SHOUGANG FUSHAN RESOURCES GROUP LIMITED

Stock Code : 00639

2018 ANNUAL REPORT

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)*
Chang Cun *(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

Kong Ling Yan

Auditor

PricewaterhouseCoopers

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 54, 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 doctoral degree in ferrous metallurgy. He also studied senior business administration in the University of Warwick, United Kingdom. Mr. Ding had acted as a deputy general manager of the Company since August 2014, then was appointed as an Executive Director, the vice chairman and managing director of the Company in September 2014 and was re-designated as the chairman of the Board from 29 January 2018. He is also the chairman of each of the Executive Committee and the Nomination Committee and a member of the Remuneration Committee.

Mr. Ding joined Shougang Group, the current holding company of Shougang Holding and Shougang International, in 1989, and thereafter held various senior positions in the group companies of Shougang Group including the position as a director and deputy managing director of Shougang Holding. Mr. Ding was an executive director and the deputy managing director of Shougang International (SEHK:697) (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 construction management, trading of iron ore and coking coal resources and shipping management.

Mr. Li Shaofeng, aged 52, 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 Board 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.

Mr. Li joined Shougang Group, the current holding company of Shougang Holding and Shougang International, in 1989, and thereafter held various senior positions in the group companies of Shougang Group. Mr. Li is the vice chairman of Shougang International (SEHK:697), and also an executive director of BeijingWest Industries International Limited ("BeijingWest Industries", SEHK:2339) currently. He is also a non-executive director of Mount Gibson Iron Limited (ASX:MGX), a company listed on the Australian Securities Exchange Limited. Mr. Li was the chairman of Shougang Concord Century Holdings Limited ("Shougang Century", SEHK:103) (from March 2000 to January 2018), the chairman of Shougang Concord Grand (Group) Limited ("Shougang Grand", SEHK:730) (from May 2010 to June 2017) and the chairman of Global Digital Creations Holdings Limited ("GDC", SEHK:8271) (from May 2010 to June 2017), all of which are listed companies in Hong Kong. Mr. Li has extensive experience in management of listed companies, investments and capital operation.

DIRECTORS' BIOGRAPHIES (continued)

Mr. So Kwok Hoo, aged 65, holds bachelor degrees in applied science with major in chemical engineering and business administration in Canada. Mr. So was appointed an Executive Director in March 1998 and also acted as the deputy managing director of the Company in January 2010. He is a member of the Executive Committee.

Mr. So is a non-executive director of APAC Resources Limited (SEHK:1104), a listed company in Hong Kong. He has extensive experience in the coal industry, trading of iron ore and coking coal resources, sales and marketing of electrochemical and industrial products, and property investment.

Mr. Chen Zhaoqiang, aged 51, 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 master 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.

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.

Mr. Liu Qingshan, aged 60, 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 in November 2008 and also acted as the deputy managing director of the Company in January 2010. He is a member of the Executive Committee.

Prior to joining the Group, Mr. Liu worked as chief financial officer in Fortune Dragon Group Limited and in other sizable energy resources companies in China. He has extensive experience in the fields of accounting and finance in the mining industry in the China.

DIRECTORS' BIOGRAPHIES (continued)

Mr. Leung Shun Sang, Tony, aged 76, 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 in March 2009 and is a member of the Remuneration Committee.

He had been a non-executive director of CWT International Limited (SEHK:521), a listed company in Hong Kong since April 1993 and was re-designated to an independent non-executive director in November 2018.

He was a non-executive director of Shougang International (SEHK:697) (from November 1992 to May 2018), a non-executive director of Shougang Century (SEHK:103) (from July 1995 to May 2018), a non-executive director of Shougang Grand (SEHK:730) (from July 1995 to May 2018), and a non-executive director of GDC (SEHK:8271) (from December 2005 to May 2018) respectively, all of which are listed companies in Hong Kong. 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 over 40 years' experience in securities and banking business, investment, financial markets, corporate strategy and corporate management.

Ms. Chang Cun, aged 41, possess the qualifications as a certified public accountant in China and a certified internal auditor. She holds a bachelor degree in economics from Beijing Institute of Business and a master degree in management from Beijing Technology and Business University. Ms. Chang was appointed a Non-executive Director of the Company in July 2018.

She is currently the director, deputy general manager, and chief auditor of Funde Insurance Holdings Co., Ltd, the director and chief auditor of Funde Sino Life, the chief auditor of Sino Life AMC, and also the supervisor of The National Trust Co., Ltd respectively. She previously held various positions in the group of Funde Sino Life. Ms. Chang has extensive experience in accounting, auditing, financial and insurance businesses.

Mr. Kee Wah Sze, aged 71, 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 China. Mr. Kee was appointed an Independent Non-executive Director in April 1997 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee.

Mr. Kee is a partner of Messrs. Michael Cheuk, Wong & Kee and has been a practicing solicitor in Hong Kong specialised in both the commercial and conveyancing fields for many years. He is a Notary Public of Hong Kong and a China Appointed Attesting Officer.

DIRECTORS' BIOGRAPHIES (continued)

Mr. Choi Wai Yin, aged 60, 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 in July 2004 and is the chairman of the Audit Committee and a member of each of the Nomination Committee and the Remuneration Committee.

Currently, he is a director and a responsible officer of Tap Capital Limited, a company 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.

Mr. Chan Pat Lam, aged 70. Mr. Chan was appointed an Independent Non-executive Director in December 2004 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee. Mr. Chan is an independent non-executive director of BeijingWest Industries (SEHK:2339). He is a partner of a private company namely Chan Kai Wing & Brothers Limited, and also a consultant of another private company which is an international container shipping agency in the Western region of Pearl River Delta. Mr. Chan has extensive experience in the field of international banking industry in Hong Kong, Macau and California.

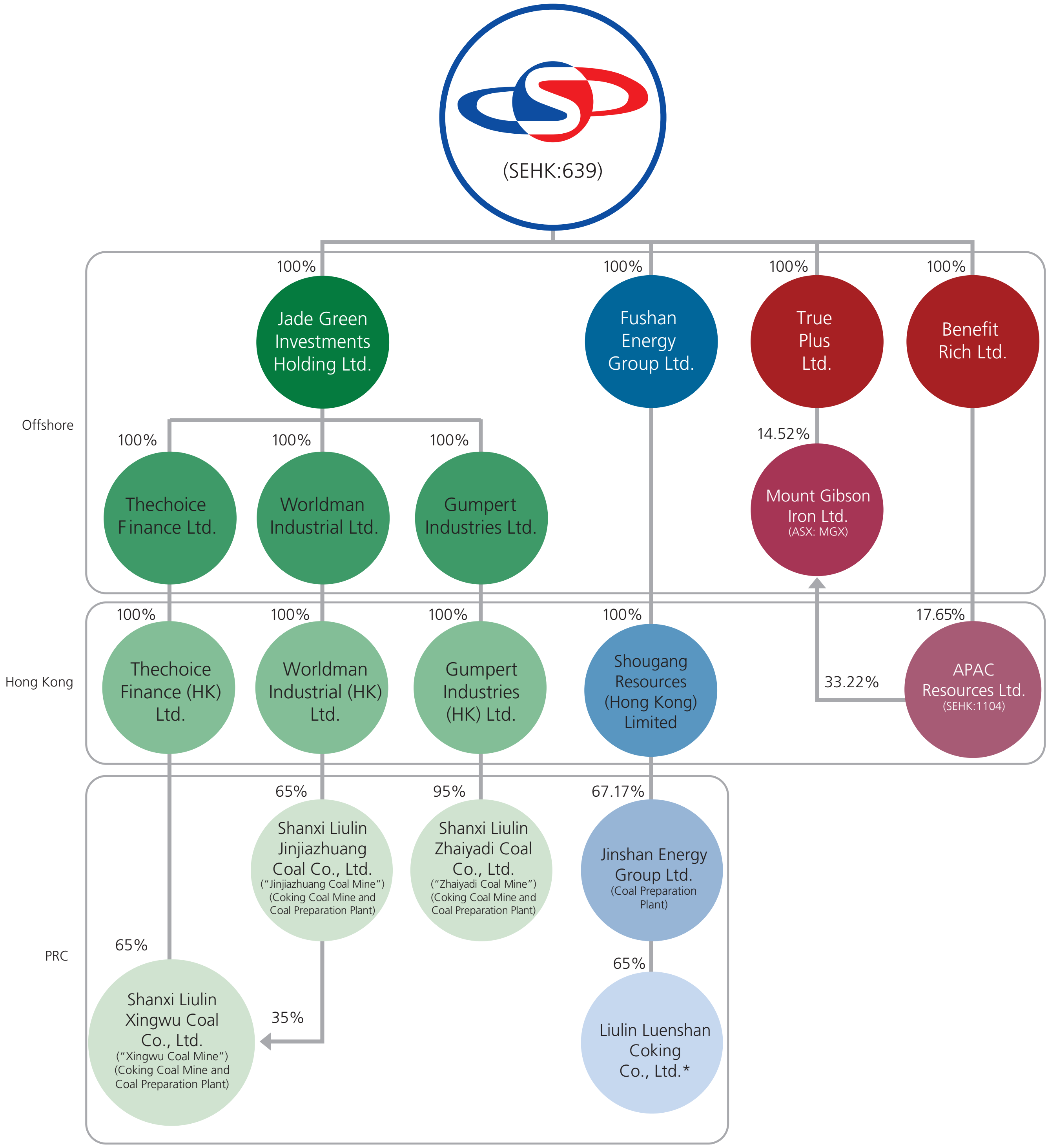
Mr. Japhet Sebastian Law, aged 67, graduated from the University of Texas at Austin with a doctor of philosophy degree in mechanical/industrial engineering in 1976. Mr. Law was appointed an Independent Non-executive Director in September 2013 and is the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee.

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 Special Administrative Region 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 (SEHK:8271), Tianjin Port Development Holdings Limited (SEHK:3382), Beijing Capital International Airport Company Limited (SEHK:694), Binhai Investment Company Limited (SEHK:2886), Regal Hotel International Holdings Limited (SEHK:78) and Tianjin Binhai Teda Logistics (Group) Corporation Limited (SEHK:8348) respectively, all of which are listed companies in Hong Kong. He was an independent non-executive director of Shanghai La Chapelle Fashion Co., Ltd. (SEHK:6116) (from August 2013 to July 2016), a listed company in Hong Kong.

MAIN OPERATIONAL STRUCTURE

THE MAIN OPERATIONAL STRUCTURE OF THE GROUP AS AT 31 DECEMBER 2018 IS AS FOLLOWS:



* The unofficial English translation is for identification purpose only.

FINANCIAL HIGHLIGHTS

(HK$'000)	For the year ended 31 December 2016	2017	**2018**	Percentage change
Revenue	1,809,885	3,471,922	**3,686,176**	+6%
Gross profit	607,043	1,875,404	**1,900,542**	+1%
Gross profit margin	34%	54%	**52%**	
Non-cash net impairment loss on goodwill, mining rights and property, plant and equipment	(194,842)	–	**–**	
Before non-cash net impairment loss on goodwill, mining rights and property, plant and equipment (net of the correspondence deferred tax impact):				
Profit for the year	236,790	1,182,584	**1,151,928**	-3%
Profit attributable to owners of the Company ("Owners")	233,633	1,080,649	**1,100,488**	+2%
After non-cash net impairment loss on goodwill, mining rights and property, plant and equipment (net of the correspondence deferred tax impact):				
Profit for the year	67,656	1,182,584	**1,151,928**	-3%
Profit attributable to Owners	111,795	1,080,649	**1,100,488**	+2%
EBITDA[1]	694,201	2,027,696	**2,028,196**	+0%
Basic earnings per share (HK cents)	2.11	20.38	**20.76**	+2%
Dividend per share (HK cents)	18.0	16.5	**16.8**	
– Interim (HK cents)	–	3.0	**8.3**	
– Special (HK cents)	15.0	6.3	**–**	
– Final (Proposed) (HK cents)	3.0	7.2	**8.5**	

(HK$'000)	As at 31 December 2016	2017	**2018**	Percentage change
Total assets	19,104,456	21,694,645	**21,251,042**	-2%
of which: Cash and cash equivalents and time deposits with original maturity over three months	3,824,219	4,864,467	**4,307,335**	-11%
Unpledged bills receivables	942,205	1,136,540	**1,109,222**	-2%
Total liabilities	(3,438,763)	(4,318,962)	**(4,475,236)**	+4%
of which: Total borrowings	–	–	**–**	–
Total equity	15,665,693	17,375,683	**16,775,806**	-3%
of which: Equity attributable to Owners	14,519,024	15,934,812	**15,384,116**	-3%
Net assets per share attributable to Owners (HK$)	2.74	3.01	**2.90**	-4%
Current ratio[2]	3.45 times	2.87 times	**2.58 times**	-10%
Gearing ratio[3]	–	–	**–**	–

Notes:

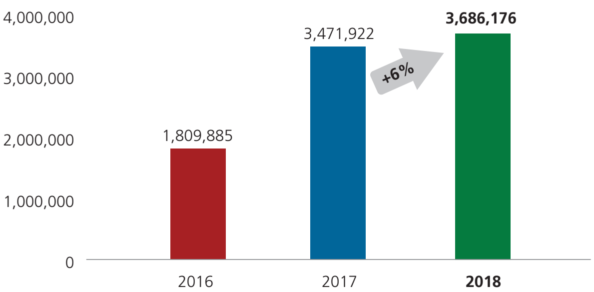
1. EBITDA is defined as profit before income tax plus impairment loss on goodwill, mining rights and property, plant and equipment, reversal of impairment loss on mining rights and property, plant and equipment, finance costs, change in fair value of derivative financial instruments, share of loss of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

PROFIT & LOSS SUMMARY

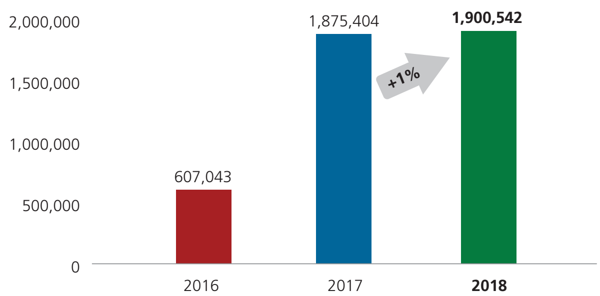
Revenue

HK$'000



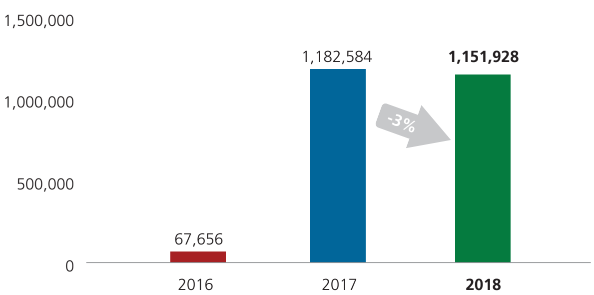
Gross profit

HK$'000



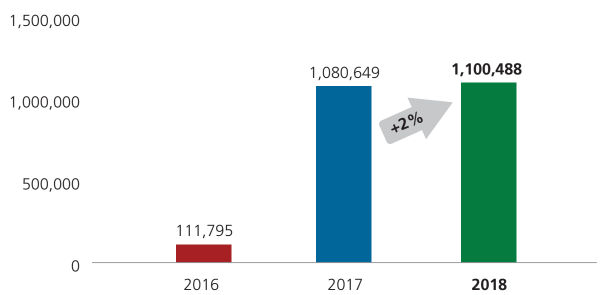
Profit for the year

HK$'000



Profit attributable to Owners

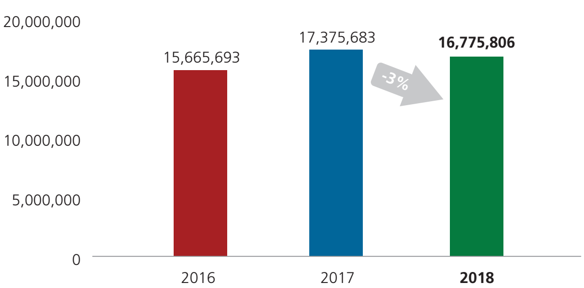
HK$'000



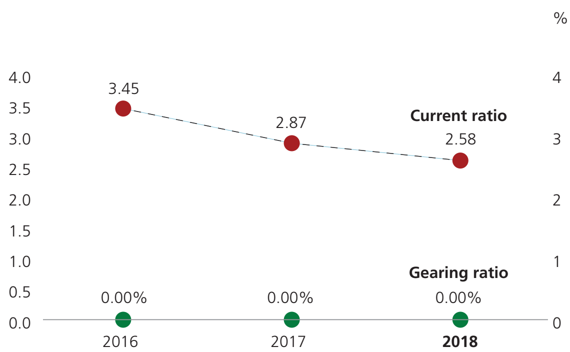
HEALTHY FINANCIAL POSITION

Net assets

HK$'000



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 approved raw coking coal production capacity: 1.75 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 resume normal production in the second half of 2019
- Annual approved raw coking coal production capacity: 1.75 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

OPERATING MINES (continued)

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 approved raw coking coal production capacity: 1.75 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

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.

