

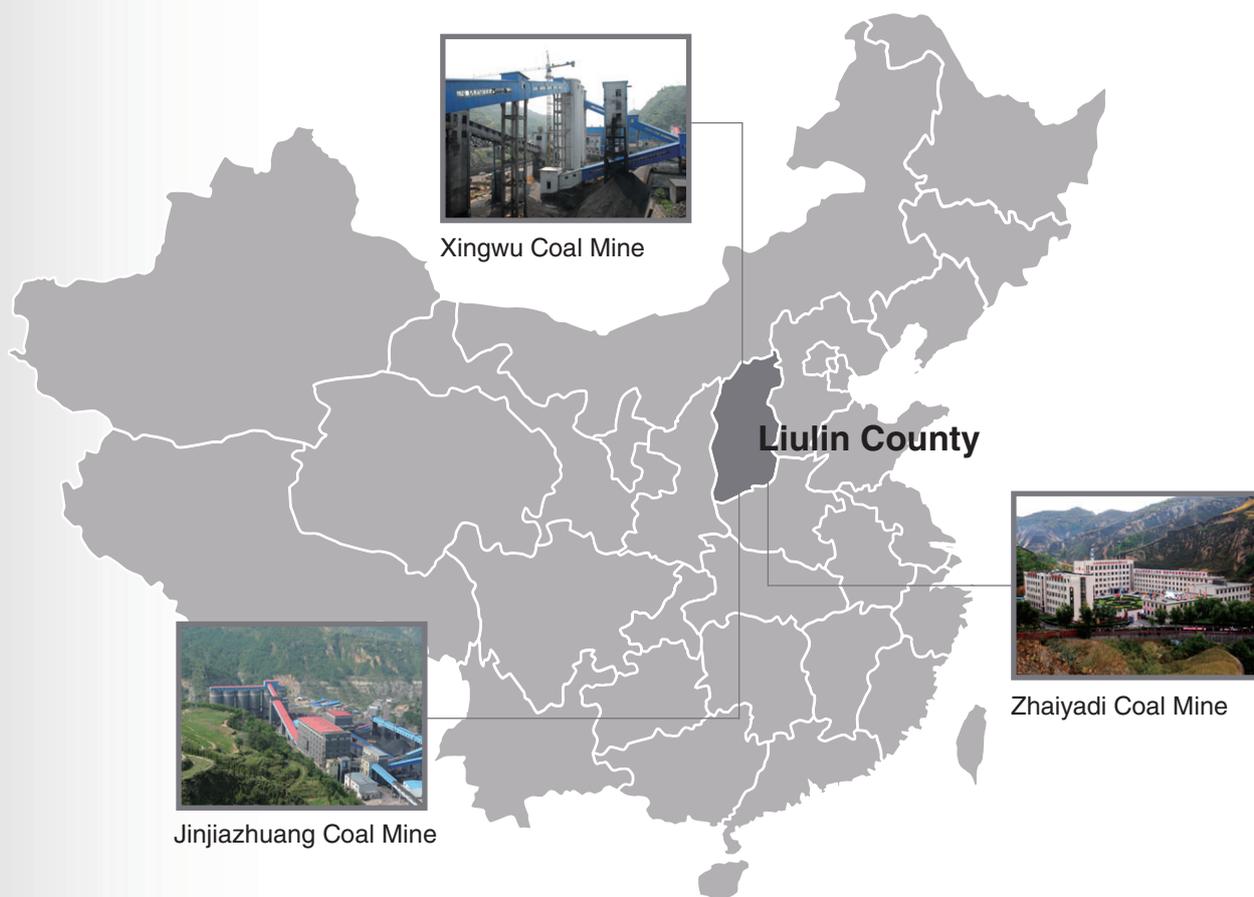


# SHOUGANG FUSHAN RESOURCES GROUP LIMITED

Stock Code : 639

## Annual Report **2014**

## LOCATIONS OF THE GROUP'S COKING COAL MINES



## CORPORATE PROFILE

### **SHOUGANG FUSHAN RESOURCES GROUP LIMITED**

is one of the most sizable integrated coking coal corporations in **CENTRAL-WESTERN CHINA.**

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

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

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

Li Shaofeng (*Chairman*)  
Ding Rucai (*Vice-chairman and Managing Director*)  
Wong Lik Ping (*Vice-chairman*)  
So Kwok Hoo (*Deputy Managing Director*)  
Chen Zhaoqiang (*Deputy Managing Director*)  
Liu Qingshan (*Deputy Managing Director*)  
Leung Shun Sang, Tony (*Non-executive Director*)  
Zhang Yaoping (*Non-executive Director*)  
Xiang Xu Jia (*Non-executive Director*)  
Kee Wah Sze (*Independent Non-executive Director*)  
Choi Wai Yin (*Independent Non-executive Director*)  
Chan Pat Lam  
(*Independent Non-executive Director*)  
Chan Chung Chun  
(*Independent Non-executive Director*)  
Japhet Sebastian Law  
(*Independent Non-executive Director*)

## EXECUTIVE COMMITTEE

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

## AUDIT COMMITTEE

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

## NOMINATION COMMITTEE

Li Shaofeng (*Chairman*)  
Wong Lik Ping  
Kee Wah Sze  
Choi Wai Yin  
Chan Pat Lam  
Chan Chung Chun  
Japhet Sebastian Law

## REMUNERATION COMMITTEE

Chan Chung Chun (*Chairman*)  
Li Shaofeng  
Leung Shun Sang, Tony  
Kee Wah Sze  
Choi Wai Yin  
Chan Pat Lam  
Japhet Sebastian Law

## COMPANY SECRETARY

Cheng Man Ching

## AUDITOR

BDO Limited

## SHARE REGISTRAR

Tricor Tengis Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

6th Floor  
Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wanchai  
Hong Kong

## STOCK CODE

639

## WEBSITE

[www.shougang-resources.com.hk](http://www.shougang-resources.com.hk)

## DIRECTORS' BIOGRAPHIES

**Mr. Li Shaofeng**, aged 48, holds a bachelor degree in Automation from University of Science and Technology Beijing. Mr. Li was appointed an Executive Director and the Chairman of the Company in October 2011 and is the chairman of each of the Executive Committee and the Nomination Committee and a member of the Remuneration Committee of the Company. He joined Shougang Corporation, the ultimate holding company of Shougang Holding (Hong Kong) Limited ("Shougang Holding"), in 1989 and is the vice chairman and managing director of Shougang Holding, the managing director of Shougang Concord International Enterprises Company Limited ("Shougang International") and a director of each of Ultimate Capital Limited ("Ultimate Capital") and Fine Power Group Limited ("Fine Power"). Each of Shougang Holding, Shougang International, Ultimate Capital and Fine Power is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"). Mr. Li is the chairman of each of Shougang Concord Grand (Group) Limited ("Shougang Grand"), Global Digital Creations Holdings Limited ("GDC") and Shougang Concord Century Holdings Limited ("Shougang Century"), and an executive director of BeijingWest Industries International Limited. He is also a non-executive director of China Dynamics (Holdings) Limited (formerly known as Sinocop Resources (Holdings) Limited) ("China Dynamics"), a Hong Kong listed company. Mr. Li is a non-executive director of Mount Gibson Iron Limited, a company listed on the Australian Securities Exchange. He was an executive director and the chairman of Shougang Concord Technology Holdings Limited ("Shougang Technology") from May 2010 to March 2014, and a non-executive director and the chairman of Shougang Technology from March 2014 to December 2014. Mr. Li has extensive experience in management of, and investments in, listed companies, sino-foreign joint ventures and steel industry.

A service contract was entered into between Mr. Li and a wholly-owned subsidiary of the Company commencing on 20 October 2011. Under the service contract, Mr. Li is entitled to a monthly salary of HK\$350,000 or such other salary and discretionary bonus as may be determined by the board of directors of the Company (the "Board") from time to time. For the financial year ended 31 December 2014, Mr. Li's monthly salary is HK\$450,000. Such salary was determined with reference to the then prevailing market conditions as well as Mr. Li's individual performance.

## DIRECTORS' BIOGRAPHIES

**Mr. Ding Rucai**, aged 50, senior engineer in professor grade. He was graduated from the School of Metallurgical and Ecological Engineering of the University of Science and Technology Beijing with a master degree in ferrous metallurgy. Thereafter, he studied senior business administration in The University of Warwick, United Kingdom. Mr. Ding obtained a doctor of philosophy in ferrous metallurgy from the School of Metallurgical and Ecological Engineering of the University of Science and Technology Beijing. He has acted as deputy general manager of the Company from August 2014. Mr. Ding was appointed an Executive Director and the Vice-chairman and Managing Director of the Company in September 2014 and is a member of the Executive Committee of the Company. He joined Shougang Corporation, the ultimate holding company of Shougang Holding, in 1989 and thereafter held various senior positions in the groups of Shougang Corporation and Shougang International. Mr. Ding is an executive director and the deputy managing director of Shougang International, a director and deputy managing director of Shougang Holding and a director of each of Ultimate Capital and Fine Power. Each of Shougang International, Shougang Holding, Ultimate Capital and Fine Power is a substantial shareholder of the Company within the meaning of Part XV of the SFO. He has extensive experience in production management of steel industry, project management, import of iron ore, import trading of coking coal resources and shipping management.

A service contract was entered into between Mr. Ding and a wholly-owned subsidiary of the Company commencing on 1 September 2014. Under the service contract, Mr. Ding is entitled to a monthly salary of HK\$260,000 or such other salary and discretionary bonus as may be determined by the Board from time to time. For the period from 1 September 2014 (the date of appointment of Mr. Ding as an Executive Director of the Company) to 31 December 2014, Mr. Ding's monthly salary is HK\$260,000. Such salary was determined with reference to the then prevailing market conditions as well as Mr. Ding's individual performance.

**Mr. Wong Lik Ping**, aged 54. Mr. Wong was appointed an Executive Director and the Chairman of the Company in September 2001 and was re-designated as the Vice-chairman of the Company in March 2009. He is a member of each of the Executive Committee and the Nomination Committee of the Company. Mr. Wong is the chairman and an executive director of each of Theme International Holdings Limited ("Theme International") and PME Group Limited, both are listed companies in Hong Kong. He is also a member of The National Committee of the Chinese People's Political Consultative Conference. Mr. Wong has extensive experience in trading business, financial industry and investments in a wide range of businesses including mine industry in the People's Republic of China (the "PRC").

A service contract was entered into between Mr. Wong and a wholly-owned subsidiary of the Company commencing on 1 January 2010. Under the service contract, Mr. Wong is entitled to a monthly salary of HK\$350,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2014, Mr. Wong's monthly salary is HK\$350,000. Such salary was determined with reference to the then prevailing market conditions as well as Mr. Wong's individual performance.

## DIRECTORS' BIOGRAPHIES

**Mr. So Kwok Hoo**, aged 61, holds bachelor degrees in applied science with major in chemical engineering and business administration in Canada. Mr. So was appointed an Executive Director of the Company in March 1998 and was re-designated as a Deputy Managing Director of the Company in January 2010. He is a member of the Executive Committee of the Company. Mr. So is a non-executive director of APAC Resources Limited, a listed company in Hong Kong. He has extensive experience in marketing of electrochemical and industrial products sales in Asia Pacific Region together with property investment experience in Hong Kong.

A service contract was entered into between Mr. So and a wholly-owned subsidiary of the Company commencing on 1 January 2010. Under the service contract, Mr. So is entitled to a monthly salary of HK\$250,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2014, Mr. So's monthly salary is HK\$250,000. Such salary was determined with reference to the then prevailing market conditions as well as Mr. So's individual performance.

**Mr. Chen Zhaoqiang**, aged 47, graduated from Jiaozuo Mining Institute with a bachelor degree majoring in mining engineering and obtained a master degree in management science from Huazhong University of Science & Technology and a finance executive masters of business administration degree from Shanghai Advanced Institute of Finance of Shanghai Jiao Tong University. Mr. Chen was appointed an Executive Director and Deputy Managing Director of the Company in January 2010. He is also a member of the Executive Committee of the Company. Mr. Chen had engaged in many important posts in coal mining industry, including in Pingdingshan Coal Co. Ltd., Henan Pingbao Coal Co. Ltd., and Henan Company for Coal Seam Gas Development & Application. He has extensive experience in coal mining industry including in the areas of production safety management for coal mining, purchase and logistics management, mineral resources development and coal trading.

A service contract was entered into between Mr. Chen and a wholly-owned subsidiary of the Company commencing on 1 January 2010. Under the service contract, Mr. Chen is entitled to a monthly salary of HK\$220,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2014, Mr. Chen's monthly salary is HK\$220,000 and his discretionary bonus is HK\$440,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Chen's individual performance.

## DIRECTORS' BIOGRAPHIES

**Mr. Liu Qingshan**, aged 56, graduated from Shanxi University of Finance and Economics Department of Accounting and obtained a master of business administration from Capital University of Economics and Business. Mr. Liu was appointed an Executive Director of the Company in November 2008 and was re-designated as a Deputy Managing Director of the Company in January 2010. He is a member of the Executive Committee of the Company. Before joining the Group, Mr. Liu worked as chief financial controller in Fortune Dragon Group Limited and in other sizable energy resources companies in the PRC. He has extensive experience in the fields of accounting and finance in the mining industry in the PRC.

A service contract was entered into between Mr. Liu and a wholly-owned subsidiary of the Company commencing on 1 January 2010. Under the service contract, Mr. Liu is entitled to a monthly salary of HK\$200,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2014, Mr. Liu's monthly salary is HK\$200,000 and his discretionary bonus is HK\$400,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Liu's individual performance.

**Mr. Leung Shun Sang, Tony**, aged 72, holds a bachelor degree of commerce from The Chinese University of Hong Kong and a master degree in business administration from New York State University. Mr. Leung was appointed a Non-executive Director of the Company in March 2009 and is a member of the Remuneration Committee of the Company. He is a non-executive director of Shougang International, a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Leung is also a non-executive director of each of Shougang Century, Shougang Technology, Shougang Grand and GDC. 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 of experience in securities and banking business, investment, financial markets, corporate strategy and corporate management.

An engagement letter was entered into with Mr. Leung for a term of three years commencing on 1 January 2013. Under the engagement letter, Mr. Leung is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2014, the director's fee of Mr. Leung is HK\$420,000. For the financial year ending 31 December 2015, the director's fee of Mr. Leung will be HK\$420,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Leung. Such director's fees were determined with reference to Mr. Leung's experience and duties as well as the then prevailing market conditions.

## DIRECTORS' BIOGRAPHIES

**Mr. Zhang Yaoping**, aged 47, attended Party School of the Central Committee of C.P.C. in the PRC where he studied economic management. Mr. Zhang was appointed a Non-executive Director of the Company in January 2010. He was an officer of the board of directors' office of a coal mining company in Shanxi Province, the PRC and currently is the chairman of board of secretary as well as a member of the board of directors and the vice president of administration of such company. Mr. Zhang has extensive experience in the field of energy resources industries and steel trading in the PRC.

An engagement letter was entered into with Mr. Zhang for a term of three years commencing on 1 January 2013. Under the engagement letter, Mr. Zhang is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2014, the director's fee of Mr. Zhang is HK\$420,000. For the financial year ending 31 December 2015, the director's fee of Mr. Zhang will be HK\$420,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Zhang. Such director's fees were determined with reference to Mr. Zhang's experience and duties as well as the then prevailing market conditions.

**Mr. Xiang Xu Jia**, aged 45, graduated from the Department of Information Science and Electronic Engineering of Zhejiang University with a bachelor degree in electrical engineering. He obtained a master of laws degrees from Southwest University of Political Science and Law. Mr. Xiang was appointed a Non-executive Director of the Company in September 2013. He is the general manager of the asset management center of Funde Sino Life Insurance Co., Ltd. (formerly known as Sino Life Insurance Co., Ltd.) ("Funde Sino Life"), a director of each of Life Insurance Assets Management Co., Ltd., Funde Asset Management (Hong Kong) Company Limited (formerly known as Sino-Life Asset Management (Hong Kong) Company Limited) and Fund Resources Investment Holding Group Company Limited. Funde Sino Life is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Xiang was qualified as a lawyer in the PRC and had been a practicing lawyer for over 7 years. He has extensive experiences in securities and finance, corporate governance and risk management.

An engagement letter was entered into with Mr. Xiang for a term commencing on 1 September 2013 and expiring on 31 December 2015. Under the engagement letter, Mr. Xiang is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2014, the director's fee of Mr. Xiang is HK\$420,000. For the financial year ending 31 December 2015, the director's fee of Mr. Xiang will be HK\$420,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Xiang. Such director's fees were determined with reference to Mr. Xiang's experience and duties as well as the then prevailing market conditions.

## DIRECTORS' BIOGRAPHIES

**Mr. Kee Wah Sze**, aged 67, holds a Master Degree in Chinese and Comparative Law from the City University of Hong Kong and a Master Degree in Law from the People's University of the PRC. Mr. Kee was appointed an Independent Non-executive Director of the Company in April 1997 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. He is also an independent non-executive director of Theme International, a listed company in Hong Kong. Mr. Kee was an executive director of Goldbond Group Holdings Limited, a listed company in Hong Kong, during the period from January 2003 to December 2012. He is a partner of Messrs. Michael Cheuk, Wong & Kee and has been a practicing solicitor in Hong Kong for over 30 years specialized in both the commercial and conveyancing fields. Mr. Kee is a Notary Public of Hong Kong and a China Appointed Attesting Officer.

An engagement letter was entered into with Mr. Kee for a term of three years commencing on 1 January 2013. Under the engagement letter, Mr. Kee is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2014, the director's fee of Mr. Kee is HK\$420,000. For the financial year ending 31 December 2015, the director's fee of Mr. Kee will be HK\$420,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Kee. Such director's fees were determined with reference to Mr. Kee's experience and duties as well as the then prevailing market conditions.

**Mr. Choi Wai Yin**, aged 56, holds a Master Degree of Science in Finance from the City University of Hong Kong, a Bachelor Degree in Business Administration from The Chinese University of Hong Kong and a Bachelor Degree in Law from the Peking University. Mr. Choi was appointed an Independent Non-executive Director of the Company in July 2004 and is the Chairman of the Audit Committee and a member of each of the Nomination Committee and the Remuneration Committee of the Company. He was also appointed an executive director of a company which is the investment manager of a Hong Kong listed company. Mr. Choi is an investment adviser registered under the SFO. He has over 25 years of experience in the fields of finance and fund management.

An engagement letter was entered into with Mr. Choi for a term of three years commencing on 1 January 2013. Under the engagement letter, Mr. Choi is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2014, the director's fee of Mr. Choi is HK\$420,000. For the financial year ending 31 December 2015, the director's fee of Mr. Choi will be HK\$420,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Choi. Such director's fees were determined with reference to Mr. Choi's experience and duties as well as the then prevailing market conditions.

## DIRECTORS' BIOGRAPHIES

**Mr. Chan Pat Lam**, aged 66. Mr. Chan was appointed an Independent Non-executive Director of the Company in December 2004 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. He is also an independent non-executive director of Theme International, a listed company in Hong Kong. Currently, Mr. Chan is the consultant of a private company, which is engaged in acting as an international container shipping agency in the Western region of Pearl River Delta. He is also the business advisor of a commercial bank in Macau and a partner of another private company which is engaged in trading and wholesaling of grocery items. Mr. Chan has over 35 years of experience in the field of international banking industry in Hong Kong, Macau and California.

An engagement letter was entered into with Mr. Chan for a term of three years commencing on 1 January 2013. Under the engagement letter, Mr. Chan is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2014, the director's fee of Mr. Chan is HK\$420,000. For the financial year ending 31 December 2015, the director's fee of Mr. Chan will be HK\$420,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Chan. Such director's fees were determined with reference to Mr. Chan's experience and duties as well as the then prevailing market conditions.

**Mr. Chan Chung Chun**, aged 55, holds a Bachelor Degree in Commerce from James Cook University of North Queensland and a Master Degree in Commerce from University of New South Wales in Australia. Mr. Chan is a fellow member of The Hong Kong Institute of Certified Public Accountants and an associate member of The Australian Society of Certified Practising Accountants. He was appointed an Independent Non-executive Director of the Company in July 2012 and is the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee of the Company. Mr. Chan is also an independent non-executive director of each of Shougang Century and GDC. Currently, he is the deputy chairman and executive director of China Dynamics, a listed company in Hong Kong. Mr. Chan had worked for the audit department of Ernst & Young for about 7 years and has extensive experience in the accounting and commercial fields, particularly in the manufacturing, marketing and retailing of consumer products in Hong Kong and the PRC.

An engagement letter was entered into with Mr. Chan for a term of three years commencing on 1 January 2013. Under the engagement letter, Mr. Chan is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2014, the director's fee of Mr. Chan is HK\$420,000. For the financial year ending 31 December 2015, the director's fee of Mr. Chan will be HK\$420,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Chan. Such director's fees were determined with reference to Mr. Chan's experience and duties as well as the then prevailing market conditions.

