



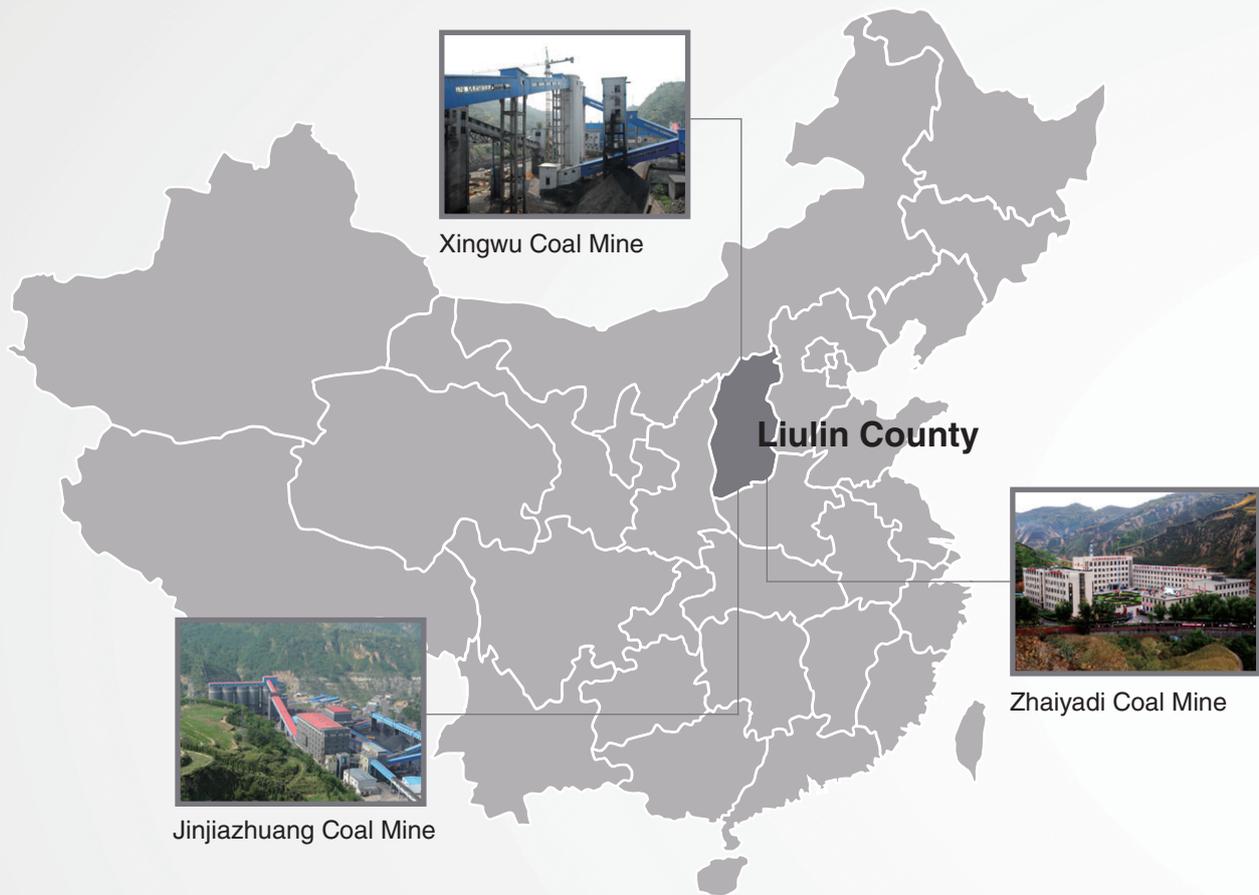
**SHOUGANG FUSHAN RESOURCES GROUP LIMITED**

Stock Code : 639

Annual Report  
**2016**



## LOCATIONS OF THE GROUP'S COKING COAL MINES



## CORPORATE PROFILE

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

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

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

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

# CONTENTS

Corporate Information	2
Directors' Biographies	3
Main Operational Structure	9
Financial Highlights	10
Operating Mines	12
Chairman's Statement	15
Management Discussion and Analysis	17
Corporate Governance Report	27
Environmental, Social and Governance Report	51
Report of the Directors	61
Independent Auditor's Report	76
Audited Financial Statements	
Consolidated Statement of Profit or Loss and Other Comprehensive Income	81
Consolidated Statement of Financial Position	82
Consolidated Statement of Changes in Equity	84
Consolidated Statement of Cash Flows	86
Notes to the Consolidated Financial Statements	88
Five-year Financial Summary	162

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

Li Shaofeng (*Chairman*)  
Ding Rucai (*Vice-chairman and Managing Director*)  
So Kwok Hoo (*Deputy Managing Director*)  
Chen Zhaoqiang (*Deputy Managing Director*)  
Liu Qingshan (*Deputy Managing Director*)  
Leung Shun Sang, Tony (*Non-executive Director*)  
Dong Yansheng (*Non-executive Director*)  
Kee Wah Sze (*Independent Non-executive Director*)  
Choi Wai Yin (*Independent Non-executive Director*)  
Chan Pat Lam (*Independent Non-executive Director*)  
Japhet Sebastian Law  
(*Independent Non-executive Director*)

## EXECUTIVE COMMITTEE

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

## AUDIT COMMITTEE

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

## NOMINATION COMMITTEE

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

## REMUNERATION COMMITTEE

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

## COMPANY SECRETARY

Cheng Man Ching

## AUDITOR

BDO Limited

## SHARE REGISTRAR

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

## REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

## STOCK CODE

639

## WEBSITE

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

## DIRECTORS' BIOGRAPHIES

**Mr. Li Shaofeng**, aged 50, 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 holding company of Shougang Holding (Hong Kong) Limited (“Shougang Holding”), in 1989 and is the managing director of each of Shougang Holding and 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 Mount Gibson Iron Limited, a company listed on the Australian Securities Exchange. Mr. Li was a director of Shougang Concord Technology Holdings Limited (now known as HNA Holding Group Co. Limited) (“HNA Holding”) from May 2010 to December 2014 and a director of China Dynamics (Holdings) Limited (“China Dynamics”) from October 2007 to November 2015, both HNA Holding and China Dynamics are Hong Kong listed companies. 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 or its delegated committee(s) from time to time. For both financial years 2016 and 2017, Mr. Li's monthly salary is HK\$450,000. Such salary was determined by the Remuneration Committee with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Li's individual performance.

## DIRECTORS' BIOGRAPHIES

**Mr. Ding Rucai**, aged 52, senior engineer in professor grade. Mr. Ding graduated from the School of Metallurgical and Ecological Engineering of the University of Science and Technology Beijing with a master degree in ferrous metallurgy. Thereafter, he studied senior business administration in The University of Warwick, United Kingdom. Mr. Ding obtained a doctor of philosophy in ferrous metallurgy from the School of Metallurgical and Ecological Engineering of the University of Science and Technology Beijing. He has acted as deputy general manager of the Company from August 2014. Mr. Ding was appointed an Executive Director and the Vice-chairman and Managing Director of the Company in September 2014 and is a member of the Executive Committee of the Company. He joined Shougang Corporation, the 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 a director and deputy managing director of Shougang Holding, an executive director and the deputy managing director of Shougang International and a director of each of Ultimate Capital and 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 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 or its delegated committee(s) from time to time. For both financial years 2016 and 2017, Mr. Ding's monthly salary is HK\$260,000. Such salary was determined by the Remuneration Committee with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Ding's individual performance.

**Mr. So Kwok Hoo**, aged 63, 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 or its delegated committee(s) from time to time. For both financial years 2016 and 2017, Mr. So's monthly salary is HK\$250,000. Such salary was determined by the Remuneration Committee with reference to the then prevailing market conditions, the performance of the Company as well as Mr. So's individual performance.

## DIRECTORS' BIOGRAPHIES

**Mr. Chen Zhaoqiang**, aged 49, graduated from Jiaozuo Mining Institute with a bachelor degree majoring in mining engineering and obtained a master degree in management science from Huazhong University of Science & Technology and a finance executive masters of business administration from Shanghai Advanced Institute of Finance of Shanghai Jiao Tong University. Mr. Chen was appointed an Executive Director and Deputy Managing Director of the Company in January 2010. He is also a member of the Executive Committee of the Company. Mr. Chen had engaged in many important posts in coal mining industry, including in Pingdingshan Coal Co. Ltd., Henan Pingbao Coal Co. Ltd., and Henan Company for Coal Seam Gas Development & Application. He has extensive experience in coal mining industry including in the areas of production safety management for coal mining, purchase and logistics management, mineral resources development and coal trading.

A service contract was entered into between Mr. Chen and a wholly-owned subsidiary of the Company commencing on 1 January 2010. Under the service contract, Mr. Chen is entitled to a monthly salary of HK\$220,000 or such higher salary and discretionary bonus as may be determined by the Board or its delegated committee(s) from time to time. For both financial years 2016 and 2017, Mr. Chen's monthly salary is HK\$220,000. Such salary was determined by the Remuneration Committee with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Chen's individual performance.

**Mr. Liu Qingshan**, aged 58, 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 or its delegated committee(s) from time to time. For both financial years 2016 and 2017, Mr. Liu's monthly salary is HK\$200,000. Such salary was determined by the Remuneration Committee with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Liu's individual performance.

## DIRECTORS' BIOGRAPHIES

**Mr. Leung Shun Sang, Tony**, aged 74, holds a bachelor degree of commerce from The Chinese University of Hong Kong and a master degree in business administration from New York State University. Mr. Leung was appointed a Non-executive Director of the Company in March 2009 and is a member of the Remuneration Committee of the Company. He is a non-executive director of Shougang International, a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Leung is also a non-executive director of each of Shougang Century, Shougang Grand, GDC and HNA Holding. Mr. Leung had worked in Citibank N.A. and W.I. Carr Sons & Co. (Overseas) in his early years and he was the managing director of CEF Group. He has extensive experience in securities and banking business, investment, financial markets, corporate strategy and corporate management.

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

**Mr. Dong Yansheng**, aged 38, holds a bachelor degree in computer statistics from the Capital University of Business and Economics and a master degree in business analysis and finance from the University of Leicester. Mr. Dong was appointed a Non-executive Director of the Company in June 2016. He is the assistant to general manager of the asset management center of Funde Sino Life Insurance Co., Ltd. ("Funde Sino Life") and the general manager of the investment business division II of the asset management center of Funde Sino Life. Mr. Dong previously held various positions in the group of Funde Sino Life. Funde Sino Life is a substantial shareholder of the Company within the meaning of Part XV of the SFO. He has extensive experience in financial and insurance businesses.

An engagement letter was entered into with Mr. Dong for a term commencing on 30 June 2016 and expiring on 31 December 2018. Under the engagement letter, Mr. Dong is entitled to a director's fee as may be determined by the Board from time to time. For the period from 30 June 2016 (the date of appointment of Mr. Dong as a Non-executive Director of the Company) to 31 December 2016, the director's fee of Mr. Dong is HK\$211,167 which was based on the director's fee of HK\$420,000 for a full year and paid in proportion to Mr. Dong's actual length of services. For the financial year 2017, the director's fee of Mr. Dong is HK\$420,000 for a full year. Such director's fee was determined by the Board with reference to Mr. Dong's experience and duties as well as the then prevailing market conditions.

## DIRECTORS' BIOGRAPHIES

**Mr. Kee Wah Sze**, aged 69, holds a master degree in Chinese and comparative law from the City University of Hong Kong and a master degree in law from the People's University of the PRC. Mr. Kee was appointed an Independent Non-executive Director of the Company in April 1997 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. He was an independent non-executive director of Theme International Holdings Limited ("Theme International"), a listed company in Hong Kong, from November 2009 to May 2015. Mr. Kee is a partner of Messrs. Michael Cheuk, Wong & Kee and has been a practicing solicitor in Hong Kong specialized in both the commercial and conveyancing fields for many years. He is a Notary Public of Hong Kong and a China Appointed Attesting Officer.

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

**Mr. Choi Wai Yin**, aged 58, holds a master degree of science in finance from the City University of Hong Kong, a bachelor degree in business administration from The Chinese University of Hong Kong and a bachelor degree in law from the Peking University. Mr. Choi was appointed an Independent Non-executive Director of the Company in July 2004 and is the Chairman of the Audit Committee and a member of each of the Nomination Committee and the Remuneration Committee of the Company. Currently, he is a director and a responsible officer of a company which is carrying the asset management business. Mr. Choi is an investment adviser registered under the SFO. He has extensive experience in the fields of finance and fund management.

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

## DIRECTORS' BIOGRAPHIES

**Mr. Chan Pat Lam**, aged 68. Mr. Chan was appointed an Independent Non-executive Director of the Company in December 2004 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. Currently, he is the consultant of a private company which is an international container shipping agency in the Western region of Pearl River Delta. Mr. Chan is also a partner of a private company which is engaged in trading and wholesaling of grocery items. He was an independent non-executive director of Theme International, a listed company in Hong Kong, from November 2009 to November 2015. Mr. Chan has extensive experience in the field of international banking industry in Hong Kong, Macau and California.

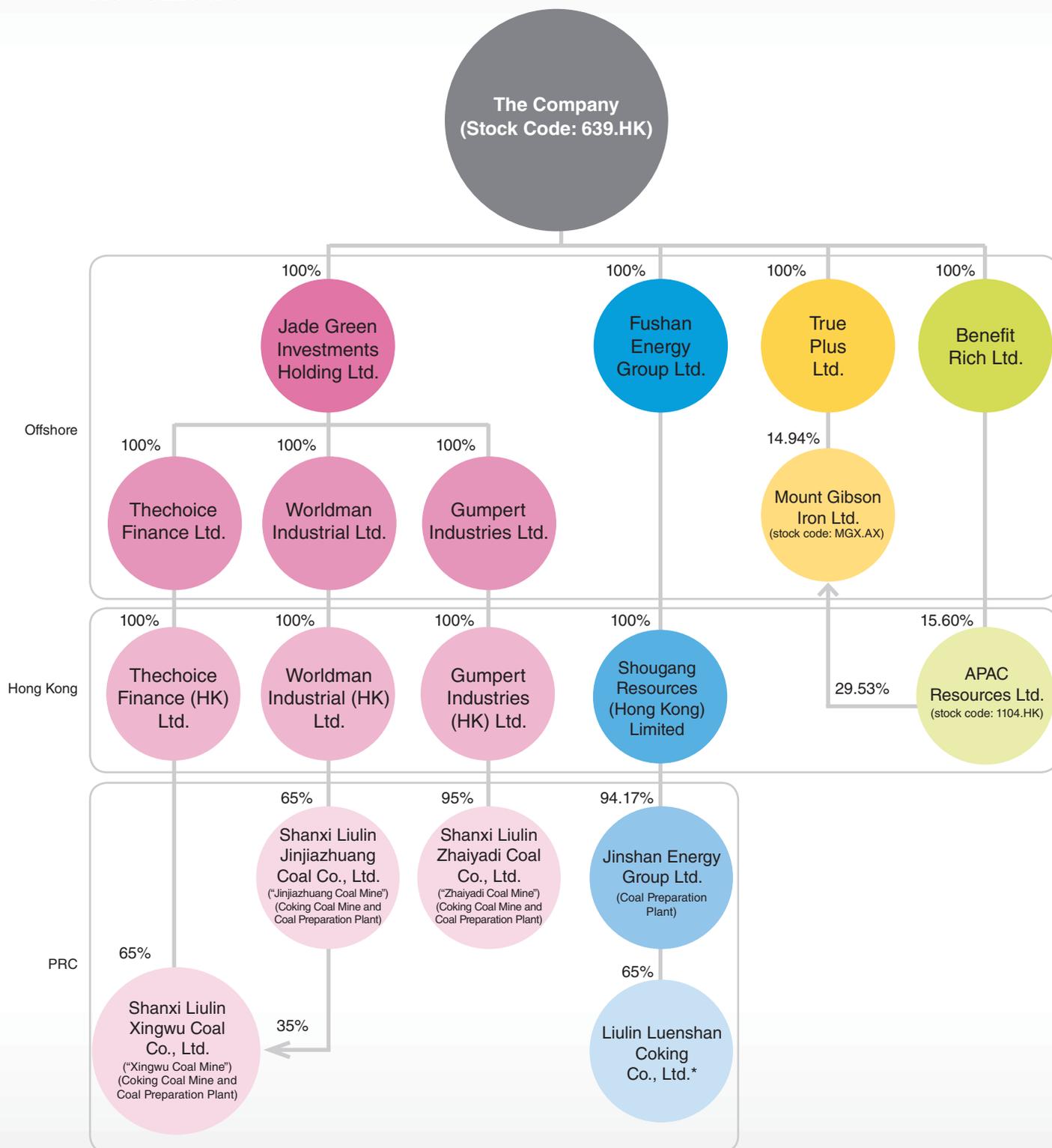
An engagement letter was entered into with Mr. Chan for a term of three years commencing on 1 January 2016. Under the engagement letter, Mr. Chan is entitled to a director's fee as may be determined by the Board from time to time. For both financial years 2016 and 2017, the director's fee of Mr. Chan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

**Mr. Japhet Sebastian Law**, aged 65, graduated from the University of Texas at Austin with a doctor of philosophy degree in mechanical/industrial engineering in 1976. Mr. Law was appointed an Independent Non-executive Director of the Company in September 2013 and is the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee of the Company. He joined The Chinese University of Hong Kong in 1986 and retired in August 2012. Before retirement, Mr. Law was a professor in the Department of Decision Sciences and Managerial Economics. He was the associate dean and subsequently the dean of the Faculty of Business Administration of The Chinese University of Hong Kong from 1993 to 2002. Prior to returning to Hong Kong, Mr. Law was a director of Operations Research at the Cullen College of Engineering and a director of Graduate Studies in Industrial Engineering at the University of Houston and was also involved with the U.S. Space Program in his career with McDonnell Douglas and Ford Aerospace in the United States. He acts as a consultant for various corporations in Hong Kong and overseas. Mr. Law is active in public services and serves as a member of the Provisional Regional Council of the Hong Kong SAR Government and various other committees. He serves on the boards of profit, non-profit and charitable organisations in Hong Kong and overseas. Mr. Law is an independent non-executive director of each of GDC, Tianjin Port Development Holdings Limited, Beijing Capital International Airport Company Limited, Binhai Investment Company Limited, Regal Hotels International Holdings Limited and Tianjin Binhai Teda Logistics (Group) Corporation Limited, all of which are listed companies in Hong Kong. He was an independent non-executive director of Shanghai La Chapelle Fashion Co., Ltd., a listed company in Hong Kong, from August 2013 to July 2016.