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

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

OPERATING MINES (continued)

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 2018 (Mt)	(18.92)	(14.95)	(24.58)	(58.45)
In-Place Resources as of 31 December 2018 (Mt) (NB)	**44.31**	**49.23**	**53.76**	**147.30**
Recoverable Reserves as of 31 December 2018 (Mt) (NB)	**27.42**	**28.85**	**27.63**	**83.90**

NB: Resources and reserves have taken into account the coal reserves of the Operating Mines 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 2018.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I am hereby delighted to present the annual result of the Group for the year ended 31 December 2018 and report to shareholders on the Group's performance for the year under review.

Although the global economy was under recovery, the momentum of growth has been weakened and showed signs of differentiation in 2018. The global economy showed a strong growth at the beginning of 2018, however, the trend has been dampened by many factors such as the escalation of global trade disputes, geopolitical instability, the rise of Populism around the world, uncertainties in Brexit and the tightening of monetary policy of the USA. Economic growth in developed countries was approaching a ceiling while growth has been declining in some of developing countries or the emerging economies. These indicate that there is increasing risk of global economy slowdown.

Aside from the rapid changing global environment, China has been going through a massive economic restructuring at the same time. Chinese government is devoted in regulating the financial market, implementing supply-side structural reform and tightening environmental and safety policies. Accompany with the on-going Sino-US trade war which created a negative investment sentiment, it is inevitable that Chinese economy suffered from infrastructural investment and consumption growth decline and financial market turmoil in 2018. Despite under all these unfavorable circumstances, the Chinese government has implemented a number of effective measures which achieved GDP growth of 6.6% in 2018, higher than the target of 6.5%.

It has been almost 3 years for steel and coal industry undergoing the supply-side structural reform. Capacity reduction targets set out in the "Thirteenth Five-Year Plan" are basically completed in 2018. Supply-demand relationship in the industry has been improved and price has been stabilised. As a result, profitability of the industry has returned to a relatively healthy level. In June 2018, Chinese government announced its "Blue Sky Protection Campaign" which demands a stricter code for environmental protection. This affects production volume in coal mining in China significantly, however, this also tightens the supply of coal especially coking coal and hence the price of coking coal remains at a relatively high position.

Under the current market situation and as a result of our team's effort, our Group is pleased to report that for the year ended 31 December 2018, the raw coking coal production volume of the Group was 4.07 million tonnes with a YOY increase of 2%; the clean coking coal production volume of the Group was 2.12 million tonnes and sale volume was 2.10 million tonnes with a YOY increase of 4% and 1% respectively. The average realised selling prices (VAT inclusive) of raw and clean coking coal were RMB786/tonne and RMB1,451/tonne with a YOY increase of 5% and 15% respectively. During the year under review, the Group's revenue was HK$3.69 billion with a YOY increase of 6%. The gross profit margin was 52% and the net profit attributable to the Company's shareholders was HK$1.1 billion for the year of 2018.

CHAIRMAN'S STATEMENT (continued)

In addition, after several years of construction, lower seam construction in Jinjiazhuang Mine was completed and entered trial production phase in the end of 2018. In the year under review, the Group introduced auto-mining technology to Zhaiyadi Mine and received a positive result. It is expected that there is a significant reduction of underground workers and greatly improved occupational safety and production efficiency in the future. Our Group will continuously develop "Smart Mining Operation" in the future.

Looking towards 2019, we remain cautious about global economic growth. The International Monetary Fund downgraded the world economic growth to 3.5% this year and predicted that Chinese economy will further slowdown to 6.2% GDP growth. Chinese Government also downgraded its GDP growth rate to 6.0%-6.5%. There is a significant pressure on economic growth due to various political and economic disputes happening around the world such as Sino-US trade dispute blurred, uncertainty risk in UK due to Brexit, tightening monetary policy etc.. As Chinese's economy is still under restructuring and in the process of industrial upgrading, its economy faces increasing downward pressure. However, we can see that the Chinese government has adjusted and eased some of the macroeconomic policies. It will cut the whole year's tax by almost 2 trillion yuan which hopefully will improve enterprises' profit margin. Infrastructural investment has been stabilised and rebounded up, many construction projects has been approved and carried out. For real-estate sector, Chinese government introduced "One City One Policy" instruction, meaning that local government can adjust their policies according to their local market situation. This helps stabilising the real-estate market and benefits its long-term development. This shows that the downstream demand of steel industry will remain relatively stable in 2019.

As for coking coal sector, it will benefit from the steel industry and at the same time, Chinese government adjusted its coal import policy, and continue to tighten the environmental and safety regulations that will further limit the supply of coking coal in China. Without any unexpected factors, we remain optimistic on the coking coal price, and we believe that the coking coal price would remain at a relatively high level in 2019.

In 2019, our priority is to restore Jinjiazhuang Mine back to normal operation and restore its production capacity gradually back to the approved level. In order to enhance occupational safety, production efficiency, environmental protection and lower production cost, we will continue to explore different emerging technologies that can transform our operation to become "smarter". Meanwhile, we will also explore all kinds of opportunities to expand our mineral resources in order to sustain Group's development and 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 has proposed a final dividend of HK8.5 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, 21 March 2019

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 under review together with that of the same period of 2017 is summarised as follows:

		For the year ended 31 December		Change	
	Unit	**2018**	2017	**Quantity/ Amount**	**Percentage**
Production volume:					
Raw coking coal	Mt	**4.07**	3.98	**+0.09**	**+2%**
Clean coking coal	Mt	**2.12**	2.03	**+0.09**	**+4%**
Sales volume:					
Raw coking coal	Mt	**0.74**	0.93	**–0.19**	**–20%**
Clean coking coal	Mt	**2.10**	2.07	**+0.03**	**+1%**
Average realised selling price (inclusive of VAT):					
Raw coking coal	RMB/tonne	**786**	684	**+102**	**+15%**
Clean coking coal	RMB/tonne	**1,451**	1,386	**+65**	**+5%**

For the year ended 31 December 2018, the Group produced approximately 4.07 million tonnes ("Mt") (2017: approximately 3.98 Mt) of raw coking coal, representing a year-on-year ("YoY") increase of 2% and also produced approximately 2.12 Mt (2017: approximately 2.03 Mt) of clean coking coal, representing a YoY increase of 4% as a result of reduction of sales volume of raw coking coal by approximately 0.19 Mt and increase in production volume of raw coking coal by approximately 0.09 Mt. Benefited from the cancellation of the 276 working days restriction policy since May 2017 and the upgrade in mining technology, the raw coking coal production volume of the Group was increased by 2% YoY in 2018 even though one of the Three Mines, Jinjiazhuang Coal Mine, suspended its production because of under construction in progress during the year under review.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

BUSINESS REVIEW (continued)

In line with the increase in production volume of clean coking coal, the sales volume of clean coking coal also increased by 1% YoY even though sales volume of raw coking coal dropped by 20% YoY during the year under review. This is in line with the Group's long-term strategy to concentrate on clean coking coal sales. Sales of raw and clean coking coal accounted for 16% and 84% of the Group's turnover respectively for the year ended 31 December 2018. They accounted for 18% and 82% respectively for the same period in 2017.

Although the growth of China's economy was slowed down in 2018, the continuous implementation of the supply-side structural reform in the coal sector has benefited the Group's coking coal business. The market price of coking coal was remained at relatively high level in 2018. For the year ended 31 December 2018, the Group's average realised selling price (inclusive of value added tax "VAT") of raw coking coal increased by 15% YoY to Renminbi ("RMB") 786/tonne when compared with that of the same period of 2017 (2017: RMB684/tonne) and the Group's average realised selling price (inclusive of VAT) of clean coking coal also increased by 5% YoY to RMB1,451/tonne when compared with that of the same period of 2017 (2017: RMB1,386/tonne). In terms of sales volume, sales of hard and semi-hard raw coking coal accounted for 11% and 89% (2017: 29% and 71%) of the total raw coking coal sales volume respectively for the year ended 31 December 2018. In addition, sales of No. 1 and No. 2 clean coking coal accounted for 46% and 54% (2017: 47% and 53%) of the total clean coking coal sales volume respectively for the year ended 31 December 2018.

FINANCIAL REVIEW

For the year ended 31 December 2018, the Group recorded a turnover of approximately Hong Kong Dollars ("HK$") 3,686 million, representing an increase of approximately HK$214 million or 6% YoY as compared with that of approximately HK$3,472 million for the same period of 2017. The increase in turnover was mainly driven by the rise in average realised selling prices of raw and clean coking coal by 15% and 5% YoY respectively.

For the year ended 31 December 2018, the total turnover to the top five customers accounted for 72% (2017: 76%) of the Group's turnover. Of which, the total turnover to the largest customer accounted for 24% (2017: 26%) of the Group's turnover.

FINANCIAL REVIEW (continued)

For the year ended 31 December 2018, gross profit margin was 52% while 54% for the same period in 2017. Gross profit was increased by approximately HK$26 million or 1% YoY.

For the year ended 31 December 2018, the Group recorded a net profit of approximately HK$1,152 million and profit attributable to the owners of the Company (the "Owners") of approximately HK$1,100 million. Save for considerable profits generated from well-managed coking coal business for the year of 2018, the Group also recorded an increase in interest income by approximately HK$40 million YoY and the increase in dividend income from financial assets by approximately HK$14 million YoY. However, net foreign exchange gain of approximately HK$56 million for the last year turned to net foreign exchange loss of approximately HK$28 million for the year under review as a result of the depreciation in RMB exchange rate by 4.56% when compared with that as at 31 December 2017 (2017: appreciation in RMB exchange rate as at 31 December 2017 by 6.67% when compared with that as at 31 December 2016) as at reporting date on 31 December 2018 which was affected the annual results of 2018.

During the year under review, basic earnings per share was HK20.76 cents (2017: HK20.38 cents).

The Group recorded EBITDA of approximately HK$2,028 million (2017: approximately HK$2,028 million) and generated a positive cash flow of approximately HK$1,643 million (2017: approximately HK$1,536 million) from our operating activities during the year under review. As at 31 December 2018, the Group continues to maintain a healthy financial position and has free cash balance of approximately HK$4,307 million (2017: approximately HK$4,864 million). The decrease in cash balance is mainly due to the increase in dividend payments to the Owners and the payments for construction of the lower coal seams of Jinjiazhuang Coal Mine during the year under review.

FINANCIAL REVIEW (continued)

Cost of Sales

During the year under review, cost of sales was approximately HK$1,786 million, representing an increase of approximately HK$189 million or 12% YoY, as compared with that of approximately HK$1,597 million for the same period of 2017. The increase in cost of sales was due to the rise in average RMB to HK$ exchange rate by approximately 2% and the increase in actual usage volume of raw coking coal for sales. In addition, it is attributable to the increase in unit production costs were increased as a result of the implementation of certain environmental policies and also the increase in staff cost in accordance with market trend during the year under review.

Included in cost of sales, amortisation of mining rights was approximately HK$153 million for the year ended 31 December 2018, representing an increase of approximately HK$3 million or 2% YoY, as compared with that of approximately HK$150 million for the same period of 2017. The increase in amortisation of mining rights was mainly due to the increase in actual usage volume of raw coking coal for sales and the rise in average RMB to HK$ exchange rate YoY during the year under review.

The unit production costs are summarised as follows:

		For the year ended 31 December		**Change**	
	Unit	**2018**	2017	**Amount**	**Percentage**
Production cost of raw coking coal	RMB/tonne	**337**	316	**+21**	**+7%**
Less: Uncontrollable costs – resources tax and levies	RMB/tonne	**(61)**	(60)	**+1**	**+2%**
Subtotal	RMB/tonne	**276**	256	**+20**	**+8%**
of which, depreciation and amortisation	*RMB/tonne*	***(62)***	*(65)*	***–3***	***–5%***
Processing cost of clean coking coal	RMB/tonne	**61**	55	**+6**	**+11%**
of which, depreciation	*RMB/tonne*	***(15)***	*(15)*	**–**	**–**

The increase in unit production cost of raw coking coal by 7% YoY was resulted from (i) the increase in staff costs by RMB10/tonne YoY mainly due to salary increment according to the labor market and in turn increase in various staff social insurances expenses; and (ii) the increase in usage of safety fund, maintenance fee and environmental restoration protection fund by RMB13/tonne YoY due to the implementation of certain environmental policies during the year under review. In addition, the unit processing cost of clean coking coal also increased by 11% YoY as a result of the increase in staff costs, transportation costs and material costs.

FINANCIAL REVIEW (continued)

Gross Profit and Gross Profit Margin

As a result of the reasons above, gross profit was approximately HK$1,901 million for the year ended 31 December 2018, representing an increase of approximately HK$26 million or 1% YoY as compared with that of approximately HK$1,875 million for the same period of 2017. During the year under review, gross profit margin was 52% compared with 54% for the same period of 2017.

Other Income and Gains, Net

During the year under review, other income and gains, net was approximately HK$36 million, representing a significant decrease of approximately HK$87 million or 71% YoY as compared with approximately HK$123 million of the same period in 2017. Excluding the impact of net foreign exchange loss of approximately HK$28 million (2017: net foreign exchange gain of approximately HK$56 million) during the year under review, other income and gains, net decreased by approximately HK$3 million, and was mainly attributable to drop in income from sales of scrapped products by approximately HK$18 million or 40% YoY as a result of the decrease in scrapped products arising from the production of clean coking coal. The above decrease was partially offset by the increase in dividend income amounted to approximately HK$14 million or 65% YoY generated from financial assets during the year under review.

Selling and Distribution Expenses

During the year under review, selling and distribution expenses were approximately HK$209 million, representing an increase of approximately HK$2 million or 1% YoY as compared with that of approximately HK$207 million for the same period of 2017. The increase was mainly as a result of the rise in average RMB to HK$ exchange rate by approximately 2%.

General and Administrative Expenses

During the year under review, general and administrative expenses were approximately HK$205 million for the year ended 31 December 2018, representing an increase of approximately HK$3 million or 1% YoY as compared with approximately HK$202 million for the same period of 2017. The increase was mainly resulted from the rise in average RMB to HK$ exchange rate which increase the amount of RMB-denominated expenses when translated into HK$ and the increase in staff social insurances expenses in line with market salary increment during the year under review.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FINANCIAL REVIEW (continued)

Other Operating Expenses

During the year under review, other operating expenses were approximately HK$6 million, representing a decrease of approximately HK$18 million or 75% YoY as compared with approximately HK$24 million for the same period of 2017. Other operating expenses included loss on disposal of old property, plant and equipment during the year under review. The decrease in other operating expenses was mainly due to a due diligence professional fee of approximately HK$12 million for a potential acquisition during the year ended 31 December 2017.

Interest Income

During the year under review, interest income was approximately HK$124 million, representing a significant increase of approximately HK$40 million or 48% YoY as compared with approximately HK$84 million for the same period in 2017. The significant increase in interest income was the result of the higher yield earned in effective cash management for the year under review.

Finance Costs

During the year under review, due to more effective capital management, there was no finance cost (2017: approximately HK$2 million). Finance costs were incurred on early redemption of bills receivables of the Group for the year ended 31 December 2017. During the year under review, no borrowing costs were capitalised in the construction in progress (2017: nil).

Income Tax Expense

During the year under review, income tax expense was approximately HK$488 million (2017: approximately HK$465 million) of which approximately HK$65 million (2017: approximately HK$75 million) represented the provision of withholding tax of 5% on the dividend to be declared from the Group's major subsidiaries incorporated in the People's Republic of China (the "PRC") ("major PRC Subsidiaries") in accordance with the relevant tax regulations in the PRC. Income tax expense increased slightly in line with the 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%.

Owner's Attributable Profit

By reasons of the foregoing, the profit attributable to the Owners during the year under review was approximately HK$1,100 million, representing an increase of HK$19 million or 2% YoY, while approximately HK$1,081 million for the year ended 31 December 2017.

FINANCIAL REVIEW (continued)

Material Investments and Acquisitions

During the year ended 31 December 2018, the Group had no material investments and acquisitions.

Material Disposals

During the year ended 31 December 2018, the Group had no material disposals.

Charges on Assets

As at 31 December 2018, save for disclosed below, none of the Group's assets was charged or subject to any encumbrance.

As at 31 December 2018, bank deposits of approximately HK$188 million and bills receivables of approximately HK$331 million were used for securing bills facilities of approximately HK$517 million.

Contingent Liabilities

As at 31 December 2018, there were no guarantees given by the Group.

Gearing Ratio

As at 31 December 2018, the Group had no borrowings. The gearing ratio of the Group was 0%.

