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首鋼福山資源集團有限公司

SHOUGANG FUSHAN RESOURCES GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 639)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHTS

(HK$'million)	**For the six months ended 30 June 2022**	2021	Percentage change
Revenue	**4,663**	2,444	+91%
Gross profit	**3,007**	1,218	+147%
Gross profit margin	**64%**	50%	
Profit for the period	**1,936**	774	+150%
Profit attributable to owners of the Company ("Owners")	**1,607**	673	+139%
EBITDA[1]	**3,267**	1,363	+140%
Basic earnings per share *(HK cents)*	**31.80**	13.33	+139%

(HK$'million)	**As at 30 June 2022**	As at 31 December 2021	Percentage change
Net assets	**18,816**	19,148	-2%
Equity per share attributable to Owners *(HK$)*	**3.37**	3.42	-1%
Current ratio *(times)*[2]	**2.28**	2.69	-15%

The board of directors has declared an interim dividend of HK15 cents per ordinary share for the six months ended 30 June 2022 (For the six months ended 30 June 2021: HK8 cents per ordinary share).

Notes:

1. EBITDA is defined as profit before income tax plus finance costs, share of loss of an associate, depreciation and amortisation.

2. Current ratio is computed from total current assets divided by total current liabilities.

INTERIM RESULTS

The board of directors (the "Board") of Shougang Fushan Resources Group Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2022. These interim results have been reviewed by the audit committee and the auditor of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

		Six months ended 30 June	
		2022	2021
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue from contracts with customers	*4*	**4,662,983**	2,444,193
Cost of sales		**(1,656,147)**	(1,226,431)
Gross profit		**3,006,836**	1,217,762
Interest income		**46,626**	31,409
Other income and gains, net	*5*	**2,943**	89,801
Selling and distribution expenses		**(167,862)**	(146,478)
General and administrative expenses		**(88,544)**	(93,073)
Other operating expenses	*6*	**(49,392)**	(41,521)
Finance costs	*7*	**(697)**	(690)
Share of loss of an associate		**(284)**	(841)
Profit before income tax	*8*	**2,749,626**	1,056,369
Income tax expense	*9*	**(813,357)**	(282,760)
Profit for the period		**1,936,269**	773,609

	Notes	Six months ended 30 June **2022** ***HK$'000*** **(Unaudited)**	2021 *HK$'000* (Unaudited)
Other comprehensive income for the period			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**(393,046)**	290,752
Item that will not be reclassified to profit or loss:			
Fair value gain on financial assets measured at fair value through other comprehensive income		**102,931**	97,409
Total comprehensive income for the period		**1,646,154**	1,161,770
Profit for the period attributable to:			
Owners of the Company		**1,606,697**	673,389
Non-controlling interests		**329,572**	100,220
Profit for the period		**1,936,269**	773,609
Total comprehensive income for the period attributable to:			
Owners of the Company		**1,359,439**	1,025,620
Non-controlling interests		**286,715**	136,150
Total comprehensive income for the period		**1,646,154**	1,161,770
Earnings per share			
– Basic and diluted *(HK cents)*	*11*	**31.80**	13.33

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	Notes	30 June 2022 HK$'000 (Unaudited)	31 December 2021 HK$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**3,928,047**	4,014,398
Land use rights		**60,561**	63,094
Right-of-use assets		**28,200**	20,869
Mining rights		**7,086,180**	7,402,242
Goodwill		**1,277,415**	1,310,198
Interest in an associate		**10,704**	11,262
Financial assets measured at fair value through other comprehensive income	*12*	**741,425**	638,494
Deposits, prepayments and other receivables		**490,633**	672,551
Deferred income tax assets		**84,022**	73,135
Total non-current assets		**13,707,187**	14,206,243
Current assets			
Inventories		**118,301**	142,658
Trade receivables	*13*	**1,202,167**	883,949
Bills receivables	*13*	**2,058,096**	2,260,302
Deposits, prepayments and other receivables		**325,737**	386,982
Financial assets measured at fair value through profit or loss		**138,000**	–
Other financial assets		**116,250**	116,250
Pledged and restricted bank deposits		**635,767**	357,707
Time deposits with original maturity over three months		**1,536,056**	2,015,677
Cash and cash equivalents		**5,865,117**	4,410,209
Total current assets		**11,995,491**	10,573,734
Total assets		**25,702,678**	24,779,977