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

# MAIN OPERATIONAL STRUCTURE

THE MAIN OPERATIONAL STRUCTURE OF THE GROUP AS AT 31 DECEMBER 2016 IS AS FOLLOWS:



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

# FINANCIAL HIGHLIGHTS

(HK\$'000)	For the year ended 31 December			Percentage change
	2014	2015	2016	
Revenue	3,254,861	1,996,629	<b>1,809,885</b>	-9%
Gross profit	1,304,153	488,188	<b>607,043</b>	+24%
Gross profit margin	40%	24%	<b>34%</b>	
Non-cash net impairment loss on goodwill, mining rights and property, plant and equipment	(823,964)	(791,203)	<b>(194,842)</b>	-75%
Before non-cash net impairment loss on goodwill, mining rights and property, plant and equipment (net of the correspondence deferred tax impact):				
Profit/(Loss) for the year	463,032	(78,718)	<b>236,790</b>	
Profit/(Loss) attributable to owners of the Company ("Owners")	398,662	(58,374)	<b>233,633</b>	
After non-cash net impairment loss on goodwill, mining rights and property, plant and equipment (net of the correspondence deferred tax impact):				
(Loss)/Profit for the year	(360,932)	(711,475)	<b>67,656</b>	
(Loss)/Profit attributable to Owners	(425,302)	(416,471)	<b>111,795</b>	
EBITDA <sup>1</sup>	1,270,346	419,885	<b>694,201</b>	+65%
Basic (loss)/earnings per share (HK cents)	(8.02)	(7.86)	<b>2.11</b>	
Dividend per share (HK cents)	3.7	21.0	<b>18.0</b>	
– Interim (HK cents)	1.0	1.0	–	
– Special (HK cents)	–	15.0	<b>15.0</b>	
– Final (Proposed) (HK cents)	2.7	5.0	<b>3.0</b>	

(HK\$'000)	As at 31 December			Percentage change
	2014	2015	2016	
Total assets	23,999,978	20,727,669	<b>19,104,456</b>	-8%
of which: Cash and cash equivalents and time deposits with original maturity over three months	5,403,386	5,038,181	<b>3,824,219</b>	-24%
Unpledged bill receivables	990,566	504,567	<b>942,205</b>	+87%
Total liabilities	(4,430,378)	(3,683,389)	<b>(3,438,763)</b>	-7%
of which: Total borrowings	(73,899)	–	–	–
Current ratio <sup>2</sup>	3.55 times	3.69 times	<b>3.45 times</b>	-7%
Gearing ratio <sup>3</sup>	0.38%	0.00%	<b>0.00%</b>	–
Total equity	19,569,600	17,044,280	<b>15,665,693</b>	-8%
of which: Equity attributable to Owners	17,926,535	15,791,115	<b>14,519,024</b>	-8%
Net assets per share attributable to Owners (HK\$)	3.38	2.98	<b>2.74</b>	-8%

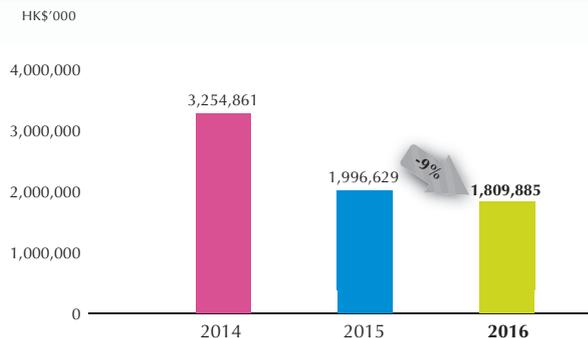
Notes:

- EBITDA is defined as profit/(loss) before income tax plus impairment loss on goodwill, mining rights and property, plant and equipment, reversal of impairment loss on mining rights and property, plant and equipment, finance costs, change in fair value of derivative financial instruments, share of loss of an associate, depreciation and amortisation.
- Current ratio is computed from total current assets divided by total current liabilities.
- Gearing ratio is computed from total borrowings divided by total equity.

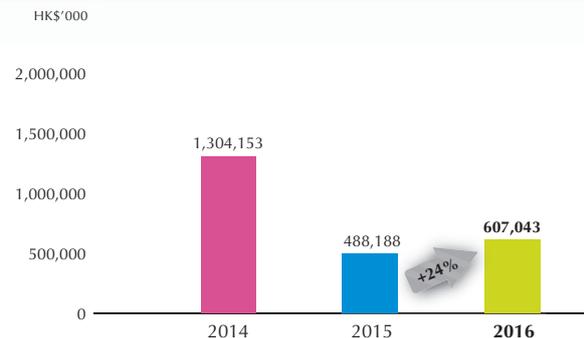
# FINANCIAL HIGHLIGHTS

## PROFIT & LOSS SUMMARY

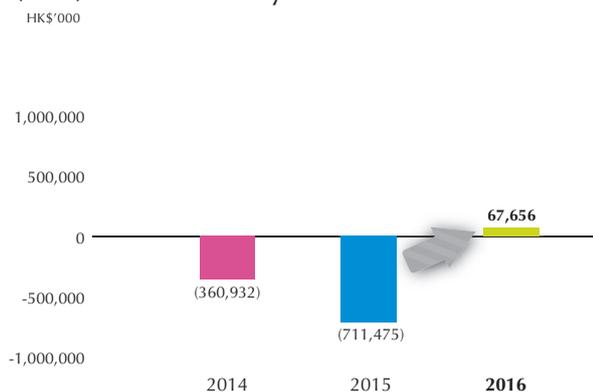
### Revenue



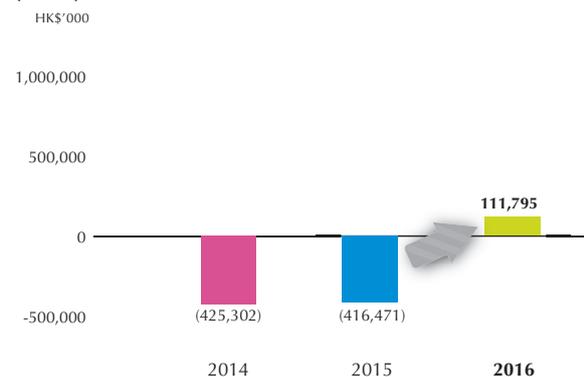
### Gross profit



### (Loss)/Profit for the year

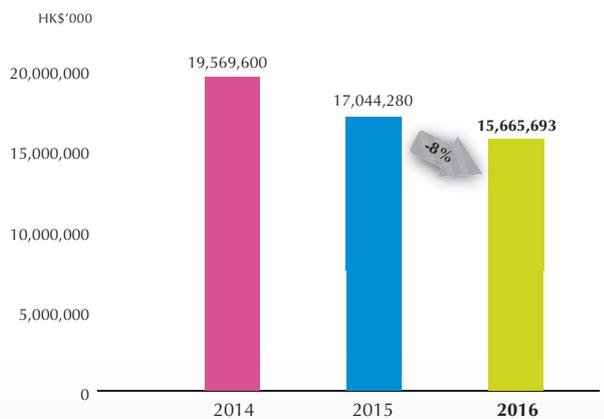


### (Loss)/Profit attributable to Owners

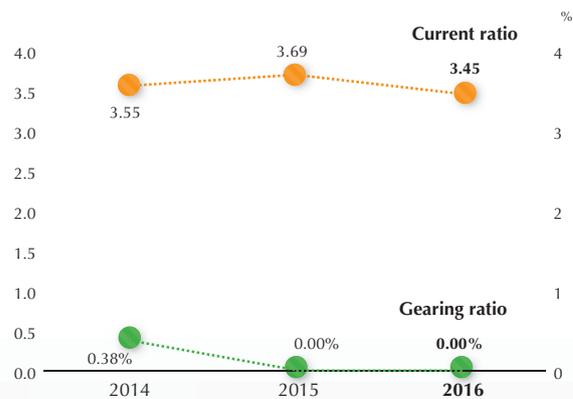


## HEALTHY FINANCIAL POSITION

### Net assets



### Gearing ratio & current ratio



# OPERATING MINES

## XINGWU COAL MINE

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



## JINJIAZHUANG COAL MINE

- 14 km south of Liulin County and the mining right area extended over 6.08 sq. km and spans 6.8 km east to west and 3.4 km north to south
- Operation commenced in 1996
- 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			Zhaiyadi
		Xingwu	Jinjiazhuang		
Seam		No. 4	No. 5	No. 4	No. 9
Moisture (%)	Ad	0.9	0.3	0.7	0.7
Ash (%)	D	11.3	10.1	11.0	10.4
Sulfur Total (%)	D	0.36	0.85	0.47	1.65
Volatile Matter (%)	Daf	21.6	23.4	22.4	18.7
Fixed Carbon (%)	Ad	68.6	67.0	68.4	72.1
Calorific Value (Kcal./kg)	Gr.v.d	7,500	7,200	7,520	7,540
Caking Index (G)		86	75	77	72

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

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

# OPERATING MINES

## OPERATING DATA

### Resources and Reserves/Output

	Operating Mines			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 2016 (Mt)	(15.66)	(14.26)	(20.48)	(50.40)
<b>In-Place Resources as of 31 December 2016 (Mt) (NB)</b>	<b>47.57</b>	<b>49.92</b>	<b>57.86</b>	<b>155.35</b>
<b>Recoverable Reserves as of 31 December 2016 (Mt) (NB)</b>	<b>30.68</b>	<b>29.54</b>	<b>31.73</b>	<b>91.95</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 2016.				
<b>Raw coking coal output</b>				
Total raw coking coal output in 2015 (Mt)	1.967	0.958	1.583	4.508
<b>Total raw coking coal output in 2016 (Mt)</b>	<b>1.761</b>	<b>0.652</b>	<b>1.433</b>	<b>3.846</b>
<b>Clean coking coal output</b>				
Total clean coking coal output in 2015 (Mt)	0.698	1.186	0.810	2.694
<b>Total clean coking coal output in 2016 (Mt)</b>	<b>0.692</b>	<b>0.761</b>	<b>0.868</b>	<b>2.321</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 annual report of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2016 (the “Review Year”), and report to shareholders on the Group's performance for the Review Year.

In 2016, China's economy was continuously growing in lower pace, with GDP growth rate descended to 6.7% year-on-year (“YOY”). However, investment in fixed assets (peasant household excluded) nominally increased by 8.1% YOY, and new construction area of real estate increased by 8.1% YOY. In 2016, domestic crude steel production volume was 808 million tonnes with YOY increase of 1.2%; pig iron production volume was approximately 701 million tonnes with YOY increase of 0.7%. The apparent consumption of domestic crude steel was approximately 709 million tonnes with YOY increase of 2.0%. Thus, the demand of coking coal was beyond expectation.

In 2016, Chinese government introduced the enforcement regulation of the structural reform of the supply front of the steel and the coal industries. The objective of cutting outdated excessive capacity of the steel industry and the coal industry was set 45 million tonnes and 250 million tonnes respectively. According to the data released in the early 2017, the last year's actual figure of cutting outdated excessive capacity of steel industry was 65 million tonnes and over 290 million tonnes for the coal industry. In this outperforming context, the supply-demand pattern of the coking coal industry would be optimised in medium and long term run. In April 2016, the coal industry started to implement 276 days restriction policy which improved the short term supply of coal, coking coal inventories remained at low level and coking coal market got strong rebound. As of 2016, domestic coking coal production volume was approximately 1.08 billion tonnes with YOY decrease of 13%; China's annual import of coking coal was approximately 59.23 million tonnes with YOY increase of 23.8%. Benefiting from China's recovery in market fundamentals, overseas coking coal price also experienced a strong rebound.

Facing the changes of market conditions, the Group's management actively reacted. In addition to a number of measures continue to control the costs, to ensure the Group's coal mines normal production under safety condition, to develop the sales market actively, and to enhance the selling prices according to changes in market demand. For the year ended 31 December 2016, the raw coking coal production volume of the Group was 3.85 million tonnes with YOY decrease of 15%; the clean coking coal production volume of the Group was 2.32 million tonnes, sales volume was 2.12 million tonnes, with YOY decrease of 14% and 19% respectively. The average realised selling prices (inclusive of VAT) of our raw coking coal and clean coking coal were RMB398/tonnes and RMB769/tonnes respectively, with YOY increase of 21% and 11% respectively. Revenue was HK\$1.81 billion with YOY decrease of 9%, and the gross profit margin increased to 34% from 24% of last review year. Profit attributable to the Company's shareholders was approximately HK\$112 million. The Group recorded turnaround from loss to profit in 2016, and free cash and bill receivables of the Group was HK\$4.77 billion.

# CHAIRMAN'S STATEMENT

## OUTLOOK

Take view of the new pattern of the global economy in the year of 2017, global political are uncertain, like Britain announced a hard-off European program; new U.S. government came to power, proposed to promote infrastructure investment and other policies, propulsion needs to be adjusted according to the market; political scene of South Korea was turbulent. Global natural resources market would face unprecedented opportunities and challenges.

In the new year, the Chinese government will continuously carry on the tasks of deepening the supply-front reform and cutting over-capacity of steel and coal industries. The real estate market will continue to put forward regulatory policies, however, the One Belt One Road policies, Public-Private Partnership projects volume including significant demand of infrastructure industry with municipal works and manufacturing industry increases remarkably. Local debt and foreign exchange outflow still needs sustained attention.

In 2017, the Group will pay close attention to developments in China and the global economy, and take effective measures to solve the problems encountered in the development. We will continue to consolidate and strengthen the long-term strategic partnerships with existing customers. At the same time, we will always pay attention to safety and strengthen management. For the Group to achieve sustainable development in the future, we have been actively and prudently to find suitable mergers and acquisitions in China and around the world, and strive to enhance the reserves and improve the existing capacity. We are confident that with the rich industry management, investment and operational experience, to achieve better development of the Group, and for the shareholders to create more value.

To reward the continual support and great kindness of our shareholders, the Board of Directors of Shougang Resources had proposed a final dividend of HK3 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, employees and business partners for all their continued support to the Group for many years!

**Li Shaofeng**

*Chairman*

Hong Kong, 23 March, 2017

# 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 2016 (the “year under review”) together with that of the same period of 2015 is summarised as follows:

	Unit	For the year ended		Change	
		31 December 2016	2015	Quantity/ Amount	Percentage
<i>Production volume:</i>					
Raw coking coal	Mt	<b>3.85</b>	4.51	<b>-0.66</b>	<b>-15%</b>
Clean coking coal	Mt	<b>2.32</b>	2.69	<b>-0.37</b>	<b>-14%</b>
<i>Sales volume:</i>					
Raw coking coal	Mt	<b>0.48</b>	0.28	<b>+0.20</b>	<b>+71%</b>
Clean coking coal	Mt	<b>2.12</b>	2.61	<b>-0.49</b>	<b>-19%</b>
<i>Average realised selling price (inclusive of VAT):</i>					
Raw coking coal	RMB/tonne	<b>398</b>	328	<b>+70</b>	<b>+21%</b>
Clean coking coal	RMB/tonne	<b>769</b>	694	<b>+75</b>	<b>+11%</b>

For the year ended 31 December 2016, the Group produced approximately 3.85 million tonnes (“Mt”) (2015: approximately 4.51 Mt) of raw coking coal, representing a year-on-year (“YoY”) decrease of 15% and also produced approximately 2.32 Mt (2015: approximately 2.69 Mt) of clean coking coal, representing a YoY decrease of 14%. Nevertheless the Chinese government implemented certain reduction volume policies, our three mines were approved as one of the release advanced capacity mines in the fourth quarter of 2016. However, our raw coking coal production volume was also decreased in the first three quarter of 2016 because of those polices. In addition, the raw coking coal production volume of Jinjiazhuang Coal Mine was also declined due to the construction for exchange upper and lower coal seams in the second half of 2016.



Because of the reduction of production volume of raw coking coal, sales volume of clean coking coal dropped by 19% YoY during the year under review. In order to speed up the payback period, sales volume of raw coking coal significant increased by 71% YoY during the year under review as a result of a good effort of our sales team. Sales of raw and clean coking coal accounted for 11% and 89% of the Group’s turnover respectively for the year ended 31 December 2016. They accounted for 5% and 95% respectively for the year ended 31 December 2015.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **BUSINESS REVIEW** (continued)

Even though China's economy has been slowing down, affected by the national structural reform on supply side and the policies of reduction in production capacity of the coal industry in 2016, the market price of coal became stable in the second quarter of 2016 and has rebounded sharply since the third quarter of 2016. For the year ended 31 December 2016, the Group's average realised selling price (inclusive of value added tax "VAT") of raw coking coal increased by 21% YoY to Renminbi ("RMB") 398/tonne when compared with that of the same period of 2015 (2015: RMB328/tonne) and the Group's average realised selling price (inclusive of VAT) of clean coking coal increased by 11% YoY to RMB769/tonne when compared with that of the same period of 2015 (2015: RMB694/tonne). Except for the rise in market price of coal, the increase in average realised selling price of raw coking coal was also due to the increase in selling proportion of No.4 raw coking coal with higher selling price for the year under review. In terms of its sales volume, sales of No.4 and No.9 raw coking coal accounted for 62% and 38% (2015: 44% and 56%) of the total raw coking coal sales volume respectively for the year ended 31 December 2016. In addition, sales of No.1 and No.2 clean coking coal accounted for 59% and 41% (2015: 59% and 41%) of the total clean coking coal sales volume respectively for the year ended 31 December 2016.

## **FINANCIAL REVIEW**

For the year ended 31 December 2016, the Group recorded a turnover of approximately Hong Kong Dollars ("HK\$") 1,810 million, representing a decrease of approximately HK\$187 million or 9% as compared with that of approximately HK\$1,997 million for the same period of 2015. The reduction in turnover was mainly attributable to the drop in sales volume of clean coking coal by 19% YoY even though the average realised selling prices of raw and clean coking coal increased by 21% YoY and 11% YoY respectively for the year under review.

For the year ended 31 December 2016, the total turnover to the top five customers accounted for 83% (2015: 78%) of the Group's turnover. Of which, the total turnover to the largest customer, Shougang Corporation, accounted for 34% (2015: 25%) of the Group's turnover.

For the year ended 31 December 2016, gross profit margin was 34% while 24% for the same period in 2015. Increase in gross profit margin was mainly due to the rise in average realised selling prices as explained above under "Business Review". Gross profit was increased by approximately HK\$119 million or 24% YoY in 2016.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW (continued)

For the year ended 31 December 2016, the Group recorded a net profit of approximately HK\$68 million and profit attributable to the owners of the Company (the “Owner”) of approximately HK\$112 million. Such turnaround from loss to profit in 2016 is primarily attributable to (i) the substantial increase in gross profit by approximately HK\$119 million as a result of rise in selling prices and effective cost control; (ii) the significant rebounded market coal price since the third quarter of 2016, the non-cash net impairment loss on goodwill, mining rights and property, plant and equipment (the “Impairment”) was reduced sharply by approximately HK\$596 million YoY to approximately HK\$195 million (2015: approximately HK\$791 million) for the year under review; even the reversal of the related deferred tax liabilities was decreased by approximately HK\$132 million YoY to approximately HK\$26 million (2015: approximately HK\$158 million) as income, the net effect on the Impairment is attributable to the reduction of net profit and profit attributable to the Owners amounted to approximately HK\$169 million (2015: approximately HK\$633 million) and approximately HK\$122 million (2015: approximately HK\$358 million) respectively; and (iii) for minimum exchange risk arising from the depreciation of RMB, only 5% (2015: 68%) of our average bank balance is denominated in RMB during the year under review. Thus, the impact on the depreciation in RMB was minimised sharply. The Group substantially reduced the relevant net foreign exchange loss by approximately HK\$131 million YoY to approximately HK\$35 million (2015: approximately HK\$166 million) (“the Foreign Exchange Loss”).