Exposure to Fluctuations in Exchange Rates

As at 31 December 2018, 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 2018, AUD and RMB depreciated by approximately 9% and approximately 5%, respectively, when compared to that as at 31 December 2017. The aggregate carrying amount of assets denominated in AUD represented approximately 3% of the Group's net assets value as at 31 December 2018. 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 75% of the Group's net assets value as at 31 December 2018, the depreciation in RMB also led to exchange loss of approximately HK$586 million (other than the net foreign exchange loss recognised in profit or loss stated above) recognised in the other comprehensive income upon translation of financial statements of foreign operations in the PRC for the year ended 31 December 2018. Nevertheless, the above exposure to fluctuation in exchange rates did not have any material impact on the financial position of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FINANCIAL REVIEW (continued)

Liquidity and Financial Resources

As at 31 December 2018, the Group's current ratio (total current assets divided by total current liabilities) was approximately 2.58 times and the Group's cash and bank deposits amounted to approximately HK$4,497 million, of which approximately HK$188 million was deposited to secure bills facilities of same amount. The Group continued to maintain a healthy net cash balance.

The Group has total bills receivables amounting to approximately HK$1,578 million (of which approximately HK$139 million represented endorsed bills receivables and approximately HK$331 million was used for securing bills facilities of approximately HK$329 million) as at 31 December 2018 that 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$1,108 million, the Group's free cash resources would have approximately HK$5,417 million as at 31 December 2018.

Capital Structure

Total equity and borrowings are classified as capital of the Group. As at 31 December 2018, 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. The Group had no borrowings as at 31 December 2018.

EMPLOYEES

As at 31 December 2018, the Group had 20 Hong Kong employees and 5,105 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. All coal mines of the Group have obtained necessary permission and approval from the relevant Chinese regulators.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

SAFETY PRODUCTION AND ENVIRONMENTAL PROTECTION (continued)

As disclosed in 2017 Annual Report, the Group's Xingwu Coal Mine has happened electromechanical incident in the early of March 2018 that was confirmed arising from non-compliance in operation of machinery by an individual under independent investigation. According to the relevant rules and regulations in the Mainland, our coal mines suspended production for a short period for checking and resumed production afterwards. As the Group has adjusted its production plan immediately, the Group produced raw coking coal of approximately 4.07 Mt, representing an increase of 2% YoY. It is the solid evidence to proof that 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.

During the year under review, except certain infrastructure for Jinjiazhuang Coal Mine under construction and the aforesaid event, 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. 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 2018 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 3 "Financial Risk Management" to the consolidated financial statements.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

The market price of coking coal is highly depended on the demand of the downstream steel industry and the supply of coking coal. In 2018, China has completed the capacity reduction target of 150 Mt in steel industry and of 500 Mt in coal industry outlined in the 13th Five-Year Plan. Under this circumstance, the coking coal industry will not only benefit from central government economic stimulus, but also keep enjoying the advantages brought by the industry-wide capacity reduction campaign and the optimised supply-side structural reform as before. As a result, it is likely that coking coal prices will remain at a high level continuously. 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 1 to 24 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 at minimal charges in the past years. Mining works would become difficult resulting in rise in mining costs in the future.

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 2018, the total turnover to the top five customers accounted for 72% (2017: 76%) of the Group's turnover, of which, the total turnover to the largest customer, accounted for 24% (2017: 26%) 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.

RELATIONSHIPS WITH KEY STAKEHOLDERS (continued)

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 process specifications have been established to maintain the quality of material and construction.

Shareholders

Shougang Group is one of the top five 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

According to the world economic outlook update issued by the International Monetary Fund ("IMF") in January 2019, the global economic growth rate is projected to reach 3.5% in 2019 and 3.6% in 2020 respectively, a downward revision by 0.2 and 0.1 percentage point below the last October's projection. The global economy has shown signs of slow down compared to 2018, partly because of the negative effects of the escalating trade dispute between the USA and China and the potential politic-economic uncertainty in Europe due to Brexit.

China has achieved a GDP growth rate of 6.6% in 2018, slightly higher than the targeted growth rate of 6.5% early that year. However, the Chinese government's infrastructure spending in 2018 lagged behind expectation and both sales of land and property units softened in the second half of 2018. IMF also has lowered China's economic growth rate to 6.2% in 2019, reflecting a weakening economic sentiment as the Sino-US trade dispute blurred and Chinese economy cooled. Therefore, Chinese government has shifted to loose monetary and economic policies in response to a more challenging internal and external environment and heightened trade tensions. They have cut reserve requirement ratios, reduced taxes and fees sharply, increased export tax rebates, and accelerated issuance of special purpose local government bonds to bolster infrastructure spending. Several significant infrastructure construction projects like railway, light-rail and roads have been approved and carried out since August 2018, while some local governments cancelled its transfer restriction on new purchased housing under the "One City One Policy" instruction. It is believed that more economic stimulus would be announced and these will contribute to the healthy development of the overall economic demand in 2019.

Coking coal industry is highly correlated with the business atmosphere of steel industry and its downstream sectors such as property and infrastructure industries etc. With the demand stabilised in the coming year, we expect the overall demand for steel remain solid on the Chinese government's recent infrastructure stimulus, while real-estate under construction will continue to contribute to steel demand, together with tighter environmental and safety controls in coal mining industry, which will be a strong support for coking coal price.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FUTURE PROSPECTS (continued)

In 2018, China has completed the capacity reduction target of 150 Mt in steel industry and of 500 Mt in coal industry outlined in the 13th Five-Year Plan. Under this circumstance, the coking coal industry will not only benefit from central government economic stimulus, but also keep enjoying the advantages brought by the industry-wide capacity reduction campaign and the optimised supply-side structural reform as before. As a result, it is likely that coking coal prices will remain at a high level continuously. However, the on-going Sino-US trade friction, Brexit risk, the Chinese economic restructuring and global economic slowdown will continue to add uncertainties and pressure on global economic development and investment incentive, which might insert unknown influence on the price trend of coking coal and steel in the future.

As to our Group, construction of the lower coal seams of Jinjiazhuang Coal Mine has been completed and the respective mine has entered into the trial production by the end of 2018. Also, construction of the lower coal seams of Xingwu Coal Mine has still been on going in 2019 without interruption of its normal production as scheduled. Our Group expects the coal production capacity will gradually return to the total approved production capacity of 5.25 Mt per annum after Jinjiazhuang Coal Mine will be resumed production in second half of 2019.

The Group has been selected by Shanxi Provincial Government as Excellent Enterprise with Advanced Capacity for years, we will keep enhancing occupational safety, applying emerging technology, improving energy efficiency and securing environmental protections for better production efficiency and cost control. Aiming to improve our production efficiency and make mining operation safer, our Group has been experimenting fully automated mining system since last year. This operational transformation can save labor cost in long run and strengthen the employee skillsets. Looking into 2019, our Group will continue strict corporate governance and generate more values and comparative advantages to maximise the returns of 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 CG Code as set out in Appendix 14 of the Listing Rules during the financial year ended 31 December 2018, 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 and Independent Non-executive Directors is appointed for a specific term, but 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 3 years.

Since 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 that such requirements are sufficient to meet the underlying objective of the said code provision.

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 2018.

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

BOARD OF DIRECTORS

Composition

The Board currently comprises a total of 11 Directors, being 5 Executive Directors, 2 Non-executive Directors and 4 Independent Non-executive Directors. The list of Directors is set out in the section headed "Directors' report" 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.

BOARD OF DIRECTORS (continued)

Composition (continued)

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 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 organisations 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 6 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.

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 OF DIRECTORS (continued)

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.

Director nomination policy

The Company adopted a director nomination policy (the "Director Nomination Policy") on 12 December 2018 which sets out the criteria and process in the nomination and appointment of directors of the Company, in order to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company, and ensure the Board continuity and appropriate leadership at Board level.

According to the selection criteria of the Director Nomination Policy, the Nomination Committee will carry out evaluation on candidates by considering their character, professional qualifications, skills, experience, independence (in case of independent non-executive directors), gender and time commitment and make recommendation to the Board based on the nomination procedure. The Nomination Committee will also review the Director Nomination Policy from time to time and recommend proposed amendment to the Board when necessary to satisfy the business needs and to ensure its compliance with the regulatory requirements and maintain good corporate governance practices.

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 the 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.

CORPORATE GOVERNANCE REPORT (continued)

BOARD OF DIRECTORS (continued)

Board meetings

The Board meets regularly and holds at least 4 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.

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 2018, the Directors have made active contribution to the affairs of the Group, both physical meetings were held and written resolutions were used 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 at the Board meetings and the Board committees' meetings in 2018 are as follows:

	Number of meeting(s) attended/eligible to attend				
	Board	Executive Committee	Audit Committee	Nomination Committee	Remuneration Committee
Executive Directors					
Ding Rucai *(Chairman)*	5/5	2/2	N/A	2/2 *(Note I)*	1/1 *(Note I)*
Li Shaofeng	5/5	2/2	N/A	1/1 *(Note II)*	1/1 *(Note II)*
So Kwok Hoo	5/5	2/2	N/A	N/A	N/A
Chen Zhaoqiang	5/5	1/2	N/A	N/A	N/A
Liu Qingshan	5/5	1/2	N/A	N/A	N/A
Non-executive Directors					
Leung Shun Sang, Tony	5/5	N/A	N/A	N/A	N/A
Chang Cun (be appointed on 1 July 2018)	3/3 *(Note II)*	N/A	N/A	N/A	N/A
Dong Yansheng (resigned on 1 July 2018)	2/2 *(Note IV)*	N/A	N/A	N/A	N/A
Independent Non-executive Directors					
Kee Wah Sze	5/5	N/A	3/3	3/3	2/2
Choi Wai Yin	5/5	N/A	3/3	3/3	2/2
Chan Pat Lam	5/5	N/A	3/3	3/3	2/2
Japhet Sebastian Law	5/5	N/A	3/3	3/3	2/2

Note I: The Nomination Committee had convened 2 meetings and the Remuneration Committee had convened 1 meeting during the year after the appointment of Mr. Ding Rucai as the chairman of the Nomination Committee and the member of the Remuneration Committee on 29 January 2018.

Note II: Each of the Nomination Committee and the Remuneration Committee had convened 1 meeting during the year prior to the resignation of Mr. Li Shaofeng as the chairman of the Nomination Committee and the member of the Remuneration Committee on 29 January 2018.

Note III: The Board had convened 3 meetings during the year after the appointment of Ms. Chang Cun as the Non-executive Director on 1 July 2018.

Note IV: The Board had convened 2 meetings during the year before the resignation of Mr. Dong Yansheng as the Non-executive Director on 1 July 2018.

CORPORATE GOVERNANCE REPORT (continued)

BOARD OF DIRECTORS (continued)

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 management to make further enquiries if necessary.

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 3 years.

None of the existing Non-executive Directors and Independent Non-executive Directors is appointed for a specific term, but they are subject to retirement by rotation and re-election by shareholders at annual general meeting pursuant to the Articles. Accordingly, though deviated from code provision A.4.1, the Board considers that such requirements are sufficient to meet the underlying objective of the said code provision.

Independent Non-executive Directors

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed 4 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 represents more than one-third of the Board.

BOARD OF DIRECTORS (continued)

Independent Non-executive Directors (continued)

The Company has received from each of its Independent Non-executive Directors an annual confirmation regarding the independence of himself and his immediate family members pursuant to Rule 3.13 of the Listing Rules, 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 9 years, his further appointment should be subject to a separate resolution to be approved by shareholders.

Mr. Choi Wai Yin, 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. Choi 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. Choi would not affect his exercise of independent judgement and are satisfied that Mr. Choi 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. Choi is still independent and the recommendation to shareholders to vote in favor of the re-election of Mr. Choi as a Director.

Currently, the number of listed companies in which each Independent Non-executive Director held directorship is less than 7. All Independent Non-executive Directors indicate they are able to contribute sufficient time to the Board's affairs of the Company and fulfil their responsibilities. Each independent non-executive director has also confirmed that he does not hold any cross directorship or other significant links with other directors through involvement in other companies.

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 2018, a summary of which is as follows:

	Continuous professional development	
Directors	**Type**(Note I)	**Subject**(Note II)
Ding Rucai	A	1,3,4
	B	1
Li Shaofeng	A	1,3
	B	1
So Kwok Hoo	A	1,3,4
	B	1
Chen Zhaoqiang	A	1,3
	B	1
Liu Qingshan	A	1,3
	B	1
Leung Shun Sang, Tony	A	1,3
	B	1
Chang Cun (be appointed on 1 July 2018)	A	1,3
	B	1
Dong Yansheng (resigned on 1 July 2018)	B	1
Kee Wah Sze	A	1,3
	B	1
Choi Wai Yin	A	1,3
	B	1
Chan Pat Lam	A	1,3
	B	1
Japhet Sebastian Law	A	1,3
	B	1

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 Group

CHAIRMAN AND MANAGING DIRECTOR

The roles of Chairman and Managing Director are separate and exercised by different individuals to reinforce their independence and accountability. With effect from 29 January 2018, Mr. Ding Rucai succeeded Mr. Li Shaofeng as the Chairman of the Company and Mr. Li Shaofeng re-designated as the Managing Director 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 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.

BOARD COMMITTEES (continued)

Executive Committee (continued)

As per the list below, the Executive Committee comprises all Executive Directors and the chairman of the Board is the chairman of the committee.

Committee chairman	Ding Rucai
Member	Li Shaofeng
Member	So Kwok Hoo
Member	Chen Zhaoqiang
Member	Liu Qingshan

The major work 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 2017;
- managing and overseeing the daily operation of the Group; and
- performing corporate governance duties.

Audit Committee

An Audit Committee 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.

CORPORATE GOVERNANCE REPORT (continued)

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.

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

Committee chairman	Choi Wai Yin
Member	Kee Wah Sze
Member	Chan Pat Lam
Member	Japhet Sebastian Law

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 2017;
- reviewing the interim results of the Group for the six months ended 30 June 2018;
- reviewing the reports on the risk management and internal control systems of the Group prepared by the internal audit department; and
- making recommendation to the Board regarding the appointment of new auditor.

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.

Nomination Committee

A Nomination Committee 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.

BOARD COMMITTEES (continued)

Nomination Committee (continued)

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 made in accordance to the Director Nomination Policy 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.

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.

As per the list below, the chairman of the Nomination Committee is the chairman of the Board and the Independent Non-executive Directors constitute the majority of the Nomination Committee.

Committee chairman	Ding Rucai
Member	Kee Wah Sze
Member	Choi Wai Yin
Member	Chan Pat Lam
Member	Japhet Sebastian Law

CORPORATE GOVERNANCE REPORT (continued)

BOARD COMMITTEES (continued)

Nomination Committee (continued)

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;
- considering and making recommendations to the Board on the re-election of Directors at the annual general meeting;
- studying the factors to be considered for director nomination and criteria for selecting and recommending director candidates, and making recommendations to the Board on adopting the Director Nomination Policy;
- reviewing the existing Board Diversity Policy; and
- considering and making recommendation to the Board for the appointment of Ms. Chang Cun as a Non-executive Director.

Remuneration Committee

A Remuneration Committee 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;

BOARD COMMITTEES (continued)

Remuneration Committee (continued)

- 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.

As per the list below, the chairman of the Remuneration Committee is an Independent Non-executive Director and the Independent Non-executive Directors constitute the majority of the Remuneration Committee.

Committee chairman	Japhet Sebastian Law
Member	Ding Rucai
Member	Leung Shun Sang, Tony
Member	Kee Wah Sze
Member	Choi Wai Yin
Member	Chan Pat Lam

CORPORATE GOVERNANCE REPORT (continued)

BOARD COMMITTEES (continued)

Remuneration Committee (continued)

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

- reviewing the performance and the remuneration packages of the Directors;
- making recommendations to the Board on renewing the appointment term of the Non-executive Directors and Independent Non-executive Directors; and
- making recommendations to the Board on the terms of the engagement letter and director's fee of Ms. Chang Cun.

Details of remuneration paid to Directors and senior management for the year are set out in note 13 to the audited 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 of the Company. 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 Organisation 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:

	Internal Control Components – 17 Principles on Effective Internal Controls
	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
Operations, Reporting and Compliance Objectives	**Risk Assessment** 6. Specifies suitable objectives 7. Identifies and analyses risk 8. Assesses fraud risk 9. Identifies and analyses 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

CORPORATE GOVERNANCE REPORT (continued)

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Internal Control (continued)

The Board is responsible for the Group's internal control system and for reviewing its appropriateness and effectiveness. The Audit Committee is authorised 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.

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 authorised 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 results 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 Organisation 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.

CORPORATE GOVERNANCE REPORT (continued)

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 authorised 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 authorised spokespersons and their responsibilities for communications with stakeholders of the Company.

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.

AUDITOR'S REMUNERATION

During the year, the remuneration paid/payable to the auditors of the Company is set out as follows:

Services rendered	*HK$'000*
Statutory audit services for 2018	1,550
Non-statutory audit services:	
Review on interim financial report	300
Other services	242
	2,092

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 current auditor of the Company, PricewaterhouseCoopers, about its reporting responsibilities on the audited consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 78 to 84 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. The Board would review the policy regularly.

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.