	Notes	**30 June 2022**	31 December 2021
		HK$'000	*HK$'000*
		(Unaudited)	(Audited)
LIABILITIES			
Current liabilities			
Trade and bills payables	*14*	**579,067**	607,247
Lease liabilities		**9,507**	7,957
Other financial liability		**178,545**	180,817
Other payables and accruals		**1,755,239**	1,954,492
Dividend payable	*10*	**1,616,588**	–
Amounts due to non-controlling interests of subsidiaries		**399,457**	156,999
Tax payables		**728,910**	1,018,809
Total current liabilities		**5,267,313**	3,926,321
Net current assets		**6,728,178**	6,647,413
Total assets less total current liabilities		**20,435,365**	20,853,656
Non-current liabilities			
Deferred income tax liabilities		**1,594,246**	1,687,365
Lease liabilities		**24,959**	18,073
Total non-current liabilities		**1,619,205**	1,705,438
Net assets		**18,816,160**	19,148,218
EQUITY			
Equity attributable to owners of the Company			
Share capital		**15,156,959**	15,156,959
Reserves		**1,885,975**	2,143,124
Total equity attributable to owners of the Company		**17,042,934**	17,300,083
Non-controlling interests		**1,773,226**	1,848,135
Total equity		**18,816,160**	19,148,218

Notes:

1. GENERAL INFORMATION

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

The principal activity of the Company is investment holding. The principal activities of the Group's subsidiaries comprise coking coal mining, production and sales of coking coal products. There were no significant changes in the Group's operations during the six months ended 30 June 2022.

2. BASIS OF PREPARATION

The interim financial information for the six months ended 30 June 2022 (the "Interim Financial Information") has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure provisions in Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange. The Interim Financial Information does not include all the notes of the type normally included in the annual financial statements. Accordingly, the Interim Financial Information should be read in conjunction with the annual financial statements for the year ended 31 December 2021, which have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs").

The preparation of Interim Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2021, except for the estimation of income taxes (see note 3).

The Interim Financial Information was approved for issue by the board of directors of the Company on 30 August 2022.

3. SIGNIFICANT ACCOUNTING POLICIES

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings. The Interim Financial Information has been prepared in accordance with the accounting policies adopted in the last financial statements for the year ended 31 December 2021, except for the adoption of the following standards and interpretations as of 1 January 2022:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to Accounting Guideline 5	Merger Accounting for Common Control Combinations
Annual improvements to HKFRSs 2018–2020 cycle	Amendments to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41

The above standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

Impact of standards and interpretations issued but not yet applied by the Group

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2022 and have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
Revised Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimate	1 January 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

None of these is expected to have a significant effect on the Interim Financial Information of the Group.

4. REVENUE FROM CONTRACTS WITH CUSTOMERS AND SEGMENT INFORMATION

Revenue from contracts with customers, which is also the Group's turnover, represents the sales value of coking coal products in the ordinary course of businesses which are recognised at a point in time. Revenue recognised is as follows:

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Sales of clean coking coal	**4,662,983**	2,444,193

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

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

5. OTHER INCOME AND GAINS, NET

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Income from sales of by-products	**77,461**	20,029
Net foreign exchange (loss)/gain	**(75,466)**	69,320
Others	**948**	452
	2,943	89,801

6. OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Additional depreciation on property, plant and equipment *(Note)*	**37,506**	36,405
Charitable donations	**9,480**	–
Loss on disposals of property, plant and equipment	**53**	684
Others	**2,353**	4,432
	49,392	41,521

Note: As disclosed in the 2021 Annual Report, according to the plan of transferring the production from upper coal seam to lower coal seam of Xingwu Coal Mine in 2023, the additional part arising from accelerated depreciation on the related underground mining structures of the upper coal seam was charged in the other operating expenses during the six months ended 30 June 2022 and 2021.

7. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest charged on discounted bills receivables	**–**	106
Interest expense on lease liabilities	**697**	584
	697	690

8. PROFIT BEFORE INCOME TAX

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit before income tax is arrived at after charging:		
Cost of inventories sold	**1,656,147**	1,226,431
Amortisation of:		
– land use rights	**970**	987
– long-term deferred expenses	**206,028**	4,058
– mining rights	**133,428**	129,118
Depreciation of:		
– property, plant and equipment	**173,439**	170,337
– right-of-use assets	**2,552**	822
Staff costs (including directors' emoluments)	**431,011**	375,437

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax – PRC income tax	**872,058**	277,004
Deferred tax	**(58,701)**	5,756
	813,357	282,760

No provision for Hong Kong profits tax has been made in the Interim Financial Information as the Group had no assessable profits arising in Hong Kong for the six months ended 30 June 2022 and 2021.

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

The Group is also subject to withholding tax at the rate of 5% (Six months ended 30 June 2021: 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.

10. DIVIDENDS

Dividend payables to shareholders of the Company attributable to the period:

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Declared and payable after interim period:		
2022 interim dividend HK15 cents per ordinary share (Six months ended 30 June 2021: 2021 interim dividend HK8 cents per ordinary share)	**757,776**	404,147

The total amount of interim dividend for six months ended 30 June 2022 totalling HK$757,776,000 was calculated based on the number of issued ordinary shares as at 30 June 2022. As at 30 June 2022, the number of the issued share capital qualifying for the interim dividend of the Company is 5,051,837,842 (As at 30 June 2021: 5,051,837,842). The interim dividend has not been recognised as liabilities as at 30 June 2022 (Six months ended 30 June 2021: 30 June 2021).

Dividend payables to shareholders of the Company attributable to the previous financial year were approved during the period:

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
2021 final dividend HK32 cents per ordinary share (Six months ended 30 June 2021: 2020 final dividend HK9 cents per ordinary share)	**1,616,588**	454,665

Final dividend for the years ended 31 December 2021 and 2020 totalling HK$1,616,588,000 and HK$454,665,000 respectively were calculated based on the number of issued ordinary shares as at 31 December 2021 and 2020 respectively, and have been reflected as an appropriation of retained earnings and recognised as liabilities during the periods ended 30 June 2022 and 2021 respectively. Final dividend for the years ended 31 December 2021 and 2020 was paid on 29 July 2022 and 29 July 2021 respectively.

11. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit used to determine basic and diluted earnings per share	**1,606,697**	673,389
	'000 shares	*'000 shares*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**5,051,837**	5,051,837

The diluted earnings per share for the periods ended 30 June 2022 and 30 June 2021 were the same as the basic earnings per share as there were no dilutive potential ordinary shares during the periods.

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

	30 June 2022	31 December 2021
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Equity securities, at fair value		
– listed in Australia	**476,852**	393,280
– listed in Hong Kong	**264,573**	245,214
	741,425	638,494
Unlisted equity interest *	**–**	–
	741,425	638,494

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

13. TRADE AND BILLS RECEIVABLES

	30 June 2022 *HK$'000* **(Unaudited)**	31 December 2021 *HK$'000* (Audited)
Trade receivables	**1,400,470**	1,087,425
Less: Provision for impairment loss	**(198,303)**	(203,476)
	1,202,167	883,949
Bills receivables	**2,058,096**	2,260,302
	3,260,263	3,144,251

Trade receivables generally have credit terms ranging from 30 to 90 days (As at 31 December 2021: 30 to 90 days) and no interest is charged. Bills receivables are expiring within one year (As at 31 December 2021: one year). As at 30 June 2022 and 31 December 2021, all of the trade and bills receivables are denominated in Renminbi ("RMB").

As at 30 June 2022, ageing analysis of net trade receivables, based on invoice dates, is as follows:

	30 June 2022 *HK$'000* **(Unaudited)**	31 December 2021 *HK$'000* (Audited)
Up to 90 days	**818,098**	883,949
91 to 180 days	**312,717**	–
181 to 365 days	**71,352**	–
	1,202,167	883,949

Details of pledged bills receivables are as follows:

	30 June 2022	31 December 2021
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Pledged bills receivables	**211,982**	182,655
Associated bills payables *(note 14)*	**(198,560)**	(157,002)

The carrying amounts of the bills receivables include receivables which are transferred to financial institutions or creditors by discounting or endorsing these receivables on a full recourse basis. Under these arrangements, the Group has not transferred the significant risks and rewards relating to these receivables. The Group therefore continues to recognise the transferred bills receivables in its consolidated statement of financial position and measure at amortised cost.

