

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 639)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

(HK\$' million)	For the year ended 31 December		Percentage change
	2020	2019	
Revenue	3,997	3,869	+3%
Gross profit	1,869	1,989	-6%
Gross profit margin	47%	51%	
Profit for the year	1,187	1,176	+1%
Profit attributable to owners of the Company ("Owners")	1,080	1,140	-5%
Adjusted EBITDA ¹	2,186	2,221	-2%
Basic earnings per share (HK cents)	20.62	21.51	-4%
(HK\$' million)	As at 31 December		Percentage change
	2020	2019	
Net assets	17,291	17,046	+1%
Net assets per share attributable to Owners (HK\$)	3.13	2.96	+6%
Current ratio (times) ²	2.77	2.61	+6%

The board of directors has proposed a 2020 final dividend of HK9 cents (2019: HK8.7 cents) per ordinary share.

Notes:

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

The board of directors (the “Board”) of Shougang Fushan Resources Group Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2020 with comparative figures for the year ended 31 December 2019. These final results have been reviewed by the Audit Committee of the Company.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue from contracts with customers	3	3,996,951	3,869,308
Cost of sales		<u>(2,127,744)</u>	<u>(1,880,565)</u>
Gross profit		1,869,207	1,988,743
Interest income		96,294	136,755
Other income and gains/(losses), net	4	219,229	99,575
Selling and distribution expenses		(316,586)	(250,051)
General and administrative expenses		(181,914)	(182,291)
Other operating expenses	5	(64,495)	(146,476)
Finance costs	6	(1,250)	(4,912)
Change in fair value of derivative financial instruments		(7,676)	(8,555)
Share of (loss)/profit of an associate		<u>(195)</u>	<u>27</u>
Profit before income tax	7	1,612,614	1,632,815
Income tax expense	8	<u>(425,331)</u>	<u>(456,674)</u>
Profit for the year		1,187,283	1,176,141
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		484,198	(329,530)
Item that will not be reclassified to profit or loss:			
Net fair value (loss)/gain on financial assets measured at fair value through other comprehensive income		<u>(1,439)</u>	<u>350,978</u>
Total comprehensive income for the year		<u>1,670,042</u>	<u>1,197,589</u>

	2020	2019
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year attributable to:		
Owners of the Company	1,080,041	1,140,413
Non-controlling interests	<u>107,242</u>	<u>35,728</u>
Profit for the year	<u><u>1,187,283</u></u>	<u><u>1,176,141</u></u>
Total comprehensive income for the year attributable to:		
Owners of the Company	1,500,734	1,198,776
Non-controlling interests	<u>169,308</u>	<u>(1,187)</u>
Total comprehensive income for the year	<u><u>1,670,042</u></u>	<u><u>1,197,589</u></u>
Earnings per share		
– Basic and diluted (<i>HK cents</i>)	<i>10</i>	
	<u><u>20.62</u></u>	<u><u>21.51</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		3,863,758	3,691,435
Land use rights		63,365	60,772
Right-of-use assets		21,915	26,076
Mining rights		7,458,999	7,356,663
Goodwill		1,277,415	1,222,775
Interest in an associate		11,918	11,590
Financial assets measured at fair value through other comprehensive income		1,082,464	1,083,903
Deposits, prepayments and other receivables		710,182	539,020
Deferred income tax assets		42,131	55,322
Total non-current assets		<u>14,532,147</u>	<u>14,047,556</u>
Current assets			
Inventories		131,170	123,530
Trade receivables	<i>11</i>	666,382	490,613
Bills receivables	<i>11</i>	1,382,762	1,306,706
Deposits, prepayments and other receivables		368,772	319,316
Other financial asset		–	232,500
Pledged bank deposits		290,298	190,605
Time deposits with original maturity over three months	<i>12</i>	656,500	1,049,501
Cash and cash equivalents	<i>12</i>	3,405,615	3,712,383
Total current assets		<u>6,901,499</u>	<u>7,425,154</u>
Total assets		<u>21,433,646</u>	<u>21,472,710</u>

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current liabilities			
Trade and bills payables	<i>13</i>	592,618	652,566
Lease liabilities		5,721	7,119
Other financial liability		186,300	178,200
Other payables and accruals		1,375,271	1,501,517
Derivative financial instruments		–	5,117
Amounts due to non-controlling interests of subsidiaries		52,778	98,158
Tax payables		275,507	403,277
Total current liabilities		<u>2,488,195</u>	<u>2,845,954</u>
Net current assets		<u>4,413,304</u>	<u>4,579,200</u>
Total assets less total current liabilities		<u>18,945,451</u>	<u>18,626,756</u>
Non-current liabilities			
Deferred income tax liabilities		1,635,064	1,559,503
Lease liabilities		19,317	20,941
Total non-current liabilities		<u>1,654,381</u>	<u>1,580,444</u>
Net assets		<u><u>17,291,070</u></u>	<u><u>17,046,312</u></u>
EQUITY			
Equity attributable to owners of the Company			
Share capital	<i>14</i>	15,156,959	15,156,959
Reserves		680,207	524,621
Total equity attributable to owners of the Company		15,837,166	15,681,580
Non-controlling interests		1,453,904	1,364,732
Total equity		<u><u>17,291,070</u></u>	<u><u>17,046,312</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Equity attributable to owners of the Company						Total	Non-controlling interests	Total equity
	Share capital	Statutory reserve	Other reserves	Retained profits	Security investment reserve	Translation reserve			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2020	15,156,959	448,068	452,060	1,202,043	(1,369,805)	(207,745)	15,681,580	1,364,732	17,046,312
Profit for the year	-	-	-	1,080,041	-	-	1,080,041	107,242	1,187,283
Other comprehensive income for the year:									
- Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	422,132	422,132	62,066	484,198
- Net fair value loss on financial assets measured at fair value through other comprehensive income	-	-	-	-	(1,439)	-	(1,439)	-	(1,439)
Total comprehensive income for the year	-	-	-	1,080,041	(1,439)	422,132	1,500,734	169,308	1,670,042
Transactions with owners in their capacity as owners:									
Buy-back of shares (note 14)	-	-	-	(505,000)	-	-	(505,000)	-	(505,000)
2019 final dividend approved (note 9)	-	-	-	(461,260)	-	-	(461,260)	-	(461,260)
2020 interim dividend declared (note 9)	-	-	-	(378,888)	-	-	(378,888)	-	(378,888)
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	(80,136)	(80,136)
Appropriations to statutory reserve	-	371	-	(371)	-	-	-	-	-
Appropriations to other reserves	-	-	39,136	(39,136)	-	-	-	-	-
At 31 December 2020	<u>15,156,959</u>	<u>448,439</u>	<u>491,196</u>	<u>897,429</u>	<u>(1,371,244)</u>	<u>214,387</u>	<u>15,837,166</u>	<u>1,453,904</u>	<u>17,291,070</u>

