27% equity interest of Jinshan (note 29)	–	–	(186,138)	–	–	–	(186,138)	–	(186,138)
2016 final dividends approved (note 12)	–	–	–	(159,055)	–	–	(159,055)	–	(159,055)
2017 interim dividends declared (note 12)	–	–	–	(159,055)	–	–	(159,055)	–	(159,055)
Dividend paid to non-controlling interests of subsidiaries	–	–	–	–	–	–	–	(27,226)	(27,226)
Appropriations to other reserves (note 34)	–	–	(26,671)	26,671	–	–	–	–	–
At 31 December 2017	15,156,959	448,068	401,704	1,068,611	(1,745,157)	604,627	15,934,812	1,440,871	17,375,683

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Equity attributable to owners of the Company								Non-controlling interests	Total equity
	Share capital	Statutory reserve	Other reserves	Retained profits	Share-based compensation reserve	Security investment reserve	Translation reserve	Total		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2016	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
Profit/(Loss) for the year	–	–	–	111,795	–	–	–	111,795	(44,139)	67,656
Other comprehensive income for the year:										
– Exchange differences on translation of financial statements of foreign operations	–	–	–	–	–	–	(506,233)	(506,233)	(62,357)	(568,590)
– Fair value gain on financial assets measured at fair value through other comprehensive income	–	–	–	–	–	182,715	–	182,715	–	182,715
Total comprehensive income for the year	–	–	–	111,795	–	182,715	(506,233)	(211,723)	(106,496)	(318,219)
2015 final dividends approved (note 12)	–	–	–	(265,092)	–	–	–	(265,092)	–	(265,092)
2016 special dividends declared (note 12)	–	–	–	(795,276)	–	–	–	(795,276)	–	(795,276)
Appropriations to other reserves (note 34)	–	–	(15,893)	15,893	–	–	–	–	–	–
Lapsed of share options (note 35)	–	–	–	537,680	(537,680)	–	–	–	–	–
At 31 December 2016	15,156,959	448,068	570,393	279,401	–	(1,900,219)	(35,578)	14,519,024	1,146,669	15,665,693

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTES	2017 HK$'000	2016 HK$'000
Cash flows from operating activities			
Profit before income tax		**1,647,618**	144,256
Adjustments for:			
Amortisation of prepaid lease payments		**1,415**	1,423
Amortisation of mining rights		**149,603**	147,374
Depreciation of property, plant and equipment		**226,466**	210,394
Finance costs		**2,226**	490
Impairment loss on goodwill, mining rights and property, plant and equipment		**–**	595,854
Reversal of impairment loss on mining rights and property, plant and equipment		**–**	(401,012)
Share of loss of an associate		**368**	2,308
Interest income		**(84,286)**	(74,476)
Dividend income		**(22,171)**	–
Loss on disposals of property, plant and equipment		**9,758**	6,364
Change in fair value of derivative financial instruments		**–**	(6,886)
Net foreign exchange (gain)/loss		**(56,364)**	42,027
Operating profit before working capital changes		**1,874,633**	668,116
Decrease/(Increase) in inventories		**15,856**	(39,867)
Increase in trade and bill receivables		**(225,571)**	(276,053)
Decrease/(Increase) in deposits, prepayments and other receivables		**155**	(5,852)
Increase/(Decrease) in trade and bill payables		**86,396**	(57,651)
Increase/(Decrease) in other payables and accruals		**205,446**	(29,891)
Increase in amounts due to non-controlling interests of subsidiaries		**3,714**	2,886
Cash generated from operations		**1,960,629**	261,688
Income tax paid		**(424,937)**	(39,617)
Net cash from operating activities		**1,535,692**	222,071

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTES	**2017** **HK$'000**	2016 HK$'000
Cash flows from investing activities			
Payments to acquire property, plant and equipment		**(445,358)**	(217,439)
Proceeds from disposals of property, plant and equipment		**432**	288
Redemption of/(Payments to acquire) other financial assets		**200,000**	(200,000)
Increase in pledged bank deposits		**(84,548)**	(1,120)
Decrease in time deposits with original maturity over three months		**489,125**	717,371
Interest received		**84,602**	78,446
Dividend received		**22,171**	–
Net cash from investing activities		**266,424**	377,546
Cash flows from financing activities			
Finance costs paid		**(2,226)**	(490)
Dividends paid to owners of the Company		**(315,306)**	(1,060,306)
Net cash used in financing activities		**(317,532)**	(1,060,796)
Net increase/(decrease) in cash and cash equivalents		**1,484,584**	(461,179)
Cash and cash equivalents at 1 January		**1,794,286**	2,290,877
Effect of foreign exchange rates changes on cash and cash equivalents		**44,789**	(35,412)
Cash and cash equivalents at 31 December		**3,323,659**	1,794,286
Cash and cash equivalents at 31 December, represented by:			
Bank balances and cash	27	**3,323,659**	1,794,286

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. GENERAL INFORMATION

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

The principal activity of the Company is investment holding. The principal activities of the Group's subsidiaries comprise coking coal mining, production and sales of coking coal products. There were no significant changes in the Group's operations during the year. Details of the activities of the principal subsidiaries of the Group are set out in note 37.

The financial statements for the year ended 31 December 2017 were approved for issue by the board of directors on 22 March 2018.

2. BASIS OF PREPARATION

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

The significant accounting policies that have been used in the preparation of the consolidated financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or revised HKFRSs and the impacts on the Group's financial statements, if any, are disclosed in note 4.

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments classified as financial assets measured at fair value through other comprehensive income (note 21) which are measured at fair values. The measurement bases are fully described in the accounting policies below.

2. BASIS OF PREPARATION (continued)

The consolidated financial statements are presented in Hong Kong dollars ("HK$") which is the same as the functional currency of the Company and all values are rounded to the nearest thousand except when otherwise indicated.

It should be noted that accounting estimates and assumptions are used in the preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimations are significant to the consolidated financial statements, are described in note 5.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Business combination and basis of consolidation (continued)

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

3.3 Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units ("CGUs") that are expected to benefit from the synergies of the acquisition. A cash-generating unit ("CGU") is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

3.5 Property, plant and equipment

Property, plant and equipment, other than construction in progress ("CIP"), are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Property, plant and equipment (continued)

Other than mining structures, depreciation is provided to write off the cost net of their estimated residual values over their estimated useful lives on a straight-line basis, at the following rates per annum:

Buildings and plants	The shorter of the lease terms or 5%
Mining machinery and equipment	10%
Leasehold improvements	The shorter of the lease terms or 33 1/3%
Office equipment, furniture and fixtures	20% to 33 1/3%
Motor vehicles and transportation equipment	10% to 25%

Depreciation on mining structures is provided to write off the cost of the mining structures using the units of production method utilising only proved and probable coal reserves as the depletion base.

The assets' estimated residual values, depreciation methods and estimated useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

CIP is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the CIP is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of CIP until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

Net gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

3.6 Mining rights

Mining rights are stated at cost less accumulated amortisation and amortised on the units of production method based on the total proven and probable reserves of the coal mine.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- goodwill arising on acquisition of subsidiaries;
- prepaid lease payments;
- mining rights;
- property, plant and equipment; and
- interests in subsidiaries and an associate.

Goodwill is tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those of other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflow independently (i.e. a CGU). As a result, some assets are tested individually for impairment and some are tested at CGU level. Goodwill in particular is allocated to those CGUs that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment loss recognised for CGUs, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the CGU, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value-in-use, if determinable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Impairment of non-financial assets (continued)

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value-in-use. 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 asset.

An impairment loss on goodwill is not reversed in subsequent periods including impairment losses recognised in an interim period. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34 – Interim Financial Reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year.

3.8 Foreign currency translation

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Foreign currency translation (continued)

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the reporting date. Income and expenses have been converted into HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the translation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation have been treated as assets and liabilities of the foreign operation and translated into HK$ at the closing rates. When a foreign operation is sold, such exchange differences are reclassified from equity to profit or loss as part of the profit or loss on disposal.

3.9 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods, net of value-added tax ("VAT"), rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

- Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

- Interest income is accrued on time basis on the principal outstanding at the applicable interest rate.

- Dividend income is recognised when the right to receive the dividend is established.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs is suspended or ceases when the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

3.11 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

3.12 Financial assets

Financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases or sales of financial assets are recognised and de-recognised on trade date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. De-recognition of financial assets occurs when the contractual rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Financial assets (continued)

Following the adoption of HKFRS 9, investments and other financial assets of the Group at 1 January 2011 are classified under the following categories:

- financial assets measured at amortised cost;
- financial assets measured at fair value through profit or loss; and
- financial assets measured at fair value through other comprehensive income.

Financial assets measured at amortised cost

Financial assets are classified under this category if they satisfy both of the following conditions:

- assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows for managing liquidity and generating income on its investment, but not for the purpose of realising fair value gains; and
- contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, with interest being the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and are unleveraged.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortised cost using effective interest method less any impairment. On de-recognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Financial assets (continued)

Financial assets measured at fair value through profit or loss

Financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost. Investments in equity instruments are classified as at fair value through profit or loss, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income at initial recognition as described below.

Financial assets at fair value through profit or loss are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

Interest income on debt instruments and dividend income on investments in equity instruments at fair value through profit or loss is recognised in profit or loss. Fair value gain or loss does not include any dividend or interest earned on these financial assets.