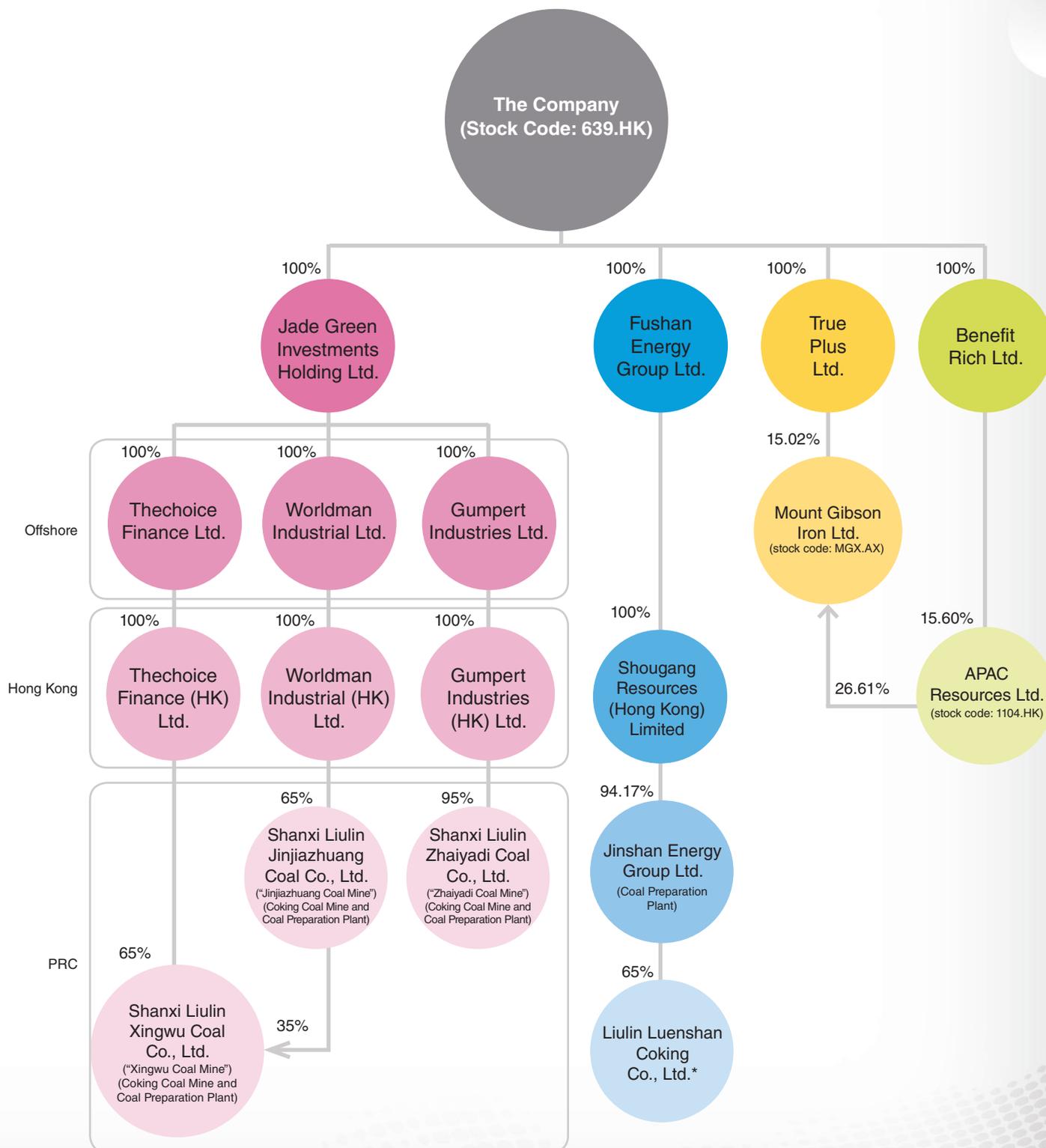
## DIRECTORS' BIOGRAPHIES

**Mr. Japhet Sebastian Law**, aged 63, graduated from the University of Texas at Austin with a doctor of philosophy degree in mechanical/industrial engineering in 1976. Mr. Law was appointed an Independent Non-executive Director of the Company in September 2013 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. He joined The Chinese University of Hong Kong in 1986 and retired in August 2012. Before retirement, Mr. Law was a professor in the Department of Decision Sciences and Managerial Economics. He was the associate dean and subsequently the dean of the Faculty of Business Administration of The Chinese University of Hong Kong from 1993 until 2002. Prior to returning to Hong Kong, Mr. Law was a director of Operations Research at the Cullen College of Engineering and a director of Graduate Studies in Industrial Engineering at the University of Houston and was also involved with the U.S. Space Program in his career with McDonnell Douglas and Ford Aerospace in the United States. He acts as a consultant for various corporations in Hong Kong and overseas. Mr. Law is active in public services and serves as a member of the Provisional Regional Council of the Hong Kong SAR Government and various other committees. He is active on the boards of profit, non-profit and charitable organisations in Hong Kong and overseas. Mr. Law currently serves as an independent non-executive director of each of GDC, Tianjin Port Development Holdings Limited, Beijing Capital International Airport Company Limited, Binhai Investment Company Limited, Regal Hotels International Holdings Limited, Tianjin Binhai Teda Logistics (Group) Corporation Limited and Shanghai La Chapelle Fashion Co., Ltd., all of which are listed companies in Hong Kong. He was an independent non-executive director of Cypress Jade Agricultural Holdings Limited, a listed company in Hong Kong, during the period from December 2011 to July 2013.

An engagement letter was entered into with Mr. Law for a term commencing on 1 September 2013 and expiring on 31 December 2015. Under the engagement letter, Mr. Law is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2014, the director's fee of Mr. Law is HK\$420,000. For the financial year ending 31 December 2015, the director's fee of Mr. Law will be HK\$420,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Law. Such director's fees were determined with reference to Mr. Law's experience and duties as well as the then prevailing market conditions.

# MAIN OPERATIONAL STRUCTURE

THE MAIN OPERATIONAL STRUCTURE OF THE GROUP AS AT 31 DECEMBER 2014 WAS AS FOLLOWS:



\* The unofficial English translation is for identification purpose only.

# FINANCIAL HIGHLIGHTS

(HK\$'000)	For the year ended 31 December			Percentage change
	2012	2013	2014	
Revenue	5,650,590	4,268,232	<b>3,254,861</b>	-24%
Gross profit	3,585,802	2,173,016	<b>1,304,153</b>	-40%
Gross profit margin	63%	51%	<b>40%</b>	
Non-cash impairment loss on goodwill	–	–	<b>(823,964)</b>	
<i>Before non-cash impairment loss on goodwill:</i>				
Operating profit	2,975,573	1,829,895	<b>739,753</b>	-60%
Profit for the year	2,150,240	1,299,239	<b>463,032</b>	-64%
Profit attributable to owners of the Company (“Owners”)	1,800,367	1,115,066	<b>398,662</b>	-64%
<i>After non-cash impairment loss on goodwill:</i>				
Operating profit/(loss)	2,975,573	1,829,895	<b>(84,211)</b>	
Profit/(Loss) for the year	2,150,240	1,299,239	<b>(360,932)</b>	
Profit/(Loss) attributable to Owners	1,800,367	1,115,066	<b>(425,302)</b>	
EBITDA <sup>1</sup>	3,504,439	2,395,667	<b>1,270,346</b>	-47%
Basic earnings/(loss) per share (HK cents)	33.80	21.03	<b>(8.02)</b>	
Dividend per share (HK cents)	15	10.5	<b>3.7</b>	-65%
– Interim (HK cents)	5	2.7	<b>1.0</b>	-63%
– Final (Proposed) (HK cents)	10	7.8	<b>2.7</b>	-65%

(HK\$'000)	As at 31 December			Percentage change
	2012	2013	2014	
Total assets	26,820,521	26,870,908	<b>23,999,978</b>	-11%
of which: Cash and cash equivalents and time deposits with original maturity over three months	4,674,014	5,588,217	<b>5,403,386</b>	-3%
Unpledged bill receivables	1,165,620	854,801	<b>990,566</b>	+16%
Total liabilities	(5,958,538)	(5,211,743)	<b>(4,430,378)</b>	-15%
of which: Total borrowings	(1,075,448)	(580,009)	<b>(73,899)</b>	-87%
Total borrowings (exclusive of asset-backed financing)	(197,160)	(2,286)	–	-100%
Gearing ratio <sup>2</sup>	5.16%	2.68%	<b>0.38%</b>	-86%
Adjusted gearing ratio <sup>3</sup>	0.95%	0.01%	<b>0.00%</b>	-100%
Total equity	20,861,983	21,659,165	<b>19,569,600</b>	-10%
of which: Equity attributable to Owners	19,223,684	19,927,383	<b>17,926,535</b>	-10%
Net assets per share attributable to Owners (HK\$)	3.63	3.76	<b>3.38</b>	-10%

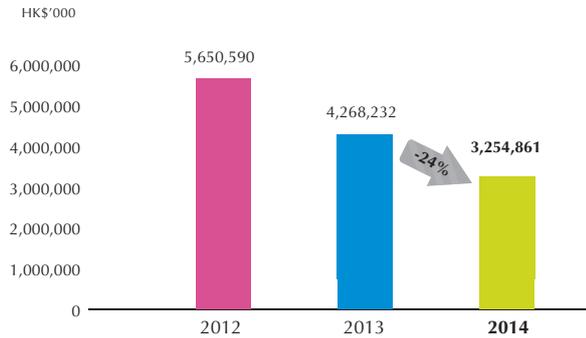
Notes:

1. EBITDA is defined as operating profit/(loss) plus impairment loss on goodwill, depreciation and amortisation.
2. Gearing ratio is computed from total borrowings divided by total equity.
3. Adjusted gearing ratio is computed from total borrowings (exclusive of asset-backed financing) divided by total equity.

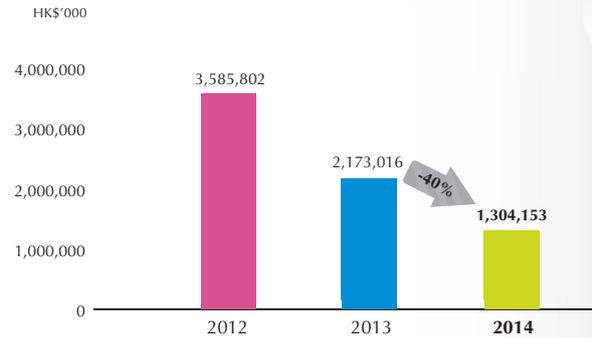
# FINANCIAL HIGHLIGHTS

## PROFIT & LOSS SUMMARY

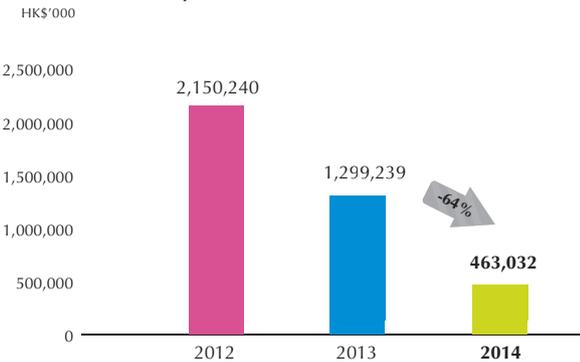
### Revenue



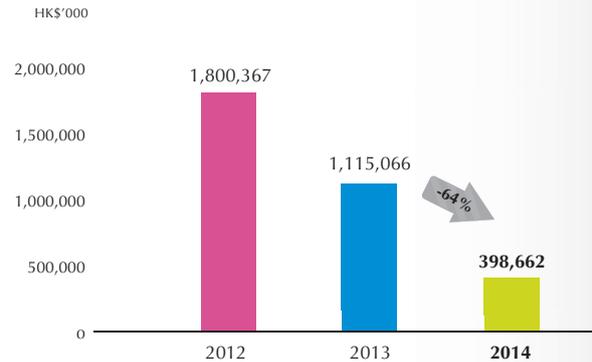
### Gross profit



### Before non-cash impairment loss on goodwill: Profit for the year

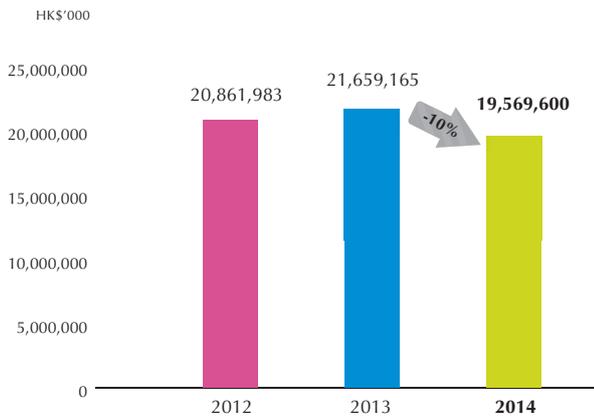


### Profit attributable to Owners

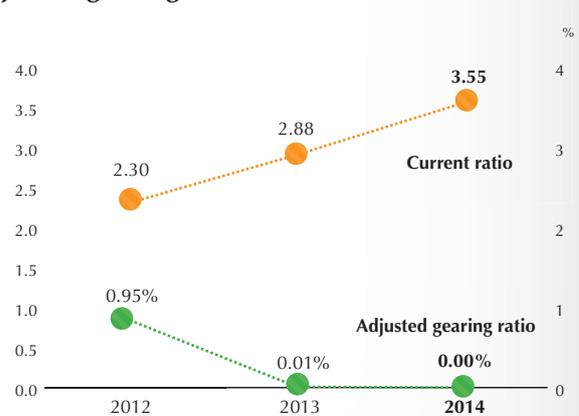


## HEALTHY FINANCIAL POSITION

### Net assets



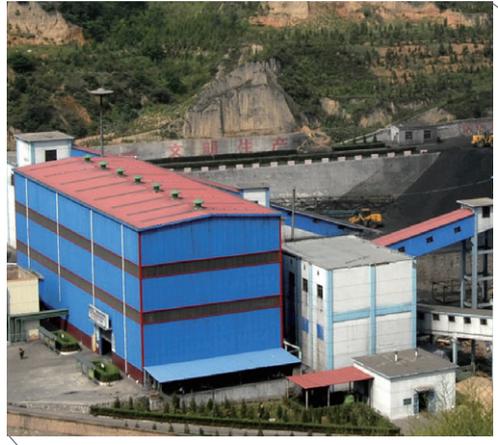
### Adjusted gearing ratio & current ratio



# OPERATING MINES

## XINGWU COAL MINE

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



## JINJIAZHUANG COAL MINE

- 14 km south of Liulin County and the mining right area extended over 6.35 sq. km and spans 6.8 km east to west and 3.4 km north to south
- Operation commenced in 1996
- Annual designed raw coking coal production capacity: 2.1 million tonnes
- Operate a coal preparation plant with annual designed input processing capacity of 3.0 million tonnes (put into operation in June 2009)
- Mainly production of hard coking coal



## ZHAIYADI COAL MINE

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



# OPERATING MINES

## COAL CHARACTERISTICS

- Located within the Lishi-Liulin mining area of Hedong coalfield, one of China's key reserve areas for high-quality hard coking coal.
- Regarded as "panda coal" because of its scarcity and high economic value.
- The Group's coking coal is of particularly good quality due to its high calorific value and caking index but low ash and sulfur content, characteristics that are highly desirable for coke and steel making.

Coal Quality Characteristic	Basic	Operating Mines				
		Xingwu	Jinjiashuang	Zhaiyadi		
Seam		No. 4	No. 5	No. 3	No. 4	No. 9
Moisture (%)	Ad	0.9	0.3	0.6	0.7	0.7
Ash (%)	D	11.3	10.1	6.3	11.0	10.4
Sulfur Total (%)	D	0.36	0.85	0.32	0.47	1.65
Volatile Matter (%)	Daf	21.6	23.4	21.3	22.4	18.7
Fixed Carbon (%)	Ad	68.6	67.0	73.1	68.4	72.1
Calorific Value (Kcal./kg)	Gr.v.d	7,500	7,200	7,920	7,520	7,540
Caking Index (G)		86	75	49	77	72

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

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

# OPERATING MINES

## OPERATING DATA

### Resources and Reserves/Output

	Operating Mines			Total
	Xingwu	Jinjiazhuang	Zhaiyadi	
<b>Resources and Reserves</b>				
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 2014 (Mt)	(11.93)	(12.64)	(17.46)	(42.03)
<b>In-Place Resources as of 31 December 2014 (Mt) (NB)</b>	<b>51.30</b>	<b>51.54</b>	<b>60.88</b>	<b>163.72</b>
<b>Recoverable Reserves as of 31 December 2014 (Mt) (NB)</b>	<b>34.41</b>	<b>31.16</b>	<b>34.75</b>	<b>100.32</b>
NB: Resources and reserves have taken into account the coal reserves prepared by John T. Boyd Company, an independent mining and geological consultant, as of 31 December 2007, in accordance with the JORC Code, after deduction of the total raw coking coal output for the period from 1 January 2008 to 31 December 2014.				
<b>Raw coking coal output</b>				
Total raw coking coal output in 2013 (Mt)	1.706	1.816	2.605	6.127
<b>Total raw coking coal output in 2014 (Mt)</b>	<b>1.754</b>	<b>1.663</b>	<b>2.263</b>	<b>5.680</b>
<b>Clean coking coal output</b>				
Total clean coking coal output in 2013 (Mt)	0.636	1.105	0.929	2.670
<b>Total clean coking coal output in 2014 (Mt)</b>	<b>0.671</b>	<b>1.262</b>	<b>1.079</b>	<b>3.012</b>

# CHAIRMAN'S STATEMENT



Dear Shareholders,

On behalf of the Board of Directors of Shougang Fushan Resources Group Limited (“Shougang Resources” or the “Company”), I am hereby delighted to present the 2014 annual report of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2014 (the “Review Year”), and to report to all shareholders on the Group’s performance for the Review Year.

In 2014, global economy slowed down and China’s economy was under downward pressure as well. Steel and steel related industries suffered with difficulties though China’s GDP grew at a rate of 7.4% year-on-year (“YOY”). According to the National Bureau of Statistics, in 2014, domestic crude steel production volume was 823 million tonnes with YOY increase of 0.9%, which is the lowest growth rate since 1982. Pig iron output was 712 million tonnes, increased by 0.5% YOY. Coke production was 477 million tonnes, which remained the same as last year. In 2014, supply of coking coal in China was in a surplus status. Domestic coking coal production decreased YOY, meanwhile import volume of coking coal dropped by 17.4% to 62.33 million tonnes. Since demand was significantly weak, apparent consumption of coking coal decreased accordingly. It is expected that the situation of oversupply would continue. Fixed asset investment in the iron and steel industry was RMB525 billion, decreased by 5.4% YOY, of which investments in iron and steel manufacturing declined by 32% and 10.4% respectively. As of 31 December 2014, China crude steel capacity reached 1.16 billion tonnes; utilisation rate however was only 71%, which clearly indicated overcapacity of the industry. In this situation, prices of iron and steel products remained at low level, and profit margin of the industry was only 0.9%. Confronting such tough market situation, management of the Group took proactive actions and focused on safety and environmental friendly operation, strengthened cost controls, promoted the application of new technologies, and emphasised on strategy of expanding in clean coking coal sales. As a result, our three operating coal mines operated smoothly in the Review Year. Production volume of raw and clean coking coal was 5.68 million tonnes and 3.01 million tonnes respectively, representing a drop of 7% and an increase of 13% YOY. Although competition was keen in the market, management had made every effort to keep good relationship with our existing key clients, and endeavored to extend the sales networks. In the meantime, management also well-used of the railway and road transportation to adjust the production mix according to the market needs.

# CHAIRMAN'S STATEMENT

During the Review Year, prices of clean coking coal in both overseas and domestic markets fell by 22% and 24% YOY respectively. Accordingly, average selling prices (inclusive of VAT) of raw and clean coking coal of the Group was RMB494/tonne and RMB844/tonne respectively, both with a YOY decline of 22%. As a result, gross profit of the Group decreased 40% YOY to HK\$1.3 billion in the Review Year from HK\$2.17 billion in 2013, and gross profit margin was approximately 40%. Under such circumstances, together with the government's policies to reduce burdens of coal companies, we managed to control cost tightly. The operating profit of our Group before Impairment in the Review Year was approximately HK\$740 million with YOY decrease of 60%; net profit of the Group before Impairment was approximately HK\$460 million. Profit attributable to owners of the Company before Impairment was approximately HK\$400 million. Due to weak coal market, the Group had to make a non-cash Impairment loss on goodwill of approximately HK\$820 million ("Impairment") in accordance with the relevant Hong Kong Financial Reporting Standards in 2014. Therefore, the loss attributable to owners of the Company after Impairment was approximately HK\$430 million. This Impairment is a non-cash item, and therefore, will not have any material impact on the financial soundness of the Group.

## OUTLOOK FOR 2015

China has entered into a period of new-normal growth. The economic environment will continue to be complicated and volatile in 2015. On one hand, there is strong support for the steady growth of the economy. With the implementation of a series of national strategic development plans such as "One Belt and One Road", Beijing-Tianjin-Hebei Collaborative Development, Yangtze River economic belt, large scale of infrastructure investment would come along to support economic growth. Policies like relieving house purchasing limits, easing mortgage and decreasing interest rate would improve the real-estates market situation and thus stimulate steel demand. Steel makers in China also actively seek to upgrade technology, expand in the international market, and increase steel utilisation rate. All of these would stimulate the demand of coking coal. On the other hand, there are a lot of uncertainties in China's economy. Industries and manufactures grow at merely moderate rate and the export is weakening. Slowing down of the growth rate of steel production, eliminating outdated crude steel production capacity and strengthening environment protection would also impact on the domestic coking coal demand. Moreover, the current production capacity of coking coal still needs to be digested and the competition from imported coking coal would exist. Hence, 2015 will be a year full of challenges.

In the long run, with more concerns on the environmental protection by Chinese government and the enforcement of China's new "Environmental Protection Law", the needs for energy saving, emission reduction and more environmental protection requirements in steel industry would be further emphasised, which in turn would benefit premium coking coal resources with less pollution and better strength quality. In addition, as the premium coking coal resources in China become more and more scarce, its value would be more and more precious. Therefore, the demand of premium coking coal will restore gradually in the future.

# CHAIRMAN'S STATEMENT

In 2015, we will continue to maximise shareholders' interests and make full use of our competitive advantages and to strengthen our core competence and ensure sustainability of our current business and sustainable development. We will continue to enhance production management and cost control, as well as strengthen the research and promotion of new techniques in order to further lower the cost. At the same time, we maintain good cooperative relationship with our major clients. In addition, based on our experience of the market and the industry for years together with our sound financial position, we are looking prudently to source for possible acquisitions both in mainland China and abroad to enhance our resources and reserve and expand production capacity. We will make effort to create great investment return for our shareholders.

To reward the continual support and great kindness of our shareholders, the Board of Directors of Shougang Resources had proposed a final dividend of HK2.7 cents per ordinary share.

Last but not least, on behalf of the Board of Directors of Shougang Resources, I would like to express my heartfelt gratitude to our shareholders, management team, staff and business partners for all their continued support to the Group over the past years.