	Equity attributable to owners of the Company							Non-controlling interests	Total equity
	Share capital <i>HK\$'000</i>	Statutory reserve <i>HK\$'000</i>	Other reserves <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Security investment reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2019	15,156,959	448,068	430,895	984,107	(1,720,783)	84,870	15,384,116	1,391,690	16,775,806
Profit for the year	-	-	-	1,140,413	-	-	1,140,413	35,728	1,176,141
Other comprehensive income for the year:									
- Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	(292,615)	(292,615)	(36,915)	(329,530)
- Net fair value gain on financial assets measured at fair value through other comprehensive income	-	-	-	-	350,978	-	350,978	-	350,978
Total comprehensive income for the year	-	-	-	1,140,413	350,978	(292,615)	1,198,776	(1,187)	1,197,589
Transactions with owners in their capacity as owners:									
2018 final dividend approved (<i>note 9</i>)	-	-	-	(450,656)	-	-	(450,656)	-	(450,656)
2019 interim dividend declared (<i>note 9</i>)	-	-	-	(450,656)	-	-	(450,656)	-	(450,656)
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	(25,771)	(25,771)
Appropriations to other reserves	-	-	21,165	(21,165)	-	-	-	-	-
At 31 December 2019	<u>15,156,959</u>	<u>448,068</u>	<u>452,060</u>	<u>1,202,043</u>	<u>(1,369,805)</u>	<u>(207,745)</u>	<u>15,681,580</u>	<u>1,364,732</u>	<u>17,046,312</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cash flows from operating activities		
Profit before income tax	1,612,614	1,632,815
Adjustments for:		
Depreciation of property, plant and equipment	330,494	243,178
Depreciation of right-of-use assets	5,148	5,162
Amortisation of land use rights	1,958	1,781
Amortisation of mining rights	227,013	195,429
Interest income	(96,294)	(136,755)
Dividend income	(48,377)	(56,022)
Finance costs	1,250	4,912
Share of loss/(profit) of an associate	195	(27)
Loss on disposals of property, plant and equipment	1,671	14,182
Written off of property, plant and equipment	–	128,784
Reversal of impairment loss on financial assets	(22,500)	–
Change in fair value of derivative financial instruments	7,676	8,555
Net foreign exchange (gain)/loss	(131,178)	16,857
Operating profit before working capital changes	1,889,670	2,058,851
Changes in working capital:		
(Increase)/Decrease in inventories	(2,025)	3,086
(Increase)/Decrease in trade and bills receivables	(147,628)	391,177
Increase in deposits, prepayments and other receivables	(57,029)	(18,161)
Decrease in trade and bills payables	(108,581)	(120,343)
(Decrease)/Increase in other payables and accruals	(167,428)	44,459
(Decrease)/Increase in amounts due to non-controlling interests of subsidiaries	(9,199)	2,950
Cash generated from operations	1,397,780	2,362,019
Income tax paid	(560,962)	(439,778)
<i>Net cash inflow from operating activities</i>	<u>836,818</u>	<u>1,922,241</u>

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
Cash flows from investing activities			
Payments to acquire property, plant and equipment		(467,282)	(624,134)
Proceeds from disposals of property, plant and equipment		432	4,532
Payment to acquire land use rights		(1,792)	(4,158)
Payment to acquire financial assets measured at fair value through other comprehensive income		–	(78,872)
Payments to acquire other financial asset		–	(232,500)
Receipt from redemption of other financial asset		232,500	200,000
Increase in pledged bank deposits		(91,029)	(5,621)
Decrease/(increase) in time deposits with original maturity over three months		393,001	(195,491)
Interest received		112,125	152,446
Dividend received		48,377	56,022
<i>Net cash inflow/(outflow) from investing activities</i>		<u>226,332</u>	<u>(727,776)</u>
Cash flows from financing activities			
Principal elements of lease payments		(4,121)	(3,117)
Interest paid		(1,250)	(4,912)
Dividends paid to owners of the Company		(860,572)	(885,302)
Dividends paid to non-controlling interests of subsidiaries		(119,700)	–
Payment on buy-back of shares	<i>14</i>	(505,000)	–
<i>Net cash outflow from financing activities</i>		<u>(1,490,643)</u>	<u>(893,331)</u>
Net (decrease)/increase in cash and cash equivalents		(427,493)	301,134
Cash and cash equivalents at 1 January		3,712,383	3,453,325
Effect of foreign exchange rates changes on cash and cash equivalents		<u>120,725</u>	<u>(42,076)</u>
Cash and cash equivalents at 31 December	<i>12</i>	<u><u>3,405,615</u></u>	<u><u>3,712,383</u></u>

Notes:

1. GENERAL INFORMATION

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

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

The 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.

The consolidated financial statements for the year ended 31 December 2020 were approved for issue by the board of directors (the “Board”) of the Company on 25 March 2021.

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 and the requirements of the Hong Kong Companies Ordinance Cap. 622 (the “Companies Ordinance”). 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 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 and derivative financial instruments which are measured at fair values.

The financial information relating to the years ended 31 December 2020 and 2019 included in this preliminary announcement of final results for the year ended 31 December 2020 does not constitute the Company’s statutory annual consolidated financial statements for those years but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 December 2019 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 2020 in due course.

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

(a) Adoption of new or amended standards and interpretations that are effective on 1 January 2020

The following new and amended standards and interpretations apply for the first time to the Group's financial reporting period commencing on 1 January 2020:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting
Amendments to HKFRS 7, HKFRS 9 and HKAS 39	Interest Rate Benchmark Reform – Phase 1

The above standards did not have any impact on the Group's accounting policies and are not expected to significantly affect the current or future periods.

(b) New and amended standards and interpretations that have been issued but are not yet effective

The following new and amended standards and interpretations, which are 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 dates they become effective.

		Effective for accounting periods beginning on or after
Amendments to HKFRS 16	COVID-19 Related Rent Concession	1 June 2020
Amendments to HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2	1 January 2021
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use	1 January 2022
Amendment to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to Accounting Guideline 5	Merger Accounting for Common Control Combinations	1 January 2022
Annual improvements to HKFRSs 2018–2020 cycle	Amendment to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41	1 January 2022
Amendment to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Revised Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group has commenced, but not yet completed, an assessment of the impact of the new standards and amendments to standards on its results of operations and financial position. However, none of the above new standards and amendments to standards is expected to have a significant effect on the financial statements.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS AND SEGMENT INFORMATION

The Group's principal activities are disclosed in note 1 to this result announcement. Revenue from contracts with customers, which is also the Group's turnover, represents the sales value of coking coal products in the ordinary course of businesses which are recognised at a point in time. Revenue recognised is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Sales of raw coking coal	48,663	107,190
Sales of clean coking coal	<u>3,948,288</u>	<u>3,762,118</u>
	<u>3,996,951</u>	<u>3,869,308</u>

The executive directors have been identified as the chief operating decision-maker of the Company. The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product lines. The Group has identified one reportable segment as coking coal mining, which represents mining and exploration of coal resources and production of raw and clean coking coal in the PRC.