COMMUNICATION WITH SHAREHOLDERS (continued)

BDO Limited, the auditor of the Company at that time, attended the 2018 AGM, while the Directors' attendances of the 2018 AGM are as follows:

Directors	**2018 AGM**
Executive Directors	
Ding Rucai *(Chairman)*	✔
Li Shaofeng	✔
So Kwok Hoo	✔
Chen Zhaoqiang	✔
Liu Qingshan	✔
Non-executive Directors	
Leung Shun Sang, Tony	✔
Chang Cun *(Note I)*	**N/A**
Dong Yansheng	**X**
Independent Non-executive Directors	
Kee Wah Sze	✔
Choi Wai Yin	✔
Chan Pat Lam	✔
Japhet Sebastian Law	**X**

Note I: Ms. Chang Cun has not been appointed yet when the 2018 AGM was held.

Pursuant to code provision E.1.2, the chairman of the Board should attend the annual general meeting and invite the chairman (or another member in case the chairman is absent) of other committees to attend. Since Mr. Japhet Sebastian Law, the chairman of the Remuneration Committee, due to his other engagement, did not attend the 2018 AGM, other members of the Remuneration Committee had been invited and attended that meeting to answer questions from the shareholders.

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 the 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.

CHANGE IN CONSTITUTIONAL DOCUMENTS

There is no change in the Articles 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 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 Listing Rules as its standards, with an aim to establish a sound environmental, social and governance structure. The Board 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 year ended 31 December 2018.

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 27 to 49 of the Group's 2018 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.

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.

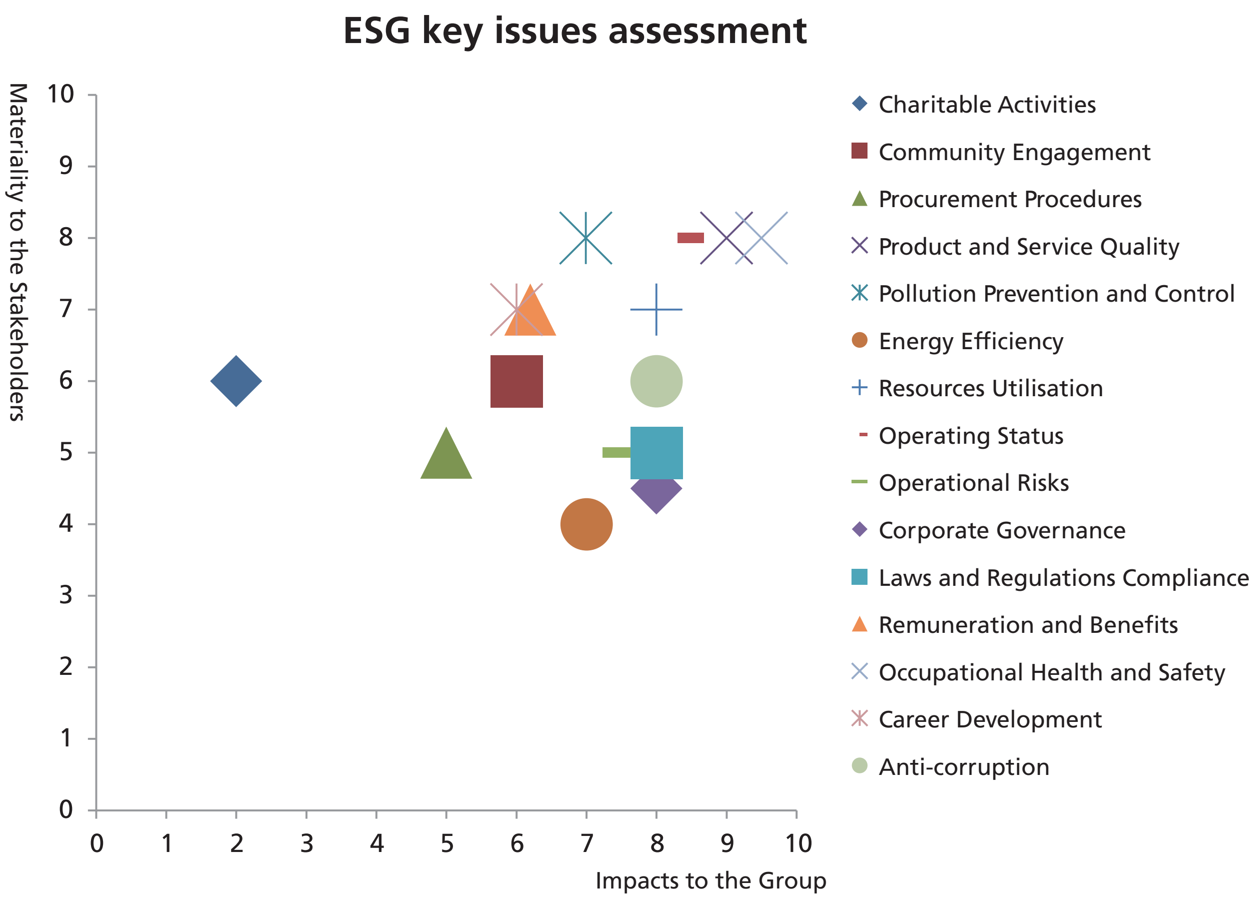
Going beyond the pursuit of economic benefits, the Group has also proactively participated in charitable activities to make contribution to the society, devoting itself in promoting the local economic development and building a harmonious relationship with community.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

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. Through the Group's major subsidiaries in Liulin County, Shanxi Province, it operates three premium coking coal mines and their associated coal preparation plants 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 4.07 million tonnes and approximately 2.12 million tonnes respectively, and the sales volume of raw and clean coking coal were approximately 0.74 million tonnes and approximately 2.10 million tonnes respectively. Turnover of the Group was approximately HK$3,686 million.

The Group shared its profits to stakeholders during the reporting period, of which, 2017 final dividend, 2017 special dividend and 2018 interim dividend paid to shareholders total amounting to approximately HK$1,156 million, staff costs (including employee benefit expenses) amounting to approximately HK$612 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 for mulated a comprehensive set of system and method for safety and quality management. Two premium coking coal mines under continuous production having been awarded "First Class Certificate for Safety and Quality Standardisation" and "Second Class Certificate for Safety and Quality Standardisation", while one premium coking coal mine is under construction thus has not being awarded. These certifications enable production safety in the coal mines and keep 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 continuously 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 management personnel of China region with rank department manager or above had all signed "Leading official being incorrupt when discharging duties undertaking agreement"

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 which laid a solid foundation for safety production.

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.

HEALTH AND SAFETY (continued)

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, two premium coking coal mines under continuous production having been awarded "First Class Certificate for Safety and Quality Standardisation" and "Second Class Certificate for Safety and Quality Standardisation" by the State Administration of Coal Mine Safety, while one premium coking coal mine is under construction thus has not being awarded.

As disclosed in 2017 Annual Report, the Group's Xingwu Coal Mine had happened an electromechanical incident in the early of March 2018 that was confirmed arising from non-compliance in operation of machinery by an individual under independent investigation.

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.

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 has assured annual production volume through seamless integration operation of Xingwu Coal Mine and Zhaiyadi Coal Mine. An automatic interface has been under trial run at Zhaiyadi Coal Mine, which enables operation of all coal mining equipment with one control key by the coal haulage operators at the control center. Construction of infrastructure for lower coal seams of Jinjiazhuang Coal Mine has been completed and is currently under the process of inspection and acceptance. It will effectively provide guarantee on the subsequent enhancement of production volume.

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 conducted in Jinjiazhuang Coal Mine, to achieve "Green Mining" and "Zero" gas emission while solving the heating issue in Jinjiazhuang Coal Mine.

During the reporting period, the Group adjusted the heat-supply method of the heat-supply system from coal burning to air heat pump, to reduce emission of air pollutants according to local environmental protection regulations.

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

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 enterprise, 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	2018	2017
Air pollutants emission		
Total emission of sulphur dioxide (kg)	**27,291**	42,827
Emission intensity of sulphur dioxide (mg/m^3)	**28**	117
Total emission of soot (kg)	**12,137**	29,957
Emission intensity of soot (mg/m^3)	**10**	91
Total emission of gas (ten thousand m^3)	**3,787**	3,408
Water pollution discharge		
Mine water discharge (ten thousand tonnes)	**164**	251
Emission intensity of chemical oxygen demand (mg/L)	**12**	13
Solid waste discharge		
Volume of mine tailing removal (ten thousand tonnes)	**76**	73
Resources consumption		
Recovery rate of coal mining area (%)	**86%**	86%
Comprehensive energy consumption against raw coking coal production (kg standard coal/tonne)	**4**	4
Electricity consumption (ten thousand kwh)	**17,824**	16,316
Fresh water consumption (ten thousand tonnes)	**60**	71
Utilisation of pollution emissions		
Utilisation rate of gas (%)	**55%**	46%
Utilisation rate of mine water (%)	**35%**	14%

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"). 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 2018, the Group had a total of 5,105 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 2018, the Group organised all members safety training with 4,323 staffs, special skills training with 356 staffs, "Three Violations" training with 119 staffs and safety and quality standardisation training with 1,120 staffs respectively. To strengthen our talent echelon, the Group formed three mining teams comprising university graduates in 2018. The teams received comprehensive on-the-job trainings to gain full understanding of the Group's principle of safety and operational visions as well as the code of conducts of employees. During 2018, all team members visited plants of the manufacturers for trainings to gain knowledge on the production equipment. The aggregate number of team members participated in this "on-site" training programme was 47.

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 the 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.

DIRECTORS' REPORT

The Directors have pleasure in submitting their report and the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries and associate are set out in notes 35 and 18 to the audited consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2018 and the state of affairs of the Group at that date are set out in the audited consolidated financial statements on pages 85 to 173 of this annual report.

DIVIDEND POLICY

In accordance to the dividend policy (the "Dividend Policy") approved and adopted by the Board, when recommending or declaring dividends, the Company shall retain adequate reserves for the future growth of the Group.

The Company intends to distribute not less than 40% of its net profit attributable to the shareholders in that financial year (not less than dividend payout ratio of 40%) as dividends. However, the Board will take into account certain factors of the Group when considering the declaration and payment of dividends, which includes the actual and expected financial performance, retained earnings and distributable reserves, liquidity position, general economic conditions, business cycle of the Group's businesses and other internal or external factors that may have an impact on the businesses or financial performance and position of the Group, and other factors that the Board may consider relevant.

DIVIDEND

The Board has proposed a final dividend of HK8.5 cents per ordinary share for the year ended 31 December 2018 (2017 final dividend: HK7.2 cents per ordinary share, 2017 special dividend: 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 Monday, 3 June 2019. The proposed final dividend together with the interim dividend of HK8.3 cents per ordinary share will make a total dividend of HK16.8 cents per ordinary share for the year ended 31 December 2018 representing dividend payout ratio of 81% (2017 total dividend: HK16.5 cents per ordinary share, representing dividend payout ratio of 81%).

DIVIDEND (continued)

Subject to shareholders' approval of the proposed final dividend at the Company's annual general meeting to be held on Thursday, 16 May 2019, the final dividend is expected to be paid on Thursday, 11 July 2019. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Monday, 3 June 2019 for registration.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 13 to 14 and pages 15 to 26 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 174 of this annual report.

BORROWINGS

As at 31 December 2018, the Group had no borrowings.

SHARE CAPITAL

Details of the Company's share capital during the year are set out in note 31 to the audited consolidated financial statements.

DONATIONS

Charitable donations made by the Group during the year amounted to approximately HK$173,000.

DIRECTORS' REPORT (continued)

DIRECTORS

The Directors 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
Chang Cun (be appointed on 1 July 2018)
Dong Yansheng (resigned on 1 July 2018)
Kee Wah Sze#
Choi Wai Yin#
Chan Pat Lam#
Japhet Sebastian Law#

Independent Non-executive Director

In accordance with article 102(A) of the Articles, Mr. Ding Rucai, Mr. Leung Shun Sang, Tony, Mr. Choi Wai Yin and Mr. Japhet Sebastian Law, will retire at the Annual General Meeting by rotation, whereas in accordance with article 93 of the Articles, Ms. Chang Cun, who was appointed on 1 July 2018 as the Non-executive Director, shall hold office until the Annual General Meeting.

Except Mr. Leung Shun Sang, Tony, who will not offer himself for re-election due to his other personal business and arrangements, all the other retiring Directors, being eligible, offer themselves for re-election at the Annual General Meeting. The re-election of these retiring Directors will be individually voted on by Shareholders. Details could be referred to the circular relating to "Proposals for general mandates to issue and buy back shares, re-election of retiring directors and notice of annual general meeting".

DIRECTORS' REPORT (continued)

DIRECTORS OF SUBSIDIARIES

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

[#] *As of the date of this report, the person ceased to be the director of the subsidiary of the Company.*

DIRECTORS' INDEMNITIES AND INSURANCE

As permitted by the Articles, 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 who held office at 31 December 2018 had the following interests in the Shares as at that day 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 of the Listing Rules:

Long positions in the Shares

Name of Director	Capacity in which interests were held	Number of Shares held	Interests as to % of the total number of shares of the Company in issue as at 31.12.2018
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	0.000%
Chan Pat Lam	Beneficial owner	200,000	0.004%

Save as disclosed above, as at 31 December 2018, 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 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 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 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
Ding Rucai	Shougang Holding#	Trading of coal	Director
Li Shaofeng	Shougang International#	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.

The Board 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 2018, according to the register kept by the Company under Section 336 of the SFO, the following companies and persons had interests in the Shares and/or underlying Shares 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

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 December 2018	*Note*
Shougang Group	Interests of controlled corporations	1,582,864,490	29.85%	*1*
Funde Sino Life	Beneficial owner	1,539,844,306	29.04%	*2*
Jiang Jinzhi ("Mr. Jiang")	Interests of controlled corporations	332,914,000	6.28%	*3*

Notes:

1. According to the disclosure form dated 19 September 2018 (being the latest disclosure form filed up to 31 December 2018), Shougang Group was interested in the Shares held by its direct and indirect subsidiaries, namely, Shougang Holding (a company wholly owned by Shougang Group, holding 15,492,000 Shares), King Rich Group (a company wholly owned by Shougang Holding, holding 83,000,000 Shares), Prime Success Investments Limited (a company wholly owned by Shougang Holding, holding 20,410,000 Shares), Shougang International (a company held as to over 50% interests by Shougang Group through its direct and indirect subsidiaries as per the disclosure form of Shougang International filed by Shougang Group on 28 December 2018, holding 954,000 Shares), Fair Gain Investments Limited (a company wholly owned by Shougang International, holding 149,089,993 Shares), Fine Power Group Limited (a company wholly owned by Shougang International, holding 663,918,497 Shares), and Ultimate Capital Limited (a company wholly owned by Shougang International, holding 650,000,000 Shares).

2. Information per the disclosure form dated 22 May 2014 (being the latest disclosure form filed up to 31 December 2018).

3. According to the disclosure form dated 29 January 2018 (being the latest disclosure form filed up to 31 December 2018) among these 332,914,000 Shares,(i)125,200,000 Shares were held through Golden China Master Fund which was wholly owned by Mr. Jiang; (ii) 74,248,000 Shares were held through Shanghai Greenwoods Asset Management Limited which was 75% owned by Mr. Jiang; (iii)105,300,000 Shares were held by Greenwoods China Alpha Master Fund, a wholly-owned subsidiary of Greenwoods Asset Management Limited, and (iv) 28,166,000 Shares were held by Greenwoods Asset Management Limited directly. Greenwoods Asset Management Limited was a wholly-owned subsidiary of Greenwoods Asset Management Holdings Limited which was held as to 81% by Unique Element Corp. which in turn was wholly owned by Mr. Jiang.

DIRECTORS' REPORT (continued)

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

Save as disclosed above, as at 31 December 2018, 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 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, 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 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.

DIRECTORS' REPORT (continued)

SHARE OPTION SCHEME (continued)

No share option has been granted under the Share Options Scheme since its adoption. The maximum number of Shares 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 in issue as at the date of this annual report. The total number of Shares 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 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, or to any of their associates, which would result in the Shares 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 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 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 10 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.

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 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 as stated in the daily quotations sheets of the Stock Exchange for the 5 business days immediately preceding the date of offer of share options; and (iii) the nominal value of a Share 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.

DIRECTORS' REPORT (continued)

SHARE OPTION SCHEME (continued)

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 2018, 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$842,517,000 reserves available for distribution as calculated in accordance with the relevant provisions of the Companies Ordinance, of which approximately HK$450,656,000 has been proposed as a final 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 71.6% 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 24.2%. Purchases from the Group's five largest suppliers accounted for approximately 48.0% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 11.8%. 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) had any interest in the Group's five largest customers and suppliers.

DIRECTORS' REPORT (continued)

CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS

(a) Continuing Connected Transactions

During the year under review and up to the date of this annual report, the continuing connected transactions recorded are summarized as follow:

(I) **Date and Name of the agreement:** 16 November 2017
The Second Master Agreement

Nature of the transaction:
(i) Supply coking coal products to the connected party; and
(ii) Purchase of steel material from the connected party

Parties of the transaction:
(a) The Group
(b) Shougang Group and/or its associates

Description and purpose of the transaction: The Group (i) supplied coking coal products to Shougang Group and/or its associates since 2010 and (ii) purchased steel materials from Shougang Group and/or its associates since 2015 in its usual and ordinary course of business. As Shougang International became a subsidiary of Shougang Group from 16 November 2017, and thus Shougang Group also became a substantial shareholder of the Company from that day, the Second Master Agreement was entered into to regulate the continuing connected transactions between the Group and Shougang Group and/or its associates for the 3 financial years ending 31 December 2020.