Financial assets measured at fair value through other comprehensive income

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income. Investments in equity instruments that the Group intends to held for long-term strategic purpose and classified under this category. Designation at fair value through other comprehensive income is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Financial assets (continued)

***Financial assets measured at fair value through other comprehensive income** (continued)*

Investments in equity instruments at fair value through other comprehensive income are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the security investment reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in security investment reserve is not reclassified to profit or loss, but is reclassified directly to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

Impairment of financial assets

At each reporting date, financial assets other than at fair value are reviewed to determine whether there is any objective evidence of impairment. Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; or
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Financial assets (continued)

Impairment of financial assets *(continued)*

If there is objective evidence that an impairment loss on financial assets has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

Impairment losses for doubtful receivables, whose recovery is considered doubtful but not remote, are recorded using an allowance account. When the Group considered that recovery of receivables is remote, the amount considered irrecoverable is written off against the receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

3.13 Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost is calculated using weighted average method, and in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value represented the estimated net selling prices in the ordinary course of business less the estimated costs necessary to make the sale.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14 Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, and an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

3.15 Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of the statement of cash flows presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group’s cash management.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.16 Share capital

Shares issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Hong Kong Companies Ordinance, Cap. 622 ("the new Companies Ordinance"), came into operation on 3 March 2014. Under the new Companies Ordinance, shares of the Company do not have a nominal value. Consideration received or receivable for the issue of shares on or after 3 March 2014 is credited to share capital. Commissions and expenses are allowed to be deducted from share capital under s.148 and s.149 of the new Companies Ordinance.

3.17 Employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit plan under the Mandatory Provident Fund Schemes Ordinance, for all of its Hong Kong employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

Short-term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17 Employee benefits (continued)

***Short-term employee benefits** (continued)’*

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

Share-based employee compensation

The Group operates equity-settled share-based compensation plans for remuneration of its employees. All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the equity instruments awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share-based compensation is recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when the equity instruments granted vest immediately unless the compensation qualifies for recognition as asset, with a corresponding increase in the share-based compensation reserve in equity. If vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of equity instruments expected to vest. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates.

At the time when the share options have exercised, the amount previously recognised in share-based compensation reserve is transferred to share capital. After vesting date, when the vested share options have forfeited or still have not been exercised at the expiry date, the amount previously recognised in share-based compensation reserve is transferred to retained profits.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18 Financial liabilities

The Group's financial liabilities include amounts due to non-controlling interests of subsidiaries, trade and bill payables, other payables and accruals and other financial liability.

Financial liabilities are recognised when, and only when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (see note 3.10).

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Other financial liabilities at amortised cost

Amounts due to non-controlling interests of subsidiaries, trade and bill payables, other payables and accruals and other financial liability are recognised initially at their fair values and subsequently measured at amortised cost, using effective interest method.

3.19 Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reliably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.20 Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third party and the other party is an associate of the third party.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.20 Related parties (continued)

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependents of that person or that person's spouse or domestic partner.

3.21 Segment reporting

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

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

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

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

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

4. ADOPTION OF HKFRSS

4.1 Adoption of new or revised HKFRSs – effective 1 January 2017

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to HKFRSs 2014 – 2016 Cycle	Amendments to HKFRS 12, Disclosure of Interest in Other Entities

Amendments to HKAS 7 – Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments to HKAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured at fair value.

The adoption of the amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously recognised deferred tax assets.

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKFRS 12, Disclosure of Interests in Other Entities

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 12, Disclosure of Interests in Other Entities, to clarify that the disclosure requirements of HKFRS 12, other than the requirements to disclose summarised financial information, also apply to an entity's interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5, Non-Current Assets Held for Sale and Discontinued Operations.

The adoption of the amendments to HKFRS 12 has no impact on these financial statements as the latter treatment is consistent with the manner in which the Group has previously dealt with disclosures relating to its interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5.

4. ADOPTION OF HKFRSS (continued)

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

The following new or revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards[1]
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures[1]
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions[1]
HKFRS 9 (2014)	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
HKFRS 16	Leases[2]
HK(IFRIC)-Int 23	Uncertainty Over Income Tax Treatments[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after 1 January 2018

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

3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred or removed. Early application of the amendments continue to be permitted.

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, removing transition provision exemptions relating to accounting periods that had already passed and were therefore no longer applicable.

4. ADOPTION OF HKFRSS (continued)

4.2 New or revised HKFRSs that have been issued but are not yet effective (continued)

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKAS 28, Investments in Associates and Joint Ventures

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

Amendments to HKFRS 2 – Classification and Measurement of Share-Based Payment Transactions

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

HKFRS 9 (2014) – Financial Instruments

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

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

4. ADOPTION OF HKFRSS (continued)

4.2 New or revised HKFRSs that have been issued but are not yet effective (continued)

HKFRS 9 (2014) – Financial Instruments *(continued)*

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

The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. Expected impacts of these new requirements on the Group's financial statements are as follows:

(a) *Classification and measurement*

The Group has early adopted HKFRS 9 (2010) and will continue to apply HKFRS 9 (2010). The classification and measurement requirements under HKFRS 9 are consistent with HKFRS 9 (2010) and thus will have no impact on the Group's financial statements.

(b) *Impairment*

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset, the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses.

HKFRS 15 – Revenue from Contracts with Customers

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

4. ADOPTION OF HKFRSS (continued)

4.2 New or revised HKFRSs that have been issued but are not yet effective (continued)

***HKFRS 15 – Revenue from Contracts with Customers** (continued)*

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

– Step 1: Identify the contract(s) with a customer

– Step 2: Identify the performance obligations in the contract

– Step 3: Determine the transaction price

– Step 4: Allocate the transaction price to each performance obligation

– Step 5: Recognise revenue when each performance obligation is satisfied

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

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 3.9. Currently, revenue arising from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers. Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good in the contract. HKFRS 15 identifies 3 situations in which control of the promised good is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

4. ADOPTION OF HKFRSS (continued)

4.2 New or revised HKFRSs that have been issued but are not yet effective (continued)

***HKFRS 15 – Revenue from Contracts with Customers** (continued)*

(a) Timing of revenue recognition (continued)

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

The Group considered that the contract terms and the Group's activities do not fall into any of these 3 situations, then under HKFRS 15 the Group recognises revenue for the sale of that good at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs which is consistent with the current policy adopted by the Group. The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from sales of coking coal.

(b) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the Group applies a policy of payments received in advance on the sales of raw coking coal. The Group is in the process of assessing the implication of the significant financing component identified from the raw coking coal sales. Considered that the customer paid for the raw coking coal in advance and the timing of the transfer of the raw coking coal is at the discretion of the customer, significant financing component may not exist.

The Group plans to elect to use the cumulative effect transition method for the adoption of HKFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. As allowed by HKFRS 15, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. Since the number of "open" contracts for sales of coking coal at 31 December 2017 is limited, the Group expects that the transition adjustment to be made upon the initial adoption of HKFRS 15 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial results from 2018 onwards.

4. ADOPTION OF HKFRSS (continued)

4.2 New or revised HKFRSs that have been issued but are not yet effective (continued)

Amendments to HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

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

4. ADOPTION OF HKFRSS (continued)

4.2 New or revised HKFRSs that have been issued but are not yet effective (continued)

HK(IFRIC)-Int 23 – Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the “most likely amount” or the “expected value” approach, whichever better predicts the resolution of the uncertainty.

Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors’ interests in the joint venture or associate.

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

5.1 Impairment of non-financial assets

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates and assumptions about future events, which are subject to uncertainty and might materially differ from the actual results. In making these key estimates and judgements, the directors take into consideration assumptions that are mainly based on market condition existing at the reporting dates and appropriate market and discount rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

5.2 Impairment of goodwill

The Group tests on an annual basis whether goodwill has suffered any impairment in accordance with the accounting policy as stated in note 3.4. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of judgement and estimates about future cash flow expected to arise from the CGUs, the timeframe for the cash flows forecast and the suitable discount rates in order to calculate the present value. In the process of estimating expected future cash flows, management makes assumptions about future revenues and profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause a material adjustment to the carrying amount of goodwill within the next financial year. Determining the appropriate discount rate involves estimating the appropriate adjustment for market risk and for asset specific risk factors. In addition, since the cash flow projections are extrapolated beyond 5 years and the license period of the mining rights held by the Group ranges from 2 to 30 years, 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. Details of impairment assessment are set out in note 19.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

5.3 Amortisation of mining rights

Mining rights are amortised over the estimated proven and probable reserves of the coal mines using units of production method. The Group assesses on an annual basis the estimated reserve of the coal mine. However, the license periods of the mining rights held by the Group range from 2 to 30 years which are shorter than the estimated useful lives of the coal mine 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. If the expectation differs from the original estimate, such differences will impact the amortisation charged in the period in which such estimate is changed.

Engineering estimates of the Group's coal reserves involved subjective judgements by engineers in developing such information and reserves are estimated in accordance with national standards set by relevant PRC authorities. Estimates of proven and probable coal reserves involved subjective judgements and assumption are required for a range of geological, technical and economic factors, so the proven and probable coal reserves are only approximate value. The recent production and technology documents shall be considered for the estimates of proven and probable coal reserves which will be updated regularly, the inherent inaccuracy of technical estimating exists. If the past estimates change significantly, the amortisation shall be adjusted during future periods.

6. REVENUE

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

	2017	2016
	HK$'000	HK$'000
Sales of raw coking coal	**629,971**	191,408
Sales of clean coking coal	**2,841,951**	1,618,477
	3,471,922	1,809,885

7. SEGMENT INFORMATION

The executive directors of the Company consider the Group has one reporting segment, i.e. coking coal mining, which is detailed in note 3.21.