The executive directors regard the Group's business as a single operating segment and review financial information accordingly. Therefore, no segment information is presented. The executive directors primarily use a measure of profit before income tax to assess the performance of the operating segment.

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

	Revenue from external customers		Non-current assets	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Principal markets				
PRC	3,996,951	3,869,308	13,407,293	12,904,496
Hong Kong	<u>–</u>	<u>–</u>	<u>259</u>	<u>3,835</u>
	<u>3,996,951</u>	<u>3,869,308</u>	<u>13,407,552</u>	<u>12,908,331</u>

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 two (2019: two) customers over 10% of the Group's coking coal mining segment amounted to HK\$1,453,909,000 (2019: HK\$1,187,334,000) and HK\$1,013,808,000 (2019: HK\$992,960,000) respectively, which represented 36% (2019: 31%) and 25% (2019: 26%) of the Group's revenue respectively.

4. OTHER INCOME AND GAINS/(LOSSES), NET

	2020 <i>HK\$'000</i>	2019 HK\$'000
Dividend income	48,377	56,022
Income from sales of by-products	36,291	55,596
Net foreign exchange gain/(loss)	131,178	(16,857)
Others	3,383	4,814
	<u>219,229</u>	<u>99,575</u>

5. OTHER OPERATING EXPENSES

	2020 <i>HK\$'000</i>	2019 HK\$'000
Written off of property, plant and equipment (<i>Note i</i>)	–	128,784
Depreciation on property, plant and equipment (<i>Note ii</i>)	76,414	–
Reversal of impairment loss on financial assets (<i>note 11</i>)	(22,500)	–
Loss on disposals of property, plant and equipment	1,671	14,182
Geology investigation fee	2,821	–
Others	6,089	3,510
	<u>64,495</u>	<u>146,476</u>

Notes:

- i:* Upon the commencement of trial production of the lower coal seam of Jinjiazhuang Coal Mine, the well entrance of the upper coal seam was closed down in May 2019. Thus, the net carrying amount of the related underground mining structures of the upper coal seam, amounted to HK\$128,784,000, was written off during the year ended 31 December 2019.
- ii:* According to the plan of transferring the production from upper coal seam to lower coal seam of Xingwu Coal Mine in 2023, the additional part arising from accelerated depreciation on the related underground mining structures of the upper coal seam was charged in the other operating expenses during the year ended 31 December 2020.

6. FINANCE COSTS

	2020 <i>HK\$'000</i>	2019 HK\$'000
Interest charged on discounted bills receivables	–	3,502
Interest expense on lease liabilities	1,250	1,410
	<u>1,250</u>	<u>4,912</u>

No borrowing costs were capitalised for the years ended 31 December 2020 and 2019.

7. PROFIT BEFORE INCOME TAX

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit before income tax is arrived at after charging:		
Auditor's remuneration		
– audit services	1,600	1,600
– other services	470	414
Cost of inventories sold	2,127,744	1,880,565
Amortisation of:		
– land use rights	1,958	1,781
– mining rights	227,013	195,429
Depreciation of:		
– property, plant and equipment	330,494	243,178
– right-of-use assets	5,148	5,162
Staff costs (including directors' emoluments)	<u>652,903</u>	<u>675,579</u>

8. INCOME TAX EXPENSE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current tax – PRC income tax		
– Current year	393,108	496,406
– Under/(Over) provision in respect of prior years	12,285	(1,000)
Deferred tax		
– Current year	<u>19,938</u>	<u>(38,732)</u>
	<u>425,331</u>	<u>456,674</u>

No provision for Hong Kong profits tax has been made in the consolidated financial statements as the Group had no assessable profits arising in Hong Kong for 2020 and 2019.

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

The Group is also subject to withholding tax at the rate of 5% (2019: 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.

9. DIVIDENDS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Dividends recognised as distributions during the year:		
2019 final dividend of HK8.7 cents (2019: 2018 final dividend of HK8.5 cents) per ordinary share	461,260	450,656
2020 interim dividend of HK7.5 cents (2019: 2019 interim dividend of HK8.5 cents) per ordinary share	<u>378,888</u>	<u>450,656</u>
	<u>840,148</u>	<u>901,312</u>

- (a) On 21 March 2019, the Board proposed a 2018 final dividend of HK8.5 cents per ordinary share, totalling HK\$450,656,000 to the owners of the Company in respect of the year ended 31 December 2018. The final dividend was approved by shareholders at the annual general meeting held on 16 May 2019 and was paid on 11 July 2019. The 2018 final dividend for the year ended 31 December 2018 has been reflected as an appropriation of retained earnings for the year ended 31 December 2019.
- (b) On 22 August 2019, the Board declared an 2019 interim dividend of HK8.5 cent per ordinary share, totalling HK\$450,656,000 for the six months ended 30 June 2019, which was paid on 30 October 2019.
- (c) On 26 March 2020, the Board proposed a 2019 final dividend of HK8.7 cents per ordinary share totalling HK\$461,260,000 to the owners of the Company in respect of the year ended 31 December 2019. The final dividend was approved by shareholders at the annual general meeting held on 21 May 2020 and was paid on 23 July 2020. The 2019 final dividend for the year ended 31 December 2019 has been reflected as an appropriation of retained earnings for the year ended 31 December 2020.
- (d) On 28 August 2020, the Board declared an 2020 interim dividend of HK7.5 cent per ordinary share, totalling HK\$378,888,000 for the six months ended 30 June 2020, which was paid on 22 October 2020.
- (e) On 25 March 2021, the Board proposed a 2020 final dividend of HK9 cents per ordinary share totalling HK\$454,665,000 to the owners of the Company in respect of the year ended 31 December 2020. The final dividend is subject to the shareholder's approval at the forthcoming annual general meeting. The final dividend proposed after 31 December 2020 has not been recognised as a liability as at 31 December 2020.

10. EARNINGS PER SHARE

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit used to determine basic and diluted earnings per share	<u>1,080,041</u>	<u>1,140,413</u>
	<i>'000 shares</i>	<i>'000 shares</i>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<u>5,237,630</u>	<u>5,301,837</u>

Basic earnings per share is HK20.62 cents (2019: HK21.51 cents), based on the profit for the year attributable to owners of the Company of HK\$1,080,041,000 (2019: HK\$1,140,413,000) and weighted average number of ordinary shares as set out above for basic earnings per share.

No share options had been granted under the 2012 share option scheme since its adoption. Accordingly, as at 31 December 2020 and 2019, there was no share option outstanding and the Company did not have any dilutive potential ordinary shares during years ended 31 December 2020 and 2019.