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.

Term: 1 January 2018 to 31 December 2020

Annual Cap:

	For the year ended 31 December 2018	For the year ending 31 December 2019	For the year ending 31 December 2020
Nature (i)	RMB870,000,000	RMB1,310,000,000	RMB1,510,000,000
Nature (ii)	RMB50,000,000	RMB52,000,000	RMB54,000,000

Transaction amount for the year ended 31 December 2018 under the agreement:

Nature (i)	RMB698,549,000	(equivalent to HK$826,384,000)
Nature (ii)	RMB3,126,000	(equivalent to HK$3,698,000)

CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS (continued)

(a) Continuing Connected Transactions (continued)

(II) **Date and Name of the agreement:** 31 August 2018
Tenancy Agreement

Nature of the transaction: Rent the premises owned by the connected party as the Group's office

Parties of the transaction:
(a) The Company and its certain wholly-owned subsidiaries (the "Tenants")
(b) Winluck Properties Limited – a wholly-owned subsidiary of Shougang Group (the "Landlord")

Description and purpose of the transaction: The Group has been using the premises as its office. The Tenancy Agreement serves to renew a tenancy agreement which expired on 31 August 2018 [Note]. The Board considered that the continued use of the premises as the Group's office would generate benefits to the Group as a whole in terms of saving on relocation and relevant administration costs.

Details of the continuing connected transactions contemplated under the Tenancy Agreement have been disclosed in the announcement of the Company dated 31 August 2018.

Note: On 23 December 2016, the Tenants entered into a tenancy agreement with the Landlord in respect of the lease of the premises and such agreement was expired on 31 August 2018. ("2016 Tenancy Agreement")

Prior to 16 November 2017, Shougang Group, through its subsidiaries, held approximately 2.24% interest in the Company and was not a connected person of the Company. The 2016 Tenancy Agreement did not constitute a continuing connected transaction for the Company for the purpose of Chapter 14A of the Listing Rules at the time when the 2016 Tenancy Agreement was entered into.

On 16 November 2017, Shougang International became a subsidiary of Shougang Group and thus Shougang Group also became a substantial shareholder of the Company from that day and the transactions between the Group and Shougang Group and/or its associates become connected transactions for the Company under the Listing Rules. The 2016 Tenancy Agreement subsequently became a continuing connected transaction for the Company under Chapter 14A.60 of the Listing Rules on 16 November 2017. As each of the applicable ratios calculated with reference to the highest annual rent payable over the remaining period under the 2016 Tenancy Agreement when the transaction became connected, being HK$2,504,000, is less than 5% and HK$3,000,000, pursuant to Rule 14A.76, the 2016 Tenancy Agreement was exempt from the reporting, announcement, annual review requirements, circular (including independent financial advice) and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS (continued)

(a) Continuing Connected Transactions (continued)

Term: 1 September 2018 to 31 December 2020

Annual Cap:

For the period from 1 September to 31 December 2018	For the year ending 31 December 2019	For the year ending 31 December 2020
HK$1,252,000	HK$3,756,000	HK$3,756,000

Transaction amount for the year ended 31 December 2018 under the agreement: HK$1,252,000

(III) **Date and Name of the agreement:** 7 December 2018
Master Facility Agreement

Nature of the transaction: Provide revolving credit facility to the connected party

Parties of the transaction:

(a) The Company and/or its subsidiaries (excluding Jinshan Energy Group Limited ("Jinshan Energy", 山西金山能源有限公司) and its subsidiaries) (the "Lender")

(b) Jinshan Energy and/or its subsidiaries (the "Borrower")

Description and purpose of the transaction:

Jinshan Energy is a non-wholly owned subsidiary of the Group and the Master Facility Agreement is being entered into to enable the Group to provide financial assistance to Jinshan Energy for its operation and development requirements.

In view of the satisfactory cash flow and healthy financial position of the Group, the Directors considered that the provision of credit facilities by the Lender to the Borrower, can save finance costs as a whole and meet the development and financial needs of the Group in other development projects through fully utilising its internal funding strength, promoting reasonable allocation of resources and increasing its funding utilisation rate.

Details of the continuing connected transactions contemplated under the Master Facility Agreement have been disclosed in the announcement of the Company dated 7 December 2018.

CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS (continued)

(a) Continuing Connected Transactions (continued)

Term: 7 December 2018 to 6 December 2021

Annual Cap: (as the maximum daily outstanding amount)	For the period from 7 December to 31 December 2018	For the year ending 31 December 2019	For the year ending 31 December 2020	For the period from 1 January to 6 December 2021
	RMB90,000,000	RMB90,000,000	RMB90,000,000	RMB90,000,000

Transaction amount for the year ended 31 December 2018 under the agreement: RMB22,660,000 (equivalent to HK$25,606,000)

(b) Connected Transactions

Saved as disclosed above, the Group has no connected transaction that was subject to the disclosure requirements under the Listing Rules during the year under review and up to the date of this annual report.

ANNUAL REVIEW ON CONTINUING CONNECTED TRANSACTIONS

Pursuant to Rule 14A.56 of the Listing Rules, the Company's auditor, PricewaterhouseCoopers, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. PricewaterhouseCoopers has issued an unqualified letter containing findings and conclusions in respect of the continuing connected transactions disclosed by the Group in the paragraph above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

ANNUAL REVIEW ON CONTINUING CONNECTED TRANSACTIONS (continued)

In accordance with Rule 14A.55 of the Listing Rules, the Independent Non-executive Directors reviewed the continuing connected transactions in the paragraph above and confirmed that the transactions were entered into:

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

(ii) on normal commercial terms or better; and

(iii) according to the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Group as a whole.

RELATED PARTY TRANSACTIONS

Details of other related party transactions, which were exempt from any disclosure and shareholders' approval requirements, or do not constitute connected or continuing connected transactions under Chapter 14A of the Listing Rules, are set out in note 38 to the audited consolidated financial statements.

CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 27 to 49 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 2018 are set out in the Environmental, Social and Governance Report on pages 50 to 62 of this annual report.

AUDITOR

BDO Limited resigned as the auditor of the Company with effect from 1 August 2018, and PricewaterhouseCoopers was appointed as the new auditor of the Company to fill the casual vacancy on the same day. A resolution will be submitted to the forthcoming annual general meeting to re-appoint PricewaterhouseCoopers as the auditor of the Company.

By Order of the Board
Ding Rucai
Chairman

Hong Kong, 21 March 2019

INDEPENDENT AUDITOR'S REPORT

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

OPINION

What we have audited

The consolidated financial statements of Shougang Fushan Resources Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 85 to 173, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

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INDEPENDENT AUDITOR'S REPORT (continued)

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

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.

INDEPENDENT AUDITOR'S REPORT (continued)

KEY AUDIT MATTERS (continued)

Key audit matter identified in our audit is as follows:

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessments of goodwill, mining rights and property, plant and equipment Refer to Notes 14, 16 and 17(a) to the consolidated financial statements As at 31 December 2018, the Group has goodwill, mining rights and property, plant and equipment of HK$1,235 million, HK$7,752 million and HK$3,235 million respectively, that were originated from the acquisitions of Shanxi Liulin Xingwu Coal Co., Limited ("Xingwu"), Shanxi Liulin Jinjiazhuang Coal Co., Limited ("Jinjiazhuang") and Shanxi Liulin Zhaiyadi Coal Co., Limited ("Zhaiyadi") in 2008. These companies are engaged in coking coal mining, production and sales of coking coal products in the People's Republic of China (the "PRC"). For the purpose of impairment assessments, management grouped the relevant assets of Xingwu, Jinjiazhuang and Zhaiyadi at the lowest levels for which there are three separately identifiable cash inflows that are largely independent of the cash inflows from other assets or group of assets (cash-generating-unit ("CGU")). Management determined the recoverable amounts of each CGU using the value-in-use method, which involved significant judgement in determining the assumptions used in the calculations. The key assumptions include long-term coal prices and discount rates.	Our procedures in relation to management's impairment assessments of goodwill, mining rights and property, plant and equipment included: – We evaluated the composition of management's future cash flow forecasts used in their value-in-use calculations, and the process by which they were prepared. We found that the cash flow forecasts prepared by management were subject to review by the directors of the Company and were consistent with the budgets approved by the Company's board of directors. – We involved our internal valuation experts in assessing the appropriateness and consistency of the methodologies used, and key assumptions and estimates applied. – We evaluated the reasonableness of management's key assumptions made in the forecasts. For coal prices, we compared the long-term coal prices used in the forecasts against the market prices, and assessed the rate of annual increment by reference to industry forecasts and market trends. For the discount rate, we benchmarked the rate used in the forecast against our research of the discount rates used by comparable companies in the industry.

INDEPENDENT AUDITOR'S REPORT (continued)

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Based on the results of the impairment assessments, no impairment on goodwill, mining rights and property, plant and equipment was considered necessary as at 31 December 2018. We focused on this area due to the significance of the balances and the significant judgements involved in the assessment of the recoverable amounts of the CGUs including the assumptions used in the calculation of value-in-use.	– We compared the current year actual results with the amounts included in the prior year cash flow forecast to consider the quality of management's forecasting, and we checked that management had considered the current year actual results in the preparation of this year's forecasts. We inquired of management to understand the reasons for the deviation of the actual results for the current year from the prior year's forecast, corroborating management's explanations to our knowledge on the market and the Group's performance in the current year. We also checked that these relevant factors had been taken into account in this year's forecasts. Based on the procedures performed, we found management's judgements used in the impairment assessments of goodwill, mining rights and property, plant and equipment to be supportable based on the available evidence.

INDEPENDENT AUDITOR'S REPORT (continued)

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than 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.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs 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 Audit Committee is responsible for overseeing the Group's financial reporting process.

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. We report our opinion 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. 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 scepticism 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.

INDEPENDENT AUDITOR'S REPORT (continued)

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

- 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.

- 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 Audit Committee, 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.

The engagement partner on the audit resulting in this independent auditor's report is Chan Hin Gay Gabriel.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue from contracts with customers	5	**3,686,176**	3,471,922
Cost of sales		**(1,785,634)**	(1,596,518)
Gross profit		**1,900,542**	1,875,404
Other income and gains, net	6	**35,790**	123,155
Selling and distribution expenses		**(208,621)**	(206,638)
General and administrative expenses		**(205,351)**	(202,034)
Other operating expenses		**(6,437)**	(23,961)
Interest income		**124,445**	84,286
Finance costs	7	**–**	(2,226)
Share of loss of an associate		**(659)**	(368)
Profit before income tax	8	**1,639,709**	1,647,618
Income tax expense	9	**(487,781)**	(465,034)
Profit for the year		**1,151,928**	1,182,584
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		**(585,649)**	723,997
Item that will not be reclassified to profit or loss:			
Fair value gain on financial assets measured at fair value through other comprehensive income		**24,374**	155,062
Total comprehensive income for the year		**590,653**	2,061,643

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

For the year ended 31 December 2018

	Notes	2018 *HK$'000*	2017 *HK$'000*
Profit for the year attributable to:			
Owners of the Company		**1,100,488**	1,080,649
Non-controlling interests		**51,440**	101,935
Profit for the year		**1,151,928**	1,182,584
Total comprehensive income for the year attributable to:			
Owners of the Company		**605,105**	1,881,310
Non-controlling interests		**(14,452)**	180,333
Total comprehensive income for the year		**590,653**	2,061,643
Earnings per share			
– Basic and diluted (HK cents)	*11*	**20.76**	20.38

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	**3,609,544**	3,171,773
Prepaid lease payments	15	**60,062**	50,781
Mining rights	16	**7,751,953**	8,275,967
Goodwill	17	**1,255,559**	1,314,569
Interest in an associate	18	**11,880**	13,107
Financial assets measured at fair value through other comprehensive income	19	**654,053**	629,679
Deposits, prepayments and other receivables	20	**489,947**	584,543
Deferred tax assets	30	**22,752**	23,121
Total non-current assets		**13,855,750**	14,063,540
Current assets			
Inventories	21	**130,069**	195,983
Trade receivables	22	**669,837**	871,004
Bills receivables	22	**1,578,345**	1,426,791
Deposits, prepayments and other receivables	20	**319,677**	110,777
Other financial asset	23	**200,000**	–
Pledged bank deposits	24	**190,029**	162,083
Time deposits with original maturity over three months	25	**854,010**	1,540,808
Cash and cash equivalents	25	**3,453,325**	3,323,659
Total current assets		**7,395,292**	7,631,105
Total assets		**21,251,042**	21,694,645
Current liabilities			
Trade and bills payables	26	**834,903**	612,507
Other financial liability	27	**178,358**	178,358
Other payables and accruals	28	**1,426,081**	1,498,032
Amounts due to non-controlling interests of subsidiaries	29	**72,228**	37,843
Tax payables		**357,130**	334,660
Total current liabilities		**2,868,700**	2,661,400
Net current assets		**4,526,592**	4,969,705
Total assets less current liabilities		**18,382,342**	19,033,245

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(continued)

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Deferred tax liabilities	30	**1,606,536**	1,657,562
Total non-current liabilities		**1,606,536**	1,657,562
Net assets		**16,775,806**	17,375,683
EQUITY			
Equity attributable to owners of the Company			
Share capital	31	**15,156,959**	15,156,959
Reserves	32	**227,157**	777,853
Total equity attributable to owners of the Company		**15,384,116**	15,934,812
Non-controlling interests		**1,391,690**	1,440,871
Total equity		**16,775,806**	17,375,683

The consolidated financial statements on page 85 to 173 were approved by the Board of Directors on 21 March 2019 and were signed on its behalf:

Ding Rucai
Director

Li Shaofeng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Equity attributable to owners of the Company							Non-controlling interests	Total equity
	Share capital	Statutory reserve *(note 32(a))*	Other reserves *(note 32(b))*	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 2018	15,156,959	448,068	401,704	1,068,611	(1,745,157)	604,627	15,934,812	1,440,871	17,375,683
Profit for the year	–	–	–	1,100,488	–	–	1,100,488	51,440	1,151,928
Other comprehensive income for the year:									
– Exchange differences on translation of financial statements of foreign operations	–	–	–	–	–	(519,757)	(519,757)	(65,892)	(585,649)
– Fair value gain on financial assets measured at fair value through other comprehensive income	–	–	–	–	24,374	–	24,374	–	24,374
Total comprehensive income for the year	–	–	–	1,100,488	24,374	(519,757)	605,105	(14,452)	590,653
2017 special dividends declared (note 10)	–	–	–	(334,016)	–	–	(334,016)	–	(334,016)
2017 final dividends approved (note 10)	–	–	–	(381,732)	–	–	(381,732)	–	(381,732)
2018 interim dividends declared (note 10)	–	–	–	(440,053)	–	–	(440,053)	–	(440,053)
Dividend paid to non-controlling interests of subsidiaries	–	–	–	–	–	–	–	(34,729)	(34,729)
Appropriations to other reserves (note 32b)	–	–	29,191	(29,191)	–	–	–	–	–
At 31 December 2018	15,156,959	448,068	430,895	984,107	(1,720,783)	84,870	15,384,116	1,391,690	16,775,806

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2018

	Equity attributable to owners of the Company							Non-controlling interests	Total equity
	Share capital	Statutory reserve *(note 32(a))*	Other reserves *(note 32(b))*	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 27)	–	–	(186,138)	–	–	–	(186,138)	–	(186,138)
2016 final dividends approved (note 10)	–	–	–	(159,055)	–	–	(159,055)	–	(159,055)
2017 interim dividends declared (note 10)	–	–	–	(159,055)	–	–	(159,055)	–	(159,055)
Dividend paid to non-controlling interests of subsidiaries	–	–	–	–	–	–	–	(27,226)	(27,226)
Appropriations to other reserves (note 32b)	–	–	(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 CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Cash flows from operating activities			
Profit before income tax		**1,639,709**	1,647,618
Adjustments for:			
Depreciation of property, plant and equipment	14	**232,613**	226,466
Amortisation of prepaid lease payments	15	**1,778**	1,415
Amortisation of mining rights	16	**153,437**	149,603
Finance costs		**–**	2,226
Share of loss of an associate		**659**	368
Interest income		**(124,445)**	(84,286)
Dividend income		**(36,624)**	(22,171)
Loss on disposals of property, plant and equipment		**3,427**	9,758
Net foreign exchange loss/(gain)		**28,164**	(56,364)
Operating profit before working capital changes		**1,898,718**	1,874,633
Decrease in inventories		**56,976**	15,856
Increase in trade and bills receivables		**(55,186)**	(225,571)
(Increase)/Decrease in deposits, prepayments and other receivables		**(13,379)**	155
Increase in trade and bills payables		**219,965**	86,396
(Decrease)/Increase in other payables and accruals		**(42,280)**	205,446
Increase in amounts due to non-controlling interests of subsidiaries		**3,076**	3,714
Cash generated from operations		**2,067,890**	1,960,629
Income tax paid		**(425,039)**	(424,937)
Net cash generated from operating activities		**1,642,851**	1,535,692

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Cash flows from investing activities			
Payments to acquire property, plant and equipment		**(913,435)**	(445,358)
Proceeds from disposals of property, plant and equipment		**505**	432
(Payments to acquire)/Redemption of other financial assets		**(200,000)**	200,000
Increase in pledged bank deposits		**(35,337)**	(84,548)
Decrease in time deposits with original maturity over three months		**686,798**	489,125
Interest received		**105,500**	84,602
Dividend received		**36,624**	22,171
Net cash (used in)/generated from investing activities		**(319,345)**	266,424
Cash flows from financing activities			
Finance costs paid		**–**	(2,226)
Dividends paid to owners of the Company		**(1,135,313)**	(315,306)
Net cash used in financing activities		**(1,135,313)**	(317,532)
Net increase in cash and cash equivalents		**188,193**	1,484,584
Cash and cash equivalents at 1 January		**3,323,659**	1,794,286
Effect of foreign exchange rates changes on cash and cash equivalents		**(58,527)**	44,789
Cash and cash equivalents at 31 December	25	**3,453,325**	3,323,659

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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. Details of the activities of the principal subsidiaries of the Group are set out in note 35.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 standards and interpretations and the impacts on the Group's financial statements, if any, are disclosed in note 2.1.1.