**Li Shaofeng**  
*Chairman*

Hong Kong, 26 March, 2015

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The key operational data of our three premium operating coking coal mines in Liulin County, Shanxi Province (Xingwu Coal Mine, Jinjiazhuang Coal Mine and Zhaiyadi Coal Mine) for the year ended 31 December 2014 (the “year under review”) together with that of the same period of 2013 is summarised as follows:

	Unit	For the year ended		Change	
		31 December 2014	2013	Quantity/ Amount	Percentage
<i>Production volume:</i>					
Raw coking coal	Mt	<b>5.68</b>	6.13	<b>-0.45</b>	<b>-7%</b>
Clean coking coal	Mt	<b>3.01</b>	2.67	<b>+0.34</b>	<b>+13%</b>
<i>Sales volume:</i>					
Raw coking coal	Mt	<b>1.01</b>	1.96	<b>-0.95</b>	<b>-48%</b>
Clean coking coal	Mt	<b>3.00</b>	2.53	<b>+0.47</b>	<b>+19%</b>
<i>Average realised selling price (inclusive of VAT):</i>					
Raw coking coal	RMB/tonne	<b>494</b>	632	<b>-138</b>	<b>-22%</b>
Clean coking coal	RMB/tonne	<b>844</b>	1,076	<b>-232</b>	<b>-22%</b>

For the year ended 31 December 2014, the Group produced approximately 5.68 million tonnes (“Mt”) (2013: approximately 6.13 Mt) of raw coking coal, representing a year-on-year decrease of 7% and also produced approximately 3.01 Mt (2013: approximately 2.67 Mt) of clean coking coal, representing a year-on-year increase of 13%.



Notwithstanding the impact of the economic slowdown in the Mainland China, the sales volume of clean coking coal increased by 19% even though sales volume of raw coking coal dropped by 48% during the year under review. We continued to make effort to expand our clean coking coal business. This falls in line with the Group’s long term strategy to shift our sales mix from raw coking coal to clean coking coal and hence both production and sales volume of clean coking coal increased by 13% and 19% respectively during the year under review.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **BUSINESS REVIEW** (continued)

For the year ended 31 December 2014, the Group's average realised selling price (inclusive of value added tax "VAT") of raw coking coal dropped by 22% to Renminbi ("RMB") 494/tonne when compared with that of the same period of 2013 (2013: RMB632/tonne) and the Group's average realised selling price (inclusive of VAT) of clean coking coal dropped by 22% to RMB844/tonne when compared with that of the same period of 2013 (2013: RMB1,076/tonne). The decline in average realised selling prices of our coal products were in line with the slump in market coal prices. In terms of its sales volume, sales of No.4 and No.9 raw coking coal accounted for 63% and 37% (2013: 53% and 47%) of the total raw coking coal sales volume respectively for the year ended 31 December 2014. In addition, sales of No.1 and No.2 clean coking coal accounted for 53% and 47% (2013: 62% and 38%) of the total clean coking coal sales volume respectively for the year ended 31 December 2014.

## **FINANCIAL REVIEW**

For the year ended 31 December 2014, the Group recorded a turnover of approximately Hong Kong Dollars ("HK\$") 3,255 million, representing a decrease of approximately HK\$1,013 million or 24% as compared with that of approximately HK\$4,268 million for the same period of 2013. The reduction in turnover was mainly attributable to the drop in average realised selling prices of both raw and clean coking coal by 22% for the year under review. It was also attributable to the substantial drop in the sales volume of raw coking coal by 48% under the current weak coal market situation, the impact of which has overridden the impact of the increase of sales volume in clean coking coal by 19% for the year under review. In terms of turnover, sales of raw and clean coking coal accounted for 16% and 84% of the Group's turnover respectively for the year ended 31 December 2014. They accounted for 31% and 69% respectively for the year ended 31 December 2013.

For the year ended 31 December 2014, the total turnover to the top five customers accounted for 62% (2013: 59%) of the Group's turnover. Of which, the total turnover to the largest customer accounted for 18% (2013: 20%) of the Group's turnover.

For the year ended 31 December 2014, gross profit margin was 40% while 51% for the same period in 2013. Decrease in gross profit margin was mainly due to the drop in realised selling prices as explained above under "Business Review". Gross profit was dropped by approximately HK\$869 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW (continued)

For the year ended 31 December 2014, the Group recorded an operating loss of approximately HK\$84 million while an operating profit of approximately HK\$1,830 million for the same period of 2013. The Group recorded net loss of approximately HK\$361 million and loss attributable to the owners of the Company (the "Owner") of approximately HK\$425 million in 2014 eventually. Such turnaround from profit to loss in 2014 is primarily attributable to (i) substantial drop in gross profit by HK\$869 million as explained above; (ii) the non-cash impairment loss made on goodwill of approximately HK\$824 million mainly arising from the continuous downturn in the coal market; and (iii) due to the depreciation in RMB, the Group suffered an unrealised related foreign exchange loss of approximately HK\$96 million ("the Foreign Exchange Loss") mainly arising from re-translation of its monetary assets (mainly cash) denominated in RMB into HK\$ as at 31 December 2014.

During the year under review, basic loss per share was HK8.02 cents (2013: basic earnings per share was HK21.03 cents).

Excluding such non-cash impairment loss on goodwill and the Foreign Exchange Loss, the Group would record net profit of approximately HK\$559 million for the year ended 31 December 2014, representing a substantial decrease of approximately HK\$740 million or 57% as compared with that of approximately HK\$1,299 million for the same period of 2013. In addition, the Group would record profit attributable to the Owners of approximately HK\$495 million, representing a substantial decrease of approximately HK\$620 million or 56% as compared with that of approximately HK\$1,115 million for the same period of 2013.

## Cost of Sales

During the year under review, cost of sales was approximately HK\$1,951 million, representing a decrease of approximately HK\$144 million or 7%, as compared with that of approximately HK\$2,095 million for the same period of 2013. The decrease in cost of sales was mainly due to the decrease in actual usage volume of raw coking coal for sales and the drop in unit production costs as stated below during the year under review.



Included in cost of sales, amortisation of mining rights was approximately HK\$261 million for the year ended 31 December 2014, representing a decrease of approximately HK\$20 million or 7%, as compared with that of approximately HK\$281 million for the same period of 2013. The decrease in amortisation of mining rights was mainly due to the decrease in usage of raw coking coal for sales during the year under review.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW (continued)

### Cost of Sales (continued)

The unit production costs are summarised as follows:

	Unit	For the year ended		Change	
		31 December 2014	2013	Amount	Percentage
Production cost of raw coking coal	RMB/tonne	248	260	-12	-5%
<i>of which, depreciation and amortisation</i>	RMB/tonne	(63)	(62)	+1	+2%
Processing cost for clean coking coal	RMB/tonne	48	53	-5	-9%
<i>of which, depreciation</i>	RMB/tonne	(10)	(11)	-1	-9%

Although the production volume of raw coking coal was dropped by 7%, its unit production cost was decreased by 5%. The decrease was attributable to the strengthened cost control and implementation of certain relief policies by the government, such as (a) the reduction in staff costs and material costs by approximately HK\$69 million and approximately HK\$37 million respectively; (b) the reduction on levy of continuous development fund amounted to approximately HK\$21 million as the levy is decreased by RMB3 per tonne; and (c) the decrease in mine resources compensation fee which is charged at 1% of the realised selling price of raw coking coal by approximately HK\$16 million.

### Gross Profit and Gross Profit Margin

As a result of the reasons above, gross profit was approximately HK\$1,304 million for the year ended 31 December 2014, representing a decrease of approximately HK\$869 million or 40% as compared with that of approximately HK\$2,173 million for the same period of 2013. During the year under review, gross profit margin was 40% compared with 51% for the same period of 2013. The drop in gross profit margin was mainly due to the drop in average realised selling prices by 22% for the year ended 31 December 2014 when compared with that in the same period of 2013 as explained above under "Business Review".

### Other Operating Income

During the year under review, other operating income was approximately HK\$296 million, representing a significant decrease of approximately HK\$89 million or 23% as compared with approximately HK\$385 million of the same period in 2013. Nevertheless bank interest income was increased sharply by HK\$46 million or 36%, other operating income was still significantly decreased as no such 2013 net exchange gain of approximately HK\$122 million recognised in 2014.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **FINANCIAL REVIEW** (continued)

### **Selling and Distribution Expenses**

During the year under review, selling and distribution expenses were approximately HK\$301 million, representing a significant increase of approximately HK\$159 million as compared with that of approximately HK\$142 million for the same period of 2013. The increase was mainly as a result of the substantial increase in transportation costs arising from the significant increase in sales volume of clean coking coal at C&F prices by approximately 480,000 tonnes from approximately 183,000 tonnes in 2013 to approximately 663,000 tonnes in 2014.

### **General and Administrative Expenses**

During the year under review, net exchange loss of approximately HK\$54 million (after net-off exchange gain of approximately HK\$35 million generated from the cash management) includes in general and administrative expenses. Such net exchange loss was mainly arose from re-translation of the Group's current assets (mainly cash) denominated in RMB to HK\$ as at 31 December 2014 as a result of the depreciation of RMB by approximately 2% as at 31 December 2014 compared with that as at 31 December 2013. On the other hand, it was recorded net exchange gain of approximately HK\$122 million in other operating income for the same period of 2013 as a result of the appreciation of RMB by approximately 2% as at 31 December 2013. Excluding such net exchange loss, general and administrative expenses would be approximately HK\$257 million in 2014, representing a significant decrease of approximately HK\$62 million or 19% as compared with approximately HK\$319 million for the same period of 2013. The significant decrease was resulted from (i) the effective cost control; and (ii) the decrease in directors' remuneration by approximately HK\$17 million during the year under review.

### **Impairment Loss on Goodwill**

Due to the continuous downturn in the coal market and low market coal prices, the Group incurred a non-cash impairment loss of approximately HK\$824 million made on goodwill after assessment during the year under review. Details of which are disclosed in Note 20 to the financial statements.

### **Other Operating Expenses**

During the year under review, other operating expenses were approximately HK\$249 million, which mainly represented the committed 2014 annual payment of charitable donation of approximately HK\$247 million paid by the Group to the People's Government of Liulin County, for the construction of modern schools and provision of education facilities as disclosed in the financial statements of the Company for the year ended 31 December 2013.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **FINANCIAL REVIEW** (continued)

### **Finance Costs**

During the year under review, finance costs were approximately HK\$11 million, representing a significant decrease of approximately HK\$13 million or 54% as compared with that of approximately HK\$24 million for the same period of 2013. The decrease in finance costs was due to the Group adopted short term financing such as early redemption of bill receivables instead of long term bank borrowings. During the year under review, no borrowing costs were capitalised in the construction in progress (2013: Nil).

### **Income Tax Expense**

During the year under review, income tax expense was approximately HK\$222 million (2013: approximately HK\$531 million), of which approximately HK\$20 million (2013: approximately HK\$82 million) represented the provision of withholding tax of 5% on the dividend declared from the Group's major subsidiaries incorporated in the People's Republic of China ("PRC") ("major PRC Subsidiaries") in accordance with the relevant tax regulations in the PRC. The enterprise income tax rate for the Group's major PRC subsidiaries is 25%. The substantial decrease in income tax expense was in line with the substantial drop in profits arising from the major PRC subsidiaries during the year under review.

### **Owner's Attributable Loss**

By reasons of the foregoing, the loss attributable to the Owners during the year under review was approximately HK\$425 million while the profit attributable to the Owners was approximately HK\$1,115 million for the same period of 2013.

### **Material Investments and Acquisitions**

During the year ended 31 December 2014, the Group had no material investments and acquisitions.

### **Material Disposals**

During the year ended 31 December 2014, the Group had no material disposals.

### **Safety Production and Environmental Protection**

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



# MANAGEMENT DISCUSSION AND ANALYSIS

## **FINANCIAL REVIEW** (continued)

### **Charges on Assets**

As at 31 December 2014, save for disclosed below, none of the Group's assets was charged or subject to any encumbrance.

Bank deposits of approximately HK\$104 million and bill receivables of approximately HK\$257 million were used for securing bills facilities of approximately HK\$352 million.

### **Contingent Liabilities**

As at 31 December 2014, there were no guarantees given to any banks or financial institutions by the Group.

### **Gearing Ratio**

As at 31 December 2014, gearing ratio of the Group, computed from the Group's total borrowings divided by the total equity, was approximately 0.4%. Other than the early redemption of bill receivables amounting to approximately HK\$74 million, the Group had no other borrowings.

### **Exposure to Fluctuations in Exchange Rates**

As at 31 December 2014, other than assets and liabilities denominated in RMB and Australian Dollars ("AUD"), the Group had no material exposure to foreign exchange fluctuations. As at 31 December 2014, RMB and AUD were depreciated by approximately 2% and approximately 8% respectively, when compared to that as at 31 December 2013. As the net assets value denominated in RMB represented approximately 72% of the Group's total net assets value as at 31 December 2014, the depreciation in RMB led to other exchange loss of approximately HK\$223 million (other than the Foreign Exchange Loss recognised in profit or loss) recognised in the other comprehensive income upon translation of financial statements of foreign operations in the PRC during the year ended 31 December 2014. Also, the aggregate carrying amount of assets denominated in AUD represented approximately 1% of the Group's total net asset values as at 31 December 2014. Thus, such fluctuations in exchange rates are not expected to have any material impact on the financial strength of the Group.

### **Liquidity and Financial Resources**

As at 31 December 2014, the Group's current ratio (current assets divided by current liabilities) was approximately 3.5 times and the Group's cash and bank deposits amounted to approximately HK\$5,507 million, of which approximately HK\$104 million was deposited to secure bills facilities of approximately HK\$104 million. The Group continued to maintain a healthy net cash balance.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **FINANCIAL REVIEW** (continued)

### **Liquidity and Financial Resources** (continued)

Included in trade and bill receivables, the Group has total bill receivables amounting to approximately HK\$1,431 million (of which approximately HK\$184 million represented discounted or endorsed bill receivables and approximately HK\$257 million was used for securing bills facilities of approximately HK\$248 million) as at 31 December 2014 that were readily convertible into cash, but would be subject to finance cost upon conversion before the maturity. Taking into account for the free bill receivables of approximately HK\$990 million, the Group's free cash resources would have approximately HK\$6,393 million as at 31 December 2014.

### **Capital Structure**

Total equity and borrowings are classified as capital of the Group. As at 31 December 2014, the amount of capital was approximately HK\$19,643 million.

From the commencement date of the new Hong Kong Companies Ordinance (i.e. 3 March 2014), the Company has no authorised share capital and its shares have no par value. Accordingly, approximately HK\$14,627 million was transferred from share premium and capital redemption reserve to the share capital of the Company upon abolition of par value. As at 31 December 2014, 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 of issued shares.

As at 31 December 2014, all borrowings of the Group are denominated in RMB and are asset-backed financing.

## **EMPLOYEES**

As at 31 December 2014, the Group had 29 Hong Kong employees and 6,244 PRC employees. The remuneration packages of the employees are subject to annual review. The Group provides mandatory and voluntary provident fund schemes for its employees in Hong Kong and the state-sponsored retirement plan for its employees in the PRC. The Group has a share option scheme. During the year under review, no share option was granted or exercised.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **FUTURE PROSPECTS**

China has entered into a period of new-normal growth. The economic environment will continue to be complicated and volatile in 2015. On one hand, there is strong support for the steady growth of the economy. With the implementation of a series of national strategic development plans such as “One Belt and One Road”, Beijing-Tianjin-Hebei Collaborative Development, Yangtze River economic belt, large scale of infrastructure investment would come along to support economic growth. Policies like relieving house purchasing limits, easing mortgage and decreasing interest rate would improve the real-estates market situation and thus stimulate steel demand. Steel makers in China also actively seek to upgrade technology, expand in the international market, and increase steel utilisation rate. All of these would stimulate the demand of coking coal. On the other hand, there are a lot of uncertainties in China’s economy. Industries and manufactures grow at merely moderate rate and the export is weakening. Slowing down of the growth rate of steel production, eliminating outdated crude steel production capacity and strengthening environment protection would also impact on the domestic coking coal demand. Moreover, the current production capacity of coking coal still needs to be digested and the competition from imported coking coal is still exist. Hence, 2015 will be a year full of challenges.

In the long run, with more concerns on the environmental protection by Chinese government and the enforcement of China’s new “Environmental Protection Law”, the needs for energy saving, emission reduction and more environmental protection requirements in steel industry would be further emphasised, which in turn would benefit premium coking coal resources with less pollution and better strength quality. In addition, as the premium coking coal resources in China become more and more scarce, the value of premium coking coal would be more and more precious. Therefore, the demand of premium coking coal will restore gradually in the future.

In 2015, we will continue to maximise shareholders’ interests and make full use of our competitive advantages and to strengthen our core competence and ensure sustainability of our current business and sustainable development. We will continue to enhance production management and cost control, as well as strengthen the research and promotion of new techniques in order to further lower the cost. At the same time, we maintain good cooperative relationship with our major clients. In addition, based on our experience of the market and the industry for years together with our sound financial position, we are looking prudently to source for possible acquisitions both in mainland China and abroad to enhance our resources and reserve and expand production capacity. We will make effort to create great investment return for our shareholders.

# CORPORATE GOVERNANCE REPORT

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

## **CORPORATE GOVERNANCE PRACTICES**

The Company has complied with the code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”) during the financial year ended 31 December 2014.

## **BOARD OF DIRECTORS**

### **Composition**

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

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

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

Save for those as disclosed in the section headed “Directors’ Biographies” as set out on pages 3 to 10 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.

# CORPORATE GOVERNANCE REPORT

## **BOARD OF DIRECTORS (continued)**

### **Composition (continued)**

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

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

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

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

### **Board diversity**

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

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

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

### **Role and function of the Board and the management**

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

# CORPORATE GOVERNANCE REPORT

## **BOARD OF DIRECTORS (continued)**

### **Board meetings**

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

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

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

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

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

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

# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS (continued)

### Attendance records

During the financial year ended 31 December 2014, the Directors have made active contribution to the affairs of the Group and four physical Board meetings were held to consider, among other things, various projects contemplated by the Group and to review and approve the interim results and annual results of the Group.

Details of the Directors' attendances in 2014 are as follows:

	<b>Number of meeting(s) attended/eligible to attend</b>
<i>Executive Directors</i>	
Li Shaofeng ( <i>Chairman</i> )	4/4
Ding Rucai ( <i>appointed with effect from 1 September 2014</i> )	2/2
Wong Lik Ping	1/4
So Kwok Hoo	4/4
Chen Zhaoqiang	4/4
Liu Qingshan	4/4
Chen Zhouping ( <i>resigned with effect from 1 September 2014</i> )	2/2
<i>Non-executive Directors</i>	
Leung Shun Sang, Tony	4/4
Zhang Yaoping	4/4
Xiang Xu Jia	4/4
<i>Independent Non-executive Directors</i>	
Kee Wah Sze	4/4
Choi Wai Yin	4/4
Chan Pat Lam	4/4
Chan Chung Chun	4/4
Japhet Sebastian Law	4/4

# CORPORATE GOVERNANCE REPORT

## **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 senior 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 three years.

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

### **Independent Non-executive Directors**

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

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

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

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

# CORPORATE GOVERNANCE REPORT

## **BOARD OF DIRECTORS (continued)**

### **Independent Non-executive Directors (continued)**

Mr. Chan Pat Lam, 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. Chan 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. Chan would not affect his exercise of independent judgement and are satisfied that Mr. Chan has the required character, integrity and experience to continue fulfilling the role of an Independent Non-executive Director. 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. Chan is still independent and the recommendation to shareholders to vote in favor of the re-election of Mr. Chan as a Director.

### **Insurance for directors' and officers' liability**

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

### **Directors' training and professional development**

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

# CORPORATE GOVERNANCE REPORT

## 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 2014, a summary of which is as follows:

Directors	Continuous professional development	
	Type <i>(Note I)</i>	Subject <i>(Note II)</i>
Li Shaofeng	A	1
	B	4
Ding Rucai	A	2, 4
	B	1, 4
Chen Zhouping	B	4
Wong Lik Ping	B	2, 4
So Kwok Hoo	A	4
	B	4
Chen Zhaoqiang	B	4
Liu Qingshan	B	4
Leung Shun Sang, Tony	B	4
Zhang Yaoping	B	4
Xiang Xu Jia	B	4
Kee Wah Sze	A	1, 3
	B	4
Choi Wai Yin	B	4
Chan Pat Lam	B	2, 4
Chan Chung Chun	A	2, 4
	B	2, 4
Japhet Sebastian Law	A	1
	B	1, 4

*Note I:*

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

B: Reading newspapers, journals and updates

*Note II:*

1: Laws, rules and regulations

2: Finance, accounting or taxation

3: Management

4: Businesses relating to the Company

# CORPORATE GOVERNANCE REPORT

## **CHAIRMAN AND MANAGING DIRECTOR**

The roles of Chairman and Managing Director are separate and exercised by different individuals to reinforce their independence and accountability. Mr. Li Shaofeng is the Chairman of the Company. During the period from 1 January 2014 to 31 August 2014, Mr. Chen Zhouping served as the Managing Director of the Company. Mr. Ding Rucai succeeded Mr. Chen as the Managing Director of the Company from 1 September 2014. 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.

In performing the role of Chairman, Mr. Li Shaofeng's responsibilities 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.

# CORPORATE GOVERNANCE REPORT

## **BOARD COMMITTEES**

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

### **Executive Committee**

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

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

- to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Group's employees and Directors;
- to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and
- to conform to any requirement, direction, regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by legislation.

The Executive Committee comprises all Executive Directors of the Company.

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES (continued)

### Executive Committee (continued)

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

<b>Committee members</b>	<b>Number of meeting(s) attended/eligible to attend</b>
Li Shaofeng ( <i>chairman of the committee</i> )	1/1
Ding Rucai ( <i>appointed as a member from 1 September 2014</i> )	0/0
Wong Lik Ping	1/1
So Kwok Hoo	1/1
Chen Zhaoqiang	1/1
Liu Qingshan	1/1
Chen Zhouping ( <i>ceased to act as a member from 1 September 2014</i> )	1/1

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

- reviewing the Company's compliance with the CG Code and disclosure in the corporate governance report of the Company for the year ended 31 December 2013.

### Audit Committee

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

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

- overseeing the relationship with the Company's auditor;
- reviewing the interim and annual financial statements;
- reviewing the Company's financial reporting system and internal control procedures; 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

## **BOARD COMMITTEES (continued)**

### **Audit Committee (continued)**

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

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

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

<b>Committee members</b>	<b>Number of meeting(s) attended/eligible to attend</b>
Choi Wai Yin ( <i>chairman of the committee</i> )	2/2
Kee Wah Sze	2/2
Chan Pat Lam	2/2
Chan Chung Chun	2/2
Japhet Sebastian Law	1/2

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

- reviewing the final results of the Group for the financial year ended 31 December 2013; and
- reviewing the interim results of the Group for the six months ended 30 June 2014.