11. TRADE AND BILLS RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables	864,685	702,293
Less: Provision for impairment loss	<u>(198,303)</u>	<u>(211,680)</u>
	666,382	490,613
Bills receivables	<u>1,382,762</u>	<u>1,306,706</u>
	<u>2,049,144</u>	<u>1,797,319</u>

Trade receivables generally have credit terms ranging from 60 to 90 days (2019: 60 to 90 days). Bills receivables are expiring within one year. As at 31 December 2020 and 2019, all of the trade and bills receivables are denominated in RMB.

As at 31 December 2020, bills receivables included an amount of RMB189,963,000 (equivalent to HK\$218,458,000) (2019: RMB253,042,000 (equivalent to HK\$278,346,000)) were pledged for bills payables of RMB174,208,000 (equivalent to HK\$200,339,000) (2019: RMB244,840,000 (equivalent to HK\$269,325,000)) (note 13).

The Group endorsed certain of its bills receivables with full recourse to the 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 bills receivables.

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 bills receivables. As at 31 December 2020, bills receivables of RMB100,500,000 (equivalent to HK\$115,575,000) (2019: RMB70,604,000 (equivalent to HK\$77,664,000)) continue to be recognised as bills receivables despite they have been legally transferred to the creditors. The proceeds of the endorsement transactions are included in trade payables, other payables and amount due to non-controlling interest of subsidiaries until the related bills receivables are collected or the Group settles any losses suffered by the creditors.

As at 31 December 2020, the bills receivables endorsed to trade creditors, other creditors and non-controlling interest of subsidiaries amounted to RMB1,900,000 (equivalent to HK\$2,185,000) (2019: RMB6,964,000 (equivalent to HK\$7,660,000))(note 13), RMB82,900,000 (equivalent to HK\$95,335,000) (2019: RMB63,640,000 (equivalent to HK\$70,004,000)) and RMB15,700,000 (equivalent to HK\$18,055,000) (2019: nil) respectively.

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Up to 90 days	<u>666,382</u>	<u>490,613</u>

As at 31 December 2020, ageing analysis of bills receivables, based on the bills receiving dates, is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Up to 90 days	803,790	789,949
91 to 180 days	569,772	512,357
181 to 365 days	<u>9,200</u>	<u>4,400</u>
	<u>1,382,762</u>	<u>1,306,706</u>

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade and bills receivables.

The Group does not hold any collateral over these balances.

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case impairment loss is written off against trade and bills receivables directly.

Movement in the loss allowance of trade receivables is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
At 1 January	211,680	217,453
Exchange differences	9,123	(5,773)
Reversal of impairment loss (<i>note 5</i>)	<u>(22,500)</u>	<u>–</u>
At 31 December	<u>198,303</u>	<u>211,680</u>

12. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS AT BANKS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cash at banks and on hand	630,752	963,891
Time deposits at banks	<u>3,431,363</u>	<u>3,797,993</u>
Bank balances and cash	4,062,115	4,761,884
Less: Time deposits with original maturity over three months	<u>(656,500)</u>	<u>(1,049,501)</u>
Cash and cash equivalents	<u>3,405,615</u>	<u>3,712,383</u>

13. TRADE AND BILLS PAYABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables	243,803	240,461
Bills payables	<u>348,815</u>	<u>412,105</u>
	<u>592,618</u>	<u>652,566</u>

The Group was granted by its suppliers credit period ranging between 30 to 180 days (2019: 30 to 180 days). As at 31 December 2020 and 2019, all of the trade and bills payables are denominated in RMB.

Based on the invoice dates, ageing analysis of trade payables as at 31 December 2020 is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Up to 90 days	152,054	170,043
91 to 180 days	53,784	38,528
181 to 365 days	14,769	11,488
Over 365 days	<u>23,196</u>	<u>20,402</u>
	<u>243,803</u>	<u>240,461</u>

As at 31 December 2020, RMB129,109,000 (equivalent to HK\$148,476,000) (2019: RMB129,800,000 (equivalent to HK\$142,780,000)) out of RMB303,317,000 (equivalent to HK\$348,815,000) (2019: RMB374,640,000 (equivalent to HK\$412,105,000)) bills payables were secured by the pledged bank deposits. Remaining bills payables amounted to RMB174,208,000 (equivalent to HK\$200,339,000) (2019: RMB244,840,000 (equivalent to HK\$269,325,000)) were secured by bills receivables (note 11).

As at 31 December 2020, trade payables of RMB1,900,000 (equivalent to HK\$2,185,000) (2019: RMB6,964,000 (equivalent to HK\$7,660,000)) were settled by bills receivables endorsed to corresponding creditors which did not meet the de-recognition requirements (note 11).

14. SHARE CAPITAL

	Number of shares		Amount	
	2020 '000 shares	2019 '000 shares	2020 HK\$'000	2019 HK\$'000
Issued and fully paid:				
At 1 January	5,301,837	5,301,837	15,156,959	15,156,959
Less: Buy-back and cancellation of shares (Note)	<u>(250,000)</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December	<u>5,051,837</u>	<u>5,301,837</u>	<u>15,156,959</u>	<u>15,156,959</u>

Note: Pursuant to the resolutions passed by the shareholders of the Company on 3 September 2020, the Company has bought-back 250,000,000 ordinary shares at the offer price of HK\$2.00 per share and these bought-back shares were then cancelled on 28 September 2020. Thus, the number of issued shares was reduced by 250,000,000. The total consideration of HK\$500,000,000 and the related expense of approximately HK\$5,000,000 were debited the retained profits upon the completion of this transaction on 28 September 2020.

15. CAPITAL COMMITMENTS

	2020 HK\$'000	2019 HK\$'000
Commitments for the:		
– Acquisition of property, plant and equipment	254,210	259,903
– Exploration and design fees for a potential mining project	<u>8,602</u>	<u>8,228</u>
	<u>262,812</u>	<u>268,131</u>

FINAL DIVIDEND

The Board has proposed a final dividend of HK9 cents per ordinary share for the year ended 31 December 2020 (2019 final dividend: HK8.7 cents per ordinary share), payable to shareholders whose names appear on the register of members of the Company at the close of business on Monday, 12 July 2021. The proposed final dividend (HK9 cents per ordinary share) together with the interim dividend (HK7.5 cents per ordinary share) paid in 2020 will make a total dividend of HK16.5 cents per ordinary share for the year ended 31 December 2020 (2019 total dividend: HK17.2 cents per ordinary share).