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

	Coking coal mining		**Consolidated**	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
Segment revenue:				
Revenue from external customers	**3,471,922**	1,809,885	**3,471,922**	1,809,885
Segment profit	**1,597,779**	127,478	**1,597,779**	127,478
Interest income			**84,286**	74,476
Dividend income			**22,171**	–
Net exchange gain/(loss)			**16,910**	(12,509)
Employee costs			**(42,806)**	(33,764)
General and administrative expenses not allocated			**(16,380)**	(15,513)
Other operating expenses not allocated			**(11,748)**	–
Finance costs			**(2,226)**	(490)
Change in fair value of derivative financial instruments			**–**	6,886
Share of loss of an associate			**(368)**	(2,308)
Profit before income tax			**1,647,618**	144,256

7. SEGMENT INFORMATION (continued)

	Coking coal mining		Corporate		Consolidated	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Depreciation	**226,038**	209,970	**428**	424	**226,466**	210,394
Amortisation of mining rights	**149,603**	147,374	**–**	–	**149,603**	147,374
Amortisation of prepaid lease payments	**1,415**	1,423	**–**	–	**1,415**	1,423
Impairment loss on goodwill, mining rights and property, plant and equipment	**–**	595,854	**–**	–	**–**	595,854
Reversal of impairment loss on mining rights and property, plant and equipment	**–**	(401,012)	**–**	–	**–**	(401,012)

	Coking coal mining		Corporate		Consolidated	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**15,963,761**	14,549,199	**200,510**	22,764	**16,164,271**	14,571,963
Interest in an associate	**–**	–	**13,107**	12,641	**13,107**	12,641
Deferred tax assets	**–**	–	**23,121**	21,016	**23,121**	21,016
Financial assets measured at fair value through other comprehensive income	**–**	–	**629,679**	474,617	**629,679**	474,617
Other financial assets	**–**	–	**–**	200,000	**–**	200,000
Time deposits with original maturity over three months	**–**	–	**1,540,808**	2,029,933	**1,540,808**	2,029,933
Cash and cash equivalents	**872,165**	123,711	**2,451,494**	1,670,575	**3,323,659**	1,794,286
Group assets					**21,694,645**	19,104,456
Segment liabilities	**2,100,130**	1,566,288	**48,252**	42,053	**2,148,382**	1,608,341
Deferred tax liabilities	**–**	–	**1,657,562**	1,595,586	**1,657,562**	1,595,586
Tax payables	**–**	–	**334,660**	234,836	**334,660**	234,836
Other financial liability	**–**	–	**178,358**	–	**178,358**	–
Group liabilities					**4,318,962**	3,438,763

7. SEGMENT INFORMATION (continued)

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

	Revenue from external customers		Non-current assets	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
Principal markets				
PRC	**3,471,922**	1,809,885	**13,410,306**	12,250,348
Hong Kong	**–**	–	**434**	786
	3,471,922	1,809,885	**13,410,740**	12,251,134

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

During the year, revenue from 3 customers of the Group's coking coal mining segment amounted to HK$892,213,000, HK$793,389,000 and HK$627,198,000, which represented 26%, 23% and 18% of the Group's revenue respectively. In last year, revenue from 3 customers of the Group's coking coal mining segment amounted to HK$605,626,000, HK$364,346,000 and HK$249,910,000, which represented 34%, 20% and 14% of the Group's revenue respectively.

8. OTHER OPERATING INCOME

	2017	2016
	HK$'000	HK$'000
Dividend income	**22,171**	–
Interest income	**84,286**	74,476
Income from sales of scrapped products	**44,620**	32,712
Net exchange gain	**56,364**	–
	207,441	107,188

9. FINANCE COSTS

	2017	2016
	HK$'000	HK$'000
Interest charged on discounted bill receivables	**2,226**	490

No borrowing costs were capitalised for the years ended 31 December 2017 and 2016.

10. PROFIT BEFORE INCOME TAX

	2017	2016
	HK$'000	HK$'000
Profit before income tax is arrived at after charging/(crediting):		
Auditor's remuneration		
– audit services	**1,575**	1,550
– other services	**475**	431
Cost of inventories recognised as expenses	**1,596,518**	1,202,842
Amortisation of:		
– prepaid lease payments (note 17)	**1,415**	1,423
– mining rights (note 18)	**149,603**	147,374
Depreciation of property, plant and equipment (note 16)	**226,466**	210,394
Employee costs (including directors' emoluments) (note 14)	**543,595**	456,776
Operating lease charges in respect of land and buildings	**7,378**	7,116
Provision for litigation settlement	**–**	939
Net exchange (gain)/loss	**(56,364)**	42,027
Loss on disposals of property, plant and equipment	**9,758**	6,364

11. INCOME TAX EXPENSE

	2017	2016
	HK$'000	HK$'000
Current tax – PRC income tax		
– Current year	**511,637**	135,858
– Over provision in respect of prior years	**(2,532)**	(449)
Deferred tax (note 32)		
– Current year	**(44,071)**	(58,501)
– Prior years	**–**	(308)
	465,034	76,600

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group had no assessable profit arising in Hong Kong in 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 Shanxi Liulin Xingwu Coal Co., Limited ("Xingwu"), Shanxi Liulin Jinjiazhuang Coal Co., Limited ("Jinjiazhuang") and Shanxi Liulin Zhaiyadi Coal Co., Limited ("Zhaiyadi"), all established in the PRC, is subject to 25% enterprise income tax in the PRC.

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

11. INCOME TAX EXPENSE (continued)

Reconciliation between income tax expense and accounting profit at applicable tax rates is as follows:

	2017 HK$'000	2016 HK$'000
Profit before income tax	**1,647,618**	144,256
Tax calculated at the rates applicable to the tax jurisdiction concerned	**399,107**	36,031
Tax effect of non-deductible expenses	**6,977**	28,595
Tax effect of non-taxable income	**(23,713)**	(13,593)
Tax effect of unused tax losses not recognised	**9,998**	26,324
Effect of withholding tax at 5% on distributable profits of the Group's major PRC subsidiaries	**75,197**	–
Over provision in respect of prior years	**(2,532)**	(757)
Income tax expense	**465,034**	76,600

12. DIVIDENDS

	2017 HK$'000	2016 HK$'000
Dividends recognised as distributions during the year:		
2016 final dividend of HK3 cents (2016: 2015 final dividend of HK5 cents) per ordinary share	**159,055**	265,092
2017 interim dividend of HK3 cents (2016: nil) per ordinary share	**159,055**	–
2017 special dividend of nil (2016: HK15 cents) per ordinary share	**–**	795,276
	318,110	1,060,368

12. DIVIDENDS (continued)

On 22 March 2018, the board of directors proposed a final dividend of HK7.2 cents per ordinary share and declared a special dividend of HK6.3 cents per ordinary share totalling HK$715,748,000 to the owners of the Company in respect of the year ended 31 December 2017. The final dividend is subject to the shareholder's approval at the forthcoming annual general meeting. The final dividend proposed and special dividend declared after 31 December 2017 has not been recognised as a liability as at 31 December 2017.

On 23 March 2017, the board of directors proposed a final dividend of HK3 cents per ordinary share to the owners of the Company in respect of the year ended 31 December 2016. This final dividend was approved by shareholders at the annual general meeting held on 26 May 2017 and total dividend of HK$159,055,000 was paid on 5 July 2017. This final dividend proposed after 31 December 2016 had not been recognised as a liability as at 31 December 2016.

13. EARNINGS PER SHARE

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

	2017	2016
	HK$'000	HK$'000
Profit used to determine basic and diluted earnings per share	**1,080,649**	111,795
	'000 shares	'000 shares
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**5,301,837**	5,301,837

Basic earnings per share is HK20.38 cents (2016: HK2.11 cents), based on the profit for the year attributable to owners of the Company of HK$1,080,649,000 (2016: HK$111,795,000) and weighted average number of ordinary shares as set out above for basic earnings per share.

The Company's share options were all lapsed during last year and there were no potential ordinary shares following the lapse. Therefore, the diluted earnings per share for the year was calculated based on the profit of HK$1,080,649,000 (2016: HK$111,795,000) for the year and on the weighted average of 5,301,837,842 (2016: 5,301,837,842) ordinary shares, being the weighted average number of ordinary shares used in the calculation of basic earnings per share in current year.

14. EMPLOYEE COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2017 HK$'000	2016 HK$'000
Salaries, wages and allowances	**483,857**	411,357
Provision for unused annual leaves	**65**	3
Retirement benefits scheme contributions	**59,673**	45,416
	543,595	456,776

15. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Directors' emoluments

The emoluments paid or payable to each of the directors were as follows:

	2017					2016				
	Fees HK$'000	Salaries, allowances and benefits HK$'000	Bonuses HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000	Fees HK$'000	Salaries, allowances and benefits HK$'000	Bonuses HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors										
Mr. Li Shaofeng	–	5,400	–	18	5,418	–	5,400	–	18	5,418
Mr. Ding Rucai	–	3,120	–	18	3,138	–	3,120	–	18	3,138
Mr. So Kwok Hoo	–	3,000	1,250	319	4,569	–	3,000	–	225	3,225
Mr. Chen Zhaoqiang	–	2,640	1,100	187	3,927	–	2,640	–	132	2,772
Mr. Liu Qingshan	–	2,400	1,000	170	3,570	–	2,400	–	120	2,520
Non-executive directors										
Mr. Leung Shun Sang, Tony	420	–	–	–	420	420	–	–	–	420
Mr. Dong Yansheng *	420	–	–	–	420	211	–	–	–	211
Mr. Xiang Xu Jia #	–	–	–	–	–	209	–	–	–	209
Independent non-executive directors										
Mr. Kee Wah Sze	420	–	–	–	420	420	–	–	–	420
Mr. Choi Wai Yin	420	–	–	–	420	420	–	–	–	420
Mr. Chan Pat Lam	420	–	–	–	420	420	–	–	–	420
Mr. Japhet Sebastian Law	420	–	–	–	420	420	–	–	–	420
	2,520	16,560	3,350	712	23,142	2,520	16,560	–	513	19,593

retired on 29 June 2016

* appointed with effect from 30 June 2016

15. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

Directors' emoluments (continued)

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office (2016: nil).