Excluding above stated net effect on the Impairment and the Foreign Exchange Loss, the Group would record net profit of approximately HK\$272 million (2015: approximately HK\$88 million) and profit attributable to the Owners of approximately HK\$269 million (2015: approximately HK\$108 million) for the year ended 31 December 2016.

During the year under review, basic earnings per share was HK2.11 cents (2015: basic loss per share was HK7.86 cents).

The Group recorded EBITDA of approximately HK\$694 million (2015: approximately HK\$420 million). The Group continues to maintain a healthy free cash balance of approximately HK\$3,824 million as at 31 December 2016 (as at 31 December 2015: approximately HK\$5,038 million). The substantial drop in cash balance is mainly due to the payment of total dividend amounting to HK\$1,060 million to our shareholders of the Company during the year of under review.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW (continued)

### Cost of Sales

During the year under review, cost of sales was approximately HK\$1,203 million, representing a decrease of approximately HK\$305 million or 20%, as compared with that of approximately HK\$1,508 million for the same period of 2015. The decrease in cost of sales was mainly due to the decrease in actual usage volume of raw coking coal for sales and effective cost control during the year under review.



Included in cost of sales, amortisation of mining rights was approximately HK\$147 million for the year ended 31 December 2016, representing a decrease of approximately HK\$48 million or 25%, as compared with that of approximately HK\$195 million for the same period of 2015. The decrease in amortisation of mining rights was mainly due to the decrease in actual usage volume of raw coking coal for sales during the year under review.

The unit production costs are summarised as follows:

	Unit	For the year ended		Change	
		31 December 2016	2015	Amount	Percentage
Production cost of raw coking coal	RMB/tonne	<b>257</b>	243	<b>+14</b>	<b>+6%</b>
<i>of which, depreciation and amortisation</i>	<i>RMB/tonne</i>	<b>(65)</b>	(66)	<b>-1</b>	<b>-2%</b>
Processing cost for clean coking coal	RMB/tonne	<b>46</b>	46	–	–
<i>of which, depreciation</i>	<i>RMB/tonne</i>	<b>(13)</b>	(11)	<b>+2</b>	<b>+18%</b>

Due to the increase in average realised selling prices of raw and clean coking coal, resources tax which is charged on the basis of the selling price of coking coal, and levies of city constructional tax and additional educational surcharge which is charged on the basis of the VAT, the related unit production costs increased by HK\$9/tonne YoY, for the year ended 31 December 2016. Excluding the effect on the increase in these uncontrollable costs, unit production cost was only increased by 2% YoY even though the production volume of raw coking coal decreased by 15% YoY. It is the result of the implementation of the effective cost control measures by the Group including optimisation of human resources.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **FINANCIAL REVIEW** (continued)

### **Gross Profit and Gross Profit Margin**

As a result of the reasons above, gross profit was approximately HK\$607 million for the year ended 31 December 2016, representing an increase of approximately HK\$119 million or 24% as compared with that of approximately HK\$488 million for the same period of 2015. During the year under review, gross profit margin was 34% compared with 24% for the same period of 2015. The increase in gross profit margin was mainly due to the rise in average realised selling prices of raw and clean coking coal by 21% and 11% respectively for the year ended 31 December 2016 when compared with that in the same period of 2015 as explained above under “Business Review”.

### **Other Operating Income**

During the year under review, other operating income was approximately HK\$107 million, representing a significant decrease of approximately HK\$62 million or 37% as compared with approximately HK\$169 million of the same period in 2015. The significant decrease in other operating income was mainly attributable to the significant decrease in interest income by approximately HK\$67 million or 47% YoY which was decreased in line with average bank balance denominated in RMB with relatively earning higher yield from 68% in the same period of 2015 to 5% for the year under review. In other words, income from sales of scrapped products was increased by approximately HK\$5 million or 19% YoY as a result of the increase in coal prices during the year under review.

### **Selling and Distribution Expenses**

During the year under review, selling and distribution expenses were approximately HK\$167 million, representing a significant decrease of approximately HK\$35 million or 17% as compared with that of approximately HK\$202 million for the same period of 2015. The decrease was mainly as a result of the drop in sales volume of clean coking coal.

### **General and Administrative Expenses**

Included in general and administrative expenses, net exchange loss of approximately HK\$42 million (2015: approximately HK\$153 million), excluding such net exchange loss, general and administrative expenses would be approximately HK\$162 million for the year ended 31 December 2016, representing a decrease of approximately HK\$27 million or 14% as compared with approximately HK\$189 million for the same period of 2015. The decrease was resulted from the effective cost control including the decrease in staff costs by approximately HK\$18 million during the year under review.

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

Due to the improvement in the overcapacity in the coal market and substantial rebound of market coal prices since September 2016 which led to rise the forecasted coal prices by the market, after assessment, the Group recognised a non-cash net impairment loss of approximately HK\$195 million (2015: approximately HK\$791 million) made on goodwill, mining rights and property, plant and equipment during the year under review, which was substantially decreased by approximately HK\$596 million YoY. Details of which are disclosed in note 19(b) to the consolidated financial statements.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **FINANCIAL REVIEW** (continued)

### **Other Operating Expenses**

During the year under review, other operating expenses were approximately HK\$8 million, represent a significant decrease of approximately HK\$125 million or 94% as compared with approximately HK\$133 million for the same period of 2015. The significant decrease is mainly attributable to no provision for impairment on trade and other receivables with ageing over one year during the year under review (2015: approximately HK\$102 million); provision of the litigation settlement of approximately HK\$1 million (2015: approximately HK\$17 million) and the loss on disposal of useless plant and equipment reduced to approximately HK\$6 million (2015: approximately HK\$14 million).

### **Finance Costs**

During the year under review, finance costs were approximately HK\$1 million (2015: approximately HK\$11 million). The finance costs were derived from the early redemption of bill receivables of the Group. The decrease in finance costs was resulted from the effective cash management during the year under review. During the year under review, no borrowing costs were capitalised in the construction in progress (2015: nil).

### **Income Tax Expense**

During the year under review, it was recorded income tax expense of approximately HK\$77 million (2015: income tax credit of approximately HK\$124 million). For the year under review, there is a reversal of deferred tax liabilities of approximately HK\$26 million (2015: approximately HK\$158 million) arising from impairment loss on mining rights and property, plant and equipment as income tax credit. In addition, income tax expense was substantial increased which was in line with the substantial increase in profits arising from the major PRC subsidiaries during the year under review. The enterprise income tax rate for the Group's major PRC subsidiaries is 25%.

### **Owner's Attributable Profit**

By reasons of the foregoing, the Group recorded a turnover from loss to profit during the year under review. Profit attributable to the Owner of approximately HK\$112 million for the year ended 31 December 2016 while loss attributable to the Owner of approximately HK\$416 million for the year ended 31 December 2015.

### **Material Investments and Acquisitions**

During the year ended 31 December 2016, the Group had no material investments and acquisitions.

### **Material Disposals**

During the year ended 31 December 2016, the Group had no material disposals.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **FINANCIAL REVIEW** (continued)

### **Charges on Assets**

As at 31 December 2016, save for disclosed below, none of the Group's assets was charged or subject to any encumbrance.

As at 31 December 2016, bank deposits of approximately HK\$76 million and bill receivables of approximately HK\$117 million were used for securing bills facilities of approximately HK\$193 million.

### **Contingent Liabilities**

As at 31 December 2016, there were no guarantees given to any banks or financial institutions by the Group.

### **Gearing Ratio**

As at 31 December 2016, the Group had no borrowings. The gearing ratio of the Group was 0%.

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

As at 31 December 2016, other than assets and liabilities denominated in Australian Dollars ("AUD") and RMB, the Group had no material exposure to foreign exchange fluctuations. As at 31 December 2016, AUD and RMB were depreciated by approximately 1% and approximately 5% respectively, when compared to that as at 31 December 2015. The aggregate carrying amount of assets denominated in AUD represented approximately 2% of the Group's net assets as at 31 December 2016. Thus, such fluctuation in AUD exchange rate is not expected to have any material impact on the financial position of the Group. On the other hand, as the net assets denominated in RMB represented approximately 72% of the Group's net assets as at 31 December 2016, the depreciation in RMB led to exchange loss of approximately HK\$569 million (other than the Foreign Exchange Loss recognised in profit or loss stated above) recognised in the other comprehensive income upon translation of financial statements of foreign operations in the PRC for the year ended 31 December 2016.

### **Liquidity and Financial Resources**

As at 31 December 2016, the Group's current ratio (total current assets divided by total current liabilities) was approximately 3.45 times and the Group's cash and bank deposits amounted to approximately HK\$3,901 million, of which approximately HK\$76 million was deposited to secure bills facilities of same amount. The Group continued to maintain a healthy net cash balance.

The Group has bill receivables amounting to approximately HK\$1,074 million (of which approximately HK\$15 million represented endorsed bill receivables and approximately HK\$117 million was used for securing bills facilities of same amount) as at 31 December 2016 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\$942 million, the Group's free cash resources would have approximately HK\$4,767 million as at 31 December 2016.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW (continued)

### Capital Structure

Total equity and borrowings are classified as capital of the Group. As at 31 December 2016, the amount of capital was approximately HK\$15,666 million.

During the year under review, there is no change in number of issued shares. As at 31 December 2016, the share capital of the Company was approximately HK\$15,157 million, represented approximately 5,302 million shares in number.

As at 31 December 2016, the Group had no borrowings.

### EMPLOYEES

As at 31 December 2016, the Group had 23 Hong Kong employees and 5,127 PRC employees. The remuneration packages of the employees are subject to annual review. The Group provides mandatory and voluntary provident fund schemes for its employees in Hong Kong and the state-sponsored retirement plan for its employees in the PRC. The Group also provides training to PRC employees. The Group has a share option scheme. During the year under review, no share option was granted or exercised.

### SAFETY PRODUCTION AND ENVIRONMENTAL PROTECTION

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



During the year under review, all coal mines of the Group operated smoothly as planned.

# MANAGEMENT DISCUSSION AND ANALYSIS

## COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in the Mainland China while the Company itself is listed on The Stock Exchange of Hong Kong Limited. Our establishment and operations accordingly shall comply with relevant laws and regulations in the Mainland China and Hong Kong. During the year ended 31 December 2016 and up to the date of this report, we have complied with the relevant laws and regulations in the Mainland China and Hong Kong.

## PRINCIPAL RISKS AND UNCERTAINTIES

The Group's principal business activities is engaged in coking coal mining, production and sales of coking coal products in the People's Republic of China. As the Group's coking coal products are mainly used for refining of coke which is the second largest raw materials for steel, our major customers are steelmakers. The Group exposed to a variety of key risks including financial risks (including market risk, credit risk and liquidity risk), market price risk and operational risks. Details of the aforesaid financial risks and risk mitigation measures are elaborated in note 40 "Risk Management Objectives and Policies" to the consolidated financial statements.

The market prices of coking coal are highly depended on the demand of the downstream steel industry and the supply of coking coal. Due to the slowdown of both China and global economy, resources sectors may keep running at the bottom of the cycle. As Chinese government impose supply-side reform on steel and coal industries, policies to reduce overcapacity and restriction on the production will have impact on the supply and demand of coking coal. It was resulted in a shortage of supply in the coal market in the short run which then substantial pushed up the coal prices in the second half of 2016 in the short run. However, the peak prices are not expected to be sustained in the long run. Finally, coal price will still be under pressure. Thus, the Group's results may be affected.

Operational risks include the estimation of remaining coal reserves and the renewal of mining rights. The lives of our coal mines are highly depended on the estimated remaining coal reserves and the possibility to renew the mining rights. Engineering estimates of the Group's coal reserves involved subjective judgements by engineers that the inherent inaccuracy of technical estimation exists. If the past estimates change significantly, the lives of our coal mines would be shorter. In addition, the remaining license periods of the mining rights held by the Group range from around 1 to 26 years which are shorter than the estimated useful lives of the coal mine estimated by the Group. If the Group is unable to renew the license of the mining rights from the relevant authority continuously, the respective mine may need to be closed down. Nevertheless, according to our past experiences and with our competent management team, we have renewed our mining rights at minimal charges in the past years.

# MANAGEMENT DISCUSSION AND ANALYSIS

## RELATIONSHIPS WITH KEY STAKEHOLDERS

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

### Customers

The Group's principal customers are the steel manufacturers. For the year ended 31 December 2016, the total turnover to the top five customers accounted for 83% (2015: 78%) of the Group's turnover. Of which, the total turnover to the largest customer, Shougang Corporation, accounted for 34% (2015: 25%) of the Group's turnover. Shougang Corporation is a holding company of Shougang Holding (Hong Kong) Limited which is a major shareholder of the Company's major shareholder, Shougang Concord International Enterprises Company Limited. We have maintained long and good co-operation relationship with these top five customers. We possess our competent sales team to establish various means to strengthen the communications between the customers and the Group.

### Suppliers

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

### Shareholders

Shougang Corporation is the largest customer of the Group as disclosed above. Maximise shareholders' interest is one of the corporate goals of the Group. The Group will continue to enhance production management, cost control and strive to increase our production capability, resources and reserves through acquisitions to improve the Group's profitability in order to create better value for our shareholders.

## FUTURE PROSPECTS

In 2017, the Chinese government will continuously carry on the tasks of deepening the supply-front reform and cutting over-capacity of steel and coal industries. The real estate market will continuously put forward regulatory policies, however, the One Belt One Road policies, Public-Private Partnership projects volume including significant demand of infrastructure industry with municipal works and manufacturing industry increases remarkably. Local debt and foreign exchange outflow still need sustained attention.

The Group will pay close attention to developments in China and the global economy, and take effective measures to solve the problems encountered in the development. We will continue to consolidate and strengthen the long-term strategic partnerships with existing customers. At the same time, we will always pay attention to safety and strengthen management. For the Group to achieve sustainable development in the future, we have been actively and prudently to find suitable mergers and acquisitions in China and around the world, and strive to enhance the reserves and improve the existing capacity. We are confident that with the rich industry management, investment and operational experience, to achieve better development of the Group, and for the shareholders to create more value.

# 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 2016.

## **BOARD OF DIRECTORS**

### **Composition**

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

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

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

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

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

# 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 2016, 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 2016 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	4/4
So Kwok Hoo	4/4
Chen Zhaoqiang	4/4
Liu Qingshan	3/4
<i>Non-executive Directors</i>	
Leung Shun Sang, Tony	4/4
Dong Yansheng ( <i>appointed with effect from 30 June 2016</i> )	3/3
Xiang Xu Jia ( <i>retired upon the conclusion of the annual general meeting of the Company held on 29 June 2016</i> )	1/1
<i>Independent Non-executive Directors</i>	
Kee Wah Sze	4/4
Choi Wai Yin	4/4
Chan Pat Lam	4/4
Japhet Sebastian Law	4/4

### Access to information

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

# CORPORATE GOVERNANCE REPORT

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

### **Appointment and re-election of Directors**

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

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

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

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

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

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

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

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

# 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 Independent Non-executive Directors. The Company will state in a circular which will contain, among other things, the notice convening the forthcoming annual general meeting of the Company the reasons why the Nomination Committee and the Board consider Mr. 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 2016, a summary of which is as follows:

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

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: 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 and Mr. Ding Rucai serves as the Managing Director of the Company. The Chairman provides leadership for the Board and ensures that the Board works effectively and performs its responsibilities. The Managing Director has overall chief executive responsibility for the Group's business development and day-to-day management generally. The division of responsibilities between the Chairman and the Managing Director is clearly established and set out in writing.

The responsibilities of the Chairman include, amongst other things:

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

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

# 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, thirteen 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	1/1
So Kwok Hoo	1/1
Chen Zhaoqiang	1/1
Liu Qingshan	1/1

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

- reviewing the Company's compliance with the CG Code and disclosure in the corporate governance report of the Company for the year ended 31 December 2015.

### **Audit Committee**

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

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

- overseeing the relationship with the Company's auditor;
- reviewing the interim and annual financial statements;
- reviewing the Company's financial reporting system, risk management and internal control systems; and
- reviewing the arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters.

# 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
Japhet Sebastian Law	2/2

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

- reviewing the final results of the Group for the financial year ended 31 December 2015;
- reviewing the interim results of the Group for the six months ended 30 June 2016; and
- reviewing the reports on the risk management and internal control systems of the Group prepared by the Internal Audit Department.

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

# 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, two 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> )	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 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 recommendation to the Board for the appointment of Mr. Dong Yansheng as a Non-executive 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, one physical meeting of the Remuneration Committee was 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>
Japhet Sebastian Law ( <i>chairman of the committee</i> )	1/1
Li Shaofeng	1/1
Leung Shun Sang, Tony	1/1
Kee Wah Sze	1/1
Choi Wai Yin	1/1
Chan Pat Lam	1/1

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

- making recommendations to the Board on the terms of the engagement letter and director's fee of Mr. Dong Yansheng;
- considering, reviewing and determining the remuneration of the Executive Directors of the Company for the year 2017;
- considering the bonuses of the Executive Directors of the Company for the year 2016; and
- making recommendations to the Board on the directors' fee of the Non-executive Directors of the Company for the year 2017.