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.

# CORPORATE GOVERNANCE REPORT

## **BOARD COMMITTEES (continued)**

### **Nomination Committee**

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

The principal duties of the Nomination Committee include:

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

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

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

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

# CORPORATE GOVERNANCE REPORT

## **BOARD COMMITTEES (continued)**

### **Nomination Committee (continued)**

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

<b>Committee members</b>	<b>Number of meeting(s) attended/eligible to attend</b>
Li Shaofeng ( <i>chairman of the committee</i> )	3/3
Wong Lik Ping	1/3
Kee Wah Sze	3/3
Choi Wai Yin	3/3
Chan Pat Lam	3/3
Chan Chung Chun	3/3
Japhet Sebastian Law	3/3

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;
- considering and making recommendations to the Board for the appointment of Mr. Ding Rucai as an Executive Director and the Vice-chairman and Managing Director of the Company; and
- reviewing the structure and composition of the Board with due regard for the benefits of diversity on the Board.

# CORPORATE GOVERNANCE REPORT

## **BOARD COMMITTEES (continued)**

### **Remuneration Committee**

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

The principal duties of the Remuneration Committee include:

- making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management of the Group;
- reviewing and approving the management's remuneration proposals with reference to the Company's goals and objectives;
- determining, with delegated responsibility, the remuneration packages of individual Executive Directors and senior management and making recommendations to the Board on the remuneration of Non-executive Directors;
- reviewing and approving compensation payable to Executive Directors and senior management and compensation arrangements relating to dismissal or removal of Directors for misconduct; and
- ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration.

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

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

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

# CORPORATE GOVERNANCE REPORT

## **BOARD COMMITTEES (continued)**

### **Remuneration Committee (continued)**

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

<b>Committee members</b>	<b>Number of meeting(s) attended/eligible to attend</b>
Chan Chung Chun ( <i>chairman of the committee</i> )	2/2
Li Shaofeng	2/2
Leung Shun Sang, Tony	2/2
Kee Wah Sze	2/2
Choi Wai Yin	2/2
Chan Pat Lam	2/2
Japhet Sebastian Law	2/2

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

- considering and approving the terms of the service contract and the remuneration of Mr. Ding Rucai;
- considering, reviewing and determining the remuneration of the Executive Directors of the Company for the year 2015;
- considering the bonuses of the Executive Directors of the Company for the year 2014; and
- making recommendations to the Board on the directors' fee of the Non-executive Directors of the Company for the year 2015.

Details of remuneration paid to Directors and senior management for the year are set out in note 16 to the financial statements.

# CORPORATE GOVERNANCE REPORT

## **COMPANY SECRETARY**

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

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

## **INTERNAL CONTROL**

The Board is of the opinion that sound internal control systems will contribute to the effectiveness and efficiency of operations of the Group and to the safeguard of the Group's assets as well as the shareholders' investment.

The Board is responsible for overall ensuring, maintaining and overseeing the internal control systems of the Group. The Executive Committee helps the Board to discharge its responsibilities of ensuring and maintaining sound internal control functions by continuously reviewing and monitoring the internal control systems and processes so as to ensure that they can provide reasonable assurance against material errors of the Group.

The internal control system of the Group is embedded within the business processes so that it functions as an integral part of the overall operations of the Group. The system comprises a comprehensive organization structure with assignment of definite accountabilities and delegation of the corresponding authorities to each post. Based on the organization structure, a reporting system has been developed which includes a reporting system from division head of each principal business unit to the Executive Committee.

Business plan and budget are prepared by the division head of each principal business unit annually. In preparing the business plans and budgets, the management identifies and evaluates any potential risks. Measures will be put in place with an aim to ultimately manage, control or lessen such risks.

# CORPORATE GOVERNANCE REPORT

## **INTERNAL CONTROL (continued)**

The business plans and budgets are subject to review and approval by the Executive Committee. The Executive Committee reviews monthly management report on the operational and financial results of each principal business unit and measures the actual performance of the Group against the business plan and budget concerned. In this course, the Executive Committee also reviews and assesses the effectiveness of all material controls and the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function. The Executive Committee holds periodical meetings with the senior management of each principal business unit to, amongst other matters, address the issues in such controls, identify areas of improvement and put the appropriate measures in place.

The internal control system of the Group is documented and if any revision is required, such information will be submitted to the Audit Committee for evaluation.

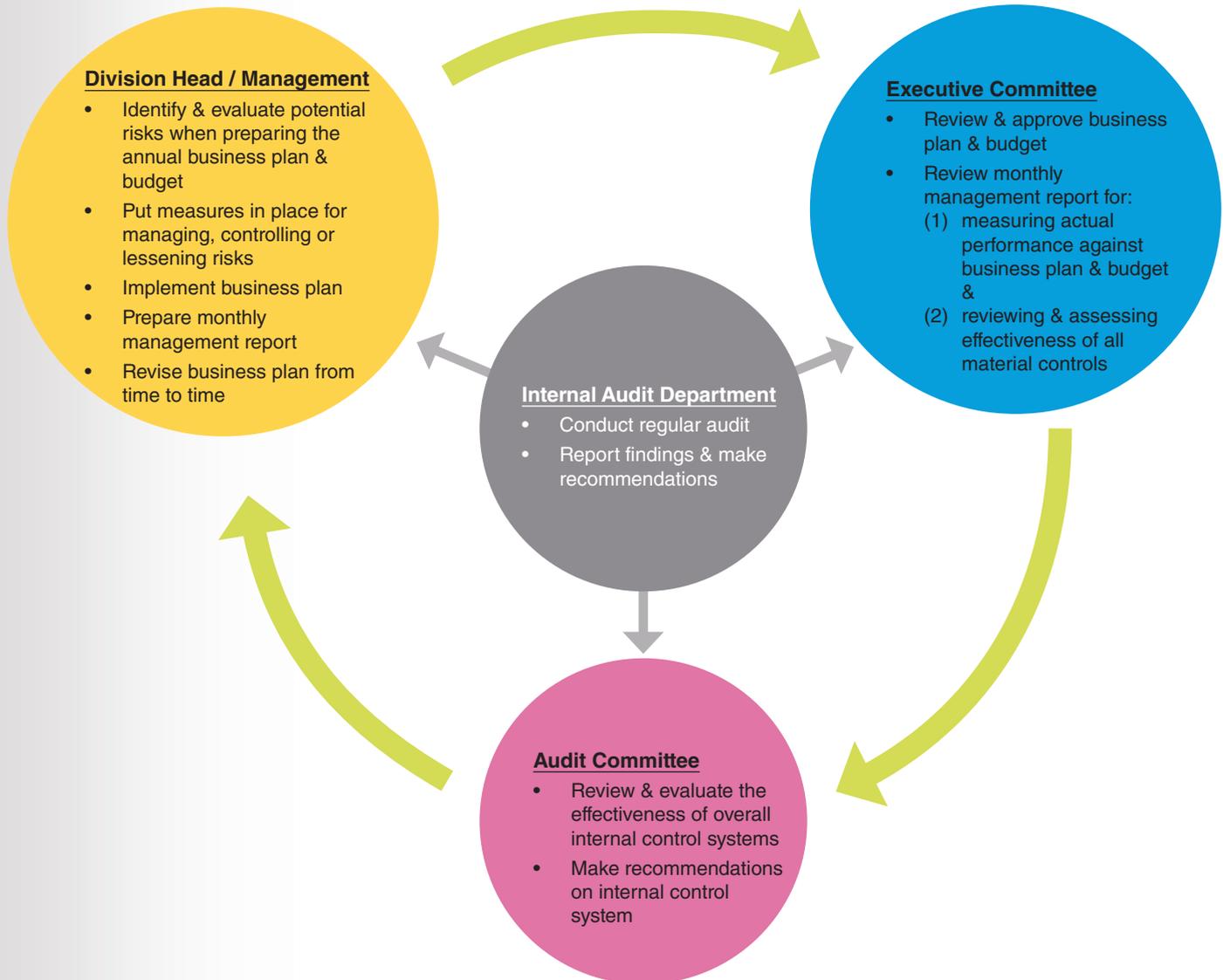
The Audit Committee assists the Board to fulfill its oversight role over the Group's internal control function by reviewing and evaluating the effectiveness of the overall internal control systems.

The Company set up an Internal Audit Department in August 2011 which assists the Board and the Audit Committee to discharge its duties in internal control aspect. The Internal Audit Department, which is independent to the operational departments of the Group, is responsible for conducting regular audits on the major activities of the Group. Its objective is to ensure that all material controls, including financial, operational and compliance controls as well as risk management, are in place and functioning effectively. The Internal Audit Department reports to the Board and the Audit Committee with its findings and makes recommendations to improve the internal control systems of the Group.

# CORPORATE GOVERNANCE REPORT

## INTERNAL CONTROL (continued)

### Internal control system



# CORPORATE GOVERNANCE REPORT

## INTERNAL CONTROL (continued)

### Internal audit functions



The Board considers that it is an ongoing and continuous process for the Group to review and improve its internal control systems in order to ensure that they can meet with the dynamic and ever changing business environment. During the year under review, the Board has been, through the Executive Committee and the Audit Committee (with the assistance from the Internal Audit Department), continuously reviewing the effectiveness of the Group's internal control systems.

## 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 2014.

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

# CORPORATE GOVERNANCE REPORT

## AUDITOR'S REMUNERATION

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

<b>Services rendered</b>	<i>HK\$'000</i>
Statutory audit services for 2014	1,530
Non-statutory audit services:	
Review on interim financial report	280
Other services	216
	<hr/>
	2,026
	<hr/>

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

The statement of the auditor of the Company, BDO Limited, about its reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 65 to 66 of this annual report.

## COMMUNICATION WITH SHAREHOLDERS

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

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

# CORPORATE GOVERNANCE REPORT

## COMMUNICATION WITH SHAREHOLDERS (continued)

The auditor of the Company, BDO Limited, attended the annual general meeting of the Company held on 6 June 2014 (the "2014 AGM"). Details of the Directors' attendances at the 2014 AGM are as follows:

<b>Directors (as at the date of the 2014 AGM)</b>	<b>Attendance at the 2014 AGM</b>
<i>Executive Directors</i>	
Li Shaofeng (Chairman)	✓
Chen Zhouping	✓
Wong Lik Ping	X
So Kwok Hoo	✓
Chen Zhaoqiang	X
Liu Qingshan	✓
<i>Non-executive Directors</i>	
Leung Shun Sang, Tony	✓
Zhang Yaoping	X
Xiang Xu Jia	X
<i>Independent Non-executive Directors</i>	
Kee Wah Sze	✓
Choi Wai Yin	X
Chan Pat Lam	✓
Chan Chung Chun	X
Japhet Sebastian Law	✓

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

# CORPORATE GOVERNANCE REPORT

## SHAREHOLDERS' RIGHTS

### Convene an extraordinary general meeting

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

### Put forward proposals at shareholders' meetings

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

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

### Shareholders' enquiries

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

## CONSTITUTIONAL DOCUMENTS

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

# REPORT OF THE DIRECTORS

The Directors herein present their report and the audited financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2014.

## **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. The activities of its principal subsidiaries and associate are set out in notes 21 and 23 to the financial statements.

## **RESULTS**

The results of the Group for the year ended 31 December 2014 and the state of affairs of the Group at that date are set out in the financial statements on pages 67 to 149 of this annual report.

The Board of Directors of the Company recommends a final dividend of HK2.7 cents per ordinary share for the year ended 31 December 2014 (2013: HK7.8 cents per ordinary share) payable to shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 28 May 2015. This dividend is subject to shareholders’ approval at the Company’s annual general meeting to be held on Friday, 22 May 2015. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company’s share registrar, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 28 May 2015 for registration. The final dividend is expected to be paid on or about Thursday, 9 July 2015.

## **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 150 of this annual report.

## **BORROWINGS**

Particulars of borrowings of the Group as at 31 December 2014 are set out in note 32 to the financial statements.

## **PROPERTY, PLANT AND EQUIPMENT**

Details of movements in the property, plant and equipment of the Group and the Company during the year are set out in note 17 to the financial statements.

## **SHARE CAPITAL**

Details of movements in the Company’s share capital during the year are set out in note 36 to the financial statements.

# REPORT OF THE DIRECTORS

## RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on pages 71 to 72 of this annual report and in note 37 to the financial statements, respectively.

## DONATIONS

Charitable donations made by the Group during the year amounted to approximately HK\$246,892,000.

## DIRECTORS

The Directors of the Company during the year were as follows:

Li Shaofeng

Ding Rucai

*(appointed with effect from 1 September 2014)*

Wong Lik Ping

So Kwok Hoo

Chen Zhaoqiang

Liu Qingshan

Leung Shun Sang, Tony

Zhang Yaoping

Xiang Xu Jia

Kee Wah Sze\*

Choi Wai Yin\*

Chan Pat Lam\*

Chan Chung Chun\*

Japhet Sebastian Law\*

Chen Zhouping

*(resigned with effect from 1 September 2014)*

\* *Independent Non-executive Director*

In accordance with clauses 94 and 103(A) of the Company's articles of association, Messrs. Li Shaofeng, Ding Rucai, So Kwok Hoo, Chen Zhaoqiang, Liu Qingshan and Chan Pat Lam will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting 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.

# REPORT OF THE DIRECTORS

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

The Directors of the Company who held office at 31 December 2014 had the following interests in the shares and underlying shares of the Company as at 31 December 2014 as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance (the "SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

### Long positions in the shares and underlying shares of the Company

Name of Director	Capacity in which interests were held	Number of shares/underlying shares in the Company			Total interests as to % of the total number of shares of the Company in issue as at 31.12.2014
		Interests in shares	Derivative interests*	Total interests	
Wong Lik Ping	Beneficial owner	–	4,500,000	4,500,000	0.08%
So Kwok Hoo	Beneficial owner	4,000,000	3,500,000	7,500,000	0.14%
Chen Zhaoqiang	Beneficial owner	280,000	8,000,000	8,280,000	0.15%
Liu Qingshan	Beneficial owner	–	6,000,000	6,000,000	0.11%
Leung Shun Sang, Tony	Beneficial owner	–	6,000,000	6,000,000	0.11%
Zhang Yaoping	Beneficial owner	–	4,500,000	4,500,000	0.08%
Kee Wah Sze	Beneficial owner	700,000	3,200,000	3,900,000	0.07%
Choi Wai Yin	Beneficial owner	20,000	3,200,000	3,220,000	0.06%
Chan Pat Lam	Beneficial owner	200,000	3,200,000	3,400,000	0.06%

\* *The interests are unlisted physically settled options granted pursuant to the Company's share option scheme adopted on 20 June 2003 (the "2003 Scheme"). Upon exercise of the share options in accordance with the 2003 Scheme, ordinary shares in the share capital of the Company are issuable. The share options are personal to the respective Directors. Further details of the share options are set out in the section headed "Share Option Schemes" below.*

# REPORT OF THE DIRECTORS

## **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)**

Save as disclosed above, as at 31 December 2014, 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**

Apart from as disclosed in the sections headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" and "Share Option Schemes" herein, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's Directors or their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## **DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

# REPORT OF THE DIRECTORS

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

<b>Name of Director</b>	<b>Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group</b>	<b>Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group</b>	<b>Nature of interest of the Director in the entity</b>
Li Shaofeng	Shougang Holding (Hong Kong) Limited ("Shougang Holding") <sup>#</sup>	Trading of coal	Director
Ding Rucai <sup>@</sup>	Shougang Holding <sup>#</sup>	Trading of coal	Director
Wong Lik Ping	King Steel Limited <sup>#</sup>	Production and sales of coal products	Shareholder
Chen Zhouping <sup>*</sup>	Shougang Holding <sup>#</sup>	Trading of coal	Director

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

<sup>@</sup> Mr. Ding Rucai was appointed as a Director of the Company with effect from 1 September 2014.

<sup>\*</sup> Mr. Chen Zhouping resigned as a Director of the Company with effect from 1 September 2014.

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

# REPORT OF THE DIRECTORS

## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2014, according to the register kept by the Company under Section 336 of the SFO, the following companies and persons had interests in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

### Long positions in the shares/underlying shares of the Company

Name of shareholder	Capacity in which interests were held	Number of shares/ underlying shares	Interests as to % of the total number of shares of the Company in issue as at 31.12.2014	Note
Shougang Holding	Beneficial owner, interests of controlled corporations	1,582,864,490	29.85%	1
Shougang Concord International Enterprises Company Limited ("Shougang International")	Beneficial owner, interests of controlled corporations	1,463,962,490	27.61%	1
Fine Power Group Limited ("Fine Power")	Beneficial owner	663,918,497	12.52%	1
Ultimate Capital Limited ("Ultimate Capital")	Beneficial owner	650,000,000	12.25%	1
Funde Sino Life Insurance Co., Ltd. (formerly known as Sino Life Insurance Co., Ltd.)	Beneficial owner	1,539,844,306	29.04%	

Note:

1. *Shougang Holding indicated in its disclosure form dated 8 December 2011 (being the latest disclosure form filed up to 31 December 2014) that as at 6 December 2011, its interests included the interests held by Shougang International, a company which was held as to 47.80% by Shougang Holding, as well as Fine Power and Ultimate Capital, each of which was a wholly-owned subsidiary of Shougang International.*

*Shougang International indicated in its disclosure form dated 9 May 2011 (being the latest disclosure form filed up to 31 December 2014) that as at 5 May 2011, its interests included the interests held by Fine Power and Ultimate Capital.*

Save as disclosed above, as at 31 December 2014, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

# REPORT OF THE DIRECTORS

## **PUBLIC FLOAT**

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

## **SHARE OPTION SCHEMES**

On 20 June 2003, the shareholders of the Company adopted the 2003 Scheme which would be valid for a period of ten years. On 25 May 2012, the shareholders of the Company approved the termination of the 2003 Scheme (to the effect that no further share option shall be granted by the Company under the 2003 Scheme) and the adoption of a new share option scheme (the "2012 Scheme"), which became effective on 29 May 2012 upon the Listing Committee of the Stock Exchange granting its approval to the listing of, and permission to deal in, the shares of the Company which may fall to be issued upon exercise of the options to be granted under the 2012 Scheme. The share options granted under the 2003 Scheme prior to its termination shall continue to be valid and exercisable in accordance with the 2003 Scheme.

A summary of the principal terms of each of the 2003 Scheme and the 2012 Scheme is set out below:

### **(a) The 2003 Scheme**

The purpose of the 2003 Scheme is to enable the Company to grant share options to selected participants as incentives or rewards for their contribution to the Company and its subsidiaries. The 2003 Scheme was adopted on 20 June 2003 and terminated on 29 May 2012.

Under the 2003 Scheme, the Directors may, at their discretion, offer directors (including executive and non-executive directors), employees, suppliers, customers, research development or other technological support providers, shareholders, of any member of the Group or any entity in which any member of the Group holds any equity interest, share options to subscribe for shares of the Company.

The total number of shares of the Company which may be issued upon exercise of all outstanding share options granted under the 2003 Scheme is 254,250,000 which represents approximately 4.8% of the shares of the Company in issue as at the date of this annual report. Since the 2003 Scheme was terminated on 29 May 2012, no further options can be granted under the 2003 Scheme. However, the share options granted under the 2003 Scheme prior to its termination shall continue to be valid and exercisable in accordance with the 2003 Scheme.

Each of the grantees is not required to pay consideration for the grant of options in accordance with the 2003 Scheme. The offer shall not be open for acceptance after the expiry of the 2003 Scheme or the termination of the 2003 Scheme in accordance with the provisions of the 2003 Scheme.

Save as disclosed above, there is no material difference in the terms, which shall be disclosed pursuant to Rule 17.09 of the Listing Rules, between the 2003 Scheme and the 2012 Scheme.

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEMES (continued)

### (a) The 2003 Scheme (continued)

No share option was granted, exercised or cancelled in accordance with the terms of the 2003 Scheme during the year. Details of movements in the share options under the 2003 Scheme during the year are as follows:

Category or name of grantees	Options to subscribe for shares of the Company			Date of grant	Exercise period	Exercise price per share
	At the beginning of the year	Lapsed during the year	At the end of the year			
<b>Directors of the Company</b>						
Wong Lik Ping	4,500,000	–	4,500,000	19.08.2009	19.08.2011 – 19.08.2016	HK\$6.00
So Kwok Hoo	3,500,000	–	3,500,000	19.08.2009	19.08.2011 – 19.08.2016	HK\$6.00
Chen Zhaoqiang	8,000,000	–	8,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK\$6.00
Liu Qingshan	6,000,000	–	6,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK\$6.00
Leung Shun Sang, Tony	6,000,000	–	6,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK\$6.00
Zhang Yaoping	4,500,000	–	4,500,000	19.08.2009	19.08.2011 – 19.08.2016	HK\$6.00
Kee Wah Sze	3,200,000	–	3,200,000	19.08.2009	19.08.2011 – 19.08.2016	HK\$6.00
Choi Wai Yin	3,200,000	–	3,200,000	19.08.2009	19.08.2011 – 19.08.2016	HK\$6.00
Chan Pat Lam	3,200,000	–	3,200,000	19.08.2009	19.08.2011 – 19.08.2016	HK\$6.00
Chen Zhouping	6,000,000	(6,000,000) <sup>1</sup>	–	19.08.2009	19.08.2011 – 19.08.2016	HK\$6.00
	48,100,000	(6,000,000)	42,100,000			

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEMES (continued)

### (a) The 2003 Scheme (continued)

Category or name of grantees	Options to subscribe for shares of the Company			Date of grant	Exercise period	Exercise price per share
	At the beginning of the year	Lapsed during the year	At the end of the year			
Employees of the Group	96,900,000	–	96,900,000	19.08.2009	19.08.2011 – 19.08.2016	HK\$6.00
	96,900,000	–	96,900,000			
Other participants	116,000,000	–	116,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK\$6.00
	116,000,000	–	116,000,000			
	<u>261,000,000</u>	<u>(6,000,000)</u>	<u>255,000,000</u>			

*Note:*

- Such share options lapsed on 1 September 2014 according to the terms of the 2003 Scheme as a result of resignation of Mr. Chen Zhouping as a Director of the Company with effect from 1 September 2014.