During the year, no share options were granted to the directors in respect of their services to the Group (2016: nil). Details of these benefits in kind including the principal terms and number of options granted are disclosed under the heading "Share Option Scheme" in the Report of the Directors.

Five highest paid individuals

The five highest paid individuals in the Group in 2017 and 2016 were all directors of the Company and details of their emoluments are reflected in the analysis presented above.

The emoluments paid or payable to members of senior management are include in the analysis presented above.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings and plants HK$'000	CIP HK$'000	Mining structures HK$'000	Mining machinery and equipment HK$'000	Leasehold improvements HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles and transportation equipment HK$'000	Total HK$'000
At 1 January 2016								
Cost	1,431,022	699,697	808,781	1,423,633	2,965	110,200	60,150	4,536,448
Accumulated depreciation	(400,610)	–	(157,613)	(726,707)	(2,965)	(95,017)	(50,921)	(1,433,833)
Accumulated impairment losses	(96,919)	–	(34,512)	(34,512)	–	–	–	(165,943)
Net carrying amount	933,493	699,697	616,656	662,414	–	15,183	9,229	2,936,672
Year ended 31 December 2016								
Opening net carrying amount	933,493	699,697	616,656	662,414	–	15,183	9,229	2,936,672
Exchange retranslation	(45,860)	(37,084)	(34,368)	(29,239)	–	(548)	(317)	(147,416)
Additions	–	176,395	–	22,651	–	1,520	493	201,059
Transfers	64,955	(150,477)	85,522	–	–	–	–	–
Disposals	–	–	–	(6,560)	–	(60)	(32)	(6,652)
Depreciation (note 10)	(72,075)	–	(18,621)	(110,339)	–	(6,396)	(2,963)	(210,394)
Impairment loss for the year (note 19(b))	(61,774)	–	(28,511)	(28,511)	–	–	–	(118,796)
Reversal of impairment loss (note 19(b))	44,980	–	20,760	20,760	–	–	–	86,500
Closing net carrying amount	863,719	688,531	641,438	531,176	–	9,699	6,410	2,740,973
At 31 December 2016								
Cost	1,421,429	688,531	848,859	1,301,036	2,965	105,685	57,044	4,425,549
Accumulated depreciation	(449,746)	–	(167,287)	(729,726)	(2,965)	(95,986)	(50,634)	(1,496,344)
Accumulated impairment losses	(107,964)	–	(40,134)	(40,134)	–	–	–	(188,232)
Net carrying amount	863,719	688,531	641,438	531,176	–	9,699	6,410	2,740,973
Year ended 31 December 2017								
Opening net carrying amount	**863,719**	**688,531**	**641,438**	**531,176**	**–**	**9,699**	**6,410**	**2,740,973**
Exchange retranslation	**55,414**	**51,598**	**43,580**	**35,735**	**–**	**590**	**390**	**187,307**
Additions	**–**	**352,511**	**–**	**122,621**	**–**	**2,227**	**2,790**	**480,149**
Transfers	**27,112**	**(108,431)**	**71,697**	**9,622**	**–**	**–**	**–**	**–**
Disposals	**–**	**–**	**–**	**(10,068)**	**–**	**(13)**	**(109)**	**(10,190)**
Depreciation (note 10)	**(74,437)**	**–**	**(36,657)**	**(108,338)**	**–**	**(4,466)**	**(2,568)**	**(226,466)**
Closing net carrying amount	**871,808**	**984,209**	**720,058**	**580,748**	**–**	**8,037**	**6,913**	**3,171,773**
At 31 December 2017								
Cost	**1,541,531**	**984,209**	**978,822**	**1,492,519**	**2,965**	**114,946**	**61,319**	**5,176,311**
Accumulated depreciation	**(554,562)**	**–**	**(215,954)**	**(868,961)**	**(2,965)**	**(106,909)**	**(54,406)**	**(1,803,757)**
Accumulated impairment losses	**(115,161)**	**–**	**(42,810)**	**(42,810)**	**–**	**–**	**–**	**(200,781)**
Net carrying amount	**871,808**	**984,209**	**720,058**	**580,748**	**–**	**8,037**	**6,913**	**3,171,773**

16. PROPERTY, PLANT AND EQUIPMENT (continued)

During the years ended 31 December 2017 and 2016, no interest expense was capitalised in property, plant and equipment.

The Group has no property, plant and equipment held under finance leases as at 31 December 2017 and 2016.

As at 31 December 2017, the Group is still in the process of obtaining the building ownership certificates for certain buildings with net carrying amount of approximately Renminbi ("RMB") 122,788,000 (HK$145,381,000 equivalent) (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.

17. PREPAID LEASE PAYMENTS

The Group's interests in leasehold land and land use rights represent the prepaid lease payments under operating leases. Their net carrying amounts are analysed as follows:

	2017	2016
	HK$'000	HK$'000
Opening net carrying amount	**48,965**	53,042
Exchange retranslation	**3,231**	(2,654)
Amortisation (note 10)	**(1,415)**	(1,423)
Closing net carrying amount	**50,781**	48,965

18. MINING RIGHTS

	2017 HK$'000	2016 HK$'000
Opening net carrying amount	7,902,244	8,580,891
Exchange retranslation	523,326	(428,440)
Amortisation (note 10)	(149,603)	(147,374)
Impairment loss for the year (note 19(b))	–	(416,319)
Reversal of impairment loss (note 19(b))	–	313,486
Closing net carrying amount	8,275,967	7,902,244
Gross carrying amount	11,164,824	10,467,022
Accumulated amortisation	(2,195,748)	(1,914,988)
Accumulated impairment losses	(693,109)	(649,790)
Net carrying amount	8,275,967	7,902,244

The estimated remaining useful lives of the mining rights range between 31 years and 43 years based on exploration reports prepared in accordance with the relevant PRC standards.

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

(a) Reconciliation of carrying amount of goodwill

	2017	2016
	HK$'000	HK$'000
Gross carrying amount at 1 January	**2,125,852**	2,191,726
Exchange retranslation	**80,866**	(65,874)
Gross carrying amount at 31 December	**2,206,718**	2,125,852
Less:		
Accumulated impairment losses at 1 January	**(892,149)**	(832,436)
Impairment loss	**–**	(59,713)
Accumulated impairment losses at 31 December	**(892,149)**	(892,149)
Net carrying amount at 31 December	**1,314,569**	1,233,703

The carrying amount of goodwill was allocated as follows:

	2017	2016
	HK$'000	HK$'000
Xingwu	**750,219**	703,331
Jinjiazhuang	**–**	–
Zhaiyadi	**543,639**	509,661
Jinshan	**20,711**	20,711
Net carrying amount at 31 December	**1,314,569**	1,233,703

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

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

Resulted from the improvement in the oversupply of coking coal due to the implementation of policies of reducing the capacity of coal mines and restriction on coal production volume in the PRC, together with the flooding in Australia in March 2017, the average market price of raw coking coal increased by 79% in 2017 when compared with that in 2016. The Group reassessed its estimates on the recoverable amounts of CGUs of the coking coal mining segment. During the year ended 31 December 2017, no impairment loss was recognised in the consolidated statement of profit or loss and other comprehensive income (2016: net impairment loss of HK$194,842,000 was recognised).

As described in note 5.2, the recoverable amounts of CGUs have been determined based on value-in-use calculations, which are based on certain key assumptions including discount rates, growth rates, expected changes in direct costs and remaining reserves. The recoverable amounts as at 31 December 2017 were measured by an independent valuer, Asset Appraisal Limited, a member of the Hong Kong Institute of Surveyors.

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

Cash flows were projected based on the financial budgets prepared by management covering a 5-year period, using a growth rate of approximately -14.4% to 3% (2016: 3% to 25%) and with average discount rate of 12.88% (2016: 12.87%) per annum.

The cash flows beyond the 5-year period are extrapolated using a steady percentage growth rate of 3% (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 during the budget period and the same inflation rate of 3% (2016: 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.

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

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

The license periods of the mining rights held by the Group range from 2 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.

There was no impairment loss on goodwill, mining rights and property, plant and equipment incurred during the year as the recoverable amount of Xingwu's, Jinjiazhuang's and Zhaiyadi's CGUs equal to or higher than its carrying amount. During the 2016 interim period, an impairment loss of HK$595,854,000 was recognised in the consolidated statement of profit or loss and other comprehensive income of which HK$401,012,000 was reversed in the consolidated statement of profit or loss and other comprehensive income at the last reporting date. The impairment loss on goodwill, mining rights and property, plant and equipment in last year was incurred for Jinjiazhuang's and Xingwu's CGU.

For the year ended 31 December 2016, the carrying amount of Jinjiazhuang's CGU was determined to be higher than its recoverable amount and an impairment loss of HK$135,129,000 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$135,129,000 was allocated to other assets during the year ended 31 December 2016. Accordingly, the carrying amount of mining rights and property, plant and equipment, were reduced by HK$102,833,000 (note 18) and HK$32,296,000 (note 16) for the year ended 31 December 2016 respectively which were included in "impairment loss on goodwill, mining rights and property, plant and equipment" and "reversal of impairment loss on mining rights and property, plant and equipment" in the consolidated statement of profit or loss and other comprehensive income. The key assumptions in the last year were the discount rate of 12.2% per annum and the growth rates, covering a 5-year period, of approximately 3% to 25%.