Subject to shareholders' approval of the proposed final dividend at the Company's annual general meeting to be held on Wednesday, 30 June 2021 (the "AGM"), the final dividend is expected to be paid on Thursday, 29 July 2021. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Monday, 12 July 2021 for registration.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 25 June 2021 to Wednesday, 30 June 2021 (both days inclusive) to determine the entitlement to attend and vote at the AGM. During such period, no transfer of shares of the Company will be registered. In order to qualify for the entitlement to attend and vote at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 24 June 2021 for registration.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The key operational data of our three premium operating coking coal mines in Liulin County, Shanxi Province (Xingwu Coal Mine, Jinjiazhuang Coal Mine and Zhaiyadi Coal Mine, collectively referred to as the “Three Mines”) for the year ended 31 December 2020 (the “year under review”) together with that of the same period of 2019 (the “Last Year”) is summarised as follows:

	<i>Unit</i>	For the year ended 31 December		Change	
		2020	2019	Quantity/ Amount	Percentage
<i>Production volume:</i>					
Raw coking coal	<i>Mt</i>	4.95	4.41	+0.54	+12%
Clean coking coal	<i>Mt</i>	3.23	2.75	+0.48	+17%
<i>Sales volume:</i>					
Raw coking coal	<i>Mt</i>	0.08	0.12	-0.04	-33%
Clean coking coal	<i>Mt</i>	3.26	2.70	+0.56	+21%
<i>Average realised selling price (inclusive of VAT):</i>					
Raw coking coal	<i>RMB/tonne</i>	597	864	-267	-31%
Clean coking coal	<i>RMB/tonne</i>	1,218	1,396	-178	-13%

For the year ended 31 December 2020, the Group produced approximately 4.95 million tonnes (“Mt”) (2019: approximately 4.41 Mt) of raw coking coal, representing a year-on-year (“YoY”) increase of 12% and also produced approximately 3.23 Mt (2019: approximately 2.75 Mt), representing a YoY increase of 17%, as a result of increase in production volume of raw coking coal by approximately 0.54 Mt, together with the reduction of sales volume of raw coking coal by approximately 0.04 Mt, and the purchase of clean coking coal of approximately 0.07 Mt for washing from outsiders. As mentioned in the Annual Report 2019 and in the Interim Report 2020, due to the outbreak of COVID-19, all domestic mines must pass the inspection upon resumption of production after the Lunar New Year holidays in February 2020 resulting in the temporary suspension of production. The Three Mines have taken the lead in passing the inspection and resumed production in the mid of February 2020. Although the production volume of the Group was negatively affected in the first quarter of 2020, the lower coal seam of Jinjiazhuang Coal Mine had resumed normal production since August 2019 and the management had rescheduled the production plan of all mines at once. Eventually, our raw coal production volume was increased by 12% YoY.

In line with the increase in production volume of clean coking coal, together with the additional purchase of clean coking coal of approximately 0.09 Mt from outsiders for sales, the sales volume of clean coking coal also increased sharply by 21% YoY even though sales volume of raw coking coal dropped significantly by 33% YoY during the year under review. This is in line with the Group's business strategy to concentrate on clean coking coal sales. Sales of clean and raw coking coal accounted for 99% and 1% of the Group's turnover respectively for the year ended 31 December 2020. They accounted for 97% and 3% respectively for the Last Year.

As a result of slowing down of the economic growth in the Mainland China and COVID-19, the overall market prices of coking coal fell in 2020, of which, the average market prices of clean coking coal dropped by 9% to 14% YoY in 2020. For the year ended 31 December 2020, the Group's average realised selling price (inclusive of value added tax "VAT") of raw coking coal declined by 31% YoY to Renminbi ("RMB") 597/tonne when compared with that of the Last Year (2019: RMB864/tonne) and the Group's average realised selling price (inclusive of VAT) of clean coking coal declined by 13% YoY to RMB1,218/tonne when compared with that of the Last Year (2019: RMB1,396/tonne), which was in line with the average market prices trend. The drop in average realised selling price of our raw coking coal was greater than that of market price because of the reduction in selling proportion of hard raw coking coal with higher selling price during the year under review. In terms of its sales volume, all raw coking coal sales were semi-hard raw coking coal for the year ended 31 December 2020 (2019: sales of hard and semi-hard raw coking coal accounted for 85% and 15% of the total raw coking coal sales volume respectively). In addition, sales of No.1 and No.2 clean coking coal accounted for 33% and 67% (2019: 37% and 63%) of the total clean coking coal sales volume respectively for the year ended 31 December 2020.

FINANCIAL REVIEW

For the year ended 31 December 2020, the Group recorded a turnover of approximately Hong Kong Dollars ("HK\$") 3,997 million, representing an increase of approximately HK\$128 million or 3% YoY as compared with that of approximately HK\$3,869 million for the Last Year. The increase in turnover was mainly driven by the increase in sales volume of clean coking coal by 21% YoY even though the positive impact of which has almost overridden by the decrease in average realised selling prices of clean coking coal by 13% YoY and the drop in average exchange rate of RMB to HK\$ by approximately 1% YoY for the year under review.

For the year ended 31 December 2020, the total turnover to the top five customers accounted for 83% (2019: 74%) of the Group's turnover. Of which, the total turnover to the largest customer accounted for 36% (2019: 31%) of the Group's turnover.

For the year ended 31 December 2020, gross profit margin was 47% while 51% for the Last Year. Gross profit was decreased by approximately HK\$120 million or 6% YoY. The drop in gross profit was attributable to the decrease in average realised selling prices of raw and clean coking coal by 31% and 13% YoY respectively for the year ended 31 December 2020 as explained above even though sales volume of self-produced clean coking coal was increased by approximately 15% YoY and our unit production costs were significantly reduced by approximately 11% when compared to the Last Year as mentioned below. In addition, suffered from the depreciation of average exchange rate of RMB to HK\$ by approximately 1% YoY as the profit mainly derived from the Group's coal business in China, which RMB is its functional currency, was reduced.

For the year ended 31 December 2020, the Group recorded a net profit of approximately HK\$1,187 million representing increase of 1% YoY and profit attributable to the owners of the Company (the "Owners") of approximately HK\$1,080 million representing decrease of 5% YoY. During the year under review, although the fall in market prices of coal had material negative impact on the Group's profit, and also (i) the reduction in interest income by approximately HK\$41 million YoY as a result of the drop in market interest rates; and (ii) a reduction in dividend income generated from financial assets by approximately HK\$8 million YoY, as a result of the effort from the team of the Group, the production volume of raw and clean coking coal of the Group increased by 12% YoY and 17% YoY respectively and the unit production costs were significantly reduced by approximately 11% YoY under the effective cost controls. Eventually, together with the positive effect on appreciation of RMB with net foreign exchange gain of approximately HK\$131 million, the Group recorded net profit of approximately HK\$1,187 million, slightly increased by 1% YoY, during the year under review.

During the year under review, the Group recorded net foreign exchange gain of approximately HK\$131 million. Net foreign exchange was recorded from loss of approximately HK\$17 million for the Last Year to net foreign exchange gain of approximately HK\$131 million for the year under review as a result of the appreciation in RMB to HK\$ exchange rate by approximately 4.55% as at reporting date on 31 December 2020 when compared with that as at 31 December 2019 (2019: depreciation in RMB to HK\$ exchange rate as at 31 December 2019 by approximately 2.65% when compared with that as at 31 December 2018).