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEMES (continued)

### (b) The 2012 Scheme

The purpose of the 2012 Scheme is to replace the 2003 Scheme and to continue 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 2012 Scheme shall be valid and effective for a period of ten years commencing on 25 May 2012, being the date on which the 2012 Scheme was conditionally adopted by the shareholders of the Company, and ending on 25 May 2022 (both dates inclusive).

Under the 2012 Scheme, the Board may, at its discretion, offer full-time or part-time employees, executives, officers or directors (including executive and non-executive directors) of the Company or any of its subsidiaries or any of the Invested Entities, and any advisors, consultants, agents, suppliers, customers and distributors, who, in the sole opinion of the Board, will contribute or have contributed to the Company and/or any of its subsidiaries and/or any of the Invested Entities, share options to subscribe for shares of the Company.

No share option has been granted under the 2012 Scheme since its adoption. The maximum number of shares of the Company available for issue upon exercise of all share options which may be granted under the 2012 Scheme is 530,183,784, representing 10% of the shares of the Company in issue as at the date of this annual report. The total number of shares of the Company issued and which may fall to be issued upon the exercise of share options to be granted under the 2012 Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the number of shares of the Company in issue as at the date of grant. Any further grant of share options in excess of this 1% limit shall be subject to the issue of a circular by the Company and shareholders' approval in a general meeting. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, which would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of the offer of such grant (a) representing in aggregate over 0.1% of the shares of the Company in issue on the date of the grant; and (b) having an aggregate value of in excess of HK\$5,000,000 (based on the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of each grant), such further grant of options shall be subject to the issue of a circular by the Company and shareholders' approval in a general meeting on a poll at which the grantee, his/her associates and all core connected persons of the Company shall abstain from voting in favour of the resolution concerning the grant of such options, and/or such other requirements prescribed under the Listing Rules from time to time. A connected person of the Company will be permitted to vote against the grant only if his intention to do so has been stated in the circular. Any grant of share options to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, is required to be approved by the Independent Non-executive Directors (excluding the Independent Non-executive Director who is the grantee of the options).

# REPORT OF THE DIRECTORS

## **SHARE OPTION SCHEMES (continued)**

### **(b) The 2012 Scheme (continued)**

The period during which a share option may be exercised will be determined by the Board at its absolute discretion, save that no share option may be exercised more than ten years after it has been granted under the 2012 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 of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of offer of share options; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of a share of the Company on the date of offer of share options. Each of the grantees is required to pay HK\$1.00 as a consideration for his acceptance of the grant of share options in accordance with the 2012 Scheme. The offer of share options must be accepted within 30 days from the date of the offer.

Share options to be granted under the 2012 Scheme do not confer rights on the holders to dividends or to vote at general meetings.

No share option has been granted under the 2012 Scheme since its adoption. Accordingly, as at 31 December 2014, there was no share option outstanding under the 2012 Scheme.

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

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

## **DISTRIBUTION RESERVES**

At the end of the reporting period, the Company had approximately HK\$1,964,209,000 reserves available for distribution as calculated in accordance with the relevant provisions of the Companies Ordinance, of which approximately HK\$143,150,000 has been proposed as a final dividend for the year.

# REPORT OF THE DIRECTORS

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 62% of the total sales for the year and sales to the largest customer included therein amounted to approximately 18%. Purchases from the Group's five largest suppliers accounted for approximately 51% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 25%. 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 Company's share capital) had any interest in the Group's five largest customers and suppliers.

## CONTINUING CONNECTED TRANSACTIONS

As stated in the announcement of the Company dated 30 December 2011, a coal supply agreement was entered into between the Company and Shougang International on 30 December 2011 (the "Coal Supply Agreement") to govern the coal supply to Shougang International and/or its associates by the Group for the three financial years ended 31 December 2014. Pursuant to the Coal Supply Agreement, the cap amounts (exclusive of value added tax) for the supply of premier clean coking coal for each of the three financial years ended 31 December 2014 are as follows:

	<b>For the financial year ended 31 December 2012</b>	<b>For the financial year ended 31 December 2013</b>	<b>For the financial year ended 31 December 2014</b>
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Cap amounts for the supply of premier clean coking coal	100	150	200

The basis of determining the prices for the continuing connected transactions contemplated under the Coal Supply Agreement will be in accordance with: (1) a comparable market price, if the comparable market price is available; or (2) if no comparable market price can be taken as a reference, by agreement between the parties on an arm's length basis and such prices shall be no less favourable to the Company than that available from third parties.

As at the date of the Coal Supply Agreement, Shougang International was a substantial shareholder of the Company and thus was a connected person of the Company under the Listing Rules. Accordingly, the entering into of the Coal Supply Agreement constituted connected transaction for the Company. Details of the Coal Supply Agreement were disclosed in the announcement of the Company dated 30 December 2011. The Coal Supply Agreement and the continuing connected transactions contemplated thereunder were exempted from the approval of independent shareholders of the Company.

# REPORT OF THE DIRECTORS

## **CONTINUING CONNECTED TRANSACTIONS (continued)**

The Group has been supplying coal products to Shougang International in its ordinary and usual course of business in the past few years. The entering into of the Coal Supply Agreement can secure procurement of the coal produced by the Group.

During the year, no transaction was entered into between the Group and Shougang International and/or its associates under the Coal Supply Agreement. The Coal Supply Agreement expired on 31 December 2014.

The auditor of the Company has provided a letter to the Board of Directors of the Company in accordance with Rule 14A.56 of the Listing Rules in respect of the continuing connected transaction as set out above.

During the year and up to the date of this annual report, the Group had no connected transaction that was subject to the disclosure requirements under the Listing Rules.

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

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

The transactions set out in note 41(iv) to the financial statements were the emoluments of the Directors as determined under the service contracts entered into between the Directors and the Group and the securities issued and to be issued upon exercise of options granted to the Directors under the share option scheme of the Company and were connected transactions which were exempt from any disclosure and shareholders’ approval requirements under the Listing Rules.

## **CORPORATE GOVERNANCE**

The Company’s corporate governance practices are set out in the Corporate Governance Report on pages 29 to 50 of this annual report.

# REPORT OF THE DIRECTORS

## **AUDITOR**

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

By Order of the Board

**Li Shaofeng**

*Chairman*

Hong Kong, 26 March 2015

# INDEPENDENT AUDITOR'S REPORT



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Hong Kong

## **To the shareholders of Shougang Fushan Resources Group Limited**

*(incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of Shougang Fushan Resources Group Limited (“the Company”) and its subsidiaries (together “the Group”) set out on pages 67 to 149, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## **DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, Cap. 32 by operation of the transitional and saving provisions in Schedule 11 to the Hong Kong Companies Ordinance, Cap. 622, 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.

## **AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, Cap. 32 by operation of the transitional and saving provisions set out in Section 80 of Schedule 11 to the Hong Kong Companies Ordinance, Cap. 622, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

# INDEPENDENT AUDITOR'S REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

## **OPINION**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance, Cap. 32.

## **BDO Limited**

*Certified Public Accountants*

## **Chiu Wing Cheung Ringo**

Practising Certificate Number: P04434

Hong Kong, 26 March 2015

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	2014 HK\$'000	2013 HK\$'000
<b>Revenue</b>	6	<b>3,254,861</b>	4,268,232
Cost of sales		(1,950,708)	(2,095,216)
<b>Gross profit</b>		<b>1,304,153</b>	2,173,016
Other operating income	8	295,996	385,001
Selling and distribution expenses		(300,931)	(142,007)
General and administrative expenses		(310,864)	(319,221)
Other operating expenses		(248,601)	(266,894)
Impairment loss on goodwill	20(b)	(823,964)	–
<b>Operating (loss)/profit</b>		<b>(84,211)</b>	1,829,895
Finance costs	9	(11,301)	(24,458)
Change in fair value of derivative financial instruments		(42,500)	25,430
Share of loss of an associate		(1,203)	(943)
<b>(Loss)/Profit before income tax</b>	10	<b>(139,215)</b>	1,829,924
Income tax expense	11	(221,717)	(530,685)
<b>(Loss)/Profit for the year</b>		<b>(360,932)</b>	1,299,239
<b>Other comprehensive income for the year</b>			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		(222,765)	307,101
Item that will not be reclassified to profit or loss:			
Fair value loss on financial assets measured at fair value through other comprehensive income		(917,383)	(9,442)
<b>Total comprehensive income for the year</b>		<b>(1,501,080)</b>	1,596,898
<b>(Loss)/Profit for the year attributable to:</b>			
Owners of the Company	12	(425,302)	1,115,066
Non-controlling interests		64,370	184,173
<b>(Loss)/Profit for the year</b>		<b>(360,932)</b>	1,299,239
<b>Total comprehensive income for the year attributable to:</b>			
Owners of the Company		(1,534,287)	1,377,033
Non-controlling interests		33,207	219,865
<b>Total comprehensive income for the year</b>		<b>(1,501,080)</b>	1,596,898
		<b>HK (Cents)</b>	<b>HK (Cents)</b>
<b>(Loss)/Earnings per share</b>	14		
– Basic and diluted		<b>(8.02)</b>	21.03

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	2014 HK\$'000	2013 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	17	3,412,110	3,609,675
Prepaid lease payments	18	58,081	60,681
Mining rights	19	9,966,970	10,410,259
Goodwill	20(a)	1,454,520	2,319,205
Interest in an associate	23	17,365	18,894
Financial assets measured at fair value through other comprehensive income	24	373,494	1,290,877
Deposits, prepayments and other receivables	25	273,350	312,375
Deferred tax assets	35	22,489	27,586
<b>Total non-current assets</b>		<b>15,578,379</b>	<b>18,049,552</b>
<b>Current assets</b>			
Inventories	26	180,799	221,019
Trade and bill receivables	27	2,548,830	2,590,184
Deposits, prepayments and other receivables		184,858	203,485
Derivative financial instruments		56	13,661
Pledged bank deposits	28	103,670	204,790
Time deposits with original maturity over three months	29	3,450,784	3,450,606
Cash and cash equivalents	29	1,952,602	2,137,611
<b>Total current assets</b>		<b>8,421,599</b>	<b>8,821,356</b>
<b>Current liabilities</b>			
Trade and bill payables	30	601,062	663,324
Other payables and accruals	31	1,446,840	1,526,846
Borrowings	32	73,899	580,009
Derivative financial instruments		22,397	–
Amounts due to non-controlling interests of subsidiaries	34	3,796	20,635
Tax payables		226,712	269,627
<b>Total current liabilities</b>		<b>2,374,706</b>	<b>3,060,441</b>
<b>Net current assets</b>		<b>6,046,893</b>	<b>5,760,915</b>
<b>Total assets less current liabilities</b>		<b>21,625,272</b>	<b>23,810,467</b>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	2014 HK\$'000	2013 HK\$'000
<b>Non-current liabilities</b>			
Deferred tax liabilities	35	2,055,672	2,151,302
<b>Total non-current liabilities</b>		<b>2,055,672</b>	<b>2,151,302</b>
<b>Net assets</b>			
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	36	15,156,959	530,184
Reserves	37	2,769,576	19,397,199
<b>Total equity attributable to owners of the Company</b>		<b>17,926,535</b>	<b>19,927,383</b>
<b>Non-controlling interests</b>		<b>1,643,065</b>	<b>1,731,782</b>
<b>Total equity</b>		<b>19,569,600</b>	<b>21,659,165</b>

**Li Shaofeng**  
*Director*

**Ding Rucai**  
*Director*

# STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	2014 HK\$'000	2013 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	17	65	600
Interests in subsidiaries	21	120,456	120,456
<b>Total non-current assets</b>		<b>120,521</b>	121,056
<b>Current assets</b>			
Amounts due from subsidiaries	22	16,556,490	20,228,168
Deposits, prepayments and other receivables		17,068	37,335
Time deposits with original maturity over three months	29	1,709,054	2,702,211
Cash and cash equivalents	29	1,143,379	1,492,169
<b>Total current assets</b>		<b>19,425,991</b>	24,459,883
<b>Current liabilities</b>			
Amounts due to subsidiaries	33	1,874,620	7,800,899
Other payables and accruals	31	11,302	16,001
Derivative financial instruments		362	–
<b>Total current liabilities</b>		<b>1,886,284</b>	7,816,900
<b>Net current assets</b>		<b>17,539,707</b>	16,642,983
<b>Total assets less current liabilities</b>		<b>17,660,228</b>	16,764,039
<b>Net assets</b>		<b>17,660,228</b>	16,764,039
<b>EQUITY</b>			
Share capital	36	15,156,959	530,184
Reserves	37	2,503,269	16,233,855
<b>Total equity</b>		<b>17,660,228</b>	16,764,039

Li Shaofeng  
Director

Ding Rucai  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Equity attributable to owners of the Company									Non-controlling interests	Total equity	
	Share capital	Share premium	Capital	Statutory reserve	Other reserves	Retained profits	Share-based compensation reserve	Security investment reserve	Translation reserve			Total
			redemption reserve									
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2014	530,184	14,618,903	7,872	448,068	538,881	3,006,458	552,806	(1,036,116)	1,260,327	19,927,383	1,731,782	21,659,165
Loss for the year	-	-	-	-	-	(425,302)	-	-	-	(425,302)	64,370	(360,932)
Other comprehensive income for the year:												
– Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	-	-	-	(191,602)	(191,602)	(31,163)	(222,765)
– Fair value loss on financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	(917,383)	-	(917,383)	-	(917,383)
Total comprehensive income for the year	-	-	-	-	-	(425,302)	-	(917,383)	(191,602)	(1,534,287)	33,207	(1,501,080)
Transfer upon the abolition of par value of shares on 3 March 2014 (Note 36)	14,626,775	(14,618,903)	(7,872)	-	-	-	-	-	-	-	-	-
2013 final dividends approved (Note 13)	-	-	-	-	-	(413,543)	-	-	-	(413,543)	-	(413,543)
2014 interim dividends declared (Note 13)	-	-	-	-	-	(53,018)	-	-	-	(53,018)	-	(53,018)
Dividends paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	(121,924)	(121,924)
Appropriations to other reserves (Note 37)	-	-	-	-	32,752	(32,752)	-	-	-	-	-	-
Lapsed of share options	-	-	-	-	-	13,746	(13,746)	-	-	-	-	-
<b>At 31 December 2014</b>	<b>15,156,959</b>	<b>-</b>	<b>-</b>	<b>448,068</b>	<b>571,633</b>	<b>2,095,589</b>	<b>539,060</b>	<b>(1,953,499)</b>	<b>1,068,725</b>	<b>17,926,535</b>	<b>1,643,065</b>	<b>19,569,600</b>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Equity attributable to owners of the Company									Non-controlling interests	Total equity	
	Share capital	Share premium	Capital redemption reserve	Statutory reserve	Other reserves	Retained profits	Share-based compensation reserve	Security investment reserve	Translation reserve			Total
At 1 January 2013	530,184	14,618,903	7,872	448,068	519,374	2,572,860	564,179	(1,030,122)	992,366	19,223,684	1,638,299	20,861,983
Profit for the year	-	-	-	-	-	1,115,066	-	-	-	1,115,066	184,173	1,299,239
Other comprehensive income for the year:												
– Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	-	-	-	267,961	267,961	39,140	307,101
– Fair value loss on financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	(5,994)	-	(5,994)	(3,448)	(9,442)
Total comprehensive income for the year	-	-	-	-	-	1,115,066	-	(5,994)	267,961	1,377,033	219,865	1,596,898
Capital injection from non-controlling interests of a subsidiary	-	-	-	-	-	-	-	-	-	-	91,875	91,875
2012 final dividends approved (Note 13)	-	-	-	-	-	(530,184)	-	-	-	(530,184)	-	(530,184)
2013 interim dividends declared (Note 13)	-	-	-	-	-	(143,150)	-	-	-	(143,150)	-	(143,150)
Dividends paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	(218,257)	(218,257)
Appropriations to other reserves (Note 37)	-	-	-	-	19,507	(19,507)	-	-	-	-	-	-
Lapsed of share options	-	-	-	-	-	11,373	(11,373)	-	-	-	-	-
At 31 December 2013	530,184	14,618,903	7,872	448,068	538,881	3,006,458	552,806	(1,036,116)	1,260,327	19,927,383	1,731,782	21,659,165

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	2014 HK\$'000	2013 HK\$'000
<b>Cash flows from operating activities</b>			
(Loss)/Profit before income tax		<b>(139,215)</b>	1,829,924
Adjustments for:			
Amortisation of prepaid lease payments		<b>1,536</b>	1,563
Amortisation of mining rights		<b>260,618</b>	281,051
Depreciation of property, plant and equipment		<b>268,439</b>	283,158
Finance costs		<b>11,301</b>	24,458
Provision for impairment of trade receivables		–	3,407
Impairment loss on goodwill		<b>823,964</b>	–
Share of loss of an associate		<b>1,203</b>	943
Interest income		<b>(175,912)</b>	(129,623)
Dividend income on financial assets measured at fair value through other comprehensive income		<b>(44,639)</b>	(50,496)
(Gain)/Loss on disposals of property, plant and equipment		<b>(20)</b>	941
Change in fair value of derivative financial instruments		<b>42,500</b>	(25,430)
Net foreign exchange loss/(gain)		<b>53,927</b>	(121,852)
Operating profit before working capital changes		<b>1,103,702</b>	2,098,044
Decrease/(Increase) in inventories		<b>36,304</b>	(53,787)
(Increase)/Decrease in trade and bill receivables		<b>(484,832)</b>	710,716
(Increase)/Decrease in deposits, prepayments and other receivables		<b>(5,123)</b>	616
Increase/(Decrease) in trade and bill payables		<b>49,603</b>	(39,531)
Increase/(Decrease) in other payables and accruals		<b>32,028</b>	(104,618)
Decrease in amounts due to non-controlling interests of subsidiaries		<b>(16,473)</b>	(1,360)
Cash generated from operations		<b>715,209</b>	2,610,080
Income tax paid		<b>(313,123)</b>	(632,558)
<i>Net cash generated from operating activities</i>		<b>402,086</b>	1,977,522

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	2014 HK\$'000	2013 HK\$'000
<b>Cash flows from investing activities</b>			
Payments to acquire property, plant and equipment		(290,202)	(282,684)
Proceeds from disposals of property, plant and equipment		343	628
Decrease/(Increase) in pledged bank deposits		101,007	(28,777)
Increase in time deposits with original maturity over three months		(178)	(1,757,925)
Interest received		187,772	111,632
Dividend received		44,639	50,496
<i>Net cash generated from/(used in) investing activities</i>		<b>43,381</b>	<b>(1,906,630)</b>
<b>Cash flows from financing activities</b>			
Repayments of bank borrowings		–	(193,750)
Finance costs paid		(11,301)	(24,029)
Dividends paid to owners of the Company		(466,561)	(673,334)
Dividends paid to non-controlling interests of subsidiaries		(121,924)	(218,257)
Capital injection from non-controlling interest of a subsidiary		–	91,875
<i>Net cash used in financing activities</i>		<b>(599,786)</b>	<b>(1,017,495)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(154,319)</b>	<b>(946,603)</b>
<b>Cash and cash equivalents at 1 January</b>		<b>2,137,611</b>	<b>2,981,333</b>
<b>Effect of foreign exchange rates changes</b>		<b>(30,690)</b>	<b>102,881</b>
<b>Cash and cash equivalents at 31 December</b>		<b>1,952,602</b>	<b>2,137,611</b>
<b>Cash and cash equivalents at 31 December, represented by:</b>			
<b>Bank balances and cash</b>	29	<b>1,952,602</b>	<b>2,137,611</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 1. GENERAL INFORMATION

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

The principal activity of the Company is investment holding. The principal activities of the Group’s subsidiaries comprise coking coal mining, production and sales of coking coal products. There were no significant changes in the Group’s operations during the year. Details of the activities of the principal subsidiaries of the Group are set out in Note 21.

The financial statements for the year ended 31 December 2014 were approved for issue by the board of directors on 26 March 2015.

## 2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”), Hong Kong Accounting Standards (“HKAS”) and Interpretations (hereinafter collectively referred to as the “HKFRSs”) and the provisions of the Hong Kong Companies Ordinance which concern the preparation of financial statements, which for the financial year and the comparative period continue to be those of the Hong Kong Companies Ordinance, Cap. 32, in accordance with the transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance, Cap. 622 “Accounts and Audit” which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”).

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

The 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 24) and derivative financial instruments which are measured at fair values. The measurement bases are fully described in the accounting policies below.

The 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 2. BASIS OF PREPARATION (continued)

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Business combination and basis of consolidation

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.1 Business combination and basis of consolidation (continued)

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

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

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

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

### 3.2 Subsidiaries

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

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.3 Associates

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

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

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

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

### 3.4 Goodwill

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.4 Goodwill (continued)

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

### 3.5 Property, plant and equipment

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

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

Other than mining structures, depreciation is provided to write off the cost less their estimated residual values over their estimated useful lives, using straight-line method, 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 <sup>1</sup> / <sub>3</sub> %
Office equipment	20% to 33 <sup>1</sup> / <sub>3</sub> %
Furniture and fixtures	20% to 33 <sup>1</sup> / <sub>3</sub> %
Motor vehicles and transportation equipment	10% to 25%

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.5 Property, plant and equipment (continued)

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.

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

### 3.6 Mining rights

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

### 3.7 Impairment of non-financial assets

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.7 Impairment of non-financial assets (continued)

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

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

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.8 Foreign currency translation

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

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

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

### 3.9 Revenue recognition

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

- Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.
- Interest income is accrued on time basis on the principal outstanding at the applicable interest rate.
- Dividend income is recognised when the right to receive the dividend is established.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.10 Borrowing costs

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

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

### 3.11 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

#### *Prepaid lease payments*

Upfront payments made to acquire land, on which various mining plants and buildings are suited, held under operating lease are stated at costs less accumulated amortisation and any impairment losses. Amortisation is calculated on straight-line method over the term of the lease of use except where an alternative basis is more representative of the time pattern of benefits to be derived by the Group from use of the land.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.11 Leases (continued)

#### *Operating lease charges as the lessee*

The total rentals payable under operating leases are recognised in profit or loss on straight-line method over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease. Contingent rentals are charged to profit or loss in the year in which they are incurred.