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

(b) Impairment loss on goodwill, mining rights and property, plant and equipment/ Reversal of impairment loss on 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$59,713,000 was recognised which was fully allocated to goodwill. This impairment loss on goodwill was not reversed even though the recoverable amount of Xingwu's CGU was higher than its carrying amount as of 31 December 2016. The key assumptions used in the last interim period were the discount rate of 12.26% per annum and the growth rates, covering a 5-year period, of approximately -17% to 27%.

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

(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$809,244,000. The key assumptions are the discount rate of 13.1% and the growth rate of approximately -14.4% to 3%. If the discount rate increased by 1.46% or the growth rate reduced by 2.14%, the carrying amount of Xingwu's CGU would be equal to its recoverable amount.

The recoverable amount of Zhaiyadi's CGU exceeds its carrying amount by HK$1,674,375,000. The key assumptions are the discount rate of 13.15% and the growth rate of approximately -14.4% to 3%. If the discount rate increased by 3.95% or the growth rate reduced by 1.69%, the carrying amount of Zhaiyadi's CGU would be equal to its recoverable amount.

20. INTEREST IN AN ASSOCIATE

	2017	2016
	HK$'000	HK$'000
Unlisted shares, at cost	**19,884**	19,884
Exchange retranslation	**131**	(703)
Share of net assets	**(6,908)**	(6,540)
	13,107	12,641

Particulars of the associate at 31 December 2017 are as follows:

Name	Place of incorporation and form of legal entity	Principal activities and place of operations	Particulars of registered capital	Effective interest held by the Group	
				2017	2016
Luliang Jin Yu Cangchu Company Limited# 呂梁晉煜倉儲有限公司	PRC, limited liability company	Provision of coal storage services in the PRC	RMB42,000,000	**35%**	35%

The English translation is unofficial and for identification purpose only.

20. INTEREST IN AN ASSOCIATE (continued)

Summary of financial information of the Group's associate as extracted from its unaudited management accounts is as follows:

	2017 HK$'000	2016 HK$'000
As at 31 December		
Non-current assets	**32,367**	31,944
Current assets	**1,520**	956
Non-current liabilities	**–**	–
Current liabilities	**(3,668)**	(3,563)
Net assets	**30,219**	29,337
Carrying amount of the Group's interest in the associate	**13,107**	12,641
Year ended 31 December		
Revenue	**1,009**	–
Loss for the year	**(1,048)**	(6,577)
Other comprehensive income	**1,930**	(1,620)
Total comprehensive income	**882**	(8,197)
Dividends received from associate	**–**	–

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

	2017	2016
	HK$'000	HK$'000
Equity securities, at fair value		
– listed in Australia (Note (a))	**448,995**	321,179
– listed in Hong Kong (Note (b))	**180,684**	153,438
	629,679	474,617
Unlisted equity interest (Note (c))	**–**	–
	629,679	474,617

Notes:

(a) This represents an investment in a company listed on the Australian Securities Exchange Limited (the "Australian Securities Exchange"), Mount Gibson Iron Limited ("Mount Gibson").

As at 31 December 2017, the Group directly held 14.94% (2016: 14.94%) interest in Mount Gibson and the fair value of the investment in Mount Gibson was HK$448,995,000 (2016: HK$321,179,000) which represented the market value with reference to its closing price as at that day on the Australian Securities Exchange. A fair value gain of HK$127,816,000 (2016: HK$154,035,000) was recognised in the security investment reserve during the year ended 31 December 2017.

(b) This represents an investment in a company listed on The Stock Exchange, APAC Resources Limited ("APAC").

As at 31 December 2017, the Group directly held 18.03% (2016: 15.60%) interest in APAC and the fair value of the investment in APAC was HK$180,684,000 (2016: HK$153,438,000) which represented the market value with reference to its closing price as at that day on The Stock Exchange. The increase in equity interest in APAC is solely due to the repurchase of its shares by APAC during the year, A fair value gain of HK$27,246,000 (2016: HK$28,680,000) was recognised in the security investment reserve during the year ended 31 December 2017.

(c) This represents the cost of 7% (2016: 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.

The fair value of the Group's investments in listed and unlisted equity securities has been measured as described in note 43(a) and (b).

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES – NON-CURRENT ASSETS

	2017 HK$'000	2016 HK$'000
Consideration receivable for the transfer of 27% equity interest of Jinshan (note 29)	**178,358**	–
Deposits for a potential mining project	**166,801**	156,376
Prepayments for CIP and property, plant and equipment	**180,761**	101,274
Prepayments for land-use rights	**58,623**	54,958
	584,543	312,608

23. INVENTORIES

	2017 HK$'000	2016 HK$'000
Spare parts and consumables	**92,174**	79,347
Coking coal	**103,809**	119,252
	195,983	198,599

As at 31 December 2017 and 2016, no inventories were stated at net realisable value.

24. TRADE AND BILL RECEIVABLES

	2017	2016
	HK$'000	HK$'000
Trade receivables	1,098,851	1,083,161
Less: Provision for impairment loss	(227,847)	(213,605)
	871,004	869,556
Bill receivables	1,426,791	1,074,095
	2,297,795	1,943,651

Trade receivables generally have credit terms ranging from 60 to 90 days (2016: 60 to 90 days) and no interest is charged.

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

As at 31 December 2017, bill receivables included an amount of RMB111,992,000 (HK$132,599,000 equivalent) (2016: RMB105,254,000 (HK$116,832,000 equivalent)) which was pledged for bill payables of RMB111,992,000 (HK$132,599,000 equivalent) (2016: RMB105,254,000 (HK$116,832,000 equivalent)) (note 28).

As at 31 December 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.

24. TRADE AND BILL RECEIVABLES (continued)

The endorsement transactions do not meet the requirements for de-recognition of financial assets as the Group retains substantially all of the risks and rewards of ownership of the endorsed bill receivables. As at 31 December 2017, bill receivables of RMB133,152,000 (HK$157,652,000 equivalent) (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. As at 31 December 2017, bill receivables endorsed to trade creditors and other creditors amounted to RMB25,192,000 (HK$29,827,000 equivalent) (2016: RMB3,500,000 (HK$3,885,000 equivalent)) (note 28) and RMB107,960,000 (HK$127,825,000 equivalent) (2016: RMB10,065,000 (HK$11,173,000 equivalent)) (note 30) respectively.

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

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

Impairment losses in respect of trade and bill receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case impairment loss is written off against trade receivables directly. As at 31 December 2017, ageing analysis of net trade and bill receivables, based on the invoice and bill dates, is as follows:

	2017 **HK$'000**	2016 HK$'000
1 to 3 months	**1,580,812**	1,112,874
4 to 6 months	**436,035**	681,213
7 to 12 months	**279,764**	149,564
Over 1 year	**1,184**	–
	2,297,795	1,943,651

24. TRADE AND BILL RECEIVABLES (continued)

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

	2017 HK$'000	2016 HK$'000
At 1 January	**213,605**	225,151
Exchange retranslation	**14,242**	(11,546)
At 31 December	**227,847**	213,605

As at 31 December 2017, ageing analysis of trade and bill receivables that are not impaired is as follows:

	2017 HK$'000	2016 HK$'000
Current	**2,106,044**	1,668,729
Less than 3 months past due	**12,334**	139,397
4 to 6 months past due	**28,564**	113,180
More than 6 months but less than 12 months past due	**149,669**	22,345
Over one year	**1,184**	–
	191,751	274,922
	2,297,795	1,943,651

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

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

25. OTHER FINANCIAL ASSETS

As at 31 December 2016, other financial assets amounting to HK$200,000,000 represented one-year 3.5% coupon guaranteed bonds originally due in July 2017 and subsequently extended to July 2018. The bond had been early redeemed on 29 December 2017.

26. PLEDGED BANK DEPOSITS

As at 31 December 2017, pledged bank deposits of RMB135,820,000 (HK$160,811,000 equivalent) (2016: RMB68,800,000 (HK$76,368,000 equivalent)) were denominated in RMB and were pledged for bill payables of RMB135,820,000 (HK$160,811,000 equivalent) (2016: RMB68,800,000 (HK$76,368,000 equivalent)) (note 28).

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.

27. BANK BALANCES AND CASH

	2017 **HK$'000**	2016 HK$'000
Cash at banks and on hand	**862,452**	132,672
Time deposits at banks	**4,002,015**	3,691,547
Bank balances and cash	**4,864,467**	3,824,219
Less: Time deposits with original maturity over three months	**(1,540,808)**	(2,029,933)
Cash and cash equivalents	**3,323,659**	1,794,286

Cash at banks generates interest at the floating rates based on the daily bank deposit rates. During the year, time deposits with original maturity within three months were made for varying periods of one day to three months depending on the immediate cash requirements of the Group and earned interest at the respective these time deposit rates ranging from 0.14% to 6.70% (2016: 0.18% to 8.00%) per annum.

28. TRADE AND BILL PAYABLES

The Group was granted by its suppliers credit period ranging between 30 to 180 days (2016: 30 to 180 days). Based on the invoice dates, ageing analysis of trade and bill payables as at 31 December 2017 is as follows:

	2017	2016
	HK$'000	HK$'000
1 to 3 months	**347,336**	249,163
4 to 6 months	**221,864**	125,195
7 to 12 months	**17,617**	26,768
Over 1 year	**25,690**	40,297
	612,507	441,423

As at 31 December 2017, bill payables amounted to RMB247,312,000 (HK$292,817,000 equivalent) (2016: RMB200,724,000 (HK$222,804,000 equivalent)) were secured by the pledged bank deposits of RMB135,820,000 (HK$160,811,000 equivalent) (2016: RMB68,800,000 (HK$76,368,000 equivalent)) (note 26) and bill receivables of RMB111,992,000 (HK$132,599,000 equivalent) (2016: RMB105,254,000 (HK$116,832,000 equivalent)) (note 24).