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

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

## **RISK MANAGEMENT AND INTERNAL CONTROL**

### **Internal Control**

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

# CORPORATE GOVERNANCE REPORT

## RISK MANAGEMENT AND INTERNAL CONTROL (continued)

### Internal Control (continued)

<b>Operations, Reporting and Compliance Objectives</b>	<b>Internal Control Components – 17 Principles on Effective Internal Controls</b>
	<b>Control Environment</b> <ol style="list-style-type: none"> <li>1. Demonstrates commitment to integrity and ethical values</li> <li>2. Exercises oversight responsibility</li> <li>3. Establishes structure, authority, and responsibility</li> <li>4. Demonstrates commitment to competence</li> <li>5. Enforces accountability</li> </ol>
	<b>Risk Assessment</b> <ol style="list-style-type: none"> <li>6. Specifies suitable objectives</li> <li>7. Identifies and analyzes risk</li> <li>8. Assesses fraud risk</li> <li>9. Identifies and analyzes significant change</li> </ol>
	<b>Control Activities</b> <ol style="list-style-type: none"> <li>10. Selects and develops control activities</li> <li>11. Selects and develops general controls over technology</li> <li>12. Deploys through policies and procedures</li> </ol>
	<b>Information and Communication</b> <ol style="list-style-type: none"> <li>13. Uses relevant information</li> <li>14. Communicates internally</li> <li>15. Communicates externally</li> </ol>
	<b>Monitoring Activities</b> <ol style="list-style-type: none"> <li>16. Conducts ongoing and/or separate evaluations</li> <li>17. Evaluates and communicates deficiencies</li> </ol>

# CORPORATE GOVERNANCE REPORT

## **RISK MANAGEMENT AND INTERNAL CONTROL (continued)**

### **Internal Control (continued)**

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

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

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

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

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

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

### **Risk Management**

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

# CORPORATE GOVERNANCE REPORT

## RISK MANAGEMENT AND INTERNAL CONTROL (continued)

### Risk Governance Structure

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

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

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

### Risk Management Procedures

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

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

### Top-Down Approach

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

### Bottom Up Approach

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

# CORPORATE GOVERNANCE REPORT

## **RISK MANAGEMENT AND INTERNAL CONTROL** (continued)

The Board is responsible for the Group's risk management system and for reviewing its appropriateness and effectiveness. The Audit Committee is authorized to assist the Board to conduct relevant review.

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

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

## **INSIDE INFORMATION DISCLOSURE POLICY**

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

- setting out the processes for identifying, assessing and escalating potential inside information to the Board;
- setting out the responsibilities of officers in preserving the confidentiality of inside information, escalating upwards any such potential information and cascading down the message and responsibilities to relevant staff; and
- identifying who are the Company's authorized spokespersons and their responsibilities for communications with stakeholders of the Company.

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

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

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

# CORPORATE GOVERNANCE REPORT

## 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 2016.

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

## AUDITOR’S REMUNERATION

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

<b>Services rendered</b>	<i>HK\$’000</i>
Statutory audit services for 2016	1,550
Non-statutory audit services:	
Review on interim financial report	280
Other services	151
	<hr/>
	1,981
	<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 76 to 80 of this annual report.

# CORPORATE GOVERNANCE 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.

The auditor of the Company, BDO Limited, attended the annual general meeting of the Company held on 29 June 2016 (the "2016 AGM"). Details of the Directors' attendances at the 2016 AGM are as follows:

### **Directors (as at the date of the 2016 AGM)**

### **Attendance at the 2016 AGM**

#### *Executive Directors*

Li Shaofeng (*Chairman*)

✓

Ding Rucai

✓

So Kwok Hoo

✓

Chen Zhaoqiang

✓

Liu Qingshan

✓

#### *Non-executive Directors*

Leung Shun Sang, Tony

✓

Xiang Xu Jia

X

#### *Independent Non-executive Directors*

Kee Wah Sze

✓

Choi Wai Yin

✓

Chan Pat Lam

✓

Japhet Sebastian Law

X

# CORPORATE GOVERNANCE REPORT

## **COMMUNICATION WITH SHAREHOLDERS** (continued)

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

## **SHAREHOLDERS' RIGHTS**

### **Convene a general meeting**

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

### **Put forward proposals at shareholders' meetings**

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

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

# CORPORATE GOVERNANCE REPORT

## **SHAREHOLDERS' RIGHTS** (continued)

### **Shareholders' enquiries**

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

## **CONSTITUTIONAL DOCUMENTS**

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

## SCOPE OF THE REPORT

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

## REPORTING PERIOD

This report presents details regarding the major environmental and social aspects of the Group for the period from 1 January 2016 to 31 December 2016.

## SCOPE OF THE CONTENT

This report focuses on the major aspects in environmental and social issues of the Group. For governance section, please refer to Corporate Governance Report on pages 27 to 50 of the Group’s 2016 Annual Report.

## REPORTING GUIDELINE

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

## REPORTING FREQUENCY

This report publishes on a yearly basis.

## MANAGEMENT OBJECTIVE

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## MANAGEMENT OBJECTIVE (continued)

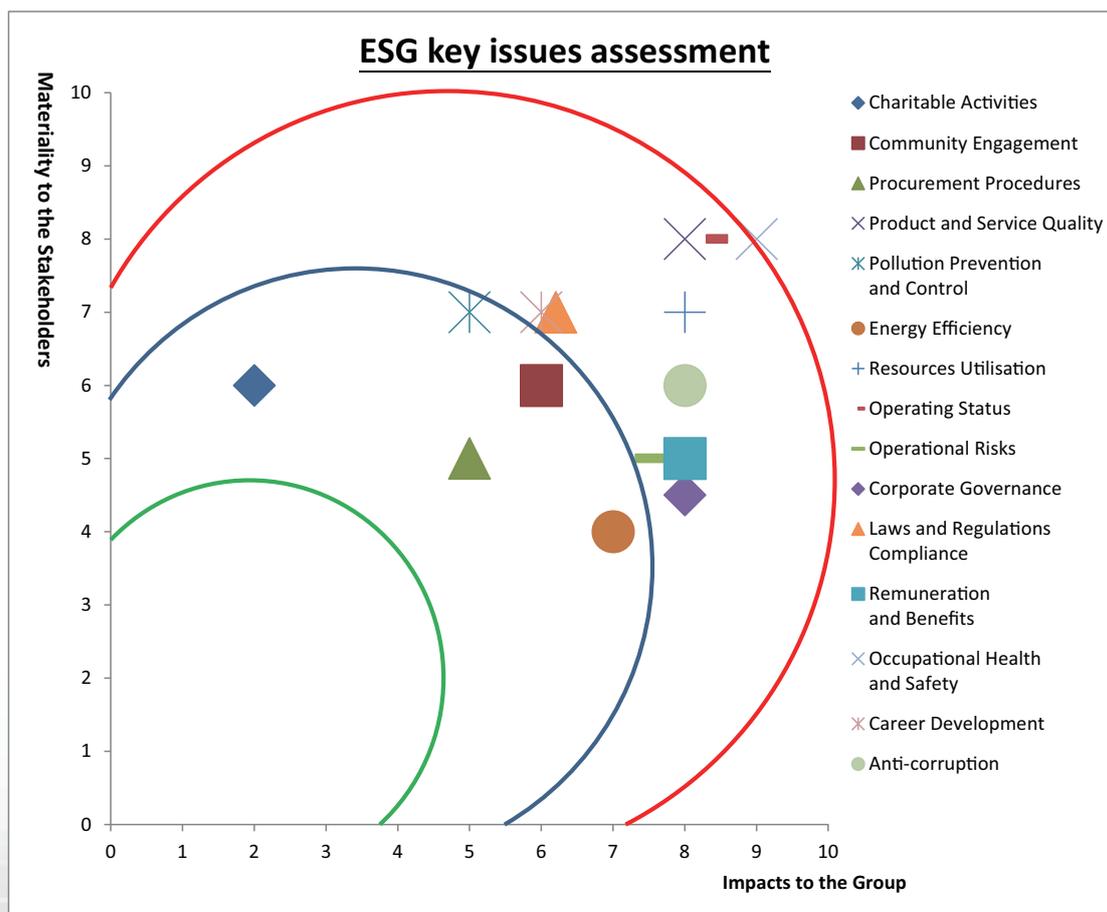
The Group has integrated its objective of sustainable development into daily operation, through by enhancing resource efficiency, reducing pollutant emission and resources consumption and strengthening safe production measures as its fundamental operational policies.

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

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

## MANAGEMENT ACTIONS

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



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## STAKEHOLDER ENGAGEMENT

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

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## THE ECONOMICAL RESPONSIBILITIES OF THE GROUP

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

During the reporting period, the production volume of raw and clean coking coal of the Group were approximately 3.85 million tonnes and approximately 2.32 million tonnes, respectively, and the sales volume of raw and clean coking coal were approximately 0.48 million tonnes and approximately 2.12 million tonnes, respectively. Turnover of the Group was approximately HK\$1,810 million.

The Group shared its profits to stakeholders during the reporting period, of which, final and special dividends paid to shareholders amounting to approximately HK\$1,060 million, staff cost (including employee benefit expense) amounting to approximately HK\$457 million and income tax paid of approximately HK\$40 million to the government.

## PRODUCT LIABILITY

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

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

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

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

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## SUPPLY CHAIN MANAGEMENT

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

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

## ANTI-CORRUPTION

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

During the reporting period, the Group commenced a campaign of “two studies, one stringent” which encouraged employees to study the policies, laws and regulations of the nation and also the internal rules and system of the Group, and to perform strictly implementation of those regulations.

## HEALTH AND SAFETY

Production safety is the first priority of the Group. Building up a vision of “people oriented, safety first”, and “safety is the key to business expansion and the way to protect interests of employees”, the Group adheres to the approach of “making duly investment in safety, upholding safety standards, maintaining safe working environment, conducting stringent supervision on safety and continuously focus on safety management”. Safety shall be its first consideration when making arrangements in respect of allocation of duties, capitals, manpower, in order to ensure safety in all aspects.



In accordance with the “Production Safety Law of the People’s Republic of China” (《中華人民共和國安全生產法》) and the “Safety Regulations in Coal Mine” (《煤礦安全規程》), the Group has firmly performed its responsibility to maintain safety in the coal mines by strictly executing operational rules of safety and the relevant systems and regulations, carrying out tracings and inspections, conducting stringent examination and implementing strict but fair reward and punishment scheme. Through “pyramid” safety management system, the Group has executed “one position, two duties” and has strived to achieve “zero incident” within the region, “zero record of three violations” by the teams of staff, resulting in safety and quality standardisation and forming a basic safety mechanism to create a “standardised, regulated and safety-aware” environment.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## HEALTH AND SAFETY (continued)

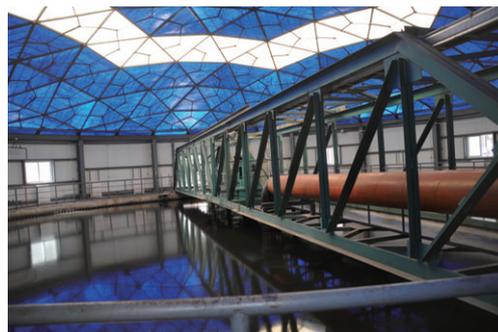
Pursuant to the rules in respect of prevention of occupational diseases under the “Safety Regulations in Coal Mine”, the Group has set up a function especially responsible for the prevention and management of occupational disease in coal mines. With appropriate facilities and measures, the employees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

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

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

## THE ENVIRONMENTAL RESPONSIBILITY OF THE GROUP

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



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

## COAL MINE RESOURCES

By optimising the manpower arrangement, the Group has enhanced mining efficiency and refined mining and recovery process, striving to raise the mining recovery rate of resources. The Group has promoted the adoption of the high-water content filling gob-side entry retaining technology in Xingwu Coal Mine to reduce the wastage of coal pillars, thereby enhancing the recovery rate of resources. For the Jinjiazhuang Coal Mine, the raw coking coal output has been increased through the recovery of the coal exploited near to the boundary of the mine and the use of ground-water seepage control technology. By overcoming technical obstacles, the Group has also made a breakthrough in upgrading the automated mining technology for thin coal seams, which enables full recovery of thin coal seam resources in Zhaiyadi Coal Mine.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## POLLUTANTS

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

### 1. Atmospheric Pollution Control

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

### 2. Water Pollution Control

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

### 3. Solid Waste Control

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

## USE OF RESOURCES

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

### 1. Power Resources

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

### 2. Water Resources

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## EMPLOYEE RESPONSIBILITY OF THE GROUP

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



### 1. Compliance with Laws and Regulations

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

### 2. Remuneration package

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

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## EMPLOYEE RESPONSIBILITY OF THE GROUP (continued)

### 3. Equal Opportunities and Anti-discrimination

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

### 4. Re-designate positions and safeguard employment

In face of dual pressure from harsh market conditions and the capacity constraint announced by the nation, the Group has realigned staff arrangement to the greatest extent to retain staff by expanding the scope of mechanical repairing and processing works which was originally outsourced. 165 job vacancies have been created for staff re-designating. Further, the Group has undertaken some construction projects by itself by arranging in average over 500 production staff per month to handle the infrastructure constructions that are originally outsourced. The proportion of re-designated staff in general accounts for 12.5% of the total number of staff. Such arrangement has effectively lowered the risk of substantial downsizing of the workforce while at the same time assuring their income and workforce-stability.

### 5. Trainings and Development

The Group aims at forming a learning enterprise and encourages the staff to enhance operational capability and quality as well as grow with the Group so as to ensure the sustainable development of the enterprise. The human resources department is responsible for the trainings in management level, the safety supervision unit is responsible for the trainings for special skills while the training centers which is directly under the respective mine-operating units assume the duties of providing orientation trainings, on-the-job training and re-designation trainings, resulting in the formation of the three-level training system. Of which, in 2016, the number of staff receiving trainings for special skills was 185, while 267 of them received trainings regarding 'Three Violations' and 449 of them received operational trainings.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## **SOCIAL RESPONSIBILITIES OF THE GROUP**

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

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

# REPORT OF THE DIRECTORS

The Directors herein present their report and the audited financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2016.

## **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. The activities of its principal subsidiaries and associate are set out in notes 36 and 20 to the consolidated financial statements.

## **RESULTS**

The results of the Group for the year ended 31 December 2016 and the state of affairs of the Group at that date are set out in the financial statements on pages 81 to 161 of this annual report.

The Board of Directors of the Company recommends a final dividend of HK3 cents per ordinary share for the year ended 31 December 2016 (2015: HK5 cents per ordinary share) payable to shareholders whose names appear on the register of members of the Company at the close of business on Friday, 2 June 2017. This dividend is subject to shareholders’ approval at the Company’s annual general meeting to be held on Friday, 26 May 2017. 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 Friday, 2 June 2017 for registration. The final dividend is expected to be paid on or about Wednesday, 5 July 2017.

## **BUSINESS REVIEW**

The business review of the Group for the year ended 31 December 2016 is set out in the sections headed “Chairman’s Statement” and “Management Discussion and Analysis” on pages 15 to 16 and pages 17 to 26 of this annual report respectively.

## **FIVE-YEAR FINANCIAL SUMMARY**

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on page 162 of this annual report.

# REPORT OF THE DIRECTORS

## BORROWINGS

As at 31 December 2016, the Group had no borrowings.

## SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 32 to the consolidated financial statements.

## DONATIONS

No charitable donations was made by the Group during the year.

## DIRECTORS

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

Li Shaofeng

Ding Rucai

So Kwok Hoo

Chen Zhaoqiang

Liu Qingshan

Leung Shun Sang, Tony

Dong Yansheng

*(appointed with effect from 30 June 2016)*

Kee Wah Sze\*

Choi Wai Yin\*

Chan Pat Lam\*

Japhet Sebastian Law\*

Xiang Xu Jia

*(retired upon the conclusion of the annual general meeting of the Company held on 29 June 2016)*

\* *Independent Non-executive Director*

In accordance with articles 93 and 102(A) of the Company's articles of association, Messrs. Ding Rucai, Chen Zhaoqiang, Dong Yansheng, Chan Pat Lam and Japhet Sebastian Law will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

# REPORT OF THE DIRECTORS

## **DIRECTORS OF SUBSIDIARIES**

During the year and up to the date of this report, directors of the subsidiaries of the Company include Li Shaofeng, Ding Rucai, So Kwok Hoo, Chen Zhaoqiang, Liu Qingshan, Chen Hui, Feng Pingsheng\*, Gao Houpin\*, Gao Xingang, Kang Jizhong, Li Feng Xiao\*, Liang Weiming, Su Liping, Tian Fengfa, Wei Wanghai\*, Xing Libin\*, Xue Kang, Yang Jianquan, Yin Dengfeng, Zhang Xinfeng\*, Zhang Zhiwen and Zhu Deling. Those marked with an asterisk\* ceased to be directors of the relevant subsidiaries of the Company as at the date of this report.

## **DIRECTORS' INDEMNITIES AND INSURANCE**

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

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

## **DIRECTORS' SERVICE CONTRACTS**

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

## **MANAGEMENT CONTRACTS**

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

# 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 2016 had the following interests in the shares of the Company as at 31 December 2016 as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance (the "SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

### Long positions in the shares of the Company

<b>Name of Director</b>	<b>Capacity in which interests were held</b>	<b>Number of shares in the Company</b>	<b>Interests as to % of the total number of shares of the Company in issue as at 31.12.2016</b>
So Kwok Hoo	Beneficial owner	4,000,000	0.075%
Chen Zhaoqiang	Beneficial owner	280,000	0.005%
Kee Wah Sze	Beneficial owner	700,000	0.013%
Choi Wai Yin	Beneficial owner	20,000	0%
Chan Pat Lam	Beneficial owner	200,000	0.004%

Save as disclosed above, as at 31 December 2016, 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.

# REPORT OF THE DIRECTORS

## 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, its parent company or any subsidiary of its parent company a party to any arrangement to enable the Company's Directors or their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

<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	Shougang Holding <sup>#</sup>	Trading of coal	Director
Xiang Xu Jia <sup>*</sup>	China Coal Energy Company Limited <sup>#</sup>	Mining and processing of coal, sales of coal and coke products	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. Xiang Xu Jia retired from the post of a Director of the Company upon the conclusion of the annual general meeting of the Company held on 29 June 2016.

# REPORT OF THE DIRECTORS

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES (continued)

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

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

As at 31 December 2016, according to the register kept by the Company under Section 336 of the SFO, the following companies had interests or short positions in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

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

Name of shareholder	Capacity in which interests were held	Number of shares/ underlying shares	Interests as to % of the total number of shares of the Company in issue as at 31.12.2016	Note(s)
Shougang Holding	Beneficial owner, interests of controlled corporations	1,582,864,490	29.85%	1
Shougang Concord International Enterprises Company Limited ("Shougang International")	Beneficial owner, interests of controlled corporations	1,463,962,490	27.61%	1
Fine Power Group Limited ("Fine Power")	Beneficial owner	663,918,497	12.52%	1
Ultimate Capital Limited ("Ultimate Capital")	Beneficial owner	650,000,000	12.25%	1
Funde Sino Life Insurance Co., Ltd.	Beneficial owner	1,539,844,306	29.04%	
Jiang Jinzhi ("Mr. Jiang")	Interests of controlled corporations	327,326,000	6.17%	2

# REPORT OF THE DIRECTORS

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

### Notes:

1. Shougang Holding indicated in its disclosure form dated 8 December 2011 (being the latest disclosure form filed up to 31 December 2016) that as at 6 December 2011, its interests included the interests held by Shougang International, a company which was held as to 47.78% 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 2016) that as at 5 May 2011, its interests included the interests held by Fine Power and Ultimate Capital.