2.1 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").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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 19) which are measured at fair values. The measurement bases are fully described in the accounting policies below.

2.1.1 Adoption of new or amended standards and interpretations – effective 1 January 2018

The following new and amended standards and interpretations apply for the first time to the Group's financial reporting period commencing on 1 January 2018:

Annual Improvements to HKFRSs 2014–2016 Cycle	Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards
Annual Improvements to HKFRSs 2014–2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9 (2014)	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

The impact of the adoption of HKFRS 9 (2014) and HKFRS 15 are disclosed below in note 2.2. The other standards did not have any impact on the Group's accounting policies and are not expected to significantly affect the current or future periods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.2 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 date they become effective.

Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Annual improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, Business Combinations[1]
Annual improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 11, Joint Arrangements[1]
Annual improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 12, Income Taxes[1]
Annual improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 23, Borrowing Costs[1]
HKFRS 16	Leases[1]
HK(IFRIC)-Int 23	Uncertainty Over Income Tax Treatments[1]
Amendments to HKAS 28	Long-term Interest in Associates in Joint Ventures[1]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
HKFRS 17	Insurance Contracts[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

None of the new and amended standards and interpretations issued but not yet applied by the Group is expected to have a significant effect on the financial statements of the Group, except for the following set out below:

HKFRS 16 – Leases

Nature of change

HKFRS 16 was issued in May 2016. It will result in almost all leases being recognised on the consolidated statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact

The standard will affect primarily the accounting for the Group's operating leases.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$43,686,000, see note 37(a). For these lease commitments, the Group expects to recognise lease commitment of approximately HK$31,844,000 as right-of-use assets on 1 January 2019 and lease liabilities of the same amount, net current assets will be HK$4,617,000 lower due to the presentation of a portion of the liability as a current liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

HKFRS 16 – Leases (continued)

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 (2014) and HKFRS 15 on the Group's financial statements.

(a) Adoption of HKFRS 9 (2014)

HKFRS 9 (2014) replaces the provisions of HKFRS 9 (2010) that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

In 2012, the Group has early adopted HKFRS 9 (2010). The classification and measurement requirements under HKFRS 9 (2010) on the financial assets held by the Group as at 1 January 2018 are consistent with HKFRS 9 (2014). However, under HKFRS 9 (2014), there is a new impairment model which requires the recognition of impairment provisions based on expected credit losses, detailed as follows:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies (continued)

(a) *Adoption of HKFRS 9 (2014) (continued)*

Impairment of financial assets

The Group has three types of financial assets that are subject to the new expected credit loss model of HKFRS 9 (2014):

- Trade receivables
- Bills receivables
- Other financial assets measured at amortised cost

The Group is required to revise its impairment methodologies under the HKFRS 9 (2014) for each of these classes of assets:

Trade and bills receivables

The Group applies the HKFRS 9 (2014) simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables and bills receivables.

To measure the expected credit losses, trade and bills receivables have been grouped based on shared credit risk characteristics and the days past due. The Group applied different expected loss rates to different classes of trade and bills receivables, according to their respective risk characteristics.

Trade and bills receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

The Group has assessed the expected credit loss model applied to the trade and bills receivables as at 1 January 2018 and the change in impairment methodologies has no material impact of the Group's consolidated financial statements and the opening loss allowance is not restated in this respect.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies (continued)

(a) Adoption of HKFRS 9 (2014) (continued)

Other financial assets measured at amortised cost

Other financial assets measured at amortised cost include other financial asset, deposits and other receivables. The Group has assessed the expected credit loss model apply to the other receivables as at 1 January 2018 and the change in impairment methodologies has no material impact of the Group's consolidated financial statements and the opening loss allowance is not restated in this respect.

(b) Adoption of HKFRS 15

The Group has adopted HKFRS 15 from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. The new accounting policies are set out in note 2.24. In accordance with the transitional provisions in HKFRS 15, the Group has adopted the modified retrospective approach and comparative figures have not been restated.

Presentation of liabilities related to contracts with customers

The Group has changed the presentation of certain amounts in the consolidated statement of financial position to reflect the terminology of HKFRS 15: advance from customers is reclassified as contract liabilities included in other payables and accruals.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies (continued)

(b) Adoption of HKFRS 15 (continued)

Presentation of liabilities related to contracts with customers (continued)

The impact on the Group's financial position by the application of HKFRS 15 is as follows:

	As previously stated	Reclassification under HKFRS 15	Restated
	HK$'000	*HK$'000*	*HK$'000*
As at 1 January 2018			
Consolidated statement of financial position (extract):			
Other payables and accruals – Contract liabilities	–	133,286	133,286
Other payables and accruals – Advance from customers	133,286	(133,286)	–
As at 31 December 2018			
Consolidated statement of financial position (extract):			
Other payables and accruals – Contract liabilities	–	133,929	133,929
Other payables and accruals – Advance from customers	133,929	(133,929)	–

The adoption of HKFRS 15 has no impact to the Group's net assets as at 1 January 2018 and the results, earnings per share (basic and diluted) and cash flows for the year ended 31 December 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 2.4).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Principles of consolidation and equity accounting (continued)

(ii) Associates (continued)

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 2.10.

(iii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Shougang Fushan Resources Group Limited.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Principles of consolidation and equity accounting (continued)

(iii) Changes in ownership interests (continued)

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2.4 Business combination

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Business combination (continued)

The excess of the

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2.5 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The board of directors of the Company (the "Board") has assigned executive directors which assesses the financial performance and position of the Group, and makes strategic decisions. The executive directors have been identified as the chief operating decision maker.

2.7 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollar (HK$), which is Shougang Fushan Resources Group Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income and gains.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Foreign currency translation (continued)

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Foreign currency translation (continued)

(iv) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.8 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 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 based on the total proved and probable reserves of the coal mine 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Intangible assets

(i) Goodwill

Goodwill is measured as described in note 2.4. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (note 5).

(ii) Mining rights

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

2.10 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment measured at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Investments and other financial assets (continued)

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets measured at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies all of its debt instruments at amortised cost:

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "other income and gains, net" together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Investments and other financial assets (continued)

(iii) Measurement (continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

(iv) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments measured at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade and bills receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 2.2(a) and 3.1(b) for further details.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Investments and other financial assets (continued)

(v) Accounting policies applied until 31 December 2017

In 2012, the Group has early adopted HKFRS 9 (2010). The classification, recognition, derecognition and measurement requirements under HKFRS 9 (2010) on the financial assets held by the Group until 31 December 2017 were consistent with HKFRS 9 (2014) and thus, the adoption of HKFRS 9 (2014) had no impact on the Group's consolidated financial statements except for the new impairment model which requires the recognition of impairment provision based on expected credit losses, detailed in note 2.11(iv) above.

The Group applied the following accounting policies for impairment until 31 December 2017:

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Investments and other financial assets (continued)

(v) Accounting policies applied until 31 December 2017 (continued)

Assets carried at amortised cost

For assets carried at amortised cost, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under HKFRS 9; and

- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

2.14 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 60 to 90 days and therefore are all classified as current.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See note 22 for further information about the Group's accounting for trade receivables and note 3.1(b) for a description of the Group's impairment policies.

2.16 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

2.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.18 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 to 180 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Other borrowing costs are expensed in the period in which they are incurred.

2.20 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Current and deferred income tax (continued)

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled within 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.

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

(ii) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Share-based payments

Share-based compensation benefits are provided to employees via the "2012 Scheme" and an employee share scheme, the executive short-term incentive scheme and share appreciation. Information relating to these schemes is set out in note 33.

The fair value of options granted under the 2012 Scheme is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (e.g. the entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (e.g. profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (e.g. the requirement for employees to save or hold shares for a specific period of time).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.24 Revenue recognition

Sales of goods

Revenue is recognised when or as the control of the good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time.

Control of the good or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Revenue recognition (continued)

Sales of goods (continued)

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

The Group is engaged in coking coal mining, production and sales of coking coal products. Revenue is recognised when the control of the products are transferred to the customers at a point in time, when products are delivered to the customers, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customers, and either the customers have accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A contract liability is recognised when the consideration is received from customers before the goods are delivered. A receivable is recognised when the goods are delivered and accepted as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

2.25 Interest income

Interest income on financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income calculated using the effective interest method is recognised in the statement of profit or loss.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.26 Dividends income

Dividends are received from financial assets measured at fair value through other comprehensive income. Dividends are recognised as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in other comprehensive income if it relates to an investment measured at fair value through other comprehensive income. However, the investment may need to be tested for impairment as a consequence.

2.27 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares

by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.28 Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 37(a)). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2.29 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group is exposed to a variety of financial risks such as market risk (including foreign exchange risk, cash flow and fair value 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.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk

(i) Foreign exchange risk

Foreign exchange 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 Renminbi ("RMB") respectively. No foreign exchange risk has been identified for the financial assets and liabilities in the PRC operations 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 which are denominated in RMB, United States Dollars ("US$") and Australian Dollars ("AUD").

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

	2018			2017		
	Expressed in HK$'000			Expressed in HK$'000		
	AUD	***US$***	***RMB***	*AUD*	*US$*	*RMB*
Financial assets measured at fair value through other comprehensive income	**483,407**	**–**	**–**	448,995	–	–
Deposits, prepayments and other receivables						
– Consideration receivables	**–**	**–**	**178,358**	–	–	178,358
– Interest receivables	**175**	**28,025**	**10,991**	38	18,117	2,078
Time deposit with original maturity over three months	**–**	**722,772**	**131,238**	–	1,540,808	–
Cash and bank balances	**38,666**	**1,876,877**	**781,443**	20,026	1,975,671	375,213
Overall net exposure	**522,248**	**2,627,674**	**1,102,030**	469,059	3,534,596	555,649

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

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.

	2018			2017		
	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%**	**1,942**	**24,283**	+5%	1,003	22,713
AUD	**-5%**	**(1,942)**	**(24,283)**	-5%	(1,003)	(22,713)
RMB	**+5%**	**55,337**	**–**	+5%	28,455	–
RMB	**-5%**	**(55,337)**	**–**	-5%	(28,455)	–

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk

Cash flow and fair value 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 other financial asset, pledged bank deposits, cash and cash equivalents and time deposits at bank, the terms and interest rates are disclosed in notes 23, 24 and 25 respectively.

The following table illustrates the sensitivity of profit/loss after income tax for the year to a change in interest rates of +25 basis points and -25 basis points (2017: +25 basis points and -25 basis points). The calculations are based on the cash and cash equivalents as at 31 December 2018 and 2017. All other variables are held constant.

	2018 ***HK$'000***	2017 *HK$'000*
If interest rates were 25 basis point (2017: 25 basis point) higher		
Profit for the year increased by	**1,879**	1,812
If interest rates were 25 basis point (2017: 25 basis point) lower		
Profit for the year decreased by	**1,879**	1,812

(iii) 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 (note 19). 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.

For listed equity securities, an average volatility of 19.79% and 11.35% was observed in Hang Seng Index in Hong Kong and All Ordinary Index in Australia in 2018 respectively (2017: 15.76% and 11.96%). Had the quoted stock price for these securities increased or decreased by that amount, the Group's security investment reserve within equity would have been increased or decreased by approximately HK$88,636,000 (2017: HK$82,196,000).

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

Credit risk arises from trade and bills receivables, deposits, other receivables, pledged bank deposits, time deposits with original maturity over three months and cash and cash equivalents.

(i) Risk management

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit system to assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

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.

(ii) Impairment of financial assets

Impairment of financial assets of the Group are assessed using the expected credit loss model.

Trade receivables

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

To measure the lifetime expected credit losses, trade receivables has been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

The following table presents the gross carrying amount and the lifetime expected credit loss in respect of individually assessed trade receivables as at 31 December 2018 and 1 January 2018:

	As at 31 December 2018 HK$'000	As at 1 January 2018 HK$'000
Gross carrying amount	217,453	227,847
Lifetime expected credit loss	(217,453)	(227,847)
Net carrying amount	–	–

The following table presents the gross carrying amount and the provision for impairment loss in respect of collectively assessed trade receivables as at 31 December 2018:

	As at 31 December 2018			
	Lifetime expected credit loss rate	Gross carrying amount *HK$'000*	Lifetime expected credit loss *HK$'000*	Net carrying amount *HK$'000*
Ageing category				
1 to 3 months	0.00%	382,432	–	382,432
4 to 6 months	0.00%	287,405	–	287,405
		669,837	–	669,837

Expected credit loss is close to zero as the trade receivables have no recent history of default, the impact of the expected loss from collectively assessed trade receivables to be immaterial.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

Impairment losses on trade receivables are presented as "net impairment losses on financial assets" in the consolidated statement of profit or loss. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against the same line item.

Management has assessed and is of the opinion that there is no loss allowance for cash and cash equivalents, bills receivables and other financial assets measured at amortised cost as at 31 December 2018 (2017: same).

(c) 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 long 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.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

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

	Carrying amount *HK$'000*	Total contractual undiscounted cash flow *HK$'000*	Within one year or on demand *HK$'000*
As at 31 December 2018			
Non-derivative financial liabilities:			
Trade and bills payables	**834,903**	**834,903**	**834,903**
Other financial liability	**178,358**	**191,808**	**191,808**
Other payables and accruals	**807,518**	**807,518**	**807,518**
Amounts due to non-controlling interests of subsidiaries	**72,228**	**72,228**	**72,228**
	1,893,007	**1,906,457**	**1,906,457**

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) 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 bills payables	612,507	612,507	612,507
Other financial liability	178,358	191,808	191,808
Other payables and accruals	803,497	803,497	803,497
Amounts due to non-controlling interests of subsidiaries	37,843	37,843	37,843
	1,632,205	1,645,655	1,645,655

3.2 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.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital management (continued)

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. Details of the Group's dividend policy is disclosed under the heading "Dividend Policy" in the Director's report. Management regards total equity, including its reserves, as capital which was amounted to HK$16,775,806,000 (2017: HK$17,375,683,000) as at 31 December 2018, 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.

During the year, the Group's strategy, 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 2018, the Group does not have any debt (2017: nil) and the Group's adjusted cash position is HK$3,856,679,000 (2017: HK$4,148,719,000).

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

3.3 Fair value estimation

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).

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

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.

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

		2018			
	Notes	**Level 1** *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*	**Total** *HK$'000*
Financial assets measured at fair value through other comprehensive income					
– Listed equity securities	*3.3(a)*	**654,053**	**–**	**–**	**654,053**
– Unlisted equity securities	*3.3(b)*	**–**	**–**	**–**	**–**
		654,053	**–**	**–**	**654,053**

		2017			
	Notes	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
Financial assets measured at fair value through other comprehensive income					
– Listed equity securities	*3.3(a)*	629,679	–	–	629,679
– Unlisted equity securities	*3.3(b)*	–	–	–	–
		629,679	–	–	629,679

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.

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (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 included in level 3 approximates zero.

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

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

4. 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 to 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:

4.1 Impairment of non-financial assets

The Group assesses impairment on property, plant and equipment, prepaid lease payments and mining rights 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.

4.2 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 2.9. 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 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 17(a).

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.3 Amortisation of mining rights

Mining rights are amortised over the estimated total 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 values. 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.