### 3.12 Financial assets

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

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

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

#### *Financial assets measured at amortised cost*

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.12 Financial assets (continued)

#### *Financial assets measured at amortised cost (continued)*

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

#### *Financial assets measured at fair value through profit or loss*

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

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

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

#### *Financial assets measured at fair value through other comprehensive income*

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

A financial asset is held for trading if:

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.12 Financial assets (continued)

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

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

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

#### *Impairment of financial assets*

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.12 Financial assets (continued)

#### *Financial assets measured at amortised cost*

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

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

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

### 3.13 Inventories

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

### 3.14 Income taxes

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.14 Income taxes (continued)

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

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

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

### 3.15 Derivative financial instruments

Derivative financial instruments, in individual contracts or separated from hybrid financial instruments, are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value. Derivatives that are not designated as hedging instruments are accounted for as financial assets or financial liabilities at fair value through profit or loss. Gains or losses arising from changes in fair value are taken directly to profit or loss for the year.

### 3.16 Cash and cash equivalents

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.17 Share capital

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

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

### 3.18 Employee benefits

#### *Retirement benefits*

Retirement benefits to employees are provided through defined contribution plans.

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

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

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

#### *Short-term employee benefits*

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.18 Employee benefits (continued)

#### *Share-based employee compensation*

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

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

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

### 3.19 Financial liabilities

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.19 Financial liabilities (continued)

#### *Borrowings*

Borrowings, which include asset-backed financing, are recognised initially at fair value, net of transaction costs incurred. These are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

#### *Other financial liabilities at amortised cost*

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

#### *Derivatives*

Derivatives including separated embedded derivatives are measured at fair value (see Note 3.15).

### 3.20 Provisions and contingent liabilities

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.21 Related parties

- (a) A person or a close member of that person's family is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Company's parent.
  
- (b) An entity is related to the Group if any of the following conditions apply:
  - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third party and the other party is an associate of the third party.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependents of that person or that person's spouse or domestic partner.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.22 Segment reporting

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.23 Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of guarantee initially recognised as deferred income is amortised in profit or loss over the terms of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

## 4. ADOPTION OF HKFRSs

### 4.1 Adoption of new or revised HKFRSs – effective 1 January 2014

Amendments to HKAS 32	Presentation – Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosure for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities
HK (IFRIC) 21	Levies

Except as explained below, the adoption of these amendments has no material impact on the Group's financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 4. ADOPTION OF HKFRSs (continued)

### 4.1 Adoption of new or revised HKFRSs – effective 1 January 2014 (continued) *Amendments to HKAS 36 Recoverable Amount Disclosure for Non-Financial Assets*

These amendments remove the unintended consequences of HKFRS 13 Fair Value Measurement on the disclosures required under HKAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which an impairment loss has been recognised or reversed during the period. The Group has provided those disclosures in Note 20.

#### *HK (IFRIC) 21 Levies*

HK (IFRIC) 21 clarifies that an entity recognises a liability to pay a levy imposed by government when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation has been applied retrospectively.

The adoption of HK (IFRIC) 21 has no impact on these financial statements as the interpretation is consistent with the Group's previous application of its accounting policies on provisions.

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

The following new or revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

HKFRSs (Amendments)	Annual Improvements 2010 – 2012 Cycle <sup>2</sup>
HKFRSs (Amendments)	Annual Improvements 2011 – 2013 Cycle <sup>1</sup>
HKFRSs (Amendments)	Annual Improvements 2012 – 2014 Cycle <sup>3</sup>
Amendments to HKAS 1	Presentation of Financial Statements <sup>3</sup>
Amendments to HKAS 27	Equity Method in Separate Financial Statements <sup>3</sup>
HKFRS 9 (2014)	Financial Instruments <sup>5</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>2</sup> Effective for annual periods beginning, or transactions occurring, on or after 1 July 2014

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2018

#### *Annual Improvements 2010 – 2012 Cycle, 2011 – 2013 Cycle and 2012 – 2014 Cycle*

The amendments issued under the annual improvements process make small, non-urgent changes to a number of standards where they are currently unclear.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 4. ADOPTION OF HKFRSs (continued)

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

#### *Amendments to HKAS 1 Presentation of Financial Statements*

The amendments to HKAS 1 are designed to encourage entities to use judgement in the application of HKAS 1 when considering the layout and content of their financial statements. In addition, an amendment is made to HKAS 1 to clarify the presentation of an entity's share of other comprehensive income ("OCI") from its equity accounted interests in associates and joint ventures. The amendment requires an entity's share of OCI to be split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as single line items within those two groups.

#### *Amendments to HKAS 27 Equity Method in Separate Financial Statements*

The amendments allow an entity to apply the equity method in accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements.

#### *HKFRS 9 (2014) Financial Instruments*

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 4. ADOPTION OF HKFRSs (continued)

### 4.2 New or revised HKFRSs that have been issued but are not yet effective (continued) *HKFRS 15 Revenue from Contracts with Customers*

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

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

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

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

### 4.3 New Companies Ordinance provisions relating to the preparation of financial statements

The provisions of the new Companies Ordinance, Cap. 622, in relation to the preparation of financial statements will apply to the Company in its first financial year beginning on or after 3 March 2014 (i.e. the financial year ending 31 December 2015).

The directors consider that there will be no impact on the Group's financial position or performance, however the new Companies Ordinance, Cap. 622, would have impacts on the presentation and disclosures in the consolidated financial statements. The Statement of Financial Position of the Company will be presented in the notes rather than a separate statement and the related notes need not be included, while generally the statutory disclosures will be simplified.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

### 5.1 Impairment of non-financial assets

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

### 5.2 Impairment of goodwill

The Group tests on an annual basis whether goodwill has suffered any impairment in accordance with the accounting policy as stated in Note 3.4. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of judgement and estimates about future cash flow expected to arise from the CGUs, the timeframe for the cash flows forecast and the suitable discount rates in order to calculate the present value. In the process of estimating expected future cash flows, management makes assumptions about future revenues and profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause a material adjustment to the carrying amount of goodwill within the next financial year. Determining the appropriate discount rate involves estimating the appropriate adjustment for market risk and for asset specific risk factors. In addition, since the cash flow projections are extrapolated beyond 5 years and the license period of the mining rights held by the Group ranges from 3 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 20.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### 5.3 Impairment of loans and receivables

The policy for provision for impairment of receivables of the Group is based on the evaluation of collectability and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness, the collateral security and the past collection history of each borrower. If the financial conditions of the borrowers of the Group were to deteriorate, resulting in impairment of their ability to make repayments, additional allowance may be required. If the financial conditions of the borrowers of the Group, on whose account provision for impairment has been made, were improved and no impairment of their ability to make payments were noted, reversal of provision for impairment may be required.

### 5.4 Depreciation

The Group depreciates its property, plant and equipment using straight-line method over their estimated useful lives. The estimated useful lives reflect the directors' estimate of the period that the Group will derive future economic benefits from the use of the Group's property, plant and equipment.

### 5.5 Amortisation of mining rights

Mining rights are amortised over the estimated proven and probable reserves of the coal mines using units of production method. The Group assesses on an annual basis the estimated reserve of the coal mine. However, the license periods of the mining rights held by the Group range from 3 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 standard set by the PRC Government. Estimates of proven and probable coal reserves are involved in subjective judgements, because the estimating technology is inaccurate, so the proven and probable coal reserves are only approximate value. The recent production and technology documents shall be considered for the estimates of proven and probable coal reserves which will be updated regularly, the inherent inaccuracy of technical estimating exists. If the past estimates change significantly, the amortisation shall be adjusted during future periods.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### 5.6 Net realisable value of inventories

Net realisable value of inventories (including low cost consumables) is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to the changes in market condition. Management reassesses the estimations at the reporting date.

### 5.7 Valuation of share options granted

The fair value of share options granted is estimated using the Black-Scholes Option Pricing Model at the date of grant by an independent valuer. The Black-Scholes Option Pricing Model requires input of subjective assumptions such as expected stock price volatility and dividend yield. Changes in the subjective input may materially affect the fair value estimates.

## 6. REVENUE

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

	2014 HK\$'000	2013 HK\$'000
Sales of raw coking coal	537,023	1,332,487
Sales of clean coking coal	2,717,838	2,935,745
	<b>3,254,861</b>	4,268,232

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 7. SEGMENT INFORMATION

The executive directors consider the Group has one reporting segment, i.e. coking coal mining, which is further described in Note 3.22.

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

	Coking coal mining		Consolidated	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
<b>Segment revenue:</b>				
Revenue from external customers	<b>3,254,861</b>	4,268,232	<b>3,254,861</b>	4,268,232
Segment operating (loss)/profit	<b>(215,676)</b>	1,645,103	<b>(215,676)</b>	1,645,103
Interest income			<b>175,912</b>	129,623
Other operating income not allocated			<b>44,639</b>	143,161
General and administrative expenses not allocated			<b>(89,086)</b>	(87,992)
Operating (loss)/profit			<b>(84,211)</b>	1,829,895
Finance costs			<b>(11,301)</b>	(24,458)
Change in fair value of derivative financial instruments			<b>(42,500)</b>	25,430
Share of loss of an associate			<b>(1,203)</b>	(943)
(Loss)/Profit before income tax			<b>(139,215)</b>	1,829,924

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 7. SEGMENT INFORMATION (continued)

	Coking coal mining		Corporate		Consolidated	
	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation	267,800	282,468	639	690	268,439	283,158
Amortisation of mining rights	260,618	281,051	–	–	260,618	281,051
Amortisation of prepaid lease payments	1,536	1,563	–	–	1,536	1,563
Impairment loss on goodwill	823,964	–	–	–	823,964	–
Provision for impairment of trade receivables	–	3,407	–	–	–	3,407

	Coking coal mining		Corporate		Consolidated	
	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Segment assets</b>	<b>18,402,978</b>	20,093,380	<b>5,183,596</b>	5,426,510	<b>23,586,574</b>	25,519,890
Interest in an associate	–	–	17,365	18,894	17,365	18,894
Deferred tax assets	–	–	22,489	27,586	22,489	27,586
Financial assets measured at fair value through other comprehensive income	–	–	373,494	1,290,877	373,494	1,290,877
Derivative financial instruments	–	–	56	13,661	56	13,661
<b>Group assets</b>					<b>23,999,978</b>	26,870,908
<b>Segment liabilities</b>	<b>2,006,378</b>	2,138,427	<b>45,320</b>	72,378	<b>2,051,698</b>	2,210,805
Deferred tax liabilities	–	–	2,055,672	2,151,302	2,055,672	2,151,302
Tax payables	–	–	226,712	269,627	226,712	269,627
Borrowings	73,899	580,009	–	–	73,899	580,009
Derivative financial instruments	–	–	22,397	–	22,397	–
<b>Group liabilities</b>					<b>4,430,378</b>	5,211,743

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 7. SEGMENT INFORMATION (continued)

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

	Revenue from external customers		Non-current assets	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Principal markets</b>				
PRC	3,254,861	4,268,232	15,180,758	16,730,479
Hong Kong	–	–	1,638	610
	<b>3,254,861</b>	<b>4,268,232</b>	<b>15,182,396</b>	<b>16,731,089</b>

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.

The Group has three customers with transactions exceeded 10% of the Group's revenues. During the year, HK\$569,795,000 or 18% (2013: HK\$841,478,000 or 20%), HK\$467,856,000 or 14% (2013: HK\$680,904,000 or 16%) and HK\$425,874,000 or 13% (2013: HK\$527,229,000 or 12%), of the Group's revenue is generated from these three (2013: three) customers under coking coal mining segment.

## 8. OTHER OPERATING INCOME

	2014	2013
	HK\$'000	HK\$'000
Bank interest income	175,912	129,623
Dividend income on financial assets measured at fair value through other comprehensive income	44,639	50,496
Gain on disposals of property, plant and equipment	20	–
Income from sales of scrapped products	72,950	78,214
Net foreign exchange gain	–	121,852
Others	2,475	4,816
	<b>295,996</b>	<b>385,001</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 9. FINANCE COSTS

	2014 HK\$'000	2013 HK\$'000
Interest charged on:		
– borrowings repayable within five years	–	2,540
– discounted bill receivables	11,301	21,918
<b>Total finance costs</b>	<b>11,301</b>	<b>24,458</b>

No borrowing costs were capitalised for the year ended 31 December 2014 and 2013.

## 10. (LOSS)/PROFIT BEFORE INCOME TAX

	2014 HK\$'000	2013 HK\$'000
(Loss)/Profit before income tax is arrived at after charging/(crediting):		
Auditor's remuneration		
– audit services	1,530	1,530
– other services	496	496
Cost of inventories recognised as expenses	1,950,708	2,095,216
Amortisation of:		
– prepaid lease payments	1,536	1,563
– mining rights	260,618	281,051
Depreciation of property, plant and equipment	268,439	283,158
Employee benefit expenses (including directors' remuneration and retirement benefits scheme contributions) (Note 15)	669,831	774,631
Operating lease charges in respect of land and buildings	4,043	6,929
Provision for impairment of trade receivables (Note 27)	–	3,407
Net exchange loss/(gain)	53,927	(121,852)
(Gain)/Loss on disposals of property, plant and equipment	(20)	941

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 11. INCOME TAX EXPENSE

	2014 HK\$'000	2013 HK\$'000
Current tax – PRC income tax		
– Current year	269,108	558,879
– Under provision in respect of prior years	5,877	10,185
Deferred tax (Note 35)		
– Current year	(53,268)	(38,379)
	<b>221,717</b>	<b>530,685</b>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit arising in Hong Kong in 2014 and 2013.

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

The Group is also subject to withholding tax at the rate of 5% (2013: 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.

Reconciliation between income tax expense and accounting (loss)/profit at applicable tax rates is as follows:

	2014 HK\$'000	2013 HK\$'000
(Loss)/Profit before income tax	(139,215)	1,829,924
Tax calculated at the rates applicable to the tax jurisdiction concerned	(46,415)	427,999
Tax effect of non-deductible expenses	255,400	32,156
Tax effect of non-taxable income	(28,435)	(21,679)
Tax effect of unused tax losses not recognised	15,253	2,416
Utilisation of tax loss not recognised	–	(2,305)
Effect of withholding tax at 5% on distributable profits of the Group's major PRC subsidiaries	20,037	81,913
Under provision in respect of prior years	5,877	10,185
Income tax expense	<b>221,717</b>	<b>530,685</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 12. (LOSS)/PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated loss for the year attributable to the owners of the Company of HK\$425,302,000 (2013: profit of HK\$1,115,066,000), a profit of HK\$1,362,750,000 (2013: HK\$506,071,000) (Note 37) has been dealt with in the financial statements of the Company.

## 13. DIVIDENDS

	2014 HK\$'000	2013 HK\$'000
Dividends recognised as distributions during the year:		
2013 final dividend of HK7.8 cents (2012: HK10 cents) per ordinary share	413,543	530,184
2014 interim dividend of HK1 cent (2013: HK2.7 cents) per ordinary share	53,018	143,150
	<b>466,561</b>	<b>673,334</b>

On 27 March 2014, the board of directors proposed a final dividend of HK7.8 cents per ordinary share to the owners of the Company in respect of the year ended 31 December 2013. This final dividend was approved by shareholders at the annual general meeting held on 6 June 2014 and total dividend of HK\$413,543,000 was paid on 25 June 2014. This final dividend proposed after 31 December 2013 had not been recognised as a liability as at 31 December 2013.

On 26 March 2015, the board of directors proposed a final dividend of HK2.7 cents per ordinary share totalling HK\$143,150,000 to the owners of the Company in respect of the year ended 31 December 2014. The final dividend is subject to the shareholder's approval at the forthcoming annual general meeting. The final dividend proposed after 31 December 2014 has not been recognised as a liability as at 31 December 2014.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 14. (LOSS)/EARNINGS PER SHARE

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

	2014 HK\$'000	2013 HK\$'000
(Loss)/Profit used to determine basic and diluted (loss)/earnings per share	<b>(425,302)</b>	1,115,066
<b>Number of shares</b>	<b>'000 shares</b>	<b>'000 shares</b>
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	<b>5,301,837</b>	5,301,837
Effect of dilutive potential ordinary shares – share options	–	1,030
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	<b>5,301,837</b>	5,302,867

Basic loss per share is HK8.02 cents (2013: basic earnings per share of HK21.03 cents), based on the loss for the year attributable to owners of the Company of HK\$425,302,000 (2013: profit of HK\$1,115,066,000) and weighted average number of ordinary shares as set out above for basic (loss)/earnings per share.

In calculating the diluted loss per share for the current year, the potential issue of shares arising from the Company's share options would decrease the loss per share during the current year and was thereby not taken into account as they have an anti-dilutive effect. Therefore, the diluted loss per share was calculated based on the loss for the year of HK\$425,302,000 and on the weighted average of 5,301,837,842 ordinary shares, being the weighted average number of ordinary shares used in the calculation of basic loss per share.

## 15. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2014 HK\$'000	2013 HK\$'000
Salaries, wages and allowances	<b>610,106</b>	722,708
(Reversal of provision)/Provision for unused annual leaves	<b>(105)</b>	22
Retirement benefits scheme contributions	<b>59,830</b>	51,901
	<b>669,831</b>	774,631

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 16. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### Directors' emoluments

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

	2014					2013					
	Salaries, allowances and benefits		Bonuses	Retirement benefits scheme contributions		Salaries, allowances and benefits		Bonuses	Retirement benefits scheme contributions		
	Fees					Fees					
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	Total HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	Total HK\$'000
<b>Executive directors</b>											
Mr. Li Shaofeng	-	5,400	-	270	5,670	-	4,200	4,500	435	9,135	
Mr. Ding Rucui*	-	1,040	-	52	1,092	-	-	-	-	-	
Mr. Chen Zhouping <sup>#</sup>	-	2,800	-	140	2,940	-	4,200	3,800	400	8,400	
Mr. Wong Lik Ping	-	4,200	-	315	4,515	-	4,200	2,000	465	6,665	
Mr. So Kwok Hoo	-	3,000	-	225	3,225	-	3,000	3,000	450	6,450	
Mr. Chen Zhaoqiang	-	2,640	440	154	3,234	-	2,640	2,640	264	5,544	
Mr. Liu Qingshan	-	2,400	400	140	2,940	-	2,400	2,400	240	5,040	
<b>Non-executive directors</b>											
Mr. Leung Shun Sang, Tony	420	-	-	-	420	420	-	-	-	420	
Mr. Zhang Yaoping	420	-	-	-	420	420	-	-	-	420	
Mr. Xiang Xu Jia**	420	-	-	-	420	140	-	-	-	140	
<b>Independent non-executive directors</b>											
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. Chan Chung Chun	420	-	-	-	420	420	-	-	-	420	
Mr. Japhet Sebastian Law**	420	-	-	-	420	140	-	-	-	140	
	3,360	21,480	840	1,296	26,976	2,800	20,640	18,340	2,254	44,034	

\* appointed with effect from 1 September 2014

\*\* appointed with effect from 1 September 2013

# resigned with effect from 1 September 2014

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## **16. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS** (continued)

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office (2013: Nil).

During the year, no share options were granted to the directors in respect of their services to the Group (2013: Nil). Details of these benefits in kind including the principal terms and number of options granted are disclosed under the heading "Share Option Scheme" in the Report of the Directors.

### **Five highest paid individuals**

The five highest paid individuals in the Group in 2014 and 2013 were all directors of the Company and details of their emoluments are reflected in the analysis presented above.

During the year, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2013: Nil).

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 17. PROPERTY, PLANT AND EQUIPMENT

### Group

	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
<b>At 1 January 2013</b>								
Cost	1,369,358	881,317	593,279	1,387,872	2,965	99,528	57,921	4,392,240
Accumulated depreciation	(192,678)	-	(121,395)	(388,069)	(1,921)	(51,439)	(37,554)	(793,056)
<b>Net carrying amount</b>	<b>1,176,680</b>	<b>881,317</b>	<b>471,884</b>	<b>999,803</b>	<b>1,044</b>	<b>48,089</b>	<b>20,367</b>	<b>3,599,184</b>
<b>Year ended 31 December 2013</b>								
Opening net carrying amount	1,176,680	881,317	471,884	999,803	1,044	48,089	20,367	3,599,184
Exchange retranslation	27,623	19,700	13,038	23,845	-	1,060	453	85,719
Additions	6,464	88,850	5,072	97,233	-	8,886	2,994	209,499
Transfers	54,155	(293,243)	230,779	8,274	-	35	-	-
Disposals	(132)	-	-	(1,437)	-	-	-	(1,569)
Depreciation	(74,408)	-	(31,498)	(147,362)	(515)	(21,604)	(7,771)	(283,158)
<b>Closing net carrying amount</b>	<b>1,190,382</b>	<b>696,624</b>	<b>689,275</b>	<b>980,356</b>	<b>529</b>	<b>36,466</b>	<b>16,043</b>	<b>3,609,675</b>
<b>At 31 December 2013</b>								
Cost	1,462,460	696,624	845,356	1,519,047	2,965	110,919	61,666	4,699,037
Accumulated depreciation	(272,078)	-	(156,081)	(538,691)	(2,436)	(74,453)	(45,623)	(1,089,362)
<b>Net carrying amount</b>	<b>1,190,382</b>	<b>696,624</b>	<b>689,275</b>	<b>980,356</b>	<b>529</b>	<b>36,466</b>	<b>16,043</b>	<b>3,609,675</b>
<b>Year ended 31 December 2014</b>								
Opening net carrying amount	1,190,382	696,624	689,275	980,356	529	36,466	16,043	3,609,675
Exchange retranslation	(20,469)	(12,324)	(12,216)	(16,713)	-	(567)	(257)	(62,546)
Additions	613	74,967	-	48,791	-	5,013	4,359	133,743
Transfers	57,463	(77,608)	12,661	7,484	-	-	-	-
Disposals	(287)	-	-	-	-	-	(36)	(323)
Depreciation	(79,696)	-	(12,056)	(152,997)	(515)	(16,481)	(6,694)	(268,439)
<b>Closing net carrying amount</b>	<b>1,148,006</b>	<b>681,659</b>	<b>677,664</b>	<b>866,921</b>	<b>14</b>	<b>24,431</b>	<b>13,415</b>	<b>3,412,110</b>
<b>At 31 December 2014</b>								
Cost	1,494,494	681,659	842,954	1,548,030	2,965	113,940	64,210	4,748,252
Accumulated depreciation	(346,488)	-	(165,290)	(681,109)	(2,951)	(89,509)	(50,795)	(1,336,142)
<b>Net carrying amount</b>	<b>1,148,006</b>	<b>681,659</b>	<b>677,664</b>	<b>866,921</b>	<b>14</b>	<b>24,431</b>	<b>13,415</b>	<b>3,412,110</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 17. PROPERTY, PLANT AND EQUIPMENT (continued)

During the years ended 31 December 2014 and 2013, no interest expense was capitalised in property, plant and equipment.