As at 31 December 2017, included in trade payables of RMB25,192,000 (HK$29,827,000 equivalent) (2016: RMB3,500,000 (HK$3,885,000 equivalent)) represents the amount of bill receivables endorsed to trade creditors which do not meet the de-recognition requirements. The corresponding financial assets are included in bill receivables (note 24).

29. 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. (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.

29. OTHER FINANCIAL LIABILITY (continued)

The transfer of 27% equity interests of Jinshan to the Transferee had been completed during the year ended 31 December 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 31 December 2017, the financial liability arising from the put option for the repurchase as disclosed above to the Transferee represented the present value of the repurchase obligation on or before 31 December 2019 amounting to RMB162,000,000 (HK$178,358,000 equivalent). This financial liability was recorded as a current liability with the corresponding debit to "Other reserves" at initial recognition.

30. OTHER PAYABLES AND ACCRUALS

	2017	2016
	HK$'000	HK$'000
Advances from customers	**133,286**	13,994
Accruals	**581,415**	542,148
Other payables	**774,988**	594,419
Amount due to other parties	**8,343**	9,885
	1,498,032	1,160,446

As at 31 December 2017, included in other payables of RMB107,960,000 (HK$127,825,000 equivalents) (2016: RMB10,065,000 (HK$11,173,000 equivalents)) represents the amount of bill receivables endorsed to other creditors which do not meet the de-recognition requirements. The corresponding financial assets are included in bill receivables (note 24).

31. AMOUNTS DUE TO NON-CONTROLLING INTERESTS OF SUBSIDIARIES

The balance as at 31 December 2017 and 2016 is denominated in RMB and is unsecured, interest-free and repayable on demand.

32. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets recognised in the consolidated statement of financial position and their movements during the year are as follows:

	Tax deductible expense	
	2017	2016
	HK$'000	HK$'000
At 1 January	**21,016**	21,879
Exchange retranslation	**1,418**	(1,135)
Credited to profit or loss (note 11)	**687**	272
At 31 December	**23,121**	21,016

Deferred tax liabilities recognised in the consolidated statement of financial position and their movements during the year are as follows:

	Withholding tax	**Fair value adjustments of property, plant and equipment and mining rights**	**Mining funds**	**Total**
	HK$'000	HK$'000	HK$'000 (Note)	HK$'000
At 1 January 2016	11,164	1,645,450	84,059	1,740,673
Exchange retranslation	(572)	(82,022)	(3,956)	(86,550)
Credited to profit or loss (note 11)	–	(50,883)	(7,654)	(58,537)
At 31 December 2016 and 1 January 2017	**10,592**	**1,512,545**	**72,449**	**1,595,586**
Exchange retranslation	**1,254**	**100,261**	**3,845**	**105,360**
Credited to profit or loss (note 11)	**23,463**	**(24,652)**	**(42,195)**	**(43,384)**
At 31 December 2017	**35,309**	**1,588,154**	**34,099**	**1,657,562**

32. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Note: Pursuant to changes in certain regulations of the PRC government, the Group is required to set aside the production maintenance fee, safety fund, and other expense of similar nature (collectively the "Mining Funds"). As such amendments are deductible for tax purpose when they are set aside but are expensed for accounting purpose only when they are utilised, a deferred tax liability is recorded for the temporary difference in respect of excess fund set aside for tax purposes.

As at 31 December 2017 and 2016, no deferred tax assets has been recognised in respect of the deductible temporary differences and unused tax losses arising from certain subsidiaries incorporated in Hong Kong and PRC as it is uncertain whether future taxable profit is available against which the deductible temporary differences and tax losses can be utilised. Deferred tax assets have not been recognised in respect of the following items:

	2017 **HK$'000**	2016 HK$'000
Deductible temporary differences	**1,911**	460
Tax losses	**495,703**	425,304
	497,614	425,764

The Group has tax losses of approximately HK$74,325,000 (2016: HK$48,142,000) which shall expire in four to five year (2016: five year) and tax losses of approximately HK$421,378,000 (2016: HK$377,162,000) are available indefinitely for offsetting against future taxable profits of the companies in which the losses arise.

33. SHARE CAPITAL

	Number of shares		Amount	
	2017	2016	**2017**	2016
	’000 shares	’000 shares	**HK$’000**	HK$’000
Issued and fully paid:				
At 1 January and 31 December	**5,301,837**	5,301,837	**15,156,959**	15,156,959

34. RESERVES

Group

The Group’s reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Statutory reserve

In accordance with the relevant laws and regulations of the PRC, the PRC subsidiaries are required to appropriate 10% of its profit after tax, prepared in accordance with the accounting regulation in the PRC, to the statutory reserve fund until the statutory reserve balance reaches 50% of the registered capital. Such reserve may be used to reduce any losses incurred or for capitalisation as paid-up capital.

Other reserves

In accordance with the Notice of the Ministry of Finance and the State Administration of Safety Coal Mine in Liulin Province in May 2005 (Liucaizi [2005] No. 35) and the No. 3 document of the Ministry of Finance in 23 June 2009 (Caikuai [2009] No.8), entities engaged in coal mining are required to provide for production maintenance fee, safety fund and other expense of similar nature at fixed rates on coal production volume. These funds were charged as expenses to cost of production and credited to specific reserves accordingly. At the end of the financial year, the unused funds were reversed against the cost of related production when the Group prepared its financial statements in accordance with HKFRSs.

34. RESERVES (continued)

Company

	Retained profits HK$'000	Share-based compensation reserve HK$'000	Total HK$'000
At 1 January 2016	1,337,849	537,680	1,875,529
Lapsed of share options	537,680	(537,680)	–
Loss for the year	(307,142)	–	(307,142)
2015 final dividend approved	(265,092)	–	(265,092)
2016 special dividend declared	(795,276)	–	(795,276)
At 31 December 2016 and 1 January 2017	**508,019**	**–**	**508,019**
Profit for the year	**974,386**	**–**	**974,386**
2016 final dividend approved	**(159,055)**	**–**	**(159,055)**
2017 interim dividend declared	**(159,055)**	**–**	**(159,055)**
At 31 December 2017	**1,164,295**	**–**	**1,164,295**

35. SHARE OPTION SCHEME

At the Company's annual general meeting held on 20 June 2003, an option scheme (the "2003 Scheme") was approved which empowered the directors to implement and administer the 2003 Scheme with effect from the date of the resolution. The 2003 Scheme was enforceable for a period of 10 years ending on 19 June 2013. On 25 May 2012, a new share option scheme (the "2012 Scheme") was adopted by the shareholders of the Company and the 2012 Scheme became effective on 29 May 2012. The 2003 Scheme was terminated from the date on which the 2012 Scheme became effective on 29 May 2012. However, the share options granted under the 2003 Scheme prior to its termination shall continue to be valid and exercisable in accordance with the 2003 Scheme. No share options have been granted since the adoption of the 2012 Scheme. The maximum number of shares of the Company available for issue upon exercise of all share options which may be granted under the 2012 Scheme is 530,183,784, representing 10% of the shares of the Company in issue as at the date of this annual report.

35. SHARE OPTION SCHEME (continued)

2012 Scheme was designed to reward and provide incentives to, and strengthen the Group's business relationship with the prescribed classes of participants, including but not limited to eligible employees and directors of any member of the Group, who contributed to the development of the Group.

Under the 2012 Scheme, the exercise price of the options is to be determined by the directors and is at least the highest of (i) the closing price of the Company's shares (the "Shares") as stated in The Stock Exchange's daily quotations sheet on the date of grant; (ii) average closing price of the Shares as stated in The Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Shares on the date of grant. Each of the grantees of the 2012 Scheme is required to pay HK$1 as consideration for the grant of share options. An option may generally be exercised during the period commencing on the date of grant and expiring on the date as determined by the directors, but in any event not more than 10 years from the date of grant.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their associates, in excess of in aggregate 0.1% of the Shares in issue (based on the date of grant) and an aggregate value of HK$5 million (based on the closing price of the Shares at the date of each grant), within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

Details of the principal terms of the 2003 Scheme and the 2012 Scheme are disclosed under the heading " Share Option Schemes" in the Report of the Directors.

All share options granted under the 2003 Scheme were accounted for under HKFRS 2. 254,250,000 share options amounted to HK$537,680,000 under the 2003 Scheme were lapsed and the corresponding amount of HK$537,680,000 was transferred to retained profits during 2016. No options were exercised, granted or cancelled during 2016.

No share option was outstanding as at 31 December 2017 and 2016.