In addition, during the year under review, the Group had recognised additional depreciation of approximately HK\$76 million arising from the use of an accelerated depreciation method on the related underground mining structures of the upper coal seam of Xingwu Coal Mine according to the plan of transferring the production from upper to lower coal seam in 2023. Last Year, the Group had a one-off non-cash write off of property, plant and equipment mainly in relation to the carrying amount of underground mining structures of the upper coal seam of Jinjiazhuang Coal Mine upon its closure amounted to approximately HK\$129 million.

During the year under review, basic earnings per share was HK20.62 cents (2019: HK21.51 cents).

The Group recorded adjusted EBITDA of approximately HK\$2,186 million (2019: approximately HK\$2,221 million) and generated a positive cash flow of approximately HK\$837 million (2019: approximately HK\$1,922 million) from our operating activities during the year under review.

As at 31 December 2020, the Group continues to maintain a healthy financial position and has free bank balances and cash of approximately HK\$4,062 million (As at 31 December 2019: approximately HK\$4,762 million). The decrease in free bank balances and cash is mainly due to the bought-back of 250,000,000 ordinary shares of the Company which had used approximately HK\$505 million and the increase in pledged bank deposits for bills facilities by approximately HK\$100 million during the year under review. The Group earned the return on cash resources amounting to approximately HK\$89 million (2019: approximately HK\$128 million) during the year under review.

The Group has reviewed its exposure and risks related to COVID-19 but it would not material impact the financial performance for the year under review and financial position of the Group as at 31 December 2020. The Group believed that current healthy financial position and strong cash position had sufficient headroom to service its operating activities and investments in the foreseeable future.

Cost of Sales

During the year under review, cost of sales was approximately HK\$2,128 million, representing an increase of approximately HK\$247 million or 13% YoY, as compared with that of approximately HK\$1,881 million for the Last Year. The increase in cost of sales was mainly due to the increase in actual usage volume of raw coking coal for sales and the purchase of approximately 0.16 Mt of clean coking coal from outsiders amounting to approximately HK\$184 million, even though those were partially offset by the decrease in unit production costs of 11% YoY, and the depreciation in average exchange rate of RMB to HK\$ by approximately 1%.

The unit production costs are summarised as follows:

Unit: RMB/tonne

	For the year ended		Change	
	31 December 2020	2019	Amount	Percentage
Production cost of raw coking coal	313	352	-39	-11%
<i>Less: Depreciation and amortisation</i>	(76)	(74)	+2	+3%
Cash production cost of raw coking coal	237	278	-41	-15%
<i>Less: Uncontrollable costs – resources tax and levies</i>	(48)	(57)	-9	-16%
Total	189	221	-32	-14%
Processing cost for clean coking coal	47	53	-6	-11%
<i>of which, depreciation</i>	(8)	(11)	-3	-27%

Included in cost of sales, amortisation of mining rights was approximately HK\$227 million for the year ended 31 December 2020, representing an increase of approximately HK\$32 million or 16% YoY, as compared with that of approximately HK\$195 million for the Last Year. The increase in amortisation of mining rights was mainly due to the increase in actual usage volume of raw coking coal for sales and the increase in the proportion of production volume of raw coking coal from Jinjiazhuang Coal Mine, which incurred higher unit amortisation cost than the other two mines during the year under review.

Nevertheless, the Group faced the rising concern in cost pressure, among other things, because of the implementation and the strengthen of various environmental protection policies and safety standards. The unit production cost of raw coking coal dropped by 11% when compared with the Last Year, resulting from (i) the continuing improvement in cost efficiencies such as strengthening supply management together with the benefiting from the drop in material market prices which led the material costs reduced; (ii) the decrease in labour cost by continuing optimisation of human resources and benefiting from the reduction of social insurances under the central government relief policies as a result of the outbreak of COVID-19; (iii) the decrease in resources tax, which is calculated on prices, due to the drop in coal market prices; and (iv) the increase in raw coking coal production volume by 12% YoY.

In addition, the unit processing cost of clean coking coal also significantly decreased by 11% YoY as a result of the effective cost control and the increase in clean coking coal production volume by 17% YoY.

Gross Profit and Gross Profit Margin

As a result of the reasons above, gross profit was approximately HK\$1,869 million for the year ended 31 December 2020, representing a decrease of approximately HK\$120 million or 6% YoY as compared with that of approximately HK\$1,989 million for the Last Year. Gross profit margin was 47% for the year under review and 51% for the Last Year.

Interest Income

During the year under review, interest income was approximately HK\$96 million, representing a sharp reduction by approximately HK\$41 million or 30% YoY as compared with approximately HK\$137 million for the Last Year. The significant decrease in interest income was the result of the decrease in market interest rates as well as the drop in average cash balances due to the use of fund for share buy-back for the year under review.

Other Income and Gains/(Losses), Net

During the year under review, other income and gains/(losses), net were approximately HK\$219 million, representing a significant increase of approximately HK\$119 million as compared with approximately HK\$100 million for the Last Year. Excluding the impact of net foreign exchange gain of approximately HK\$131 million (2019: net foreign exchange loss of approximately HK\$17 million) during the year under review, other income and gains/(losses), net was decreased by approximately HK\$29 million or 25% YoY, was mainly attributable to the decrease in income from sales of coal related by-products by approximately HK\$20 million or 36% YoY as a result of the drop in market prices of coal; and the decrease in dividend income amounting to approximately HK\$8 million or 14% YoY generated from financial assets during the year under review.

The increase in net foreign exchange gain by approximately HK\$148 million is attributable to the turnaround of net foreign exchange loss of approximately HK\$17 million for the Last Year to gain of approximately HK\$131 million for the year under review. The increase was mainly the result of the appreciation in RMB to HK\$ exchange rate by approximately 4.55% as at 31 December 2020 when compared with that as at 31 December 2019 (2019: depreciation in RMB to HK\$ exchange rate as at 31 December 2019 by approximately 2.65% when compared with that as at 31 December 2018). The Group has monetary current assets denominated in RMB, which RMB is not the functional currencies of those group entities, amounting to RMB2.2 billion.

Selling and Distribution Expenses

During the year under review, selling and distribution expenses were approximately HK\$317 million, representing an increase of approximately HK\$67 million or 27% YoY as compared with that of approximately HK\$250 million for the Last Year. Selling and distribution expenses mainly included logistic costs such as the trucking fees for short distance and freight costs by sea and trucks for sales of clean coking coal, of which are usually re-charged to customers. The increase was in line with the increase in sales volume of clean coking coal during the year under review.

General and Administrative Expenses

During the year under review, general and administrative expenses (included additional expenses for the purchase of anti-epidemic materials) were approximately HK\$182 million, which remained at similar level to that of the Last Year.