The Group had no property, plant and equipment held under finance leases as at 31 December 2014 and 2013. The Group's buildings are situated in the PRC and are held on leases of between 10 to 50 years.

As at 31 December 2014, the Group was still in the process of obtaining the building ownership certificates for certain buildings with net carrying amount of approximately RMB144,093,000 (HK\$179,756,000 equivalent) (2013: RMB137,960,000 (HK\$175,209,000 equivalent)). In the opinion of directors of the Company, the Group has obtained the rights to use the buildings.

### Company

	Leasehold improvements HK\$'000	Office equipment, furniture and fixtures HK\$'000	Total HK\$'000
<b>At 1 January 2013</b>			
Cost	2,704	339	3,043
Accumulated depreciation	(1,674)	(208)	(1,882)
<b>Net carrying amount</b>	<b>1,030</b>	<b>131</b>	<b>1,161</b>
<b>Year ended 31 December 2013</b>			
Opening net carrying amount	1,030	131	1,161
Additions	–	17	17
Depreciation	(515)	(63)	(578)
<b>Closing net carrying amount</b>	<b>515</b>	<b>85</b>	<b>600</b>
<b>At 31 December 2013</b>			
Cost	2,704	356	3,060
Accumulated depreciation	(2,189)	(271)	(2,460)
<b>Net carrying amount</b>	<b>515</b>	<b>85</b>	<b>600</b>
<b>Year ended 31 December 2014</b>			
Opening net carrying amount	515	85	600
Additions	–	29	29
Depreciation	(515)	(49)	(564)
<b>Closing net carrying amount</b>	<b>–</b>	<b>65</b>	<b>65</b>
<b>At 31 December 2014</b>			
Cost	2,704	385	3,089
Accumulated depreciation	(2,704)	(320)	(3,024)
<b>Net carrying amount</b>	<b>–</b>	<b>65</b>	<b>65</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 18. PREPAID LEASE PAYMENTS – GROUP

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

	2014 HK\$'000	2013 HK\$'000
Opening net carrying amount	60,681	60,785
Exchange retranslation	(1,064)	1,459
Amortisation	(1,536)	(1,563)
Closing net carrying amount	58,081	60,681
In the PRC held on:		
– Lease between 10 to 50 years	58,081	60,681

## 19. MINING RIGHTS – GROUP

	2014 HK\$'000	2013 HK\$'000
Opening net carrying amount	10,410,259	10,440,937
Exchange retranslation	(182,671)	250,373
Amortisation	(260,618)	(281,051)
Closing net carrying amount	9,966,970	10,410,259
Gross carrying amount	11,763,614	11,975,782
Accumulated amortisation	(1,796,644)	(1,565,523)
Net carrying amount	9,966,970	10,410,259

The estimated remaining useful lives of the mining rights range between 33 years and 46 years based on exploration reports prepared in accordance with the relevant PRC standards.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 20. GOODWILL/IMPAIRMENT LOSS ON GOODWILL – GROUP

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

	2014 HK\$'000	2013 HK\$'000
Gross carrying amount at 1 January	2,321,215	2,266,920
Exchange retranslation	(40,721)	54,295
Gross carrying amount at 31 December	2,280,494	2,321,215
Less:		
Accumulated impairment loss at 1 January	(2,010)	(2,010)
Impairment loss for the year	(823,964)	–
Accumulated impairment loss at 31 December	(825,974)	(2,010)
Net carrying amount at 31 December	1,454,520	2,319,205

The carrying amount of goodwill was allocated as follows:

	2014 HK\$'000	2013 HK\$'000
Xingwu	853,980	887,826
Jinjiashuang	6,118	826,627
Zhaiyadi	572,495	582,825
Jinshan Energy Group Limited (“Jinshan”)	21,927	21,927
Net carrying amount at 31 December	1,454,520	2,319,205

### (b) Impairment loss on goodwill

During the 2014 interim period, an impairment loss of HK\$300,152,000 was recognised in the consolidated statement of profit or loss and other comprehensive income. Given the continuing decrease in coal prices in the second half of 2014, the Group reassessed its estimates on the recoverable amounts of CGUs of the coking coal mining segment. A further impairment loss of HK\$523,812,000 was recognised in the consolidated statement of profit or loss and other comprehensive income at the reporting date. Accordingly, the total impairment loss of HK\$823,964,000 (2013: Nil) was recognised in the year of 2014.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 20. GOODWILL/IMPAIRMENT LOSS ON GOODWILL – GROUP (continued)

### (b) Impairment loss on goodwill (continued)

As described in Note 5.2, the recoverable amounts of CGUs have been determined based on value-in-use calculations, which are based on certain key assumptions including discount rates, growth rates, expected changes in direct costs and remaining reserves. The recoverable amounts as at 31 December 2014 were measured by an independent valuer, Asset Appraisal Limited, who is a member of the Hong Kong Institute of Surveyors.

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

Cash flows were projected based on the financial budgets prepared by management covering a 5-year period, using a growth rate of approximately 3% to 12% (2013: 0% to 17%) and with average discount rate of 14.08% (2013: 15.24%) per annum.

The cash flows beyond the 5-year period are extrapolated using a steady percentage growth rate of 3% (2013: 2%). Cash flow projections during the budget period for each of the above CGU are based on the budgeted revenue and expected gross margins during the budget period and the same inflation rate of 3% (2013: 2%) during the budget period. Expected cash inflows/outflows, which include budgeted sales, gross margin and inflation rate, have been determined based on market information, past performance and management's expectations for the market development.

The license periods of the mining rights held by the Group range from 3 to 30 years which are shorter than the estimated useful lives of the coal mines estimated by the Group, management is of the opinion that the Group is able to renew the license of the mining rights from the relevant authority continuously and at minimal charges.

The carrying amount of Xingwu's CGU was determined to be higher than its recoverable amount of HK\$20,636,000 and an impairment loss of HK\$18,108,000 (2013: Nil) was recognised. This impairment loss was allocated fully to goodwill as a result of the reduction of the carrying amount of goodwill, included in the consolidated statement of financial position, by HK\$18,108,000; and as "impairment loss on goodwill" in the consolidated statement of profit or loss and other comprehensive income. The key assumptions are the discount rate of 14.04% (2013: 15%) per annum and the growth rates, covering a 5-year period, of approximately 3% to 12% (2013: 0% to 17%).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 20. GOODWILL/IMPAIRMENT LOSS ON GOODWILL – GROUP (continued)

### (b) Impairment loss on goodwill (continued)

The carrying amount of Jinjiazhuang's CGU was determined to be higher than its recoverable amount of HK\$1,239,778,000 and an impairment loss of HK\$805,856,000 (2013: Nil) was recognised. This impairment loss was allocated fully to goodwill as a result of the reduction of the carrying amount of goodwill, included in the consolidated statement of financial position, by HK\$805,856,000; and as "impairment loss on goodwill" in the consolidated statement of profit or loss and other comprehensive income. The key assumptions are the discount rate of 14.20% (2013: 14.99%) per annum and the growth rates, covering a 5-year period, of approximately 3% to 12% (2013: 0% to 17%).

### (c) Sensitivity analysis

Apart from the considerations described in determining the value-in-use of the CGUs above, the directors are not aware of any other probable changes that would necessitate changes in its key estimates. However, the estimated recoverable amount of the Group's CGUs is particularly sensitive to the long term growth rate applied.

The recoverable amount of Zhaiyadi's CGU exceeds its carrying amount by HK\$777,120,000. The key assumptions are the discount rate of 14.03% and the growth rate of approximately 3% to 12%. If the discount rate increased by 1.87% or the growth rate reduced by 0.91%, the carrying amount of Zhaiyadi's CGU would equal its recoverable amount.

## 21. INTERESTS IN SUBSIDIARIES – COMPANY

	2014 HK\$'000	2013 HK\$'000
Unlisted equity interest, at cost	837,836	837,836
Less: Provision for impairment	(717,380)	(717,380)
	<b>120,456</b>	<b>120,456</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 21. INTERESTS IN SUBSIDIARIES – COMPANY (continued)

Particulars of the principal subsidiaries at 31 December 2014 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	
				2014	2013
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	94%	94%
Liulin Luenshan Coking Company Limited (“Luenshan”)**	PRC, limited liability company	Production and sales of coal products in the PRC	Registered capital of RMB330,000,000	61%	61%
Fu Hui Investments Limited	Hong Kong, limited liability company	Administration and investment vehicle of the Group (Hong Kong)	HK\$100	100%	100%
Fu Hui Jewellery & Goldsmith Company Limited	Hong Kong, limited liability company	Investment vehicle of the Group (Hong Kong)	HK\$2,000,000	100%	100%
Thechoice Finance (HK) Limited (“ThechoiceHK”)*	Hong Kong, limited liability company	Investment holding in Hong Kong	HK\$1	100%	100%
Worldman Industrial (HK) Limited (“WorldmanHK”)*	Hong Kong, limited liability company	Investment holding in Hong Kong	HK\$1	100%	100%
Gumpert Industries (HK) Limited (“GumpertHK”)*	Hong Kong, limited liability company	Investment holding in Hong Kong	HK\$1	100%	100%
Shougang Resources (Hong Kong) Limited*	Hong Kong, limited liability company	Investment holding in Hong Kong	HK\$1	100%	100%

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 21. INTERESTS IN SUBSIDIARIES – COMPANY (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	
				2014	2013
Jade Green Investments Holding Limited ("Jade Green")	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US\$1	100%	100%
Thechoice Finance Limited ("Thechoice")*	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US\$1	100%	100%
Worldman Industrial Limited ("Worldman")*	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US\$1	100%	100%
Gumpert Industries Limited ("Gumpert")*	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%
Shanxi Jinxinglong Energy Co., Ltd*^	PRC, limited liability company	Investment on coal projects in the PRC	Registered capital of RMB10,000,000	88%	88%
Shanxi Jinsheng Energy Co., Ltd*^	PRC, limited liability company	Investment on coal projects in the PRC	Registered capital of RMB10,000,000	65%	65%
Shanxi Jinfulong Energy Co., Ltd*^	PRC, limited liability company	Investment on coal projects in the PRC	Registered capital of RMB10,000,000	95%	95%

\* These companies are indirectly held by the Company.

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 21. INTERESTS IN SUBSIDIARIES – COMPANY (continued)

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

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

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

	2014 HK\$'000	2013 HK\$'000
<b>Jinjiashuang</b>		
NCI percentage	35%	35%
As at 31 December		
Current assets	1,035,458	1,107,465
Non-current assets	5,854,651	6,933,440
Current liabilities	1,989,741	2,116,720
Non-current liabilities	708,193	741,915
Net assets	4,192,175	5,182,270
Carrying amount of NCI	1,488,654	1,555,938
For the year ended 31 December		
Revenue	1,311,458	1,647,740
(Loss)/Profit for the year	(605,056)	502,665
Total comprehensive income	38,302	626,164
Profit allocated to NCI	66,317	172,402
Dividend paid to NCI	105,586	198,237
Cash flows from operating activities	266,587	996,864
Cash flows from investing activities	(91,040)	(192,175)
Cash flows from financing activities	(184,726)	(771,300)

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 22. AMOUNTS DUE FROM SUBSIDIARIES – COMPANY

	2014 HK\$'000	2013 HK\$'000
Amounts due from subsidiaries	17,549,727	20,305,505
Loan to a subsidiary	42,379	39,906
Less: Provision for impairment	(1,035,616)	(117,243)
	<b>16,556,490</b>	<b>20,228,168</b>

Amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

Loan to a subsidiary as at 31 December 2014 is unsecured, interest bearing at 7.5% per annum (2013: 7.5% per annum) and are repayable on demand. Included in the balance is interest receivable of HK\$9,399,000 (2013: HK\$6,926,000) which is repayable together with the principal debts.

The directors of the Company consider that the carrying amounts of the balances approximate to their fair values.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 23. INTEREST IN AN ASSOCIATE – GROUP

	2014 HK\$'000	2013 HK\$'000
Unlisted shares, at cost	19,884	19,884
Exchange retranslation	1,039	1,365
Share of net assets	(3,558)	(2,355)
	<b>17,365</b>	<b>18,894</b>

Particulars of the associate at 31 December 2014 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	
				2014	2013
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.

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

	2014 HK\$'000	2013 HK\$'000
Assets	49,618	49,986
Liabilities	7,649	3,796
Revenue	104	1,195
Operating loss	(3,426)	(2,686)
Other comprehensive income	(795)	1,134
Total comprehensive income	<b>(4,221)</b>	<b>(1,552)</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 24. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME – GROUP

	2014 HK\$'000	2013 HK\$'000
Equity securities, at fair value		
– listed in Australia (Note (a))	253,994	1,150,345
– listed in Hong Kong (Note (b))	119,500	140,532
	373,494	1,290,877
Unlisted equity interest (Note (c))	–	–
	373,494	1,290,877

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 2014, the Group directly held 15.02% (2013: 15.03%) interest in Mount Gibson and the fair value of the investment in Mount Gibson was HK\$253,994,000 (2013: HK\$1,150,345,000) which represented the market value with reference to its closing price as at that day in the Australian Securities Exchange. A fair value loss of HK\$896,351,000 (2013: gain of HK\$49,160,000) was recognised in the security investment reserve during the year ended 31 December 2014.

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

As at 31 December 2014, the Group directly held 15.60% (2013: 14.03%) interest in APAC and the fair value of the investment in APAC was HK\$119,500,000 (2013: HK\$140,532,000) which represented the market value with reference to its closing price as at that day in The Stock Exchange. A fair value loss of HK\$21,032,000 (2013: HK\$49,712,000) was recognised in the security investment reserve during the year ended 31 December 2014.

- (c) This represents the cost of 7% (2013: 7%) equity investment in an unlisted company incorporated in the PRC.

As the company ceased operation during the year ended 31 December 2013, fair value loss of approximately HK\$8,890,000 was incurred in 2013.

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 25. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES – NON-CURRENT ASSETS – GROUP

	2014 HK\$'000	2013 HK\$'000
Deposits for a potential mining project	175,747	178,916
Housing loans to PRC employees	11,834	24,287
Prepayments for CIP and property, plant and equipment	24,002	46,291
Prepayments for land-use rights	61,767	62,881
	<b>273,350</b>	<b>312,375</b>

## 26. INVENTORIES – GROUP

	2014 HK\$'000	2013 HK\$'000
Spare parts and consumables	117,042	124,688
Coking coal	63,757	96,331
	<b>180,799</b>	<b>221,019</b>

As at 31 December 2014 and 2013, no inventories were stated at net realisable value.

## 27. TRADE AND BILL RECEIVABLES – GROUP

	2014 HK\$'000	2013 HK\$'000
Trade receivables	1,308,218	990,454
Less: Provision for impairment losses	(190,480)	(193,917)
	<b>1,117,738</b>	<b>796,537</b>
Bill receivables	1,431,092	1,793,647
	<b>2,548,830</b>	<b>2,590,184</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 27. TRADE AND BILL RECEIVABLES – GROUP (continued)

Trade receivables generally have credit terms ranging from 60 to 90 days (2013: 60 to 90 days) and no interest is charged.

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

As at 31 December 2014, bill receivables included an amount of RMB205,766,000 (HK\$256,693,000 equivalent) (2013: RMB150,289,000 (HK\$190,867,000 equivalent)) (Note 30) which was pledged for bill payables of RMB198,857,000 (HK\$248,074,000 equivalent) (2013: RMB150,262,000 (HK\$190,833,000 equivalent)).

As at 31 December 2014, the Group discounted and endorsed certain of its bill receivables with full recourse to financial institutions and creditors. In the event of default by the debtors, the Group is obliged to pay the financial institutions and creditors the amount in default. The Group is therefore exposed to the risks of credit losses and late payment in respect of its discounted and endorsed bill receivables.

The discounting and endorsement transactions do not meet the requirements in HKAS 39 for de-recognition of financial assets as the Group retains substantially all of the risks and rewards of ownership of the discounted and endorsed bill receivables. At 31 December 2014, bill receivables of RMB147,361,000 (HK\$183,833,000 equivalent) (2013: RMB588,960,000 (HK\$747,979,000 equivalent)) continue to be recognised in the Group's financial statements although they have been legally transferred to the financial institutions and creditors. The proceeds of the discounting and endorsement transactions are included in borrowings as asset-backed financing, trade payables and other payables until the related bill receivables are collected or the Group settles any losses suffered by the financial institutions and creditors. At 31 December 2014, the asset-backed financing liabilities and bill receivables endorsed to trade creditors and other creditors amounted to RMB59,237,000 (HK\$73,899,000 equivalent) (2013: RMB454,900,000 (HK\$577,723,000 equivalent)) (Note 32), RMB57,430,000 (HK\$71,644,000 equivalent) (2013: RMB90,060,000 (HK\$114,376,000 equivalent)) (Note 30) and RMB30,693,000 (HK\$38,290,000 equivalent) (2013: RMB44,000,000 (HK\$55,880,000 equivalent)) (Note 31) respectively.

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 27. TRADE AND BILL RECEIVABLES – GROUP (continued)

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

Impairment losses in respect of trade and bill receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case impairment loss is written off against trade and bill receivables directly. As at 31 December 2014, ageing analysis of net trade and bill receivables, based on the invoice dates, is as follows:

	2014 HK\$'000	2013 HK\$'000
1 to 3 months	1,300,738	1,333,259
4 to 6 months	1,196,636	1,235,654
7 to 12 months	51,456	21,271
	<b>2,548,830</b>	<b>2,590,184</b>

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

	2014 HK\$'000	2013 HK\$'000
At 1 January	193,917	185,983
Exchange retranslation	(3,437)	4,527
Impairment loss recognised (Note 10)	–	3,407
At 31 December	<b>190,480</b>	<b>193,917</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 27. TRADE AND BILL RECEIVABLES – GROUP (continued)

As at 31 December 2014, ageing analysis of trade and bill receivables that are not impaired is as follows:

	2014 HK\$'000	2013 HK\$'000
Current	2,218,086	2,461,165
Less than 3 months past due	285,401	120,132
4 to 6 months past due	44,804	8,887
More than 6 months but less than 12 months past due	539	–
	330,744	129,019
	2,548,830	2,590,184

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

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

## 28. PLEDGED BANK DEPOSITS – GROUP

As at 31 December 2014, all pledged bank deposits of RMB83,102,000 (HK\$103,670,000 equivalent) (2013: RMB161,252,000 (HK\$204,790,000 equivalent)) (Note 30) were denominated in RMB and were pledged for bill payables of RMB82,963,000 (HK\$103,497,000 equivalent) (2013: RMB152,222,000 (HK\$193,322,000 equivalent)).

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 29. BANK BALANCES AND CASH

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Cash at banks and on hand	87,865	137,216	3,825	4,122
Time deposits at banks	5,315,521	5,451,001	2,848,608	4,190,258
Bank balances and cash	5,403,386	5,588,217	2,852,433	4,194,380
Less: Time deposits with original maturity over three months	(3,450,784)	(3,450,606)	(1,709,054)	(2,702,211)
Cash and cash equivalents	1,952,602	2,137,611	1,143,379	1,492,169

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 0.27% to 5.14% (2013: 0.13% to 5%) per annum.

Included in cash and cash equivalents are the following amounts denominated in a currency other than HK\$:

'000	Group		Company	
	2014	2013	2014	2013
AUD	6,575	5	6,573	3
RMB	1,093,310	1,609,295	599,277	1,138,037
US\$	70,020	11,652	45,318	5,681

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 30. TRADE AND BILL PAYABLES – GROUP

The Group was granted by its suppliers credit period ranging between 30 to 180 days (2013: 30 to 180 days) during the year. Based on the invoice dates, ageing analysis of trade and bill payables as at 31 December 2014 is as follows:

	2014 HK\$'000	2013 HK\$'000
1 to 3 months	266,322	391,918
4 to 6 months	291,329	238,219
7 to 12 months	19,001	12,599
Over 1 year	24,410	20,588
	<b>601,062</b>	<b>663,324</b>

As at 31 December 2014, bill payables of RMB281,820,000 (HK\$351,571,000 equivalent) (2013: RMB302,484,000 (HK\$384,155,000 equivalent)) were secured by the pledged bank deposits of RMB83,102,000 (HK\$103,670,000 equivalent) (2013: RMB161,252,000 (HK\$204,790,000 equivalent)) (Note 28) and bill receivables of RMB205,766,000 (HK\$256,693,000 equivalent) (2013: RMB150,289,000 (HK\$190,867,000 equivalent)) (Note 27).

As at 31 December 2014, included in trade payables of RMB57,430,000 (HK\$71,644,000 equivalent) (2013: RMB90,060,000 (HK\$114,376,000 equivalent)) (Note 27) represents the amount of bill receivables endorsed to trade creditors which do not meet the de-recognition requirements in HKAS 39. The corresponding financial assets are included in bill receivables.

## 31. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Advances from customers	236,306	335,188	–	–
Accruals	493,136	405,855	11,302	16,001
Other payables	709,151	762,395	–	–
Amount due to other parties	8,247	23,408	–	–
	<b>1,446,840</b>	<b>1,526,846</b>	<b>11,302</b>	<b>16,001</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 31. OTHER PAYABLES AND ACCRUALS (continued)

As at 31 December 2014, included in other payables of RMB30,693,000 (HK\$38,290,000 equivalent) (2013: RMB44,000,000 (HK\$55,880,000 equivalent)) (Note 27) represents the amount of bill receivables endorsed to other creditors which do not meet the de-recognition requirements in HKAS 39. The corresponding financial assets are included in bill receivables.

## 32. BORROWINGS – GROUP

	Group	
	2014	2013
	HK\$'000	HK\$'000
Other borrowings (Note (a))	–	2,286
Asset-backed financing (Note (b))	73,899	577,723
<b>Total borrowings</b>	<b>73,899</b>	<b>580,009</b>

The carrying amounts of other borrowings and asset-backed financing approximate to their fair value.