2. Mr. Jiang indicated in his disclosure form dated 9 May 2016 (being the latest disclosure form filed up to 31 December 2016) that as at 6 May 2016, amongst the interests in the Company, (i) 64,198,000 shares were held through Shanghai Greenwoods Asset Management Limited which was 75% owned by Mr. Jiang; and (ii) 95,000,000 shares were held by Greenwoods China Alpha Master Fund and 32,760,000 shares were held through Greenwoods Asset Management Limited. Greenwoods China Alpha Master Fund was wholly owned by Greenwoods Asset Management Limited which in turn was a wholly-owned subsidiary of Greenwoods Asset Management Holdings Limited. Greenwoods Asset Management Holdings Limited was held as to 81% by Unique Element Corp. which in turn was wholly owned by Mr. Jiang.

Save as disclosed above, as at 31 December 2016, 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

## CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS OF SIGNIFICANCE

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

## PUBLIC FLOAT

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

## SHARE OPTION SCHEMES

On 20 June 2003, the shareholders of the Company adopted a share option scheme (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.

As the 2003 Scheme was terminated on 29 May 2012, no further options can be granted under the 2003 Scheme since then. 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. On 20 August 2016, being the expiry date of the relevant exercise period, all outstanding share options granted under the 2003 Scheme lapsed.

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEMES (continued)

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

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.

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 grantee	Options to subscribe for shares of the Company					At the end of the year	Date of grant	Exercise period	Exercise price per share
	At the beginning of the year	Transferred to other category during the year	Transferred from other category during the year	Lapsed during the year					
<b>Directors of the Company</b>									
Wong Lik Ping	4,500,000	-	-	(4,500,000) <sup>1</sup>	-	19.08.2009	19.08.2011 – 19.08.2016	HK\$6.00	
So Kwok Hoo	3,500,000	-	-	(3,500,000) <sup>2</sup>	-	19.08.2009	19.08.2011 – 19.08.2016	HK\$6.00	
Chen Zhaoqiang	8,000,000	-	-	(8,000,000) <sup>2</sup>	-	19.08.2009	19.08.2011 – 19.08.2016	HK\$6.00	
Liu Qingshan	6,000,000	-	-	(6,000,000) <sup>2</sup>	-	19.08.2009	19.08.2011 – 19.08.2016	HK\$6.00	
Leung Shun Sang, Tony	6,000,000	-	-	(6,000,000) <sup>2</sup>	-	19.08.2009	19.08.2011 – 19.08.2016	HK\$6.00	
Kee Wah Sze	3,200,000	-	-	(3,200,000) <sup>2</sup>	-	19.08.2009	19.08.2011 – 19.08.2016	HK\$6.00	

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEMES (continued)

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

Category or name of grantee	Options to subscribe for shares of the Company					Date of grant	Exercise period	Exercise price per share
	At the beginning of the year	Transferred to other category during the year	Transferred from other category during the year	Lapsed during the year	At the end of the year			
<b>Directors of the Company (continued)</b>								
Choi Wai Yin	3,200,000	-	-	(3,200,000) <sup>2</sup>	-	19.08.2009	19.08.2011 – 19.08.2016	HK\$6.00
Chan Pat Lam	3,200,000	-	-	(3,200,000) <sup>2</sup>	-	19.08.2009	19.08.2011 – 19.08.2016	HK\$6.00
	37,600,000	-	-	(37,600,000)	-			
<b>Employees of the Group</b>								
	91,200,000	(550,000) <sup>3</sup>	-	(90,650,000) <sup>4</sup>	-	19.08.2009	19.08.2011 – 19.08.2016	HK\$6.00
	91,200,000	(550,000)	-	(90,650,000)	-			
<b>Other participants</b>								
	125,450,000	-	550,000 <sup>3</sup>	(126,000,000) <sup>2</sup>	-	19.08.2009	19.08.2011 – 19.08.2016	HK\$6.00
	125,450,000	-	550,000	(126,000,000)	-			
	254,250,000	(550,000)	550,000	(254,250,000)	-			

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEMES (continued)

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

Notes:

1. Such share options lapsed on 1 January 2016 according to the terms of the 2003 Scheme as a result of resignation of Mr. Wong Lik Ping as a Director of the Company with effect from 1 January 2016.
2. Such share options lapsed on 20 August 2016 upon the expiry of the relevant exercise periods.
3. Such share options were re-classified from the category of “Employees of the Group” to “Other participants” during the year according to the terms of the 2003 Scheme as a result of retirement of 2 grantees on 1 January 2016.
4.
  - (i) A total of 750,000 share options lapsed on 1 January 2016 according to the terms of the 2003 Scheme as a result of 3 grantees ceasing to be employees of the Group with effect from 1 January 2016;
  - (ii) 4,500,000 share options lapsed on 1 August 2016 according to the terms of the 2003 Scheme as a result of a grantee ceasing to be an employee of the Group with effect from 1 August 2016; and
  - (iii) the remaining 85,400,000 share options lapsed on 20 August 2016 upon the expiry of the relevant exercise periods.

### (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.

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEMES (continued)

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

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).

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.

# REPORT OF THE DIRECTORS

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

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

The exercise price in relation to each share option will be determined by the Board at its absolute discretion and shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of offer of share options; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of a share of the Company on the date of offer of share options. Each of the grantees is required to pay HK\$1.00 as a consideration for his acceptance of the grant of share options in accordance with the 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 2016, there was no share option outstanding under the 2012 Scheme.

## **EQUITY-LINKED AGREEMENTS**

Save as disclosed in the sections headed “Share Option Schemes” herein, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

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

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

## **DISTRIBUTION RESERVES**

At the end of the reporting period, the Company had approximately HK\$508,019,000 reserves available for distribution as calculated in accordance with the relevant provisions of the Companies Ordinance, of which approximately HK\$159,055,000 has been proposed as a final dividend for the year.

# REPORT OF THE DIRECTORS

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, revenue from sales of goods to the Group's five largest customers accounted for approximately 83% of the total revenue from sales of goods for the year and revenue from sales of goods to the largest customer included therein amounted to approximately 34%. Purchases from the Group's five largest suppliers accounted for approximately 61% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 24%. None of the Directors of the Company or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had any interest in the Group's five largest customers and suppliers.

## CONNECTED TRANSACTIONS

During the year and up to the date of this 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 39 to the consolidated financial statements under the heading of "Related Party Transactions", the transactions as set out in note 39(i) were connected transaction which was exempt from any disclosure and shareholders' approval requirements under the Listing Rules. The transactions set out in notes 39(ii) to 39(iv) to the consolidated financial statements did not constitute connected transactions of the Company under the Listing Rules. The transactions set out in note 39(v) to the consolidated financial statements were the emoluments of the Directors as determined under the service contracts entered into between the Directors and the Group which were connected transactions exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

## CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 27 to 50 of this annual report.

# REPORT OF THE DIRECTORS

## **ENVIRONMENTAL AND SOCIAL MATTERS**

The Company's compliance with the relevant provisions set out in the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Listing Rules for the financial year ended 31 December 2016 are set out in the Environmental, Social and Governance Report on page 51 to 60 of this annual report.

## **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, 23 March 2017

# INDEPENDENT AUDITOR'S REPORT



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

25<sup>th</sup> Floor Wing On Centre  
111 Connaught Road Central  
Hong Kong

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

*(incorporated in Hong Kong with limited liability)*

### **OPINION**

We have audited the consolidated financial statements of Shougang Fushan Resources Group Limited (“the Company”) and its subsidiaries (together “the Group”) set out on pages 81 to 161, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

### **BASIS FOR OPINION**

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

### **KEY AUDIT MATTERS**

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

# INDEPENDENT AUDITOR'S REPORT

## **KEY AUDIT MATTERS** (continued)

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

#### *Refer to note 19 to the consolidated financial statements*

The Group's consolidated statement of financial position carried goodwill of HK\$1,359,290,000 as at 1 January 2016 of which HK\$1,338,579,000 was related to the acquisition of three subsidiaries in the year of 2008, namely, Shanxi Liulin Xingwu Coal Co., Limited ("Xingwu"), Shanxi Liulin Jinjiazhuang Coal Co., Limited ("Jinjiazhuang") and Shanxi Liulin Zhaiyadi Coal Co., Limited. These companies are engaged in coking coal mining, production and sales of coking coal products in the People's Republic of China. As at 31 December 2016, the Group performed impairment assessments of the relevant assets of these three subsidiaries in accordance with its accounting policy under note 3.7 to the consolidated financial statements.

Details of the Group's impairment assessment are set out in note 19 to the consolidated financial statements. Based on the result of that impairment assessment, an impairment loss of HK\$194,842,000 was recognised for the year ended 31 December 2016 because the carrying amounts of Xingwu's and Jinjiazhuang's cash-generating-unit were determined to be higher than its estimated recoverable amount. The impairment loss of HK\$194,842,000 was first allocated to goodwill (note 19) and then to other assets of the respective unit, including mining rights (note 18) and property, plant and equipment (note 16), on a pro-rata against the carrying amounts of these assets. For the remaining goodwill and other assets, management concluded that there was no impairment required.

## **OUR RESPONSE:**

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

- Evaluating the competence, capabilities and objectivity of the independent valuer who assisted management in the process of impairment review;
- Assessing the methodologies used by the independent valuer to arrive at the value-in-use estimations;
- Considering the reasonableness of the key assumptions and the key underlying input data used to estimate value-in-use amounts for the purpose of the impairment review; and
- Considering the potential impact of reasonably possible downside changes in those key assumption parameters.

# INDEPENDENT AUDITOR'S REPORT

## **OTHER INFORMATION IN THE ANNUAL REPORT**

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

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

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

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

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

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

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

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

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

# INDEPENDENT AUDITOR'S REPORT

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

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

# INDEPENDENT AUDITOR'S REPORT

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

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

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

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

### **BDO Limited**

*Certified Public Accountants*

### **Chiu Wing Cheung Ringo**

Practising Certificate no. P04434

Hong Kong, 23 March 2017

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 HK\$'000	2015 HK\$'000
<b>Revenue</b>	6	<b>1,809,885</b>	1,996,629
Cost of sales		(1,202,842)	(1,508,441)
<b>Gross profit</b>		<b>607,043</b>	488,188
Other operating income	8	107,188	168,738
Selling and distribution expenses		(167,412)	(201,907)
General and administrative expenses		(203,755)	(341,742)
Other operating expenses		(8,054)	(132,830)
Impairment loss on goodwill, mining rights and property, plant and equipment	19(b)	(595,854)	(791,203)
Reversal of impairment loss on mining rights and property, plant and equipment	19(b)	401,012	–
Finance costs	9	(490)	(11,370)
Change in fair value of derivative financial instruments		6,886	(13,134)
Share of loss of an associate		(2,308)	(674)
<b>Profit/(Loss) before income tax</b>	10	<b>144,256</b>	(835,934)
Income tax (expense)/credit	11	(76,600)	124,459
<b>Profit/(Loss) for the year</b>		<b>67,656</b>	(711,475)
<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		(568,590)	(685,870)
Item that will not be reclassified to profit or loss:			
Fair value gain/(loss) on financial assets measured at fair value through other comprehensive income		182,715	(129,435)
<b>Total comprehensive income for the year</b>		<b>(318,219)</b>	(1,526,780)
<b>Profit/(Loss) for the year attributable to:</b>			
Owners of the Company		111,795	(416,471)
Non-controlling interests		(44,139)	(295,004)
<b>Profit/(Loss) for the year</b>		<b>67,656</b>	(711,475)
<b>Total comprehensive income for the year attributable to:</b>			
Owners of the Company		(211,723)	(1,143,976)
Non-controlling interests		(106,496)	(382,804)
<b>Total comprehensive income for the year</b>		<b>(318,219)</b>	(1,526,780)
<b>Earnings/(Loss) per share</b>	13	<b>HK (Cents)</b>	HK (Cents)
– Basic and diluted		2.11	(7.86)

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Notes	2016 HK\$'000	2015 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	16	2,740,973	2,936,672
Prepaid lease payments	17	48,965	53,042
Mining rights	18	7,902,244	8,580,891
Goodwill	19(a)	1,233,703	1,359,290
Interest in an associate	20	12,641	15,644
Financial assets measured at fair value through other comprehensive income	21	474,617	291,902
Deposits, prepayments and other receivables	22	312,608	309,045
Deferred tax assets	31	21,016	21,879
<b>Total non-current assets</b>		<b>12,746,767</b>	<b>13,568,365</b>
<b>Current assets</b>			
Inventories	23	198,599	167,312
Trade receivables	24	869,556	1,059,634
Bill receivables	24	1,074,095	698,104
Deposits, prepayments and other receivables		114,293	116,168
Other financial assets	25	200,000	–
Pledged bank deposits	26	76,927	79,905
Time deposits with original maturity over three months	27	2,029,933	2,747,304
Cash and cash equivalents	27	1,794,286	2,290,877
<b>Total current assets</b>		<b>6,357,689</b>	<b>7,159,304</b>
<b>Current liabilities</b>			
Trade and bill payables	28	441,423	526,447
Other payables and accruals	29	1,160,446	1,248,905
Derivative financial instruments		–	17,025
Amounts due to non-controlling interests of subsidiaries	30	6,472	3,780
Tax payables		234,836	146,559
<b>Total current liabilities</b>		<b>1,843,177</b>	<b>1,942,716</b>
<b>Net current assets</b>		<b>4,514,512</b>	<b>5,216,588</b>
<b>Total assets less current liabilities</b>		<b>17,261,279</b>	<b>18,784,953</b>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Notes	2016 HK\$'000	2015 HK\$'000
<b>Non-current liabilities</b>			
Deferred tax liabilities	31	1,595,586	1,740,673
<b>Total non-current liabilities</b>		<b>1,595,586</b>	<b>1,740,673</b>
<b>Net assets</b>		<b>15,665,693</b>	<b>17,044,280</b>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	32	15,156,959	15,156,959
Reserves	33	(637,935)	634,156
<b>Total equity attributable to owners of the Company</b>		<b>14,519,024</b>	<b>15,791,115</b>
<b>Non-controlling interests</b>		<b>1,146,669</b>	<b>1,253,165</b>
<b>Total equity</b>		<b>15,665,693</b>	<b>17,044,280</b>

On behalf of the directors

**Li Shaofeng**  
*Director*

**Ding Rucai**  
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Equity attributable to owners of the Company							Total	Non-controlling interests	Total equity
	Share capital	Statutory reserve	Other reserves	Retained profits	Share-based	Security	Translation reserve			
					compensation	investment				
					reserve	reserve				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2016	15,156,959	448,068	586,286	674,401	537,680	(2,082,934)	470,655	15,791,115	1,253,165	17,044,280
Profit/(Loss) for the year	-	-	-	111,795	-	-	-	111,795	(44,139)	67,656
Other comprehensive income for the year:										
– Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	-	(506,233)	(506,233)	(62,357)	(568,590)
– Fair value gain on financial assets measured at fair value through other comprehensive income	-	-	-	-	-	182,715	-	182,715	-	182,715
Total comprehensive income for the year	-	-	-	111,795	-	182,715	(506,233)	(211,723)	(106,496)	(318,219)
2015 final dividends approved (note 12)	-	-	-	(265,092)	-	-	-	(265,092)	-	(265,092)
2016 special dividends declared (note 12)	-	-	-	(795,276)	-	-	-	(795,276)	-	(795,276)
Appropriations to other reserves (note 33)	-	-	(15,893)	15,893	-	-	-	-	-	-
Lapse of share options (note 34)	-	-	-	537,680	(537,680)	-	-	-	-	-
<b>At 31 December 2016</b>	<b>15,156,959</b>	<b>448,068</b>	<b>570,393</b>	<b>279,401</b>	<b>-</b>	<b>(1,900,219)</b>	<b>(35,578)</b>	<b>14,519,024</b>	<b>1,146,669</b>	<b>15,665,693</b>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Equity attributable to owners of the Company							Non-controlling interests	Total equity	
	Share capital	Statutory reserve	Other reserves	Retained profits	Share-based compensation reserve	Security investment reserve	Translation reserve			Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2015	15,156,959	448,068	571,633	2,095,589	539,060	(1,953,499)	1,068,725	17,926,535	1,643,065	19,569,600
Loss for the year	-	-	-	(416,471)	-	-	-	(416,471)	(295,004)	(711,475)
Other comprehensive income for the year:										
– Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	-	(598,070)	(598,070)	(87,800)	(685,870)
– Fair value loss on financial assets measured at fair value through other comprehensive income	-	-	-	-	-	(129,435)	-	(129,435)	-	(129,435)
Total comprehensive income for the year	-	-	-	(416,471)	-	(129,435)	(598,070)	(1,143,976)	(382,804)	(1,526,780)
2014 final dividends approved (note 12)	-	-	-	(143,150)	-	-	-	(143,150)	-	(143,150)
2015 interim dividends declared (note 12)	-	-	-	(53,018)	-	-	-	(53,018)	-	(53,018)
2015 special dividends declared (note 12)	-	-	-	(795,276)	-	-	-	(795,276)	-	(795,276)
Dividends paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	(7,096)	(7,096)
Appropriations to other reserves (note 33)	-	-	14,653	(14,653)	-	-	-	-	-	-
Lapse of share options (note 34)	-	-	-	1,380	(1,380)	-	-	-	-	-
At 31 December 2015	15,156,959	448,068	586,286	674,401	537,680	(2,082,934)	470,655	15,791,115	1,253,165	17,044,280

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 HK\$'000	2015 HK\$'000
<b>Cash flows from operating activities</b>			
Profit/(Loss) before income tax		144,256	(835,934)
Adjustments for:			
Amortisation of prepaid lease payments		1,423	1,502
Amortisation of mining rights		147,374	194,573
Depreciation of property, plant and equipment		210,394	243,363
Finance costs		490	11,370
Provision for impairment on trade and other receivables		–	101,906
Impairment loss on goodwill, mining rights and property, plant and equipment		595,854	791,203
Reversal of impairment loss on mining rights and property, plant and equipment		(401,012)	–
Share of loss of an associate		2,308	674
Interest income		(74,476)	(141,361)
Loss on disposals of property, plant and equipment		6,364	14,195
Change in fair value of derivative financial instruments		(6,886)	13,134
Net foreign exchange loss		42,027	152,947
Operating profit before working capital changes		668,116	547,572
(Increase)/Decrease in inventories		(39,867)	2,255
(Increase)/Decrease in trade and bill receivables		(276,053)	516,934
(Increase)/Decrease in deposits, prepayments and other receivables		(5,852)	6,732
Decrease in trade and bill payables		(57,651)	(7,269)
Decrease in other payables and accruals		(29,891)	(105,992)
Increase in amounts due to non-controlling interests of subsidiaries		2,886	220
Cash generated from operations		261,688	960,452
Income tax paid		(39,617)	(139,061)
<i>Net cash from operating activities</i>		<b>222,071</b>	821,391

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 HK\$'000	2015 HK\$'000
<b>Cash flows from investing activities</b>			
Payments to acquire property, plant and equipment		(217,439)	(244,759)
Proceeds from disposals of property, plant and equipment		288	1,691
Payments to acquire financial assets measured at fair value through other comprehensive income		–	(47,843)
Payments to acquire other financial assets		(200,000)	–
(Increase)/Decrease in pledged bank deposits		(1,120)	17,325
Decrease in time deposits with original maturity over three months		717,371	703,480
Interest received		78,446	141,203
<i>Net cash from investing activities</i>		<b>377,546</b>	571,097
<b>Cash flows from financing activities</b>			
Finance costs paid		(490)	(11,370)
Dividends paid to owners of the Company		(1,060,306)	(991,358)
Dividends paid to non-controlling interests of subsidiaries		–	(7,096)
<i>Net cash used in financing activities</i>		<b>(1,060,796)</b>	(1,009,824)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(461,179)</b>	382,664
<b>Cash and cash equivalents at 1 January</b>		<b>2,290,877</b>	1,952,602
<b>Effect of foreign exchange rates changes on cash and cash equivalents</b>		<b>(35,412)</b>	(44,389)
<b>Cash and cash equivalents at 31 December</b>		<b>1,794,286</b>	2,290,877
<b>Cash and cash equivalents at 31 December, represented by:</b>			
<b>Bank balances and cash</b>	27	<b>1,794,286</b>	2,290,877

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 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 36.