5. REVENUE FROM CONTRACTS WITH CUSTOMERS AND SEGMENT INFORMATION

The Group's principal activities are disclosed in note 1. 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:

	2018	2017
	HK$'000	*HK$'000*
Sales of raw coking coal	**592,720**	629,971
Sales of clean coking coal	**3,093,456**	2,841,951
	3,686,176	3,471,922

5. REVENUE FROM CONTRACTS WITH CUSTOMERS AND SEGMENT INFORMATION (continued)

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 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 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 tax assets) are divided into the following geographical areas:

	Revenue from external customers		**Non-current assets**	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Principal markets				
PRC	**3,686,176**	3,471,922	**13,178,829**	13,410,306
Hong Kong	**–**	–	**116**	434
	3,686,176	3,471,922	**13,178,945**	13,410,740

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 top three customers of the Group's coking coal mining segment amounted to HK$892,739,000, HK$826,383,000 and HK$471,557,000, which represented 24%, 22% and 13% of the Group's revenue. In last year, the respective revenue from top three customers of the Group's coking coal mining segment amounted to HK$627,198,000, HK$793,389,000 and HK$892,213,000, which represented 18%, 23% and 26% of the Group's revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

6. OTHER INCOME AND GAINS, NET

	2018	2017
	HK$'000	*HK$'000*
Dividend income	**36,624**	22,171
Income from sales of scrapped products	**26,579**	44,620
Net foreign exchange (loss)/gain	**(28,164)**	56,364
Others	**751**	–
	35,790	123,155

7. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest charged on discounted bills receivables	**–**	2,226

No borrowing costs were capitalised for the years ended 31 December 2018 and 2017.

8. PROFIT BEFORE INCOME TAX

	2018	2017
	HK$'000	*HK$'000*
Profit before income tax is arrived at after charging:		
Auditor's remuneration		
– audit services	**1,550**	1,575
– other services	**542**	475
Cost of inventories sold	**1,785,634**	1,596,518
Amortisation of:		
– prepaid lease payments (note 15)	**1,778**	1,415
– mining rights (note 16)	**153,437**	149,603
Depreciation of property, plant and equipment (note 14)	**232,613**	226,466
Staff costs *(including directors' emoluments)* (note 12)	**611,816**	543,595
Operating lease charges in respect of land and buildings	**7,725**	7,378
Loss on disposals of property, plant and equipment	**3,427**	9,758

9. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
Current tax – PRC income tax		
– Current year	**463,525**	511,637
– Over provision in respect of prior years	**(753)**	(2,532)
Deferred tax (note 30)		
– Current year	**25,009**	(44,071)
	487,781	465,034

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 2018 and 2017.

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% (2017: 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. INCOME TAX EXPENSE (continued)

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

	2018	2017
	HK$'000	*HK$'000*
Profit before income tax	**1,639,709**	1,647,618
Tax calculated at the rates applicable to the tax jurisdiction concerned	**390,304**	399,107
Tax effect of non-deductible expenses	**21,063**	6,977
Tax effect of non-taxable income	**(14,552)**	(23,713)
Tax effect of tax losses not recognised	**26,305**	9,998
Effect of withholding tax at 5% on distributable profits of the Group's major PRC subsidiaries	**65,414**	75,197
Over provision in respect of prior years	**(753)**	(2,532)
Income tax expense	**487,781**	465,034

10. DIVIDENDS

	2018	2017
	HK$'000	*HK$'000*
Dividends recognised as distributions during the year:		
2017 special dividend of HK6.3 cents (2017: nil) per ordinary share	**334,016**	–
2017 final dividend of HK7.2 cents (2017: 2016 final dividend of HK3 cents) per ordinary share	**381,732**	159,055
2018 interim dividend of HK8.3 cents (2017: HK3 cents) per ordinary share	**440,053**	159,055
	1,155,801	318,110

10. DIVIDENDS (continued)

On 21 March 2019, the Board proposed a 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 is subject to the shareholder's approval at the forthcoming annual general meeting. The final dividend proposed after 31 December 2018 has not been recognised as a liability as at 31 December 2018.

On 22 March 2018, the Board 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 was approved by shareholders at the annual general meeting held on 18 May 2018 and was paid on 12 July 2018. The final dividend proposed and special dividend declared after 31 December 2017 has not been recognised as a liability as at 31 December 2017.

11. EARNINGS PER SHARE

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

	2018	2017
	HK$'000	*HK$'000*
Profit used to determine basic and diluted earnings per share	**1,100,488**	1,080,649
	'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 HK20.76 cents (2017: HK20.38 cents), based on the profit for the year attributable to owners of the Company of HK$1,100,488,000 (2017: HK$1,080,649,000) 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 2018 and 2017, there was no share option outstanding and the Company did not have any dilutive potential ordinary shares during years ended 31 December 2018 and 2017.

12. STAFFS COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2018 HK$'000	2017 HK$'000
Salaries, wages and allowances	510,025	483,857
(Reversal)/Provision for unused annual leaves	(29)	65
Retirement benefits scheme contributions	101,820	59,673
	611,816	543,595

13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Directors' emoluments

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

	2018					2017				
	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. Ding Rucai	–	2,790	–	18	2,808	–	3,120	–	18	3,138
Mr. Li Shaofeng	–	5,400	–	18	5,418	–	5,400	–	18	5,418
Mr. So Kwok Hoo	–	3,000	500	263	3,763	–	3,000	1,250	319	4,569
Mr. Chen Zhaoqiang	–	2,640	880	176	3,696	–	2,640	1,100	187	3,927
Mr. Liu Qingshan	–	2,400	800	160	3,360	–	2,400	1,000	170	3,570
Non-executive directors										
Mr. Leung Shun Sang, Tony	420	–	–	–	420	420	–	–	–	420
Ms Chang Cun #	210	–	–	–	210	–	–	–	–	–
Mr. Dong Yansheng *	210	–	–	–	210	420	–	–	–	420
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	16,230	2,180	635	21,565	2,520	16,560	3,350	712	23,142

appointed with effect from 1 July 2018

* resigned with effect from 1 July 2018

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

Directors' emoluments (continued)

During the year, Mr. Ding Rucai, chairman of the Board, voluntarily waived part of his salary of HK$330,000 (2017: nil).

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 (2017: nil).

During the year, no share options were granted to the directors in respect of their services to the Group (2017: 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 Directors' report.

Five highest paid individuals

The five highest paid individuals in the Group in 2018 and 2017 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

14. 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 2017								
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
For the 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 differences	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 8)	(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
For the year ended 31 December 2018								
Opening net carrying amount	**871,808**	**984,209**	**720,058**	**580,748**	**–**	**8,037**	**6,913**	**3,171,773**
Exchange differences	**(38,371)**	**(65,970)**	**(31,456)**	**(34,919)**	**–**	**(450)**	**(323)**	**(171,489)**
Additions	**838**	**545,318**	**6,425**	**286,737**	**–**	**4,462**	**2,025**	**845,805**
Transfers	**56,901**	**(74,779)**	**–**	**17,878**	**–**	**–**	**–**	**–**
Disposals	**(1,672)**	**–**	**(748)**	**(1,486)**	**–**	**(6)**	**(20)**	**(3,932)**
Depreciation (note 8)	**(76,870)**	**–**	**(36,592)**	**(114,909)**	**–**	**(2,419)**	**(1,823)**	**(232,613)**
Closing net carrying amount	**812,634**	**1,388,778**	**657,687**	**734,049**	**–**	**9,624**	**6,772**	**3,609,544**
At 31 December 2018								
Cost	**1,525,188**	**1,388,778**	**938,096**	**1,711,572**	**2,965**	**113,872**	**60,173**	**5,740,644**
Accumulated depreciation	**(602,645)**	**–**	**(239,552)**	**(936,666)**	**(2,965)**	**(104,248)**	**(53,401)**	**(1,939,477)**
Accumulated impairment losses	**(109,909)**	**–**	**(40,857)**	**(40,857)**	**–**	**–**	**–**	**(191,623)**
Net carrying amount	**812,634**	**1,388,778**	**657,687**	**734,049**	**–**	**9,624**	**6,772**	**3,609,544**

14. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2018, the Group is still in the process of obtaining the building ownership certificates for certain buildings with net carrying amount of approximately RMB113,890,000 (equivalent to HK$128,695,000) (2017: RMB122,788,000 (equivalent to HK$145,381,000)). In the opinion of directors of the Company, the Group has obtained the rights to use the buildings.

15. PREPAID LEASE PAYMENTS

The Group's interests in leasehold land and land use rights represent the prepaid lease payments under operating leases.

	2018	2017
	HK$'000	*HK$'000*
Opening net carrying amount	**50,781**	48,965
Addition	**13,919**	–
Amortisation (note 8)	**(1,778)**	(1,415)
Exchange differences	**(2,860)**	3,231
Closing net carrying amount	**60,062**	50,781

During the year, amortisation expense of HK$1,778,000 (2017: HK$1,415,000) has been included in general and administrative expenses.

16. MINING RIGHTS

	2018	2017
	HK$'000	*HK$'000*
Opening net carrying amount	**8,275,967**	7,902,244
Amortisation (note 8)	**(153,437)**	(149,603)
Exchange differences	**(370,577)**	523,326
Closing net carrying amount	**7,751,953**	8,275,967
Gross carrying amount	**10,655,617**	11,164,824
Accumulated amortisation	**(2,242,166)**	(2,195,748)
Accumulated impairment losses	**(661,498)**	(693,109)
Net carrying amount	**7,751,953**	8,275,967

The estimated remaining useful lives of the mining rights range between 30 years and 42 years based on exploration reports prepared in accordance with the relevant PRC standards.

During the year, amortisation expense of HK$153,437,000 (2017: HK$149,603,000) has been included in cost of sales.

17. GOODWILL

	2018	2017
	HK$'000	*HK$'000*
Opening net carrying amount	**1,314,569**	1,233,703
Exchange differences	**(59,010)**	80,866
Closing net carrying amount	**1,255,559**	1,314,569
Gross carrying amount	**2,147,708**	2,206,718
Accumulated impairment losses	**(892,149)**	(892,149)
Net carrying amount	**1,255,559**	1,314,569

(a) Impairment tests for goodwill

A summary of the goodwill allocation is presented below.

	2018	2017
	HK$'000	*HK$'000*
Xingwu	**716,003**	750,219
Jinjiazhuang	**–**	–
Zhaiyadi	**518,845**	543,639
Jinshan	**20,711**	20,711
Net carrying amount at 31 December	**1,255,559**	1,314,569

During the year ended 31 December 2018, no impairment loss was recognised in the consolidated statement of profit or loss and other comprehensive income (2017: nil).

As described in note 4.2, the recoverable amounts of CGUs have been determined based on value-in-use calculations, which are based on certain key assumptions including growth rates and discount rate. The recoverable amounts as at 31 December 2018 were measured by an independent valuer, Asset Appraisal Limited, a member of the Hong Kong Institute of Surveyors.

17. GOODWILL (continued)

(a) Impairment tests for goodwill (continued)

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

Cash flows were projected based on the financial budgets prepared by management covering a 5-year period, the cash flows beyond the 5-year period are extrapolated using a steady percentage growth rate below.

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.

The key assumptions of discounted cash flow models were as follows:

	2018	2017
Growth rates	**-4.13% to 2%**	-14.4% to 3%
Discount rate	**13.40%**	12.88%

The annual growth rates applied by management are consistent with those estimated in the industry reports, and do not exceed the growth rates of long-term coal prices. The discount rates used by management are the pre-tax interests rates that are able to reflect the risks specific to the related asset groups and consolidation of asset groups.

As at 31 December 2018, management believes that any reasonably foreseeable change in any of above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount.

18. INTEREST IN AN ASSOCIATE

	2018 HK$'000	2017 HK$'000
As at 1 January	**13,107**	12,641
Share of loss	**(659)**	(368)
Exchange differences	**(568)**	834
As at 31 December	**11,880**	13,107

Particulars of the associate at 31 December 2018 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 2018	Effective interest held by the Group 2017
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.

18. INTEREST IN AN ASSOCIATE (continued)

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

	2018	2017
	HK$'000	*HK$'000*
As at 31 December		
Non-current assets	**29,279**	32,367
Current assets	**1,333**	1,520
Non-current liabilities	**–**	–
Current liabilities	**(3,564)**	(3,668)
Net assets	**27,048**	30,219
For the year ended 31 December		
Revenue	**354**	1,009
Loss for the year	**(1,877)**	(1,048)
Other comprehensive income	**(1,294)**	1,930
Total comprehensive income	**(3,171)**	882
Dividends received from associate	**–**	–

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

	2018	2017
	HK$'000	*HK$'000*
Equity securities, at fair value		
– listed in Australia (note (a))	**483,407**	448,995
– listed in Hong Kong (note (b))	**170,646**	180,684
	654,053	629,679
Unlisted equity interest (note (c))	**–**	–
	654,053	629,679

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 2018, the Group directly held 14.52% (2017: 14.94%) interest in Mount Gibson and the fair value of the investment in Mount Gibson was HK$483,407,000 (2017: HK$448,995,000) which represented the market value with reference to its closing price denominated in AUD as at that day on the Australian Securities Exchange. A fair value gain of HK$34,412,000 (2017: HK$127,816,000) was recognised in the security investment reserve during the year ended 31 December 2018.

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

As at 31 December 2018, the Group directly held 17.65% (2017: 18.03%) interest in APAC and the fair value of the investment in APAC was HK$170,646,000 (2017: HK$180,684,000) which represented the market value with reference to its closing price denominated in HK$ as at that day on the Stock Exchange. A fair value loss of HK$10,038,000 (2017: a fair value gain of HK$27,246,000) was recognised in the security investment reserve during the year ended 31 December 2018.

(c) This represents the cost of 7% (2017: 7%) equity investment in an unlisted company incorporated in the PRC. The entity ceased operation during the year ended 31 December 2013, a fair value loss of approximately HK$8,890,000 was recorded against the investment in 2013.

The fair value of the Group's investments in listed and unlisted equity securities has been measured as described in note 3.3.

20. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Non-current		
Consideration receivable for the transfer of 27% equity interest of Jinshan (note 27)	**–**	178,358
Deposits for a potential mining project	**159,194**	166,801
Prepayments for CIP and property, plant and equipment	**288,099**	180,761
Prepayments for land-use rights	**42,654**	58,623
	489,947	584,543
Current		
Consideration receivable for the transfer of 27% equity interest of Jinshan (note 27)	**178,358**	–
Prepayments	**74,326**	65,363
Interest receivables	**39,200**	20,255
Deposits and other receivables	**27,793**	25,159
	319,677	110,777

21. INVENTORIES

	2018	2017
	HK$'000	*HK$'000*
Spare parts and consumables	**72,713**	92,174
Coking coal	**57,356**	103,809
	130,069	195,983

As at 31 December 2018 and 2017, no inventories were stated at net realisable value.

22. TRADE AND BILLS RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**887,290**	1,098,851
Less: Provision for impairment loss	**(217,453)**	(227,847)
	669,837	871,004
Bills receivables	**1,578,345**	1,426,791
	2,248,182	2,297,795

Trade receivables generally have credit terms ranging from 60 to 90 days (2017: 60 to 90 days) and no interest is charged. Bills receivables are expiring within one year. As at 31 December 2018 and 2017, all of the trade and bills receivables are denominated in RMB.

As at 31 December 2018, bills receivables included an amount of RMB292,531,000 (equivalent to HK$330,560,000) (2017: RMB111,992,000 (equivalent to HK$132,599,000)) which was pledged for bills payables of RMB290,878,000 (equivalent to HK$328,692,000) (2017: RMB111,992,000 (equivalent to HK$132,599,000)) (note 26).

The Group endorsed certain of its bills 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 bills receivables.

22. TRADE AND BILLS 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 bills receivables. As at 31 December 2018, bills receivables of RMB122,622,000 (equivalent to HK$138,563,000) (2017: RMB133,152,000 (equivalent to HK$157,652,000)) 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 bills receivables are collected or the Group settles any losses suffered by the creditors.

As at 31 December 2018, bills receivables endorsed to trade creditors and other creditors amounted to RMB19,500,000 (equivalent to HK$22,035,000) (2017: RMB25,192,000 (equivalent to HK$29,827,000)) (note 26) and RMB103,122,000 (equivalent to HK$116,528,000) (2017: RMB107,960,000 (equivalent to HK$127,825,000)) (note 28) respectively.

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

As at 31 December 2018, ageing analysis of net trade receivables, based on the invoice dates, is as follows:

	2018	2017
	HK$'000	*HK$'000*
1 to 3 months	**382,432**	686,665
4 to 6 months	**287,405**	6,106
7 to 12 months	**–**	178,233
Over 1 year	**–**	–
	669,837	871,004

22. TRADE AND BILLS RECEIVABLES (continued)

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. Note 3.1(b) provides for details about the calculation of the allowance.

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:

	2018	2017
	HK$'000	*HK$'000*
At 1 January	**227,847**	213,605
Exchange differences	**(10,394)**	14,242
At 31 December	**217,453**	227,847

23. OTHER FINANCIAL ASSET

As at 31 December 2018, other financial asset represented a one-year 4.25% coupon guaranteed bond with total principal amount of US$25,641,000 (equivalent to HK$200,000,000) due on 6 February 2019.