36. HOLDING COMPANY'S STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	NOTES	2017 HK$'000	2016 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**93**	36
Interests in subsidiaries	37	**120,456**	120,456
Total non-current assets		**120,549**	120,492
Current assets			
Amounts due from subsidiaries		**14,210,454**	16,743,444
Deposits, prepayments and other receivables		**12,728**	5,766
Time deposits with original maturity over three months		**588,555**	746,480
Cash and cash equivalents		**1,895,609**	806,855
Total current assets		**16,707,346**	18,302,545
Current liabilities			
Amounts due to subsidiaries		**482,550**	2,746,906
Other payables and accruals		**24,091**	11,153
Total current liabilities		**506,641**	2,758,059
Net current assets		**16,200,705**	15,544,486
Net assets		**16,321,254**	15,664,978
EQUITY			
Share capital	33	**15,156,959**	15,156,959
Reserves	34	**1,164,295**	508,019
Total equity		**16,321,254**	15,664,978

On behalf of the directors

Ding Rucai
Director

Li Shaofeng
Director

37. INTERESTS IN SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2017 are as follows:

Name	Place of incorporation and form of legal entity	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Effective interest held by the Group 2017	2016
Xingwu *	PRC, limited liability company	Mining, production and sales of coal in the PRC	Registered capital of RMB250,000,000	**88%**	88%
Jinjiazhuang *	PRC, limited liability company	Mining, production and sales of coal in the PRC	Registered capital of RMB374,000,000	**65%**	65%
Zhaiyadi *	PRC, limited liability company	Mining, production and sales of coal in the PRC	Registered capital of RMB800,000,000	**95%**	95%
Jinshan * (note 29)	PRC, limited liability company	Investment holding, production and sales of coal products in the PRC	Registered capital of RMB600,000,000	**67%**	94%
Liulin Luenshan Coking Company Limited ("Luenshan") *^	PRC, limited liability company	Production and sales of coal products in the PRC	Registered capital of RMB330,000,000	**44%**	61%
Fu Hui Investments Limited	Hong Kong, limited liability company	Administration and investment vehicle of the Group in Hong Kong	HK$100	**100%**	100%
Fu Hui Jewellery & Goldsmith Company Limited	Hong Kong, limited liability company	Investment vehicle of the Group in Hong Kong	HK$2,000,000	**100%**	100%
Thechoice Finance (HK) Limited*	Hong Kong, limited liability company	Investment holding in Hong Kong	HK$1	**100%**	100%
Worldman Industrial (HK) Limited*	Hong Kong, limited liability company	Investment holding in Hong Kong	HK$1	**100%**	100%
Gumpert Industries (HK) Limited*	Hong Kong, limited liability company	Investment holding in Hong Kong	HK$1	**100%**	100%

37. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation and form of legal entity	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Effective interest held by the Group 2017	2016
Shougang Resources (Hong Kong) Limited*	Hong Kong, limited liability company	Investment holding in Hong Kong	HK$1	**100%**	100%
Jade Green Investments Holding Limited	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	**100%**	100%
Thechoice Finance Limited*	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	**100%**	100%
Worldman Industrial Limited*	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	**100%**	100%
Gumpert Industries Limited*	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	**100%**	100%
Fushan Energy Group Limited	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	**100%**	100%
Maxease Limited	BVI, limited liability company	Investment vehicle in Hong Kong	1 ordinary share of US$1	**100%**	100%
True Plus Limited	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	**100%**	100%
Benefit Rich Limited	Samoa, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	**100%**	100%

* These companies are indirectly held by the Company.

^ The English translation is unofficial and for identification purpose only.

The financial statements of the principal subsidiaries have been examined by BDO Limited for purpose of the consolidation of the Company.

None of the subsidiaries had issued any debt securities at the end of the year.

38. NON-CONTROLLING INTERESTS

The following table lists out the information relating to subsidiaries of the Group which have material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

2017

	Jinjiazhuang HK$'000	Xingwu HK$'000	Zhaiyadi HK$'000
NCI percentage	35%	12.25%	5%
As at 31 December			
Current assets	711,489	1,222,645	1,658,053
Non-current assets	4,901,796	4,492,077	4,418,491
Current liabilities	1,595,444	1,369,652	1,594,057
Non-current liabilities	463,816	711,134	482,612
Net assets	3,554,025	3,633,936	3,999,875
Carrying amount of NCI	858,820	196,839	130,003
For the year ended 31 December			
Revenue	838,391	1,714,383	1,868,705
Profit for the year	309,502	532,698	604,870
Total comprehensive income	520,346	771,782	853,523
Profit allocated to NCI	11,151	62,359	30,232
Dividend paid to NCI	–	278,587	27,226
Cash flows from operating activities	599,611	475,419	765,583
Cash flows from investing activities	(231,573)	(144,843)	(103,294)
Cash flows from financing activities	(1,061)	(272,228)	(239,801)

38. NON-CONTROLLING INTERESTS (continued)

2016

	Jinjiazhuang HK$'000	Xingwu HK$'000	Zhaiyadi HK$'000
NCI percentage	35%	12.25%	5%
As at 31 December			
Current assets	493,434	839,414	917,733
Non-current assets	4,430,910	4,196,255	4,193,101
Current liabilities	1,450,627	689,790	952,174
Non-current liabilities	440,038	687,762	467,785
Net assets	3,033,679	3,658,117	3,690,875
Carrying amount of NCI	526,751	391,817	118,960
For the year ended 31 December			
Revenue	579,051	1,032,478	795,939
(Loss)/Profit for the year	(169,496)	163,228	103,411
Total comprehensive income	(341,062)	(38,121)	(95,563)
(Loss)/Profit allocated to NCI	(74,570)	26,054	4,710
Dividend paid to NCI	–	–	–
Cash flows from operating activities	108,896	98,123	96,582
Cash flows from investing activities	(98,514)	(87,065)	(71,170)
Cash flows from financing activities	(129)	(221)	(63,986)

There is a material NCI of 56% (2016: 39%) amounting to HK$94,426,000 (2016: HK$88,870,000) in Luenshan during the year. The summarised financial information for Luenshan is not presented above as Luenshan is yet to commence operations and its cash flows and profit or loss items are minimal to the Group. Luenshan had non-current assets of HK$274,936,000 (2016: HK$257,818,000) and net assets of HK$260,427,000 (2016: HK$244,555,000) as of 31 December 2017.

38. NON-CONTROLLING INTERESTS (continued)

There is a material NCI of 33% amounting to HK$160,784,000 upon the reduction of 27% equity interests in Jinshan during the year as detailed in note 29. The summarised financial information for Jinshan is not presented above as Jinshan is also yet to commence operations and its cash flows and profit or loss items are minimal to the Group. Jinshan had non-current assets of HK$617,494,000 and net assets of HK$513,397,000 as of 31 December 2017.

No dividend was paid by Jinshan and Luenshan to the NCI during the years ended 31 December 2016 and 2017.

39. COMMITMENTS

(a) Operating lease commitments

At 31 December 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:

	2017	2016
	HK$'000	HK$'000
Within one year	**6,486**	6,315
In the second to fifth years	**14,558**	17,750
After the fifth years	**28,403**	29,076
	49,447	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.

39. COMMITMENTS (continued)

(b) Capital commitments

	2017 HK$'000	2016 HK$'000
Commitments for the:		
– Acquisition of property, plant and equipment	**216,566**	182,763
– Exploration and design fees for a potential mining project	**8,856**	8,303
	225,422	191,066

40. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities. Liabilities arising from financing activities are those for which cash flows were or future cash flows will be, classified in the Group's consolidated statement of cash flows from financing activities.

Amounts due to non-controlling interest of subsidiaries	HK$'000
At 1 January 2017	**6,472**
Dividend declared	**27,226**
Other changes	
Rental expense	**3,714**
Exchange retranslation	**431**
	4,145
At 31 December 2017	**37,843**

41. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in the financial statements, the following transactions for the years ended 31 December 2017 and 2016 were carried out with related parties:

(i) During the year ended 31 December 2017, the Group paid management fees and company secretarial service fees of HK$1,560,000 (2016: HK$1,560,000) to Shougang Concord International Enterprises Company Limited ("Shougang International"), which is a substantial shareholder of the Company. As at 31 December 2017 and 2016, no amounts were outstanding.

(ii) During the year ended 31 December 2017, the Group paid rental expenses of HK$3,756,000 (2016: HK$3,600,000) to a wholly-owned subsidiary of Shougang Holding (Hong Kong) Limited ("Shougang Holding"), which is the substantial shareholder of Shougang International. As at 31 December 2017 and 2016, no amounts were outstanding.

(iii) During the year ended 31 December 2017, the Group sold clean coking coal amounted to HK$793,389,000 (2016: HK$605,626,000) 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"), of which, HK$32,860,000 were connected transactions. These transactions exceeded 0.1% threshold under Rule 14A.76(1)(a) but the ratios are less than 5% threshold under Rule 14A.76(2)(a) of the Listing Rules, thus, it is subjected to the reporting and announcement requirements but exempted from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. As at 31 December 2017, amount due from/to the Shougang Group was HK$501,938,000 (2016: HK$630,113,000) and HK$4,237,000 (2016: HK$2,957,000) respectively.

(iv) During the year ended 31 December 2017, the Group purchased raw materials amounted to HK$9,201,000 (2016: nil) from Shougang Group.

(v) During the year ended 31 December 2016, the Group purchased a promissory note of HK$40,000,000 from a wholly-owned subsidiary of Shougang Holding. The promissory note was interest bearing at an annual rate of 3.5% and for 21 days. As at 31 December 2016, the promissory had been matured and fully settled.

(vi) The compensation payable to key management personnel during the year have been disclosed in note 15.

41. RELATED PARTY TRANSACTIONS (continued)

Except stated above, none of the above related party transactions falls under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

42. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks such as market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk, which result from both its operating and investing activities. The Group does not have written risk management policies and guidelines. However, the directors meet periodically to analyse and formulate measures to manage the Group's exposure to market risks, including changes in interest rates and currency exchange rates. Generally, the Group employs a conservative strategy regarding its risk management. As the directors consider that the Group's exposure to market risk is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The most significant financial risks to which the Group is exposed are described below.

(i) Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group mainly operates and invests in Hong Kong and the PRC with most of the transactions denominated and settled in HK$ and RMB respectively. No foreign currency risk has been identified for the financial assets in the PRC as they were denominated in a currency same as the functional currencies of the group entities to which these transactions relate. The Group's exposure to foreign currency risk primarily arises from certain financial assets measured at fair value through other comprehensive income and certain bank balances which are denominated in RMB, United States Dollars ("US$") and Australian Dollars ("AUD").

42. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Foreign currency risk (continued)

To mitigate the Group's other exposure to foreign currency risk, cash flows in foreign currencies are monitored in accordance with the Group's risk management policies. The foreign-currency-denominated financial assets and liabilities, translated into HK$ at closing rates, are as follows:

	2017			2016		
	Expressed in HK$'000			Expressed in HK$'000		
	AUD	**US$**	**RMB**	AUD	US$	RMB
Financial assets measured at fair value through other comprehensive income	**448,995**	**–**	**–**	321,179	–	–
Time deposit with original maturity over three months	**–**	**1,540,808**	**–**	–	2,029,933	–
Cash and bank balances	**20,026**	**1,975,671**	**375,213**	29	1,582,258	20,586
Overall net exposure	**469,021**	**3,516,479**	**375,213**	321,208	3,612,191	20,586

As HK$ is pegged to US$, the Group does not expect any significant movements in the US$/HK$ exchange rates. No sensitivity analysis in respect of the Group's financial assets denominated in US$ is disclosed as in the opinion of directors, such sensitivity analysis does not give additional value in view of insignificant movement in the US$/HK$ exchange rates as at the reporting date. The following table indicates the approximate change in the Group's profit for the year and equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the reporting date.

42. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Foreign currency risk (continued)

	2017			2016		
	Increase/ (Decrease) in foreign exchange rates	**Effect on profit for the year HK$'000**	**Effect on equity HK$'000**	Increase/ (Decrease) in foreign exchange rates	Effect on profit for the year HK$'000	Effect on equity HK$'000
AUD	**+5%**	**1,001**	**22,713**	+5%	1	16,885
AUD	**-5%**	**(1,001)**	**(22,713)**	-5%	(1)	(16,885)
RMB	**+5%**	**18,761**	**–**	+5%	1,029	–
RMB	**-5%**	**(18,761)**	**–**	-5%	(1,029)	–

(ii) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's credit risk is primarily attributable to its trade and bill receivables, deposits, other receivables, pledged bank deposits, time deposits with original maturity over three months and cash and cash equivalents. The carrying amounts of these financial assets presented in the consolidated statement of financial position are net of impairment losses, if any. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Financial assets carrying significant credit risk exposures are the trade and bill receivables over 90 days past due amounting to HK$179,417,000 (2016: HK$135,525,000). Management is of the opinion that reasonable actions and mitigations have been carried out to minimise the exposure to credit risk and details of such mitigations are set out in respective notes to the financial statements. In this regards, the directors consider that the Group's credit risk is sufficiently managed.

The credit risk on all pledged bank deposits, time deposits with original maturity over three months and cash and cash equivalents of the Group is minimised as the funds are placed with major banks located in Hong Kong and the PRC respectively.

42. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iii) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Group's major exposure to interest rate risk relates primarily to cash and cash equivalents. Interest rates and terms of other financial assets, pledged bank deposits, bank balances and cash and amounts due to non-controlling interests of subsidiaries, are disclosed in notes 25, 26, 27 and 31 respectively.

The following table illustrates the sensitivity of profit after income tax for the year and retained profits to a change in interest rates of +25 basis points and -25 basis points (2016: +25 basis points and -25 basis points). The calculations are based on the cash and cash equivalents at 31 December 2017 and 2016. All other variables are held constant.

	2017 **HK$'000**	2016 HK$'000
If interest rates were 25 basis point (2016: 25 basis point) higher Profit for the year increase by	**1,812**	332
If interest rates were 25 basis point (2016: 25 basis point) lower Profit for the year decrease by	**1,812**	332

(iv) Price risk

This relates to the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than changes in interest rates and foreign exchange rates). The Group is exposed to other price risk arising from its listed equity investments classified as financial assets measured at fair value through other comprehensive income. Details of the financial assets measured at fair value through other comprehensive income are set out in note 21. Management manages this exposure by maintaining a portfolio of investments with different risk and return profiles and consider hedging the risk exposure should the need arise.

42. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iv) Price risk (continued)

For listed equity securities, an average volatility of 15.76% and 11.96% was observed in Hang Seng Index in Hong Kong and All Ordinary Index in Australia in 2017 respectively (2016: 16.51% and 12.53%). Had the quoted stock price for these securities increased or decreased by that amount, the Group's security investment reserve under equity would have been increased or decreased by approximately HK$82,196,000 (2016: HK$65,575,000).

(v) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. The Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

The Group manages its liquidity needs by carefully monitoring expected payments for potential investments as well as cash-outflows due in day-to-day business. Liquidity needs are monitored on a day-to-day basis. Long-term liquidity needs for a 360-day lookout periods are identified on a monthly basis.

The Group maintains mainly cash to meet its liquidity requirements for up to 30-day periods, funding for long-term liquidity needs will be considered when there is any potential investment identified.

The following tables details the remaining contractual maturities at the reporting dates of non-derivative and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payment computed using contractual rate or, if floating, based on rates current at the reporting date) and the earliest date the Group can be required to pay:

42. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(v) Liquidity risk (continued)

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000
As at 31 December 2017			
Non-derivative financial liabilities:			
Trade and bill payables	**612,507**	**612,507**	**612,507**
Other financial liability	**178,358**	**191,808**	**191,808**
Other payables and accruals	**979,945**	**979,945**	**979,945**
Amounts due to non-controlling interests of subsidiaries	**37,843**	**37,843**	**37,843**
	1,808,653	**1,822,103**	**1,822,103**

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000
As at 31 December 2016			
Non-derivative financial liabilities:			
Trade and bill payables	441,423	441,423	441,423
Other payables and accruals	728,258	728,258	728,258
Amounts due to non-controlling interests of subsidiaries	6,472	6,472	6,472
	1,176,153	1,176,153	1,176,153

43. 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 as defined in notes 3.12 and 3.18:

	2017	2016
	HK$'000	HK$'000
Non-current assets		
Financial assets measured at amortised cost:		
– Deposits and other receivables	**345,159**	156,376
Financial assets measured at fair value through other comprehensive income	**629,679**	474,617
	974,838	630,993
Current assets		
Financial assets measured at amortised cost:		
– Trade receivables	**871,004**	869,556
– Bill receivables	**1,426,791**	1,074,095
– Deposits and other receivables	**45,414**	43,106
– Other financial assets	**–**	200,000
– Pledged bank deposits	**162,083**	76,927
– Time deposit with original maturity over three months	**1,540,808**	2,029,933
– Cash and cash equivalents	**3,323,659**	1,794,286
	7,369,759	6,087,903
Total	**8,344,597**	6,718,896
Current liabilities		
Financial liabilities measured at amortised cost:		
– Trade and bill payables	**612,507**	441,423
– Other financial liability	**178,358**	–
– Other payables and accruals	**979,945**	728,258
– Amounts due to non-controlling interests of subsidiaries	**37,843**	6,472
Total	**1,808,653**	1,176,153

43. 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 assets, bank balances and cash, amounts due to non-controlling interests of subsidiaries, trade and bill payables, other payables and accruals and other financial liability.

Due to their short term nature, the carrying value of these financial instruments approximates fair value.

(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.

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

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

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

		2017			
		Level 1	**Level 2**	**Level 3**	**Total**
	Notes	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Financial assets measured at fair value through other comprehensive income					
– Listed equity securities	(a)	**629,679**	**–**	**–**	**629,679**
– Unlisted equity securities	(b)	**–**	**–**	**–**	**–**
		629,679	**–**	**–**	**629,679**

		2016			
		Level 1	Level 2	Level 3	Total
	Notes	HK$'000	HK$'000	HK$'000	HK$'000
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

There were no transfers between levels during both years.

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

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

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

(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.

44. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

(a) To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns and benefits for stakeholders;

(b) To support the Group's ability and growth; and

(c) To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and equity holder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy. Management regards total equity, including its reserves, as capital which was amounted to HK$17,375,683,000 (2016: HK$15,665,693,000) as of 31 December 2017, for capital management purpose.

The Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose, the Group defines net debts as total debt plus unaccrued proposed dividends, less time deposits with original maturity over three months and cash and cash equivalents. Adjusted capital comprises all components of equity and less unaccrued proposed dividends.

44. CAPITAL MANAGEMENT (continued)

During the year, the Group's strategy, which was unchanged from 2016, was to maintain the net debt-to-adjusted capital ratio at the minimal level. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt. As at 31 December 2017, the Group's adjusted cash position is HK$4,148,719,000 (2016: HK$3,665,164,000).

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

45. EVENT AFTER THE REPORTING DATE

On 6 February 2018, Maxease Limited, a wholly owned subsidiary of the Company, subscribed for a one-year 4.25% coupon guaranteed bond at a principal amount of US$25,641,000 from an independent issuer.

FIVE-YEAR FINANCIAL SUMMARY

The financial information contained in this five-year financial summary does not constitute the Company's statutory annual consolidated financial statements for any of the financial years ended 31 December 2017, 2016, 2015, 2014 and 2013 but is derived from those published audited consolidated financial statements and restated upon the adoption of the new or amended HKFRSs as appropriate, is set out below. 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 consolidated financial statements for all four years 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 and will deliver the consolidated financial statements for the year ended 31 December 2017 in due course.

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

	2017 **HK$'000**	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000
Results					
Revenue	**3,471,922**	1,809,885	1,996,629	3,254,861	4,268,232
Profit/(Loss) attributable to owners of the Company	**1,080,649**	111,795	(416,471)	(425,302)	1,115,066
Assets and liabilities					
Total assets	**21,694,645**	19,104,456	20,727,669	23,999,978	26,870,908
Total liabilities	**(4,318,962)**	(3,438,763)	(3,683,389)	(4,430,378)	(5,211,743)
Net assets	**17,375,683**	15,665,693	17,044,280	19,569,600	21,659,165
Non-controlling interests	**(1,440,871)**	(1,146,669)	(1,253,165)	(1,643,065)	(1,731,782)
Equity attributable to owners of the Company	**15,934,812**	14,519,024	15,791,115	17,926,535	19,927,383