Other Operating Expenses

During the year under review, other operating expenses were approximately HK\$64 million, representing a sharp decrease of approximately HK\$82 million or 56% YoY as compared with approximately HK\$146 million for the same period of 2019. The significant decrease in other operating expenses is mainly due to no such one-off non-cash write off of net carrying amount of the related underground mining structures of the upper coal seam of Jinjiazhuang Coal Mine amounted to approximately HK\$129 million as Last Year. For undergoing the trial production of the lower coal seam of Jinjiazhuang Coal Mine, the wellhead of the upper coal seam was closed down at the same time. Thus, net carrying amount of the related underground mining structures of the upper coal seam was written off in the Last Year. For the year under review, according to the plan of transferring the production from upper to lower coal seam of Xingwu Coal Mine in 2023, the additional depreciation arising from the accelerated depreciation on the related underground mining structures of the upper coal seam starting from 2020 amounted to approximately HK\$76 million, which was partially offset by the reversal of impairment loss on trade receivables amounted to approximately HK\$23 million.

Finance Costs

During the year under review, finance costs were approximately HK\$1 million (2019: approximately HK\$5 million). During the year under review, finance costs amounted to approximately HK\$1 million (2019: approximately HK\$1 million) was the interest expense on lease liabilities recognised under the adoption of HKFRS 16. The remaining balance for the Last Year were derived from the early redemption of bills receivables of the Group for the short-term financing. During the year under review, no borrowing costs (2019: nil) were capitalised in the construction in progress.

Income Tax Expense

During the year under review, income tax expense amounted to approximately HK\$425 million (2019: approximately HK\$457 million). Income tax expense mainly includes the enterprise income tax calculated at a tax rate of 25% for the Group's major PRC subsidiaries incorporated in the People's Republic of China (the "PRC") ("major PRC Subsidiaries") and the provision of withholding tax of 5% on the dividend to be declared from the major PRC Subsidiaries in accordance with the relevant tax regulations in the PRC.

Owner's Attributable Profit

By reasons of the foregoing, the profit attributable to the Owner during the year under review was approximately HK\$1,080 million, a decrease of approximately HK\$60 million or 5% YoY, while approximately HK\$1,140 million for the Last Year.

Material Investments and Acquisitions

During the year ended 31 December 2020, the Group had no material investments and acquisitions.

Material Disposals

During the year ended 31 December 2020, the Group had no material disposals.

Safety Production and Environmental Protection

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

During the year under review, because of the outbreak of COVID-19, all domestic mines must pass the inspection upon resumption of production after the 2020 Lunar New Year holidays. Three Mines have taken the lead in passing the inspection and have resumed to production in the mid of February 2020. Except for the suspension of production temporarily, all coal mines of the Group operated smoothly.

Charges on Assets

As at 31 December 2020, save for disclosed below, none of the Group's assets was charged or subject to any encumbrance.

As at 31 December 2020, bank deposits of approximately HK\$290 million and bills receivables of approximately HK\$218 million were used for securing bills facilities. As at 31 December 2020, bills facilities of approximately HK\$349 million has been utilised.

Contingent Liabilities

As at 31 December 2020, there were no guarantees given by the Group.

Gearing Ratio

As at 31 December 2020, the Group had no borrowings. The gearing ratio of the Group was 0% (As at 31 December 2019: 0%).

Exposure to Fluctuations in Exchange Rates

As at 31 December 2020, other than assets and liabilities denominated in RMB and Australian Dollars ("AUD"), the Group had no material exposure to foreign exchange fluctuations. As at 31 December 2020, RMB and AUD exchange rate were appreciated by approximately 4.55% and approximately 9.37% respectively, when compared to that as at 31 December 2019. As the net assets value of PRC business operations denominated in RMB represented approximately 74% of the Group's net assets value as at 31 December 2020, the appreciation in RMB also led to an exchange gain of approximately HK\$484 million (other than the foreign exchange difference recognised in profit or loss stated above) recognised in the other comprehensive income upon translation of its net assets in the financial statements of coal business operations in the PRC for the year ended 31 December 2020. Besides, the aggregate carrying amount of assets denominated in AUD represented approximately 5% of the Group's net assets value as at 31 December 2020. Thus, such fluctuation in AUD exchange rate is not expected to have any material impact on the financial position of the Group. The above exposure to fluctuation in exchange rates did not have any material impact on the financial position of the Group.

Liquidity and Financial Resources

As at 31 December 2020, the Group's current ratio (total current assets divided by total current liabilities) was approximately 2.77 times and the Group's cash and bank deposits amounted to approximately HK\$4,352 million, of which approximately HK\$290 million was deposited to secure bills facilities of approximately HK\$148 million. The Group continued to maintain a healthy net cash balance.

The Group has total bills receivables amounting to approximately HK\$1,383 million (of which approximately HK\$116 million represented endorsed bills receivables and approximately HK\$218 million was used for securing bills facilities of approximately HK\$200 million) as at 31 December 2020. The free bills receivables were readily convertible into cash, but would be subject to finance cost upon conversion before the maturity. Taking into account for the free bills receivables of approximately HK\$1,049 million, the Group's free cash resources would have approximately HK\$5,111 million as at 31 December 2020.

Capital Structure

Total equity and borrowings are classified as capital of the Group. As at 31 December 2020, the share capital of the Company was approximately HK\$15,157 million, represented approximately 5,052 million shares in number. During the year under review, the Company had bought-back 250,000,000 ordinary shares of the Company at the offer price of HK\$2.00 per share. The Group had no borrowings as at 31 December 2020.

On 20 July 2020, the Board announced that a conditional cash offer to buy-back at HK\$2.00 per share for cancellation up to 250,000,000 shares of the Company, representing approximately 4.72% of the total issued shares of the Company immediately before the completion of the offer (the "Offer"). On 28 September 2020, 250,000,000 shares bought-back by the Company were cancelled and the Offer was completed. As a result, immediately after the completion, the total number of issued shares was reduced by 250,000,000 shares from 5,301,837,842 shares to 5,051,837,842 shares and remained the same number till 31 December 2020. The fund of approximately HK\$505 million for the Offer was satisfied by internal resources of the Company. The Board considered that the Offer is in the best interest of the shareholders of the Company as it would: (a) provide an opportunity for the qualifying shareholders either to sell their shares at a premium to the prevailing market prices of the shares and receive cash or to increase their proportionate interests in the Company by retaining their holdings of the shares and participating in the future prospects of the Company; and (b) have the effect of increasing the consolidated net asset value per share and earnings per share, thus benefiting all shareholders. For the year ended 31 December 2020, the consolidated net assets attributable to shareholder per share and earnings per share are HK\$3.135 and HK\$0.2062 respectively representing 1.72% and 1.23% higher than these would be HK\$3.082 and HK\$0.2037 as if without the Offer. Details of the Offer are referred to the offer document of the Company dated 19 August 2020.

EMPLOYEES

As at 31 December 2020, the Group had 4,764 PRC and Hong Kong employees. The remuneration packages of the employees are subject to annual review. The Group provides mandatory and voluntary provident fund schemes for its employees in Hong Kong and the state-sponsored retirement plan for its employees in the PRC. The Group also provides training to employees in the PRC. The Group has a share option scheme. During the year under review, no share option was granted or exercised. As at 31 December 2020, no share option was outstanding.