The financial statements for the year ended 31 December 2016 were approved for issue by the board of directors on 23 March 2017.

## 2. BASIS OF PREPARATION

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 2. BASIS OF PREPARATION (continued)

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Business combination and basis of consolidation

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

### 3.2 Subsidiaries

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

### 3.3 Associates

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

### 3.4 Goodwill

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

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

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

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

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

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

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

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

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

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

### 3.7 Impairment of non-financial assets

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

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

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

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

### 3.8 Foreign currency translation

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

### 3.8 Foreign currency translation (continued)

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

### 3.9 Revenue recognition

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

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

### 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 completed.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

### 3.11 Leases

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

#### *The Group as lessee*

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

### 3.12 Financial assets

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

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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

### 3.12 Financial assets (continued)

#### *Impairment of financial assets (continued)*

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

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

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

### 3.13 Inventories

Inventories are stated 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

### 3.14 Income taxes

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

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

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

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

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

### 3.15 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

### 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.

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

### 3.18 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

### 3.18 Employee benefits (continued)

#### *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.

#### *Share-based employee compensation*

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

### 3.19 Financial liabilities

The Group's financial liabilities include amounts due to non-controlling interests of 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 expired.

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

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

Amounts due to non-controlling interests of subsidiaries, trade and bill payables, other payables and accruals 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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

### 3.21 Related parties (continued)

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

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

### 3.22 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
---------------------	---

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, 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 and deferred tax liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

### 3.23 Financial guarantees contracts

A financial guarantee contract is a contract that requires the issuer 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 original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

## 4. ADOPTION OF HKFRSs

### 4.1 Adoption of new or revised HKFRSs – effective 1 January 2016

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are relevant to and effective for the Group’s consolidated financial statements for the annual period beginning on 1 January 2016:

HKFRSs (Amendments)	Annual Improvements 2012 – 2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 27	Equity Method in Separate Financial Statements

#### *Amendments to HKAS 1 Disclosure Initiative*

The amendments are designed to encourage entities to use judgement in the application of HKAS 1 when considering the layout and content of their financial statements.

The adoption of the amendments has no significant impact on these financial statements.

#### *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. The amendments are applied retrospectively in accordance with HKAS 8.

The adoption of the amendments has no impact on these financial statements as the Company has not elected to apply the equity method in its separate financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 4. ADOPTION OF HKFRSs (continued)

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

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

Amendments to HKAS 7	Disclosure Initiative <sup>1</sup>
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses <sup>1</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions <sup>2</sup>
HKFRS 9 (2014)	Financial Instruments <sup>2</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>2</sup>
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15) <sup>2</sup>
HKFRS 16	Leases <sup>3</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019

#### ***Amendments to HKAS 7 Disclosure Initiative***

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 4. ADOPTION OF HKFRSs (continued)

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

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

The Group has early adopted HKFRS 9 (2010) and will continue to apply HKFRS 9 (2010). 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.

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

#### *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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 4. ADOPTION OF HKFRSs (continued)

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

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

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

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

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

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

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

#### *HKFRS 16 Leases*

HKFRS 16, which upon the effective date will supersede HKAS 17 “Leases” and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 4. ADOPTION OF HKFRSs (continued)

### 4.2 New or revised HKFRSs that have been issued but are not yet effective (continued) *HKFRS 16 Leases (continued)*

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

The directors of the Company are currently assessing the possible impact of the above new or revised standards on the Group's results and financial position in the first year of application. The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies or consolidated financial statements.

## 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

### 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 19.

### 5.3 Amortisation of mining rights

Mining rights are amortised over the estimated proven and probable reserves of the coal mines using units of production method. The Group assesses on an annual basis the estimated reserve of the coal mine. However, the license periods of the mining rights held by the Group range from 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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 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:

	2016 HK\$'000	2015 HK\$'000
Sales of raw coking coal	191,408	96,880
Sales of clean coking coal	1,618,477	1,899,749
	<b>1,809,885</b>	1,996,629

## 7. SEGMENT INFORMATION

The executive directors of the Company consider the Group has one reporting segment, i.e. coking coal mining, which is detailed in note 3.22.

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

	Coking coal mining		Consolidated	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
<b>Segment revenue:</b>				
Revenue from external customers	1,809,885	1,996,629	1,809,885	1,996,629
Segment profit/(loss)	127,478	(784,401)	127,478	(784,401)
Interest income			74,476	141,361
Net exchange loss			(12,509)	(108,814)
Employee costs			(33,764)	(44,393)
General and administrative expenses not allocated			(15,513)	(14,509)
Finance costs			(490)	(11,370)
Change in fair value of derivative financial instruments			6,886	(13,134)
Share of loss of an associate			(2,308)	(674)
Profit/(Loss) before income tax			<b>144,256</b>	<b>(835,934)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 7. SEGMENT INFORMATION (continued)

	Coking coal mining		Corporate		Consolidated	
	2016	2015	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation	209,970	242,922	424	441	210,394	243,363
Amortisation of mining rights	147,374	194,573	–	–	147,374	194,573
Amortisation of prepaid lease payments	1,423	1,502	–	–	1,423	1,502
Impairment loss on goodwill, mining rights and property, plant and equipment	595,854	791,203	–	–	595,854	791,203
Reversal of impairment loss on mining rights and property, plant and equipment	(401,012)	–	–	–	(401,012)	–
Provision for impairment of trade and other receivables	–	101,906	–	–	–	101,906

	Coking coal mining		Corporate		Consolidated	
	2016	2015	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Segment assets</b>	<b>14,549,199</b>	15,332,918	<b>22,764</b>	27,145	<b>14,571,963</b>	15,360,063
Interest in an associate	–	–	12,641	15,644	12,641	15,644
Deferred tax assets	–	–	21,016	21,879	21,016	21,879
Financial assets measured at fair value through other comprehensive income	–	–	474,617	291,902	474,617	291,902
Other financial assets	–	–	200,000	–	200,000	–
Time deposits with original maturity over three months	–	–	2,029,933	2,747,304	2,029,933	2,747,304
Cash and cash equivalents	123,711	176,133	1,670,575	2,114,744	1,794,286	2,290,877
<b>Group assets</b>					<b>19,104,456</b>	20,727,669
<b>Segment liabilities</b>	<b>1,566,288</b>	1,737,215	<b>42,053</b>	41,917	<b>1,608,341</b>	1,779,132
Deferred tax liabilities	–	–	1,595,586	1,740,673	1,595,586	1,740,673
Tax payables	–	–	234,836	146,559	234,836	146,559
Derivative financial instruments	–	–	–	17,025	–	17,025
<b>Group liabilities</b>					<b>3,438,763</b>	3,683,389

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 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	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Principal markets</b>				
PRC	<b>1,809,885</b>	1,996,629	<b>12,250,348</b>	13,253,387
Hong Kong	–	–	<b>786</b>	1,197
	<b>1,809,885</b>	1,996,629	<b>12,251,134</b>	13,254,584

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

During the year, revenue from 3 customers of the Group's coking coal mining segment amounted to HK\$605,626,000, HK\$364,346,000 and HK\$249,910,000, which represented 34%, 20% and 14% of the Group's revenue. In last year, revenue from 4 customers of the segment amounted to HK\$506,601,000, HK\$372,685,000, HK\$294,794,000 and HK\$274,052,000, which represented 25%, 19%, 15% and 14% of the Group's revenue.

## 8. OTHER OPERATING INCOME

	2016	2015
	HK\$'000	HK\$'000
Interest income	<b>74,476</b>	141,361
Income from sales of scrapped products	<b>32,712</b>	27,377
	<b>107,188</b>	168,738

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 9. FINANCE COSTS

	2016 HK\$'000	2015 HK\$'000
Interest charged on discounted bill receivables	490	11,370

No borrowing costs were capitalised for the years ended 31 December 2016 and 2015.

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

	2016 HK\$'000	2015 HK\$'000
Profit/(Loss) before income tax is arrived at after charging:		
Auditor's remuneration		
– audit services	1,550	1,530
– other services	431	297
Cost of inventories recognised as expenses	1,202,842	1,508,441
Amortisation of:		
– prepaid lease payments (note 17)	1,423	1,502
– mining rights (note 18)	147,374	194,573
Depreciation of property, plant and equipment (note 16)	210,394	243,363
Employee costs (including directors' emoluments) (note 14)	456,776	565,700
Operating lease charges in respect of land and buildings	7,116	6,325
Provision for impairment on:		
– trade receivables (note 24)	–	48,821
– other receivables	–	53,085
Provision for litigation settlement	939	16,571
Net exchange loss	42,027	152,947
Loss on disposals of property, plant and equipment	6,364	14,195

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 11. INCOME TAX EXPENSE/(CREDIT)

	2016 HK\$'000	2015 HK\$'000
Current tax – PRC income tax		
– Current year	135,858	75,285
– Over provision in respect of prior years	(449)	(2,292)
Deferred tax (note 31)		
– Current year	(58,501)	(197,452)
– Prior year	(308)	–
	<b>76,600</b>	<b>(124,459)</b>

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group had no assessable profit arising in Hong Kong in 2016 and 2015.

In accordance with the Income Tax Law of the PRC for Enterprises with Foreign Investment, the Group's certain major subsidiaries, namely 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% (2015: 5%) on the distributions of profits generated from the Group's major PRC subsidiaries which are directly owned by the Group's subsidiaries incorporated in Hong Kong.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 11. INCOME TAX EXPENSE/(CREDIT) (continued)

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

	2016 HK\$'000	2015 HK\$'000
Profit/(Loss) before income tax	144,256	(835,934)
Tax calculated at the rates applicable to the tax jurisdictions concerned	36,031	(200,143)
Tax effect of non-deductible expenses	28,595	72,387
Tax effect of non-taxable income	(13,593)	(18,610)
Tax effect of unused tax losses not recognised	26,324	25,437
Effect of withholding tax at 5% on distributable profits of the Group's major PRC subsidiaries	–	(1,238)
Over provision in respect of prior years	(757)	(2,292)
Income tax expense/(credit)	76,600	(124,459)

## 12. DIVIDENDS

	2016 HK\$'000	2015 HK\$'000
Dividends recognised as distributions during the year:		
2015 final dividend of HK5 cents (2014: HK2.7 cents) per ordinary share	265,092	143,150
2016 interim dividend of nil (2015: HK1 cent) per ordinary share	–	53,018
2016 special dividend of HK15 cents (2015: HK15 cents) per ordinary share	795,276	795,276
	1,060,368	991,444

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 12. DIVIDENDS (continued)

On 23 March 2017, the board of directors proposed a final dividend of HK3 cents per ordinary share totalling HK\$159,055,000 to the owners of the Company in respect of the year ended 31 December 2016. The final dividend is subject to the shareholder's approval at the forthcoming annual general meeting. The final dividend proposed after 31 December 2016 has not been recognised as a liability as at 31 December 2016.

On 26 March 2016, the board of directors proposed a final dividend of HK5 cents per ordinary share to the owners of the Company in respect of the year ended 31 December 2015. This final dividend was approved by shareholders at the annual general meeting held on 29 June 2016 and total dividend of HK\$265,092,000 was paid on 20 July 2016. This final dividend proposed after 31 December 2015 had not been recognised as a liability as at 31 December 2015.

## 13. EARNINGS/(LOSS) PER SHARE

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

	2016 HK\$'000	2015 HK\$'000
Profit/(Loss) used to determine basic and diluted earnings/(loss) per share	<b>111,795</b>	(416,471)
<b>Number of shares</b>	<b>'000 shares</b>	<b>'000 shares</b>
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	<b>5,301,837</b>	5,301,837
Effect of dilutive potential ordinary shares – share options	–	–
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	<b>5,301,837</b>	5,301,837

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 13. EARNINGS/(LOSS) PER SHARE (continued)

Basic earnings per share is HK2.11 cents (2015: basic loss per share HK7.86 cents), based on the profit for the year attributable to owners of the Company of HK\$111,795,000 (2015: loss of HK\$416,471,000) and weighted average number of ordinary shares as set out above for basic earnings/(loss) per share.

The Company's share options were all lapsed during the year and there were no potential ordinary shares following the lapse. Therefore, the diluted earnings per share for the year was calculated based on the profit of HK\$111,795,000 for the year 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 earnings per share in current year.

In calculating the diluted loss per share for the last year, the potential issue of shares arising from the Company's share option would decrease the loss per share during the last year and was thereby not taken into account as they had an anti-dilutive effect. Therefore, the diluted loss per share for the last year was calculated based on the loss of HK\$416,471,000 for last year 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 in last year.

## 14. EMPLOYEE COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2016 HK\$'000	2015 HK\$'000
Salaries, wages and allowances	411,357	514,746
Provision for unused annual leaves	3	566
Retirement benefits scheme contributions	45,416	50,388
	<b>456,776</b>	565,700

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

### Directors' emoluments

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

	2016					2015				
	Salaries, allowances and benefits		Retirement benefits scheme contributions			Salaries, allowances and benefits		Retirement benefits scheme contributions		
	Fees		Bonuses		Total	Fees		Bonuses		Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Executive directors</b>										
Mr. Li Shaofeng	-	5,400	-	18	5,418	-	5,400	-	123	5,523
Mr. Ding Rucai	-	3,120	-	18	3,138	-	3,120	-	76	3,196
Mr. So Kwok Hoo	-	3,000	-	225	3,225	-	3,000	-	225	3,225
Mr. Chen Zhaoqiang	-	2,640	-	132	2,772	-	2,640	-	132	2,772
Mr. Liu Qingshan	-	2,400	-	120	2,520	-	2,400	-	120	2,520
Mr. Wong Lik Ping <sup>###</sup>	-	-	-	-	-	-	4,200	-	315	4,515
<b>Non-executive directors</b>										
Mr. Leung Shun Sang, Tony	420	-	-	-	420	420	-	-	-	420
Mr. Xiang Xu Jia <sup>###</sup>	209	-	-	-	209	420	-	-	-	420
Mr. Dong Yansheng <sup>*</sup>	211	-	-	-	211	-	-	-	-	-
Mr. Zhang Yaoping <sup>#</sup>	-	-	-	-	-	127	-	-	-	127
<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. Japhet Sebastian Law	420	-	-	-	420	420	-	-	-	420
Mr. Chan Chung Chun <sup>##</sup>	-	-	-	-	-	149	-	-	-	149
	2,520	16,560	-	513	19,593	2,796	20,760	-	991	24,547

# resigned with effect from 20 April 2015

## passed away on 8 May 2015

### resigned with effect from 1 January 2016

#### retired on 29 June 2016

\* appointed with effect from 30 June 2016

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

### Directors' emoluments (continued)

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office (2015: nil).

During the year, no share options were granted to the directors in respect of their services to the Group (2015: 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 2016 and 2015 were all directors of the Company and details of their emoluments are reflected in the analysis presented above.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 16. PROPERTY, PLANT AND EQUIPMENT

	Buildings and plants HK\$'000	CIP HK\$'000	Mining structures HK\$'000	Mining machinery and equipment HK\$'000	Leasehold improvements HK\$'000	Office equipment, furniture and fixtures HK\$'000	Motor vehicles and transportation equipment HK\$'000	Total HK\$'000
<b>At 1 January 2015</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>
<b>Year ended 31 December 2015</b>								
Opening net carrying amount	1,148,006	681,659	677,664	866,921	14	24,431	13,415	3,412,110
Exchange retranslation	(62,770)	(45,357)	(41,159)	(46,350)	-	(1,130)	(584)	(197,350)
Additions	110	113,521	-	37,260	-	3,571	911	155,373
Transfers	31,024	(50,126)	19,102	-	-	-	-	-
Disposals	(1,241)	-	-	(14,588)	-	(26)	(31)	(15,886)
Depreciation (note 10)	(79,887)	-	(2,720)	(144,597)	(14)	(11,663)	(4,482)	(243,363)
Impairment loss (note 19(b))	(101,749)	-	(36,231)	(36,232)	-	-	-	(174,212)
<b>Closing net carrying amount</b>	<b>933,493</b>	<b>699,697</b>	<b>616,656</b>	<b>662,414</b>	<b>-</b>	<b>15,183</b>	<b>9,229</b>	<b>2,936,672</b>
<b>At 31 December 2015</b>								
Cost	1,431,022	699,697	808,781	1,423,633	2,965	110,200	60,150	4,536,448
Accumulated depreciation	(400,610)	-	(157,613)	(726,707)	(2,965)	(95,017)	(50,921)	(1,433,833)
Accumulated impairment loss	(96,919)	-	(34,512)	(34,512)	-	-	-	(165,943)
<b>Net carrying amount</b>	<b>933,493</b>	<b>699,697</b>	<b>616,656</b>	<b>662,414</b>	<b>-</b>	<b>15,183</b>	<b>9,229</b>	<b>2,936,672</b>
<b>Year ended 31 December 2016</b>								
Opening net carrying amount	933,493	699,697	616,656	662,414	-	15,183	9,229	2,936,672
Exchange retranslation	(45,860)	(37,084)	(34,368)	(29,239)	-	(548)	(317)	(147,416)
Additions	-	176,395	-	22,651	-	1,520	493	201,059
Transfers	64,955	(150,477)	85,522	-	-	-	-	-
Disposals	-	-	-	(6,560)	-	(60)	(32)	(6,652)
Depreciation (note 10)	(72,075)	-	(18,621)	(110,339)	-	(6,396)	(2,963)	(210,394)
Impairment loss for the year (note 19(b))	(61,774)	-	(28,511)	(28,511)	-	-	-	(118,796)
Reversal of impairment loss (note 19(b))	44,980	-	20,760	20,760	-	-	-	86,500
<b>Closing net carrying amount</b>	<b>863,719</b>	<b>688,531</b>	<b>641,438</b>	<b>531,176</b>	<b>-</b>	<b>9,699</b>	<b>6,410</b>	<b>2,740,973</b>
<b>At 31 December 2016</b>								
Cost	1,421,429	688,531	848,859	1,301,036	2,965	105,685	57,044	4,425,549
Accumulated depreciation	(449,746)	-	(167,287)	(729,726)	(2,965)	(95,986)	(50,634)	(1,496,344)
Accumulated impairment loss	(107,964)	-	(40,134)	(40,134)	-	-	-	(188,232)
<b>Net carrying amount</b>	<b>863,719</b>	<b>688,531</b>	<b>641,438</b>	<b>531,176</b>	<b>-</b>	<b>9,699</b>	<b>6,410</b>	<b>2,740,973</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

During the years ended 31 December 2016 and 2015, no interest expense was capitalised in property, plant and equipment.