24. PLEDGED BANK DEPOSITS

As at 31 December 2018, pledged bank deposits of RMB166,752,000 (equivalent to HK$188,430,000) (2017: RMB135,820,000 (equivalent to HK$160,811,000)) were denominated in RMB and were pledged for bills payables of RMB166,752,000 (equivalent to HK$188,430,000) (2017: RMB135,820,000 (equivalent to HK$160,811,000)) (note 26).

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.

25. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS AT BANKS

	2018	2017
	HK$'000	*HK$'000*
Cash at banks and on hand	**322,027**	862,452
Time deposits at banks	**3,985,308**	4,002,015
Bank balances and cash	**4,307,335**	4,864,467
Less: Time deposits with original maturity over three months	**(854,010)**	(1,540,808)
Cash and cash equivalents	**3,453,325**	3,323,659

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 0.15% to 5.15% (2017: 0.14% to 6.70%) per annum.

As at 31 December 2018, funds of the Group amounting to HK$715,874,000 (2017: HK$727,421,000) were deposited in bank accounts opened with banks in the PRC where the remittance of funds is subject to foreign exchange control.

26. TRADE AND BILLS PAYABLES

	2018 HK$'000	2017 HK$'000
Trade payables	317,726	319,690
Bills payables	517,177	292,817
	834,903	612,507

The Group was granted by its suppliers credit period ranging between 30 to 180 days (2017: 30 to 180 days). As at 31 December 2018 and 2017, 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 2018 is as follows:

	2018 HK$'000	2017 HK$'000
1 to 3 months	231,896	217,579
4 to 6 months	47,123	58,804
7 to 12 months	16,211	17,617
Over 1 year	22,496	25,690
	317,726	319,690

As at 31 December 2018, bills payables amounted to RMB457,629,000 (equivalent to HK$517,121,000) (2017: RMB247,312,000 (equivalent to HK$292,817,000)) were secured by the pledged bank deposits of RMB166,752,000 (equivalent to HK$188,430,000) (2017: RMB135,820,000 (equivalent to HK$160,811,000)) (note 24) and bills receivables of RMB292,531,000 (equivalent to HK$330,560,000) (2017: RMB111,992,000 (equivalent to HK$132,599,000)) (note 22).

As at 31 December 2018, included in trade payables is a balance of RMB19,500,000 (equivalent to HK$22,035,000) (2017: RMB25,192,000 (equivalent to HK$29,827,000)) which represents bills receivables endorsed to trade creditors which do not meet the de-recognition requirements. The corresponding financial assets are included in bills receivables (note 22).

27. 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 (equivalent to HK$186,138,000). 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 of not more than RMB20,000,000 under certain conditions.

The transfer of 27% equity interests of Jinshan to the Transferee was 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 remains a subsidiary of the Company at the reporting date.

As at 31 December 2018 and 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 (equivalent to HK$178,358,000) (2017: RMB162,000,000 (equivalent to HK$178,358,000)) which was recorded as a current liability with the corresponding decrease in the other reserves.

28. OTHER PAYABLES AND ACCRUALS

	2018	2017
	HK$'000	*HK$'000*
Contract liabilities	**133,929**	–
Advances from customers	**–**	133,286
Accrued wages, salaries, bonus and staff welfare	**113,778**	176,446
Payables for property, plant and equipment and construction	**284,217**	195,715
Payables on endorsed bills receivables	**116,528**	127,825
Other accruals	**214,082**	189,392
Other levy payables	**370,856**	384,803
Other payables	**183,252**	282,222
Amounts due to other parties	**9,439**	8,343
	1,426,081	1,498,032

28. OTHER PAYABLES AND ACCRUALS (continued)

As at 31 December 2018, included in other payables is a balance of RMB103,122,000 (equivalent to HK$116,528,000) (2017: RMB107,960,000 (equivalent to HK$127,825,000)) (note 22) which represents bills receivables endorsed to other creditors which do not meet the de-recognition requirements. The corresponding financial assets are included in bills receivables.

Revenue recognised during the year ended 31 December 2018 that was included in the contract liability balance at the beginning of the year amounted to HK$133,286,000 (2017: HK$13,994,000). The Group expects to deliver the goods to satisfy the remaining performance obligations of these contract liabilities within one year or less. The Group applied the practical expedient and does not disclose the information relating to the remaining performance obligations that have original durations of one year or less.

29. AMOUNTS DUE TO NON-CONTROLLING INTERESTS OF SUBSIDIARIES

The balance as at 31 December 2018 and 2017 is denominated in RMB and is unsecured, interest-free and repayable on demand.

30. 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:

	Deductible temporary differences	
	2018	2017
	HK$'000	*HK$'000*
At 1 January	**23,121**	21,016
Exchange differences	**(1,087)**	1,418
Credited to profit or loss (note 9)	**718**	687
At 31 December	**22,752**	23,121

30. DEFERRED TAX ASSETS AND LIABILITIES (continued)

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 2017	10,592	1,512,545	72,449	1,595,586
Exchange differences	1,254	100,261	3,845	105,360
Charged/(Credited) to profit or loss (note 9)	23,463	(24,652)	(42,195)	(43,384)
At 31 December 2017 and 1 January 2018	**35,309**	**1,588,154**	**34,099**	**1,657,562**
Exchange differences	**(2,577)**	**(71,332)**	**(2,844)**	**(76,753)**
Charged/(Credited) to profit or loss (note 9)	**21,542**	**(24,583)**	**28,768**	**25,727**
At 31 December 2018	**54,274**	**1,492,239**	**60,023**	**1,606,536**

30. 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 amounts 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 2018 and 2017, 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:

	2018	2017
	HK$'000	*HK$'000*
Deductible temporary differences	**564**	1,911
Tax losses	**563,970**	458,804
	564,534	460,715

The Group has tax losses of approximately HK$156,120,000 (2017: HK$74,325,000) which shall expire in three to five years (2017: four to five years) and tax losses of approximately HK$407,850,000 (2017: HK$384,479,000) are available indefinitely for offsetting against future taxable profits of the companies in which the losses arise.

31. SHARE CAPITAL

	Number of shares		Amount	
	2018	2017	**2018**	2017
	'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

32. RESERVES

(a) 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.

(b) 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.

32. RESERVES (continued)

(c) Reserves movement of the Company

	Retained profits *HK$'000*	Total *HK$'000*
At 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 and 1 January 2018	**1,164,295**	**1,164,295**
Profit for the year	**834,023**	**834,023**
2017 special dividend declared	**(334,016)**	**(334,016)**
2017 final dividend approved	**(381,732)**	**(381,732)**
2018 interim dividend declared	**(440,053)**	**(440,053)**
At 31 December 2018	**842,517**	**842,517**

33. SHARE OPTION SCHEME

On 25 May 2012, a share option scheme (the "2012 Scheme") was adopted by the shareholders of the Company and the 2012 Scheme became effective on 29 May 2012. No share options have been granted since the adoption of the 2012 Scheme. The maximum number of shares of the Company ("Shares") 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 in issue as at the date of this annual report.

33. SHARE OPTION SCHEME (continued)

The 2012 Scheme were 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 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 2012 Scheme are disclosed under the heading "Share Option Scheme" in the Directors' report.

No options were exercised, granted or cancelled during 2018 and 2017. No share option was outstanding as at 31 December 2018 and 2017.

34. HOLDING COMPANY'S STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**94**	93
Interests in subsidiaries	35	**120,456**	120,456
Amounts due from subsidiaries		**13,002,459**	12,446,750
Total non-current assets		**13,123,009**	12,567,299
Current assets			
Amounts due from subsidiaries		**901,047**	1,441,114
Deposits, prepayments and other receivables		**20,859**	12,728
Time deposits with original maturity over three months		**415,128**	588,555
Cash and cash equivalents		**1,784,795**	1,895,609
Total current assets		**3,121,829**	3,938,006
Total assets		**16,244,838**	16,505,305
Current liabilities			
Amounts due to subsidiaries		**208,342**	159,960
Other payables and accruals		**37,020**	24,091
Total current liabilities		**245,362**	184,051
Net current assets		**2,876,467**	3,753,955
Net assets		**15,999,476**	16,321,254
EQUITY			
Share capital	31	**15,156,959**	15,156,959
Reserves	32(c)	**842,517**	1,164,295
Total equity		**15,999,476**	16,321,254

The statement of financial position of the Company was approved by the Board of Directors on 21 March 2019 and was signed on its behalf:

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

35. INTERESTS IN SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2018 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 2018	2017
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*	PRC, limited liability company	Investment holding, production and sales of coal products in the PRC	Registered capital of RMB600,000,000	**67%**	67%
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%**	44%
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%

35. 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	
				2018	2017
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.

36. 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.

2018

	Jinjiazhuang *HK$'000*	Xingwu *HK$'000*	Zhaiyadi *HK$'000*
NCI percentage	35%	12.25%	5%
As at 31 December			
Current assets	614,103	1,845,075	1,904,427
Non-current assets	5,097,676	4,414,782	4,246,528
Current liabilities	1,866,510	1,933,858	1,819,520
Non-current liabilities	434,397	669,459	448,407
Net assets	3,410,872	3,656,540	3,883,028
Carrying amount of NCI	892,494	134,575	127,189
For the year ended 31 December			
Revenue	970,916	1,928,867	2,337,691
Profit for the year	13,044	520,546	752,548
Total comprehensive income	49,692	19,598	32,019
(Loss)/Profit allocated to NCI	(40,917)	61,393	37,992
Dividend paid to NCI	–	117,176	34,729
Cash flows from operating activities	389,159	560,614	671,201
Cash flows from investing activities	(504,160)	(247,799)	(155,133)
Cash flows from financing activities	–	(118,300)	(567,564)

36. NON-CONTROLLING INTERESTS (continued)

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)

There is a material NCI of 56% (2017: 56%) amounting to HK$87,549,000 (2017: HK$94,426,000) in Luenshan during the year. The summarised financial information for Luenshan is not presented above as Luenshan is not 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$262,405,000 (2017: HK$274,936,000) and net assets of HK$240,774,000 (2017: HK$260,427,000) as of 31 December 2018.

There is a material NCI of 33% (2017: 33%) amounting to HK$149,883,000 (2017: HK$160,784,000) in Jinshan during the year. The summarised financial information for Jinshan is not presented above as Jinshan is also not yet to commence operations and its cash flows and profit or loss items are minimal to the Group. Jinshan had non-current assets of HK$ 565,424,000 (2017: HK$617,494,000) and net assets of HK$ 482,355,000 (2017: HK$513,397,000) as of 31 December 2018.

No dividend was paid by Jinshan and Luenshan to the NCI during the years ended 31 December 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

37. COMMITMENTS

(a) Operating lease commitments

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings payable by the Group are as follows:

	2018 *HK$000*	2017 *HK$000*
Within 1 year	**6,023**	6,486
Later than 1 year but not later than 5 years	**12,821**	14,558
Later than 5 years	**24,842**	28,403
	43,686	49,447

The Group leases a number of land and buildings and other assets under operating leases arrangement. The leases run for an initial period of 2 to 34 years, without an option to renew the leases and renegotiate the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords. None of the leases include contingent rental.

(b) Capital commitments

	2018 *HK$'000*	2017 *HK$'000*
Commitments for the:		
– Acquisition of property, plant and equipment	**194,767**	216,566
– Exploration and design fees for a potential mining project	**8,452**	8,856
	203,219	225,422

38. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in the consolidated financial statements, the following transactions for the years ended 31 December 2018 and 2017 were carried out with related parties:

(i) During the year ended 31 December 2018, the Group sold clean coking coal amounted to HK$826,384,000 (2017: HK$793,389,000) to Shougang Corporation, being Shougang Holding (Hong Kong) Limited ("Shougang Holding")'s ultimate holding company, and its group companies of Shougang Corporation (collectively referred to as the "Shougang Group"), of which, all (2017: HK$32,860,000) were connected transactions. As at 31 December 2018, amount due from/to the Shougang Group was HK$429,534,000 (2017: HK$501,938,000) and HK$4,073,000 (2017: HK$4,237,000) respectively.

(ii) During the year ended 31 December 2018, the Group purchased raw materials amounted to HK$3,698,000 (2017: HK$9,201,000) from Shougang Group, of which, all (2017: nil) were connected transactions.

(iii) During the year ended 31 December 2018, the Group paid rental expenses of HK$3,756,000 (2017: HK$3,756,000) to a wholly-owned subsidiary of Shougang Holding, which is the substantial shareholder of Shougang Concord International Enterprises Company Limited ("Shougang International"), of which HK$1,252,000 (2017: nil) were connected transactions. As at 31 December 2018 and 2017, no amounts were outstanding.

(iv) During the year ended 31 December 2018, the Group paid management and consultancy fees of HK$1,000,000 (2017: nil) to Shougang Holding. As at 31 December 2018 and 2017, no amounts were outstanding.

(v) During the year ended 31 December 2018, the Group paid management fees and company secretarial service fees of HK$598,000 (2017: HK$1,560,000) to Shougang International, which is a substantial shareholder of the Company. As at 31 December 2018 and 2017, no amounts were outstanding.

(vi) The compensation payable to key management personnel during the year have been disclosed in note 13.

All the transactions in (i) to (v) were negotiated with related parties on normal commercial terms or in accordance with the agreements governing those transactions.

The transactions in (iv) to (vi) were continuing connected transactions/connected transactions but were exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

39. 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:

	2018 HK$000	2017 HK$000
Non-current assets		
Financial assets measured at fair value through other comprehensive income	654,053	629,679
Financial assets measured at amortised cost:		
– Deposits and other receivables	159,194	345,159
	813,247	974,838
Current assets		
Financial assets measured at amortised cost:		
– Trade receivables	669,837	871,004
– Bills receivables	1,578,345	1,426,791
– Deposits and other receivables	245,351	45,414
– Other financial asset	200,000	–
– Pledged bank deposits	190,029	162,083
– Time deposit with original maturity over three months	854,010	1,540,808
– Cash and cash equivalents	3,453,325	3,323,659
	7,190,897	7,369,759
Total	8,004,144	8,344,597
Current liabilities		
Financial liabilities measured at amortised cost:		
– Trade and bills payables	834,903	612,507
– Other financial liability	178,358	178,358
– Other payables and accruals	807,518	803,497
– Amounts due to non-controlling interests of subsidiaries	72,228	37,843
Total	1,893,007	1,632,205

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 2018, 2017, 2016, 2015 and 2014 but is derived from those published audited consolidated financial statements and restated upon the adoption of the new or amended standards and interpretations 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 2017 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 2018 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.

	2018 ***HK$'000***	2017 *HK$'000*	2016 *HK$'000*	2015 *HK$'000*	2014 *HK$'000*
Results					
Revenue	**3,686,176**	3,471,922	1,809,885	1,996,629	3,254,861
Profit/(Loss) attributable to owners of the Company	**1,100,488**	1,080,649	111,795	(416,471)	(425,302)
Assets and liabilities					
Total assets	**21,251,042**	21,694,645	19,104,456	20,727,669	23,999,978
Total liabilities	**(4,475,236)**	(4,318,962)	(3,438,763)	(3,683,389)	(4,430,378)
Net assets	**16,775,806**	17,375,683	15,665,693	17,044,280	19,569,600
Non-controlling interests	**(1,391,690)**	(1,440,871)	(1,146,669)	(1,253,165)	(1,643,065)
Equity attributable to owners of the Company	**15,384,116**	15,934,812	14,519,024	15,791,115	17,926,535

GLOSSARY

Except the Independent Auditor's Report, the Audited Consolidated Financial Statements, or the context indicates otherwise, the definitions below are applicable to the other parts of this annual report.

Articles	The articles of association of the Company
ASX	Stock Code on the Australian Securities Exchange Limited
Board	the board of Directors of the Company
CG Code	the Corporate Governance Code as set out in Appendix 14 of the Listing Rules
Company	Shougang Fushan Resources Group Limited (SEHK:639)
Directors	the directors of the Company
Executive Committee	the executive committee of the Board
Executive Director(s)	the executive director(s) of the Company
Funde Sino Life	Funde Sino Life Insurance Co., Ltd., a substantial shareholder of the Company
Group	the Company and its subsidiaries
Independent Non-executive Director(s)	the independent non-executive director(s) of the Company
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Nomination Committee	the nomination committee of the Board
Non-executive Director(s)	the non-executive director(s) of the Company
Remuneration Committee	the remuneration committee of the Board
SEHK	Stock Code on the Stock Exchange
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

GLOSSARY

Share(s)	ordinary share(s) of the Company
Shougang Group	首鋼集團有限公司 (Shougang Group Co., Ltd.*), the current holding company of Shougang Holding and a substantial shareholder of the Company
Shougang Holding	Shougang Holding (Hong Kong) Limited, the current holding company of Shougang International and a substantial shareholder of the Company
Shougang International	Shougang Concord International Enterprises Company Limited (SEHK:697), a substantial shareholder of the Company
Stock Exchange	The Stock Exchange of Hong Kong Limited
substantial shareholder	has the same meaning ascribed to it under Part XV of the SFO
the year under review	for the year ended 31 December 2018

* For identification purpose only