FUTURE PROSPECTS

China's gross domestic product ("GDP") grew 2.3% in 2020. Although the growth rate hit a record low since China's reform and opening-up in 1978, China was the first of many countries to show a strong momentum of recovery when the pandemic still raging around the world and was the only major economy to achieve positive economic growth. China's GDP growth surpassed the 1.9% growth prediction by the International Monetary Fund ("IMF"). GDP also topped the one hundred trillion RMB for the first time, second only to the United States.

Although China's economy experienced a GDP contraction of 6.8% in the first quarter of 2020 due to pandemic disturbances at home and abroad, the pandemic was effectively controlled in a short time by the government under the efficient national-wide control measures. China's economy quickly recovered to normal. At the same time, the government accelerated the implementation of a series of monetary and fiscal stimulus, enhanced "Domestic Economic Circulation" to promote further recovery in economic activities. The growth rate of infrastructure, fixed assets, and real estate investments gradually returned to positive growth in 2020. The cumulative annual growth rates achieved 0.9%, 2.9% and 7.0% YoY respectively. Benefited from various stimulus policies, China's crude steel, pig iron and steel production volume in 2020 increased by 5.2%, 4.3% and 7.7% YoY respectively, of which crude steel production volume even exceeded one billion tonnes for the first time. The Group's coking coal business not only benefited from the blooming of downstream steel industry demand but also benefited from the import disruption due to COVID-19 and geopolitical issues. Hence, domestic coking coal price showed a trend of low to high in 2020 although the overall average prices in 2020 declined YoY.

Looking forward to 2021, China's economy will continue to grow in the post-pandemic recovery phase and benefit from the first year's policy benefits of the 14th Five-Year Plan. With the further effectiveness of "Domestic Economic Circulation", domestic consumption and manufacturing will lead to an overall economic rebound. IMF forecasts that China's GDP growth rate will reach 8% in 2021. During the Central Economic Work Conference at the end of 2020, the Chinese government emphasised the continuity and sustainability of economic policies. It is expected that the fiscal stimulus implemented in 2020 will continue in 2021 in order to achieve economic growth and promote employment. The growth of various investments will also continue to maintain resilience. China also announced the goal of increasing the penetration rate of alternative fuel vehicles in the domestic market to 20% by 2025. To a certain extent, it will raise the steel demand from the automobile sector. All of these macro-economic factors will contribute to the steady growth of steel demand in China. On the coking coal supply side, it is expected that coking coal production volume will remain the same YoY. Meanwhile, coking coal import in 2020 dropped 2.6% YoY due to COVID-19 and geopolitical issues. It is expected that import restriction in 2021 will continue.

To sum up, being upstream of the steel industry, the coking coal sector is expected to continue to benefit from the Chinese government's economic stimulus and import restriction. The domestic coking coal prices are expected to remain stable at a relatively high level in 2021 compared to 2020, especially in the first half of the year. However, with multiple factors intertwined with the current COVID-19 pandemic, such as vaccine inoculation rate and its effectiveness and inflation rate, etc., there are still many uncertainties in the global economic development and investment sentiment in the coming year. Moreover, in September 2020, the Chinese government pledged to reach a carbon emission peak in 2030 and to achieve carbon neutral before 2060 at the United Nations General Assembly. In 2021, China will relax its import of scrap steel and encourage the development of short-process steelmaking. The impact of these two policies on the future demand for coking coal products remains to be seen. Therefore, we remain cautiously optimistic about the future trend of coking coal prices.

Our Group has maintained good record in environmental protection and occupational safety for many years. We have made numerous efforts to achieve certain good results in land reclamation, underground mine water management, and smart mining transformation etc. As the essence of advanced production capacity enterprise, we will continue to strengthen production safety, environmental friendly mining and governance, introducing cutting-edge mining and coal blending technologies, promoting smart mining gradually to ensure smooth production, cost control and enhance production efficiency. In addition, the Group has long been promoting sustainable development in our operations and we will actively respond to the plan of the Chinese government in transforming to a green and low-carbon economy. With the Group's stable operation and financial position as well as strong cash flow, we will continue to monitor the development of the pandemic and economy to adjust our operating strategy timely. The Group will continue to maintain stringent corporate governance, persist in implementing the new development concept and try our best to realise them in our operations and leverage our competitive advantages to create greater value for society, our shareholders and employees.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

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

As set out in “Capital Structure” under the section headed “MANAGEMENT DISCUSSION AND ANALYSIS” in this announcement, on 20 July 2020, the Board announced the Offer to buy-back for cancellation up to 250,000,000 shares of the Company at the offer price of HK\$2.00 per share, involving applications of whitewash waivers. Details of the Offer were set out in the offer document dated 19 August 2020.

The Offer became unconditional on 3 September 2020, and was fully accepted on 17 September 2020. On 28 September 2020, HK\$500,000,000 (excluding related expenses) in aggregate, funded by internal resources of the Group, was paid by the Company in cash, following which those 250,000,000 shares bought-back by the Company were cancelled on the same day.

Saved as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2020.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange during the financial year ended 31 December 2020, save for the deviations from code provision A.4.1 as follows:

Under code provision A.4.1, non-executive directors should be appointed for a specific term and subject to re-election.

None of the existing non-executive directors of the Company (“Non-executive Directors”) and independent non-executive directors of the Company (“Independent Non-executive Directors”) is appointed for a specific term, but according to the Articles of Association of the Company (“Articles”), every director of the Company is subject to retirement by rotation at least once every 3 years.

Since all directors of the Company, including the Non-executive Directors and Independent Non-executive Directors, are also subject to retirement by rotation and re-election by shareholders at annual general meeting pursuant to the Articles, the Board therefore considers this requirement is sufficient to meet the underlying objective of the said code provision.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.shougang-resources.com.hk).

The 2020 annual report containing all the information required under the Listing Rules will be despatched to shareholders of the Company and available on the above websites in due course.

APPRECIATION

On behalf of the Board, I would like to extend our sincere thanks to our customers, suppliers and shareholders for their continuous support to the Group. I would also extend my gratitude and appreciation to all management and staff for their hard work and dedication throughout the year.

By order of the Board
Shougang Fushan Resources Group Limited
Ding Rucai
Chairman

Hong Kong, 25 March 2021

As at the date of this announcement, the Board comprises Mr. Ding Rucai (Chairman), Mr. Fan Wenli (Managing Director), Mr. Chen Zhaoqiang (Deputy Managing Director), Mr. Liu Qingshan (Deputy Managing Director), Mr. Wang Dongming (Executive Director), Ms. Chang Cun (Non-executive Director), Mr. Shi Yubao (Non-executive Director), Mr. Kee Wah Sze (Independent Non-executive Director), Mr. Choi Wai Yin (Independent Non-executive Director), Mr. Japhet Sebastian Law (Independent Non-executive Director) and Mr. Chen Jianxiong (Independent Non-executive Director).