The Group has no property, plant and equipment held under finance leases as at 31 December 2016 and 2015.

As at 31 December 2016, the Group is still in the process of obtaining the building ownership certificates for certain buildings with net carrying amount of approximately Renminbi (“RMB”)131,539,000 (HK\$146,008,000 equivalent) (2015: RMB141,882,000 (HK\$166,002,000 equivalent)). In the opinion of directors of the Company, the Group has obtained the rights to use the buildings.

## 17. PREPAID LEASE PAYMENTS

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

	2016 HK\$'000	2015 HK\$'000
Opening net carrying amount	53,042	58,081
Exchange retranslation	(2,654)	(3,537)
Amortisation (note 10)	(1,423)	(1,502)
Closing net carrying amount	<b>48,965</b>	53,042

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 18. MINING RIGHTS

	2016 HK\$'000	2015 HK\$'000
Opening net carrying amount	8,580,891	9,966,970
Exchange retranslation	(428,440)	(580,977)
Amortisation (note 10)	(147,374)	(194,573)
Impairment loss for the year (note 19(b))	(416,319)	(610,529)
Reversal of impairment loss (note 19(b))	313,486	–
Closing net carrying amount	<b>7,902,244</b>	8,580,891
Gross carrying amount	<b>10,467,022</b>	11,032,808
Accumulated amortisation	<b>(1,914,988)</b>	(1,870,366)
Accumulated impairment loss	<b>(649,790)</b>	(581,551)
Net carrying amount	<b>7,902,244</b>	8,580,891

The estimated remaining useful lives of the mining rights range between 32 years and 43 years based on exploration reports prepared in accordance with the relevant PRC standards.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

	2016 HK\$'000	2015 HK\$'000
Gross carrying amount at 1 January	2,191,726	2,280,494
Exchange retranslation	(65,874)	(88,768)
Gross carrying amount at 31 December	2,125,852	2,191,726
Less:		
Accumulated impairment loss at 1 January	(832,436)	(825,974)
Impairment loss	(59,713)	(6,462)
Accumulated impairment loss at 31 December	(892,149)	(832,436)
Net carrying amount at 31 December	<b>1,233,703</b>	1,359,290

The carrying amount of goodwill was allocated as follows:

	2016 HK\$'000	2015 HK\$'000
Xingwu	703,331	801,368
Jinjiashuang	–	–
Zhaiyadi	509,661	537,211
Jinshan Energy Group Limited (“Jinshan”)	20,711	20,711
Net carrying amount at 31 December	<b>1,233,703</b>	1,359,290

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

Global economy remained stagnant and China's economy was under downward pressure and the coal price was decreasing in the first quarter of 2016 but rebounded sharply in the second half of 2016 which was mainly resulted from the improvement on the oversupply of coking coal as a result of the implementation of policies of cutting capacity of coal mines and restriction on the coal production volume. The market price of raw coking coal increased by 72% in the second half of 2016 when compared with that in the first half of 2016. The Group reassessed its estimates on the recoverable amounts of CGUs of the coking coal mining segment. During the 2016 interim period, an impairment loss of HK\$595,854,000 (2015 interim period: HK\$143,715,000) was recognised in the consolidated statement of profit or loss and other comprehensive income of which HK\$401,012,000 (2015: nil) relating to mining rights and property, plant and equipment was reversed in the consolidated statement of profit or loss and other comprehensive income at the reporting date. Accordingly, impairment loss of HK\$194,842,000 (2015: HK\$791,203,000) was recognised in the year of 2016. The reversal of impairment loss was mainly attributable to the net effect of the net increase in projected profit from sales of coking coal due to the market coal prices of raw and clean coking coal was outperformed than expected in the interim period at the reporting date.

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 2016 were measured by an independent valuer, Asset Appraisal Limited, a member of the Hong Kong Institute of Surveyors.

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

Cash flows were projected based on the financial budgets prepared by management covering a 5-year period, using a growth rate of approximately 3% to 25% (2015: -1% to 42%) and with average discount rate of 12.87% (2015: 12.76%) per annum.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

The cash flows beyond the 5-year period are extrapolated using a steady percentage growth rate of 3% (2015: 3%). Cash flow projections during the budget period for each of the above CGU are based on the budgeted revenue and expected gross margins during the budget period and the same inflation rate of 3% (2015: 3%) during the budget period. Expected cash inflows/outflows, which include budgeted sales, gross margin and inflation rate, have been determined based on market information, past performance and management's expectations for the market development.

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

The carrying amount of Jinjiazhuang's CGU was determined to be higher than its recoverable amount and an impairment loss of HK\$135,129,000 (2015: HK\$791,203,000) was recognised. This impairment loss was first allocated to goodwill and then allocated to other assets of the unit, including mining rights and property, plant and equipment, pro-rata on the basis of the carrying amount of these assets. Given that the goodwill of Jinjiazhuang had been fully impaired during the year ended 31 December 2015, the impairment loss of HK\$135,129,000 was allocated to other assets during the year ended 31 December 2016. Accordingly, the carrying amount of mining rights and property, plant and equipment, were reduced by HK\$102,833,000 (note 18) and HK\$32,296,000 (note 16) for the year ended 31 December 2016 respectively which were included in "impairment loss on goodwill, mining rights and property, plant and equipment" and "reversal of impairment loss on mining rights and property, plant and equipment" in the consolidated statement of profit or loss and other comprehensive income. The impairment loss of HK\$791,203,000 for last year was allocated to goodwill, mining rights and property, plant and equipment amounting to HK\$6,462,000, HK\$610,529,000 (note 18) and HK\$174,212,000 (note 16) respectively. The key assumptions are the discount rate of 12.2% (2015: 12.18%) per annum and the growth rates, covering a 5-year period, of approximately 3% to 25% (2015: -1% to 42%).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

There was no impairment loss for Xingwu's CGU in last year. As of 30 June 2016, the carrying amount of Xingwu's CGU was determined to be higher than its recoverable amount and an impairment loss of HK\$59,713,000 (2015 interim: nil) was recognised during the current year's first interim period. There was no further impairment loss on Xingwu's CGU as the recoverable amount of Xingwu's CGU exceeded its carrying amount as of 31 December 2016. Impairment loss for goodwill is not reversed in subsequent periods, accordingly, carrying amount of goodwill on Xingwu was reduced by HK\$59,713,000 during the current year. The key assumptions used in the current year's first interim period were discount rate of 12.26% per annum and the growth rates, covering a 5-year period, of approximately -17% to 27%.

The above impairment losses of HK\$194,842,000 (2015: HK\$791,203,000) in aggregate were included in "impairment loss on goodwill, mining rights and property, plant and equipment" and "reversal of impairment loss on mining rights and property, plant and equipment" in the consolidated statement of profit or loss and other comprehensive income.

### (c) Sensitivity analysis

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

The recoverable amount of Xingwu's CGU exceeded its carrying amount by HK\$785,113,000 as of 31 December 2016. The key assumptions are the discount rate of 13.19% and the growth rate of approximately 3% to 25%. If the discount rate increased by 1.94% or the growth rate reduced by 0.92%, the carrying amount of Xingwu's CGU would equal its recoverable amount.

The recoverable amount of Zhaiyadi's CGU exceeded its carrying amount by HK\$736,482,000 as of 31 December 2016. The key assumptions are the discount rate of 13.1% and the growth rate of approximately 3% to 25%. If the discount rate increased by 1.95% or the growth rate reduced by 0.96%, the carrying amount of Zhaiyadi's CGU would equal its recoverable amount.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 20. INTEREST IN AN ASSOCIATE

	2016 HK\$'000	2015 HK\$'000
Unlisted shares, at cost	19,884	19,884
Exchange retranslation	(703)	(8)
Share of net assets	(6,540)	(4,232)
	<b>12,641</b>	<b>15,644</b>

Particulars of the associate at 31 December 2016 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	
				2016	2015
Luliang Jin Yu Cangchu Company Limited # 吕梁晋煜仓储有限公司	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:

	2016 HK\$'000	2015 HK\$'000
Assets	32,900	40,847
Liabilities	3,563	3,314
Revenue	–	–
Loss for the year	(6,577)	(1,919)
Other comprehensive income	(1,620)	(2,516)
Total comprehensive income	<b>(8,197)</b>	<b>(4,435)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

	2016 HK\$'000	2015 HK\$'000
Equity securities, at fair value		
– listed in Australia (Note (a))	321,179	167,144
– listed in Hong Kong (Note (b))	153,438	124,758
	474,617	291,902
Unlisted equity interest (Note (c))	–	–
	474,617	291,902

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 2016, the Group directly held 14.94% (2015: 15.02%) interest in Mount Gibson and the fair value of the investment in Mount Gibson was HK\$321,179,000 (2015: HK\$167,144,000) which represented the market value with reference to its closing price as at that day on the Australian Securities Exchange. A fair value gain of HK\$154,035,000 (2015: loss of HK\$86,850,000) was recognised in the security investment reserve during the year ended 31 December 2016.

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

As at 31 December 2016, the Group directly held 15.60% (2015: 15.60%) interest in APAC and the fair value of the investment in APAC was HK\$153,438,000 (2015: HK\$124,758,000) which represented the market value with reference to its closing price as at that day on The Stock Exchange. A fair value gain of HK\$28,680,000 (2015: loss of HK\$42,585,000) was recognised in the security investment reserve during the year ended 31 December 2016.

- (c) This represents the cost of 7% (2015: 7%) equity investment in an unlisted company incorporated in the PRC. The company ceased operation during the year ended 31 December 2013, a fair value loss of approximately HK\$8,890,000 was incurred in 2013.

The fair value of the Group’s investments in listed and unlisted equity securities has been measured as described in note 41(a) and (b).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

	2016 HK\$'000	2015 HK\$'000
Deposits for a potential mining project	156,376	164,829
Prepayments for CIP and property, plant and equipment	101,274	86,287
Prepayments for land-use rights	54,958	57,929
	<b>312,608</b>	<b>309,045</b>

## 23. INVENTORIES

	2016 HK\$'000	2015 HK\$'000
Spare parts and consumables	79,347	98,085
Coking coal	119,252	69,227
	<b>198,599</b>	<b>167,312</b>

As at 31 December 2016 and 2015, no inventories were stated at net realisable value.

## 24. TRADE AND BILL RECEIVABLES

	2016 HK\$'000	2015 HK\$'000
Trade receivables	1,083,161	1,284,785
Less: Provision for impairment loss	(213,605)	(225,151)
	<b>869,556</b>	<b>1,059,634</b>
Bill receivables	1,074,095	698,104
	<b>1,943,651</b>	<b>1,757,738</b>

Trade receivables generally have credit terms ranging from 60 to 90 days (2015: 60 to 90 days) and no interest is charged.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 24. TRADE AND BILL RECEIVABLES (continued)

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 2016, bill receivables included an amount of RMB105,254,000 (HK\$116,832,000 equivalent) (2015: RMB155,700,000 (HK\$182,169,000 equivalent)) which was pledged for bill payables of RMB105,254,000 (HK\$116,832,000 equivalent) (2015: RMB152,416,000 (HK\$178,327,000 equivalent)) (note 28).

As at 31 December 2016, the Group endorsed certain of its bill receivables with full recourse to creditors. In the event of default by the debtors, the Group is obliged to pay the creditors the amount in default. The Group is therefore exposed to the risks of credit losses and late payment in respect of its endorsed bill receivables.

The 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 endorsed bill receivables. At 31 December 2016, bill receivables of RMB13,565,000 (HK\$15,058,000 equivalent) (2015: RMB9,716,000 (HK\$11,368,000 equivalent)) continue to be recognised in the Group's consolidated financial statements although they have been legally transferred to the creditors. The proceeds of the endorsement transactions are included in trade payables and other payables until the related bill receivables are collected or the Group settles any losses suffered by the creditors. At 31 December 2016, bill receivables endorsed to trade creditors and other creditors amounted to RMB3,500,000 (HK\$3,885,000 equivalent) (2015: RMB3,350,000 (HK\$3,920,000 equivalent)) (note 28) and RMB10,065,000 (HK\$11,173,000 equivalents) (2015: RMB6,366,000 (HK\$7,448,000 equivalents)) note 29) respectively.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 24. TRADE AND BILL RECEIVABLES (continued)

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 2016, ageing analysis of net trade and bill receivables, based on the invoice dates, is as follows:

	2016 HK\$'000	2015 HK\$'000
1 to 3 months	1,112,874	918,910
4 to 6 months	681,213	387,880
7 to 12 months	149,564	387,994
Over 1 year	–	62,954
	<b>1,943,651</b>	<b>1,757,738</b>

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

	2016 HK\$'000	2015 HK\$'000
At 1 January	225,151	190,480
Exchange retranslation	(11,546)	(14,150)
Impairment loss recognised (note 10)	–	48,821
At 31 December	<b>213,605</b>	<b>225,151</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 24. TRADE AND BILL RECEIVABLES (continued)

As at 31 December 2016, ageing analysis of trade and bill receivables that are not impaired is as follows:

	2016 HK\$'000	2015 HK\$'000
Current	1,668,729	1,218,565
Less than 3 months past due	139,397	101,712
4 to 6 months past due	113,180	314,236
More than 6 months but less than 12 months past due	22,345	123,225
	274,922	539,173
	1,943,651	1,757,738

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

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

## 25. OTHER FINANCIAL ASSETS

As at 31 December 2016, other financial assets amounting to HK\$200,000,000 represented one-year 3.5% coupon guaranteed bond due in July 2017.

## 26. PLEDGED BANK DEPOSITS

As at 31 December 2016, pledged bank deposits of RMB68,800,000 (HK\$76,368,000 equivalent) (2015: RMB68,000,000 (HK\$79,560,000 equivalent)) were denominated in RMB and were pledged for bill payables of RMB68,800,000 (HK\$76,368,000 equivalent) (2015: RMB68,000,000 (HK\$79,560,000 equivalent)) (note 28).

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 27. BANK BALANCES AND CASH

	2016 HK\$'000	2015 HK\$'000
Cash at banks and on hand	132,672	52,224
Time deposits at banks	3,691,547	4,985,957
Bank balances and cash	3,824,219	5,038,181
Less: Time deposits with original maturity over three months	(2,029,933)	(2,747,304)
Cash and cash equivalents	<b>1,794,286</b>	2,290,877

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 0.18% to 8% (2015: 0.03% to 6.02%) per annum.

## 28. TRADE AND BILL PAYABLES

The Group was granted by its suppliers credit period ranging between 30 to 180 days (2015: 30 to 180 days). Based on the invoice dates, ageing analysis of trade and bill payables as at 31 December 2016 is as follows:

	2016 HK\$'000	2015 HK\$'000
1 to 3 months	249,163	276,622
4 to 6 months	125,195	209,840
7 to 12 months	26,768	19,589
Over 1 year	40,297	20,396
	<b>441,423</b>	526,447

As at 31 December 2016, bill payables amounted to RMB200,724,000 (HK\$222,804,000 equivalent) (2015: RMB284,622,000 (HK\$333,008,000 equivalent)) were partially secured by the pledged bank deposits of RMB68,800,000 (HK\$76,368,000 equivalent) (2015: RMB68,000,000 (HK\$79,560,000 equivalent)) (note 26) and bill receivables of RMB105,254,000 (HK\$116,832,000 equivalent) (2015: RMB155,700,000 (HK\$182,169,000 equivalent)) (note 24).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 28. TRADE AND BILL PAYABLES (continued)

As at 31 December 2016, included in trade payables of RMB3,500,000 (HK\$3,885,000 equivalent) (2015: RMB3,350,000 (HK\$3,920,000 equivalent)) 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 (note 24).

## 29. OTHER PAYABLES AND ACCRUALS

	2016 HK\$'000	2015 HK\$'000
Advances from customers	13,994	102,684
Accruals	542,148	495,921
Other payables	594,419	641,402
Amounts due to other parties	9,885	8,898
	<b>1,160,446</b>	<b>1,248,905</b>

As at 31 December 2016, included in other payables of RMB10,065,000 (HK\$11,173,000 equivalents) (2015: RMB6,366,000 (HK\$7,448,000 equivalents)) 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 (note 24).

## 30. AMOUNTS DUE TO NON-CONTROLLING INTERESTS OF SUBSIDIARIES

The balance as at 31 December 2016 and 2015 is denominated in RMB and is unsecured, interest-free and repayable on demand.

## 31. DEFERRED TAX ASSETS AND LIABILITIES

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

	Tax deductible expense	
	2016 HK\$'000	2015 HK\$'000
At 1 January	21,879	22,489
Exchange retranslation	(1,135)	(1,437)
Credited to profit or loss (note 11)	272	827
At 31 December	<b>21,016</b>	<b>21,879</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 31. DEFERRED TAX ASSETS AND LIABILITIES (continued)

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

	Withholding tax HK\$'000	Fair value adjustments of property, plant and equipment and mining rights HK\$'000	Mining funds HK\$'000 (Note)	Total HK\$'000
At 1 January 2015	19,902	1,950,664	85,106	2,055,672
Exchange retranslation (Credited)/Charged to profit or loss (note 11)	(863) (7,875)	(112,013) (193,201)	(5,498) 4,451	(118,374) (196,625)
<b>At 31 December 2015 and 1 January 2016</b>	<b>11,164</b>	<b>1,645,450</b>	<b>84,059</b>	<b>1,740,673</b>
Exchange retranslation Credited to profit or loss (note 11)	(572) –	(82,022) (50,883)	(3,956) (7,654)	(86,550) (58,537)
<b>At 31 December 2016</b>	<b>10,592</b>	<b>1,512,545</b>	<b>72,449</b>	<b>1,595,586</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 31. DEFERRED TAX ASSETS AND LIABILITIES (continued)

As at 31 December 2016 and 2015, 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:

	2016 HK\$'000	2015 HK\$'000
Deductible temporary differences	460	536
Tax losses	425,304	341,084
	<b>425,764</b>	<b>341,620</b>

The Group has tax losses of approximately HK\$48,142,000 (2015: nil) which shall expire in five year (2015: nil) and tax losses of approximately HK\$377,162,000 (2015: HK\$341,084,000) are available indefinitely for offsetting against future taxable profits of the companies in which the losses arise.