Notes:

### (a) Other borrowings

	2014	2013
	HK\$'000	HK\$'000
Within one year	–	2,286

Other borrowings at 31 December 2013 were obtained from third parties, and were unsecured, interest-free and repayable on demand. All these other borrowings were due within one year and denominated in RMB.

### (b) Asset-backed financing

This represents the financing obtained in invoice discounting transactions which do not meet the de-recognition requirements in HKAS 39. The corresponding financial assets are included in bill receivables (Note 27).

## 33. AMOUNTS DUE TO SUBSIDIARIES - COMPANY

The amounts are unsecured, interest-free and repayable on demand.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 34. AMOUNTS DUE TO NON-CONTROLLING INTERESTS OF SUBSIDIARIES – GROUP

The balance as at 31 December 2014 and 2013 is denominated in RMB and is unsecured, interest-free and repayable on demand.

## 35. DEFERRED TAX ASSETS AND LIABILITIES – GROUP

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

	Tax deductible expense	
	2014 HK\$'000	2013 HK\$'000
At 1 January	27,586	31,592
Exchange retranslation	(456)	727
Charged to profit or loss (Note 11)	(4,641)	(4,733)
<b>At 31 December</b>	<b>22,489</b>	<b>27,586</b>

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

	Withholding tax HK\$'000	Fair value adjustments of property, plant and equipment and mining rights HK\$'000	Mining funds HK\$'000 (Note a)	Total HK\$'000
At 1 January 2013	–	2,028,467	114,444	2,142,911
Exchange retranslation	257	48,704	2,542	51,503
Charged/(Credited) to profit or loss (Note 11)	32,330	(46,802)	(28,640)	(43,112)
<b>At 31 December 2013 and 1 January 2014</b>	<b>32,587</b>	<b>2,030,369</b>	<b>88,346</b>	<b>2,151,302</b>
Exchange retranslation	(494)	(35,673)	(1,554)	(37,721)
Credited to profit or loss (Note 11)	(12,191)	(44,032)	(1,686)	(57,909)
<b>At 31 December 2014</b>	<b>19,902</b>	<b>1,950,664</b>	<b>85,106</b>	<b>2,055,672</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 35. DEFERRED TAX ASSETS AND LIABILITIES – GROUP (continued)

Note:

- (a) Pursuant to changes in certain regulations of the PRC government, the Group is required to set aside the production maintenance fee, safety fund, and other expense of similar nature (collectively the “Mining Funds”). As such amendments are deductible for the 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 2014 and 2013, 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:

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Deductible temporary differences	613	2,615	–	–
Tax losses	298,584	190,229	204,174	158,474
	<b>299,197</b>	192,844	<b>204,174</b>	158,474

The Group has tax losses of approximately HK\$4,878,000 (2013: HK\$4,966,000) which shall expire in this year (2013: one year) and tax losses of approximately HK\$293,706,000 (2013: HK\$185,263,000) which are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 36. SHARE CAPITAL

	Number of shares		Amount	
	2014 '000 shares	2013 '000 shares	2014 HK\$'000	2013 HK\$'000
Authorised: (Note (a)) Ordinary shares of HK\$0.10 each (Note (b)) At 31 December	<b>N/A</b>	10,000,000	<b>N/A</b>	1,000,000
Issued and fully paid: At 1 January	<b>5,301,837</b>	5,301,837	<b>530,184</b>	530,184
Transfer from share premium and capital redemption reserve upon abolition of par value of shares on 3 March 2014 (Note (c))	–	–	<b>14,626,775</b>	–
At 31 December	<b>5,301,837</b>	5,301,837	<b>15,156,959</b>	530,184

Notes:

- Under the Hong Kong Companies Ordinance, Cap.622, which effective on 3 March 2014, the concept of authorised share capital no longer exists.
- In accordance with Section 135 of the Hong Kong Companies Ordinance, Cap.622, the Company's shares no longer have a par or nominal value with effect from 3 March 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the members as a result of this transition.
- In accordance with the transitional provisions set out in Section 37 of Schedule 11 to the Hong Kong Companies Ordinance, Cap.622, any amount standing to the credit of the share premium account and capital redemption reserve at the beginning of 3 March 2014 became part of the Company's share capital.

## 37. RESERVES

### Group

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

### Share premium

This includes the premium arising from issue of shares of the Company at a premium.

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 37. RESERVES (continued)

### Group (continued)

#### 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.

#### Company

	Share premium HK\$'000	Capital redemption reserve HK'000	Retained profits HK\$'000	Share-based compensation reserve HK\$'000	Total HK\$'000
At 1 January 2013	14,618,903	7,872	1,210,164	564,179	16,401,118
Lapsed of share options	–	–	11,373	(11,373)	–
Profit for the year (Note 12)	–	–	506,071	–	506,071
2012 final dividend approved	–	–	(530,184)	–	(530,184)
2013 interim dividend declared	–	–	(143,150)	–	(143,150)
At 31 December 2013 and 1 January 2014	<b>14,618,903</b>	<b>7,872</b>	<b>1,054,274</b>	<b>552,806</b>	<b>16,233,855</b>
Transfer to share capital upon abolition of par value of shares on 3 March 2014 (Note 36(c))	<b>(14,618,903)</b>	<b>(7,872)</b>	–	–	<b>(14,626,775)</b>
Lapsed of share options	–	–	13,746	(13,746)	–
Profit for the year (Note 12)	–	–	1,362,750	–	1,362,750
2013 final dividend approved	–	–	(413,543)	–	(413,543)
2014 interim dividend declared	–	–	(53,018)	–	(53,018)
<b>At 31 December 2014</b>	<b>–</b>	<b>–</b>	<b>1,964,209</b>	<b>539,060</b>	<b>2,503,269</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 38. SHARE OPTION SCHEME

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 38. SHARE OPTION SCHEME (continued)

The total number of option outstanding under the 2003 Scheme as at 31 December 2014 was 255,000,000 (2013: 261,000,000) which represents approximately 4.81% (2013: 4.92%) of the Company's issued shares as at 31 December 2014. All share-based compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options other than by issuing the Company's ordinary shares.

All share options granted under the 2003 Scheme are accounted for under HKFRS 2. Share options and weighted average exercise price for the years ended 31 December 2014 and 2013 are as follows:

	2014		2013	
	'000 shares	Weighted average exercise price HK\$	'000 shares	Weighted average exercise price HK\$
Outstanding at 1 January	261,000	6.00	267,200	5.90
Lapsed	(6,000)	6.00	(6,200)	1.65
Outstanding at 31 December	255,000	6.00	261,000	6.00
Exercisable at 31 December	255,000	6.00	261,000	6.00

The exercise prices of the 255,000,000 (2013: 261,000,000) options outstanding as at 31 December 2014 was HK\$6.00 (2013: HK\$6.00) and a weighted average remaining contractual life of 1.6 years (2013: 2.6 years).

6,000,000 (2013: 6,200,000) share options under the 2003 Scheme were lapsed during 2014. No options were exercised, granted or cancelled during 2014 and 2013.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 39. COMMITMENTS

### (a) Operating lease commitments

#### *Group*

At 31 December 2014, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings payable by the Group are as follows:

	2014 HK\$'000	2013 HK\$'000
Within one year	5,216	5,268
In the second to fifth years	11,506	14,053
After the fifth years	38,431	42,053
	<b>55,153</b>	61,374

The Group leases a number of land and buildings and other assets under operating leases arrangement. The leases run for an initial period of 3 to 34 years, without an option to renew the leases and renegotiate the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords. None of the leases include contingent rental.

#### *Company*

The Company did not have any significant operating lease commitments as at 31 December 2014 and 2013.

### (b) Capital commitments

#### *Group*

	2014 HK\$'000	2013 HK\$'000
Contracted but not provided for:		
– Acquisition of property, plant and equipment	245,285	217,164
– Exploration and design fees for a potential mining project	9,331	9,500
	<b>254,616</b>	226,664

#### *Company*

The Company did not have any capital commitments as at 31 December 2014 and 2013.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 40. FINANCIAL GUARANTEE CONTRACTS

As at 31 December 2014 and 2013, the Group has no outstanding financial guarantee contracts.

As at 31 December 2014 and 2013, the Company has given below financial guarantees to banks in respect of treasury facilities available to its wholly-owned subsidiaries:

- (a) a guarantee with US\$3,500,000 given to a bank in respect of a treasury facility; and
- (b) three guarantees with unlimited amounts given to another two banks in respect of treasury facilities.

As at 31 December 2014, certain wholly-owned subsidiaries had utilised the treasury facilities of US\$359,075,000 (HK\$2,782,834,000 equivalent) (2013: US\$212,406,000 (HK\$1,646,147,000 equivalent)). As at 31 December 2014, the Company also executed guarantee amounting to RMB200,000,000 (HK\$249,500,000 equivalent) (2013: Nil) with respect to the bank facilities granted to a subsidiary of the Group in the PRC. Under these guarantees, the Company would be liable to pay the bank if the bank is unable to recover the treasuring facilities and the loan. As at 31 December 2014 and 2013, no provision for the Company's obligations under these guarantee contracts was required as the directors considered that it was not probable that the repayment of such treasury facilities and the loan would be in default.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 41. RELATED PARTY TRANSACTIONS – GROUP

Except as disclosed elsewhere in the financial statements, the following transactions for the years ended 31 December 2014 and 2013 were carried out with related parties:

- (i) During the year ended 31 December 2014, the Group paid management fees and company secretarial service fees of HK\$1,560,000 (2013: HK\$1,560,000) to Shougang Concord International Enterprises Company Limited (“Shougang International”), which is the substantial shareholders of the Company. As at 31 December 2014, no amounts were outstanding (2013: Nil).
- (ii) During the year ended 31 December 2014, the Group paid rental expenses of HK\$2,340,000 (2013: HK\$2,340,000) to a wholly-owned subsidiary of Shougang Holding (Hong Kong) Limited (“Shougang Holding”), which is the controlling shareholder of Shougang International. As at 31 December 2014, no amounts were outstanding (2013: Nil).
- (iii) During the year ended 31 December 2014, the Group sold clean coking coal amounted to HK\$569,795,000 (2013: HK\$680,904,000) to Shougang Corporation, being Shougang Holding’s ultimate holding company, and its group companies of Shougang Corporation (collectively referred to as the “Shougang Group”). These sales were made at market prices with a maximum discount of 3%. As at 31 December 2014, amount due from/to the Shougang Group was HK\$354,882,000 (2013: HK\$334,291,000) and HK\$10,465,000 (2013: Nil) respectively.
- (iv) The compensation payable to key management personnel during the year have been disclosed in Note 16.

The related party transactions in (i) above constitute connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules. The related party transaction in (i) above was connected transaction which was exempt from any disclosure and shareholders’ approval requirements under the Listing Rules. Except this, none of the above related party transactions falls under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 42. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

### (i) Foreign currency risk

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

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

	Group						Company					
	2014			2013			2014			2013		
	Expressed in HK\$'000			Expressed in HK\$'000			Expressed in HK\$'000			Expressed in HK\$'000		
	AUD	US\$	RMB	AUD	US\$	RMB	AUD	US\$	RMB	AUD	US\$	RMB
Financial assets measured at fair value through other comprehensive income	253,994	-	-	1,150,345	-	-	-	-	-	-	-	-
Derivative financial instruments – assets	-	56	-	-	13,661	-	-	-	-	-	-	-
Time deposit with original maturity over three months	-	2,862,705	588,079	-	2,133,342	1,317,264	-	1,501,906	207,148	-	1,384,947	1,317,264
Cash and bank balances	41,724	542,657	1,113,833	32	90,291	1,839,537	41,714	351,214	747,597	22	44,029	1,445,306
Derivative financial instruments – liabilities	-	(22,397)	-	-	-	-	-	(362)	-	-	-	-
Overall net exposure	295,718	3,383,021	1,701,912	1,150,377	2,237,294	3,156,801	41,714	1,852,758	954,745	22	1,428,976	2,762,570

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 42. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### (i) Foreign currency risk (continued)

As HK\$ is pegged to US\$, the Group/Company does not expect any significant movements in the US\$/HK\$ exchange rates. No sensitivity analysis in respect of the Group's/Company'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/Company's (loss)/profit for the year and equity in response to reasonably possible changes in the foreign exchange rates to which the Group/Company has significant exposure at the reporting date.

	Group						Company					
	2014		2013		2014		2013		2014		2013	
	Increase/ (Decrease) in foreign exchange rates	Effect on loss for the year HK\$'000	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	Increase/ (Decrease) in foreign exchange rates	Effect on profit for the year HK\$'000	Effect on equity HK\$'000	
AUD	+5%	(2,086)	13,532	+5%	2	57,339	+5%	2,086	-	+5%	1	-
AUD	-5%	2,086	(13,532)	-5%	(2)	(57,339)	-5%	(2,086)	-	-5%	(1)	-
RMB	+5%	(85,096)	-	+5%	157,840	-	+5%	47,737	-	+5%	138,129	-
RMB	-5%	85,096	-	-5%	(157,840)	-	-5%	(47,737)	-	-5%	(138,129)	-

### (ii) Credit risk

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

Financial assets carrying significant credit risk exposures are the trade receivables over 90 days past due amounting to HK\$45,343,000 (2013: HK\$8,887,000) (Note 27). Management is of the opinion that reasonable actions and mitigations have been carried out to minimise the exposure to credit risk and details of such mitigations are set out in respective notes to the financial statements. In this regards, the directors consider that the Group's credit risk is sufficiently managed.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 42. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### (ii) Credit risk (continued)

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

The Company has limited credit risk on amounts due from subsidiaries. Management periodically monitors the financial position of each of its subsidiaries to ensure each subsidiary is financially viable to settle the debts due to the Company.

### (iii) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Group's/Company's major exposure to interest rate risk relates primarily to cash and cash equivalents. Interest rates and terms of pledged bank deposits, bank balances and cash, borrowings, amounts due to non-controlling interests of subsidiaries, are disclosed in Notes 28, 29, 32 and 34 respectively.

The following table illustrates the sensitivity of profit after income tax for the year and retained profits to a change in interest rates of +25 basis points and -25 basis points (2013: +25 basis points and -25 basis points) with effect from the beginning of the year. The calculations are based on the cash and cash equivalents at 31 December 2014 and 2013. All other variables are held constant.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 42. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### (iii) Interest rate risk (continued)

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
If interest rates were 25 basis points (2013: 25 basis points) higher Profit for the year increase/ (decrease) by	220	343	10	10
If interest rates were 25 basis points (2013: 25 basis points) lower Profit for the year (decrease)/ increase by	(220)	(343)	(10)	(10)

### (iv) Price risk

This relates to the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than changes in interest rates and foreign exchange rates). The Group is exposed to other price risk arising from its listed equity investments classified as financial assets measured at fair value through other comprehensive income. Details of the financial assets measured at fair value through other comprehensive income are set out in Note 24. 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 18.01% and 13.97% was observed in Hang Seng Index in Hong Kong and All Ordinary Index in Australia in 2014 respectively (2013: 21.46% and 16.55%). Had the quoted stock price for these securities increased or decreased by that amount, the Group's security investment reserve under equity would have been increased or decreased by approximately HK\$57,003,000 (2013: HK\$220,591,000).

The Company does not expose to the price risk.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 42. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### (v) Liquidity risk

Liquidity risk relates to the risk that the Group/Company will not be able to meet its obligations associated with its financial liabilities. The Group/Company 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/Company's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

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

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



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 42. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### (v) Liquidity risk (continued)

	Carrying amount HK\$'000	Group Total contractual undiscounted cash flow HK\$'000	Within one year or on demand HK\$'000
<b>As at 31 December 2013</b>			
<b>Non-derivative financial liabilities</b>			
Trade and bill payables	663,324	663,324	663,324
Other payables and accruals	858,668	858,668	858,668
Borrowings	580,009	580,009	580,009
Amounts due to non-controlling interests of subsidiaries	20,635	20,635	20,635
	<b>2,122,636</b>	<b>2,122,636</b>	<b>2,122,636</b>

	Carrying amount HK\$'000	Company Total contractual undiscounted cash flow HK\$'000	Within one year or on demand HK\$'000
<b>As at 31 December 2013</b>			
<b>Non-derivative financial liabilities</b>			
Amounts due to subsidiaries	7,800,899	7,800,899	7,800,899
Other payables and accruals	15,255	15,255	15,255
	<b>7,816,154</b>	<b>7,816,154</b>	<b>7,816,154</b>

Financial guarantees issued			
Maximum amount guaranteed	–	1,646,147	1,646,147

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 43. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

Set out below is an overview of the carrying amount and fair value of financial assets and liabilities held by the Group as defined in Notes 3.12 and 3.19:

	Group		Company	
	2014 HK\$000	2013 HK\$000	2014 HK\$000	2013 HK\$000
<b>Non-current assets</b>				
Financial assets measured at amortised cost				
– Deposits and other receivables	187,581	203,203	–	–
Financial assets measured at fair value through other comprehensive income	373,494	1,290,877	–	–
	<b>561,075</b>	<b>1,494,080</b>	<b>–</b>	<b>–</b>
<b>Current assets</b>				
Financial assets measured at amortised cost				
– Trade and bill receivables	2,548,830	2,590,184	–	–
– Deposits and other receivables	126,614	123,559	16,407	34,830
– Amounts due from subsidiaries	–	–	16,556,490	20,228,168
– Pledged bank deposits	103,670	204,790	–	–
– Time deposit with original maturity over three months	3,450,784	3,450,606	1,709,054	2,702,211
– Cash and cash equivalents	1,952,602	2,137,611	1,143,379	1,492,169
Financial assets measured at fair value through profit or loss				
– Derivatives financial instruments	56	13,661	–	–
	<b>8,182,556</b>	<b>8,520,411</b>	<b>19,425,330</b>	<b>24,457,378</b>
<b>Total</b>	<b>8,743,631</b>	<b>10,014,491</b>	<b>19,425,330</b>	<b>24,457,378</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

	Group		Company	
	2014 HK\$000	2013 HK\$000	2014 HK\$000	2013 HK\$000
<b>Current liabilities</b>				
Financial liabilities measured at amortised cost				
– Trade and bill payables	601,062	663,324	–	–
– Other payables and accruals	808,020	858,668	10,556	15,255
– Borrowings	73,899	580,009	–	–
– Amounts due to non-controlling interests of subsidiaries	3,796	20,635	–	–
– Amounts due to subsidiaries	–	–	1,874,620	7,800,899
Financial liabilities measured at fair value through profit or loss				
– Derivative financial instruments	22,397	–	362	–
<b>Total</b>	<b>1,509,174</b>	<b>2,122,636</b>	<b>1,885,538</b>	<b>7,816,154</b>

### (a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade and bill receivables, deposits and other receivables, amounts due from/to subsidiaries and non-controlling interests of subsidiaries, bank balances and cash, trade and bill payables, other payables and accruals and borrowings.

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

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

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

	Notes	2014			Total HK\$'000
		Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
<b>Group</b>					
Financial assets measured at fair value through other comprehensive income					
– Listed equity securities	(a)	373,494	–	–	373,494
– Unlisted equity securities	(b)	–	–	–	–
Financial assets measured at fair value through profit or loss					
– Derivative financial assets	(c)	–	56	–	56
		<b>373,494</b>	<b>56</b>	<b>–</b>	<b>373,550</b>
Financial liabilities measured at fair value through profit or loss					
– Derivative financial liabilities	(c)	–	(22,397)	–	(22,397)
<b>Company</b>					
Financial liabilities measured at fair value through profit or loss					
– Derivative financial liabilities	(c)	–	(362)	–	(362)

	Notes	2013			Total HK\$'000
		Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
<b>Group</b>					
Financial assets measured at fair value through other comprehensive income					
– Listed equity securities	(a)	1,290,877	–	–	1,290,877
– Unlisted equity securities	(b)	–	–	–	–
Financial assets measured at fair value through profit or loss					
– Derivative financial assets	(c)	–	13,661	–	13,661
		<b>1,290,877</b>	<b>13,661</b>	<b>–</b>	<b>1,304,538</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

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

The Company did not expose to the risk on fair value measurement as at 31 December 2013.

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.

#### (a) Listed equity securities

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

#### (b) Unlisted equity securities

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

#### (c) Derivative financial instruments

Where derivatives are traded either on exchanges or liquid over-the-counter markets, the Group uses the closing price at the reporting date. Normally, the derivatives entered into by the Group are not traded on active markets. The fair values of such contracts are estimated using a valuation technique that maximises the use of observable market inputs e.g. market currency and interest rates (Level 2). The derivatives entered into by the Group are included in Level 2 and consist of foreign currency forward contracts.

Of the total gains or losses for the year included in profit or loss, loss of approximately HK\$42,500,000 (2013: gain of approximately HK\$25,430,000) in relation to forward contracts are included in "change in fair value of derivative financial instruments" in the consolidated statement of profit or loss and other comprehensive income.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 44. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

- (a) To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns and benefits for stakeholders;
- (b) To support the Group's ability and growth; and
- (c) To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and equity holder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy. Management regards total equity and its reserves as capital, 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 (which includes borrowings and asset-backed financing) 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, which was unchanged from 2013, 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 2014, the Group's and the Company's adjusted cash position is HK\$5,186,337,000 (2013: HK\$4,594,665,000) and HK\$2,709,283,000 (2013: HK\$3,780,837,000) respectively.

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

# FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years as extracted from the respective published audited financial statements and restated upon the adoption of the new or amended HKFRSs as appropriate, is set out below. This summary does not form part of the audited financial statements.

	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000
<b>Results</b>					
Revenue	<b>3,254,861</b>	4,268,232	5,650,590	7,138,643	5,543,285
(Loss)/Profit attributable to owners of the Company	<b>(425,302)</b>	1,115,066	1,800,367	2,256,023	1,802,791
<b>Assets and liabilities</b>					
Total assets	<b>23,999,978</b>	26,870,908	26,820,521	27,000,297	26,119,627
Total liabilities	<b>(4,430,378)</b>	(5,211,743)	(5,958,538)	(6,442,164)	(6,496,405)
<b>Net assets</b>	<b>19,569,600</b>	21,659,165	20,861,983	20,558,133	19,623,222
Non-controlling interests	<b>(1,643,065)</b>	(1,731,782)	(1,638,299)	(1,591,554)	(1,473,328)
Equity attributable to owners of the Company	<b>17,926,535</b>	19,927,383	19,223,684	18,966,579	18,149,894