## 32. SHARE CAPITAL

	Number of shares		Amount	
	2016 '000 shares	2015 '000 shares	2016 HK\$'000	2015 HK\$'000
<b>Issued and fully paid:</b>				
At 1 January and 31 December	<b>5,301,837</b>	5,301,837	<b>15,156,959</b>	15,156,959

## 33. RESERVES

### Group

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

### Statutory reserve

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 33. 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 consolidated financial statements in accordance with HKFRSs.

#### Company

	Retained profits HK\$'000	Share-based compensation reserve HK\$'000	Total HK\$'000
At 1 January 2015	1,964,209	539,060	2,503,269
Lapse of share options	1,380	(1,380)	–
Profit for the year	363,704	–	363,704
2014 final dividend approved	(143,150)	–	(143,150)
2015 interim dividend declared	(53,018)	–	(53,018)
2015 special dividend declared	(795,276)	–	(795,276)
At 31 December 2015 and 1 January 2016	<b>1,337,849</b>	<b>537,680</b>	<b>1,875,529</b>
Lapse of share options	<b>537,680</b>	<b>(537,680)</b>	–
Loss for the year	<b>(307,142)</b>	–	<b>(307,142)</b>
2015 final dividend approved	<b>(265,092)</b>	–	<b>(265,092)</b>
2016 special dividend declared	<b>(795,276)</b>	–	<b>(795,276)</b>
<b>At 31 December 2016</b>	<b>508,019</b>	–	<b>508,019</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 34. 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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 34. SHARE OPTION SCHEME (continued)

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 2016 and 2015 are as follows:

	2016		2015	
	'000 shares	Weighted average exercise price HK\$	'000 shares	Weighted average exercise price HK\$
Outstanding at 1 January	254,250	6.00	255,000	6.00
Lapsed	(254,250)	6.00	(750)	6.00
Outstanding at 31 December	–	–	254,250	6.00
Exercisable at 31 December	–	–	254,250	6.00

No share option was outstanding as at 31 December 2016. The total number of share options outstanding under the 2003 Scheme as at 31 December 2015 was 254,250,000 which represented approximately 4.80% of the Company's issued shares as at 31 December 2015. The exercise prices of the 254,250,000 share options outstanding as at 31 December 2015 was HK\$6.00 and a weighted average remaining contractual life of 0.6 year.

254,250,000 (2015: 750,000) share options amounted to HK\$537,680,000 (2015: HK\$1,380,000) under the 2003 Scheme were lapsed during 2016. No share option was exercised, granted or cancelled during 2016 and 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 35. HOLDING COMPANY'S STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Notes	2016 HK\$'000	2015 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		36	38
Interests in subsidiaries	36	120,456	120,456
<b>Total non-current assets</b>		<b>120,492</b>	120,494
<b>Current assets</b>			
Amounts due from subsidiaries		16,743,444	17,466,571
Deposits, prepayments and other receivables		5,766	7,817
Time deposits with original maturity over three months		746,480	1,290,721
Cash and cash equivalents		806,855	823,247
<b>Total current assets</b>		<b>18,302,545</b>	19,588,356
<b>Current liabilities</b>			
Amounts due to subsidiaries		2,746,906	2,661,144
Other payables and accruals		11,153	11,219
Derivative financial instruments		–	3,999
<b>Total current liabilities</b>		<b>2,758,059</b>	2,676,362
<b>Net current assets</b>		<b>15,544,486</b>	16,911,994
<b>Net assets</b>		<b>15,664,978</b>	17,032,488
<b>EQUITY</b>			
Share capital	32	15,156,959	15,156,959
Reserves	33	508,019	1,875,529
<b>Total equity</b>		<b>15,664,978</b>	17,032,488

On behalf of the directors

**Li Shaofeng**  
Director

**Ding Rucai**  
Director

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 36. INTERESTS IN SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2016 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	
				2016	2015
Xingwu *	PRC, limited liability company	Mining, production and sales of coal in the PRC	Registered capital of RMB250,000,000	88%	88%
Jinjazhuang *	PRC, limited liability company	Mining, production and sales of coal in the PRC	Registered capital of RMB374,000,000	65%	65%
Zhaiyadi *	PRC, limited liability company	Mining, production and sales of coal in the PRC	Registered capital of RMB800,000,000	95%	95%
Jinshan *(Note)	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 *	Hong Kong, limited liability company	Investment holding in Hong Kong	HK\$1	100%	100%
Worldman Industrial (HK) Limited *	Hong Kong, limited liability company	Investment holding in Hong Kong	HK\$1	100%	100%

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 36. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation and form of legal entity	Principal activities and place of operations	Particulars of issued share capital/registered capital	Effective interest held by the Group	
				2016	2015
Gumpert Industries (HK) Limited *	Hong Kong, limited liability company	Investment holding in Hong Kong	HK\$1	100%	100%
Shougang Resources (Hong Kong) Limited ("Shougang Resources (HK)")*(Note)	Hong Kong, limited liability company	Investment holding in Hong Kong	HK\$1	100%	100%
Jade Green Investments Holding Limited	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US\$1	100%	100%
Thechoice Finance Limited *	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US\$1	100%	100%
Worldman Industrial Limited *	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US\$1	100%	100%
Gumpert Industries Limited *	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US\$1	100%	100%
Fushan Energy Group Limited	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US\$1	100%	100%
Maxease Limited	BVI, limited liability company	Investment vehicle in Hong Kong	1 ordinary share of US\$1	100%	100%
True Plus Limited	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US\$1	100%	100%
Benefit Rich Limited	Samoa, limited liability company	Investment holding in Hong Kong	1 ordinary share of US\$1	100%	100%

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 36. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation and form of legal entity	Principal activities and place of operations	Particulars of issued share capital/registered capital	Effective interest held by the Group	
				2016	2015
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.

Note: On 30 December 2016, Shougang Resources (HK) (the "Transferor") entered into a sale and purchase agreement with a wholly-owned subsidiary of Shougang Corporation (the "Transferee") for the transfer of 27% equity interests of Jinshan at RMB162,000,000. In addition, the Transferor irrevocably undertakes to repurchase the same equity interests of Jinshan from the Transferee at the same consideration of RMB162,000,000 plus interest not more than RMB20,000,000 under certain conditions. This transaction has not completed at the reporting date. Jinshan is still the Group's subsidiary upon completion of the transaction in the future.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 37. NON-CONTROLLING INTERESTS

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

2016

	Jinjiazhuang HK\$'000	Xingwu HK\$'000	Zhaiyadi HK\$'000
NCI percentage	35%	12.25%	5%
As at 31 December			
Current assets	493,434	839,414	917,733
Non-current assets	4,430,910	4,196,255	4,193,101
Current liabilities	1,450,627	689,790	952,174
Non-current liabilities	440,038	687,762	467,785
Net assets	3,033,679	3,658,117	3,690,875
Carrying amount of NCI	526,751	391,817	118,960
For the year ended 31 December			
Revenue	579,051	1,032,478	795,939
(Loss)/Profit for the year	(169,496)	163,228	103,411
Total comprehensive income	(341,063)	(38,122)	(95,563)
(Loss)/Profit allocated to NCI	(74,570)	26,054	4,710
Dividend paid to NCI	–	–	–
Cash flows from operating activities	108,896	98,123	96,582
Cash flows from investing activities	(98,514)	(87,065)	(71,170)
Cash flows from financing activities	(129)	(221)	(63,986)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 37. NON-CONTROLLING INTERESTS (continued)

2015

	Jinjiazhuang HK\$'000	Xingwu HK\$'000	Zhaiyadi HK\$'000
NCI percentage	35%	12.25%	5%
As at 31 December			
Current assets	703,795	571,803	708,432
Non-current assets	4,746,319	4,544,799	4,559,838
Current liabilities	1,582,713	684,522	980,824
Non-current liabilities	492,659	735,841	501,008
Net assets	3,374,742	3,696,239	3,786,438
Carrying amount of NCI	630,178	386,809	120,656
For the year ended 31 December			
Revenue	823,497	886,828	869,408
(Loss)/Profit for the year	(797,608)	142,764	15,340
Total comprehensive income	(821,974)	(301,626)	(367,091)
(Loss)/Profit allocated to NCI	(299,432)	3,941	851
Dividend paid to NCI	–	–	7,096
Cash flows from operating activities	494,129	90,537	384,014
Cash flows from investing activities	(59,771)	(114,350)	(68,513)
Cash flows from financing activities	(468,394)	(12,073)	(305,099)

Summarised financial information for Luenshan in which there is a material NCI of 39% amounting to HK\$89,000,000 is not presented above as Luenshan is yet to commence operations and its cashflows and profit or loss items are minimal to the Group. Luenshan had non-current assets of HK\$258,000,000 and net assets of HK\$245,000,000 as of 31 December 2016. No dividend was paid by Luenshan to the NCI during the years ended 31 December 2016 and 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 38. COMMITMENTS

### (a) Operating lease commitments

At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings payable by the Group are as follows:

	2016 HK\$'000	2015 HK\$'000
Within one year	6,315	6,298
In the second to fifth years	17,750	10,791
After the fifth years	29,076	33,346
	<b>53,141</b>	<b>50,435</b>

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.

### (b) Capital commitments

	2016 HK\$'000	2015 HK\$'000
Commitments for the:		
– Acquisition of property, plant and equipment	182,763	206,803
– Exploration and design fees for a potential mining project	8,303	8,752
	<b>191,066</b>	<b>215,555</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 39. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in the consolidated financial statements, the following transactions for the years ended 31 December 2016 and 2015 were carried out with related parties:

- (i) During the year ended 31 December 2016, the Group paid management fees and company secretarial service fees of HK\$1,560,000 (2015: HK\$1,560,000) to Shougang Concord International Enterprises Company Limited (“Shougang International”), which is a substantial shareholder of the Company. As at 31 December 2016 and 2015, no amounts were outstanding.
- (ii) During the year ended 31 December 2016, the Group paid rental expenses of HK\$3,600,000 (2015: HK\$2,340,000) to a wholly-owned subsidiary of Shougang Holding (Hong Kong) Limited (“Shougang Holding”), which is the substantial shareholder of Shougang International. As at 31 December 2016 and 2015, no amounts were outstanding.
- (iii) During the year ended 31 December 2016, the Group sold clean coking coal amounted to HK\$605,626,000 (2015: HK\$506,601,000) 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 2016, amount due from/to the Shougang Group was HK\$630,113,000 (2015: HK\$549,519,000) and HK\$2,957,000 (2015: HK\$9,484,000) respectively.
- (iv) During the year ended 31 December 2016, the Group purchased a promissory note of HK\$40,000,000 (2015: nil) from a wholly-owned subsidiary of Shougang Holding. The promissory note is interest bearing at an annual rate of 3.5% and for 21 days. As at the reporting date, the promissory note had been matured and fully settled.
- (v) The compensation payable to key management personnel during the year have been disclosed in note 15.

The related party transactions in (i) above constitute connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules which are exempt from any disclosure and shareholders’ approval requirements under the Listing Rules. Except these transactions, 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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 40. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

### (i) Foreign currency risk

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

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

	2016			2015		
	Expressed in HK\$'000			Expressed in HK\$'000		
	AUD	US\$	RMB	AUD	US\$	RMB
Financial assets measured at fair value through other comprehensive income	321,179	–	–	167,144	–	–
Time deposit with original maturity over three months	–	2,029,933	–	–	2,209,273	315,231
Cash and bank balances	29	1,582,258	20,586	38,143	2,071,359	569
Derivative financial instruments – liabilities	–	–	–	–	(17,025)	–
<b>Overall net exposure</b>	<b>321,208</b>	<b>3,612,191</b>	<b>20,586</b>	<b>205,287</b>	<b>4,263,607</b>	<b>315,800</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

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

	2016			2015		
	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 loss for the year HK\$'000	Effect on equity HK\$'000
AUD	+5%	1	16,885	+5%	(1,907)	7,664
AUD	-5%	(1)	(16,885)	-5%	1,907	(7,664)
RMB	+5%	1,029	–	+5%	(15,790)	–
RMB	-5%	(1,029)	–	-5%	15,790	–

### (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 and bill receivables past due total amounting to HK\$137,292,000 (2015: HK\$437,461,000). Management is of the opinion that reasonable actions and mitigations have been carried out to minimise the exposure to credit risk and details of such mitigations are set out in respective notes to the consolidated financial statements. In this regards, the directors consider that the Group's credit risk is sufficiently managed.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 40. 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 is minimised as the funds are placed with major banks located in Hong Kong and the PRC respectively.

### (iii) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Group's major exposure to interest rate risk relates primarily to cash and cash equivalents. Interest rates and terms of other financial assets, pledged bank deposits, bank balances and cash, amounts due to non-controlling interests of subsidiaries, are disclosed in notes 25, 26, 27 and 30 respectively.

The following table illustrates the sensitivity of profit/loss after income tax for the year and retained profits to a change in interest rates of +25 basis points and -25 basis points (2015: +25 basis points and -25 basis points). The calculations are based on the cash and cash equivalents at 31 December 2016 and 2015. All other variables are held constant.

	2016 HK\$'000	2015 HK\$'000
If interest rates were 25 basis point (2015: 25 basis point) higher		
Profit/(Loss) for the year increase/(decrease) by	332	(131)
If interest rates were 25 basis point (2015: 25 basis point) lower		
Profit/(Loss) for the year decrease/(increase) by	332	(131)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

### (iv) Price risk

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

For listed equity securities, an average volatility of 16.51% and 12.53% was observed in Hang Seng Index in Hong Kong and All Ordinary Index in Australia in 2016 respectively (2015: 17.93% and 13.72%). 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\$65,575,000 (2015: HK\$45,301,000).

### (v) Liquidity risk

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

### (v) Liquidity risk (continued)

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

### (v) Liquidity risk (continued)

	Carrying amount HK\$'000	Total contractual undiscounted cash flow HK\$'000	Within one year or on demand HK\$'000
As at 31 December 2015			
<b>Non-derivative financial liabilities:</b>			
Trade and bill payables	526,447	526,447	526,447
Other payables and accruals	760,990	760,990	760,990
Amounts due to non-controlling interests of subsidiaries	3,780	3,780	3,780
	<u>1,291,217</u>	<u>1,291,217</u>	<u>1,291,217</u>
<b>Derivatives settled net:</b>			
Forward foreign exchange contracts	17,025	17,025	17,025

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 41. 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:

	2016 HK\$'000	2015 HK\$'000
<b>Non-current assets</b>		
Financial assets measured at amortised cost:		
– Deposits and other receivables	156,376	164,829
Financial assets measured at fair value through other comprehensive income	474,617	291,902
	<b>630,993</b>	456,731
<b>Current assets</b>		
Financial assets measured at amortised cost:		
– Trade receivables	869,556	1,059,634
– Bill receivables	1,074,095	698,104
– Deposits and other receivables	43,106	56,182
– Other financial assets	200,000	–
– Pledged bank deposits	76,927	79,905
– Time deposit with original maturity over three months	2,029,933	2,747,304
– Cash and cash equivalents	1,794,286	2,290,877
	<b>6,087,903</b>	6,932,006
<b>Total</b>	<b>6,718,896</b>	7,388,737
<b>Current liabilities</b>		
Financial liabilities measured at amortised cost:		
– Trade and bill payables	441,423	526,447
– Other payables and accruals	728,258	760,990
– Amounts due to non-controlling interests of subsidiaries	6,472	3,780
Financial liabilities measured at fair value through profit or loss:		
– Derivative financial instruments	–	17,025
<b>Total</b>	<b>1,176,153</b>	1,308,242

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

(continued)

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

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

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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 41. 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:

		2016			
		Level 1	Level 2	Level 3	Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Notes				
Financial assets measured at fair value through other comprehensive income					
– Listed equity securities	(a)	474,617	–	–	474,617
– Unlisted equity securities	(b)	–	–	–	–
		<b>474,617</b>	<b>–</b>	<b>–</b>	<b>474,617</b>
		2015			
		Level 1	Level 2	Level 3	Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Notes				
Financial assets measured at fair value through other comprehensive income					
– Listed equity securities	(a)	291,902	–	–	291,902
– Unlisted equity securities	(b)	–	–	–	–
		<b>291,902</b>	<b>–</b>	<b>–</b>	<b>291,902</b>
Financial liabilities measured at fair value through profit or loss					
– Derivative financial liabilities	(c)	–	(17,025)	–	(17,025)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

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

Of the total gains or losses for the year included in profit or loss, profit of approximately HK\$6,886,000 (2015: loss of approximately HK\$13,134,000) 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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 42. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

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

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and equity holder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy. Management regards total equity, including its reserves, as capital which was amounted to HK\$15,665,693,000 (2015: HK\$17,044,280,000) as of 31 December 2016, 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 2015, 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 2016, the Group's adjusted cash position is HK\$3,665,164,000 (2015: HK\$4,773,089,000).

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

# FIVE-YEAR FINANCIAL SUMMARY

The financial information contained in this five-year financial summary does not constitute the Company's statutory annual consolidated financial statements for any of the financial years ended 31 December 2016, 2015, 2014, 2013 and 2012 but is derived from those published audited consolidated financial statements and restated upon the adoption of the new or amended HKFRSs as appropriate, is set out below. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the consolidated financial statements for all four years ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the consolidated financial statements for the year ended 31 December 2016 in due course.

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

	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000
<b>Results</b>					
Revenue	<b>1,809,885</b>	1,996,629	3,254,861	4,268,232	5,650,590
Profit/(Loss) attributable to owners of the Company	<b>111,795</b>	(416,471)	(425,302)	1,115,066	1,800,367
<b>Assets and liabilities</b>					
Total assets	<b>19,104,456</b>	20,727,669	23,999,978	26,870,908	26,820,521
Total liabilities	<b>(3,438,763)</b>	(3,683,389)	(4,430,378)	(5,211,743)	(5,958,538)
<b>Net assets</b>	<b>15,665,693</b>	17,044,280	19,569,600	21,659,165	20,861,983
Non-controlling interests	<b>(1,146,669)</b>	(1,253,165)	(1,643,065)	(1,731,782)	(1,638,299)
Equity attributable to owners of the Company	<b>14,519,024</b>	15,791,115	17,926,535	19,927,383	19,223,684