The relevant carrying amounts are as follows:

	30 June 2022	31 December 2021
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Bills receivables endorsed to creditors with full recourse:		
Transferred bills receivables	**111,118**	93,909
Associated trade payables *(note 14)*	**(8,784)**	(10,021)
Associated other payables	**(49,434)**	(83,888)
Associated amounts due to non-controlling interests of subsidiaries	**(52,900)**	–

14. TRADE AND BILLS PAYABLES

	30 June 2022	31 December 2021
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	**268,193**	270,017
Bills payables	**310,874**	337,230
	579,067	607,247

The Group was granted by its suppliers credit period ranging between 30 to 180 days (As at 31 December 2021: 30 to 180 days). As at 30 June 2022 and 31 December 2021, all of the trade and bills payables are denominated in RMB. All bills payables are aged within 6 months (As at 31 December 2021: 6 months).

Based on the invoice dates, ageing analysis of trade payables as at 30 June 2022 is as follows:

	30 June 2022	31 December 2021
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Up to 90 days	**149,620**	202,226
91 to 180 days	**84,662**	39,856
181 to 365 days	**11,593**	6,526
Over 365 days	**22,318**	21,409
	268,193	270,017

As at 30 June 2022, bills payables amounted to HK$112,314,000 (As at 31 December 2021: HK$180,228,000) out of HK$310,874,000 (As at 31 December 2021: HK$337,230,000) were secured by the pledged bank deposits. Remaining bills payables amounted to HK$198,560,000 (As at 31 December 2021: HK$157,002,000) were secured by bills receivables (note 13).

As at 30 June 2022, trade payables of HK$8,784,000 (As at 31 December 2021: HK$10,021,000) were settled by bills receivables endorsed to corresponding creditors which do not meet the de-recognition requirements (note 13).

15. CAPITAL COMMITMENTS

	30 June 2022	31 December 2021
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Contracted for:		
– Acquisition of property, plant and equipment	**299,754**	261,906
– Exploration and design fees for a potential mining project	**8,602**	8,826
	308,356	270,732

16. STATEMENT REQUIRED BY SECTION 436(3) OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622) IN RELATION TO THE PUBLICATION OF THE NON-STATUTORY ACCOUNTS FOR THE COMPARATIVE FINANCIAL YEAR INCLUDED IN THIS INTERIM FINANCIAL INFORMATION

The financial information relating to the year ended 31 December 2021 that is included in this Interim Financial Information as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2021 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance (Cap. 622).

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or 407(3) of the Companies Ordinance (Cap. 622).

INTERIM DIVIDEND

The Board has declared an interim dividend of HK15 cents per ordinary share for the six months ended 30 June 2022 (2021 interim dividend: HK8 cents per ordinary share) payable to shareholders whose names appear on the register of members of the Company at the close of business on 30 September 2022 (Friday). In order to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not later than 4:30 p.m. on 30 September 2022 (Friday) for registration. The interim dividend is expected to be paid on 4 November 2022 (Friday).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The key operational data of the Group's three premium operating coking coal mines in Liulin County, Shanxi Province (Xingwu Coal Mine, Jinjiazhuang Coal Mine and Zhaiyadi Coal Mine, collectively referred to as the "Three Mines") for the six months ended 30 June 2022 (the "Period Under Review") together with that of the same period of 2021 (the "Last Period" or "1H 2021") is summarised as follows:

		Six months ended 30 June		Change	
	Unit	**2022**	2021	Quantity/ Amount	Percentage
Production volume:					
Raw coking coal	Mt	**2.70**	2.61	+0.09	+3%
Clean coking coal	Mt	**1.74**	1.45	+0.29	+20%
Sales volume:					
Clean coking coal	Mt	**1.74**	1.63	+0.11	+7%
Average realised selling price (inclusive of VAT):					
Clean coking coal	RMB/tonne	**2,521**	1,415	+1,106	+78%

Note: No sales of raw coking coal for the six months ended 30 June 2022 (Last Period: nil).

For the six months ended 30 June 2022, the Group produced approximately 2.70 million tonnes ("Mt") (Six months ended 30 June 2021: approximately 2.61 Mt) of raw coking coal, representing a year-on-year ("YoY") increase of 3% and also produced approximately 1.74 Mt (Six months ended 30 June 2021: approximately 1.45 Mt) of clean coking coal, representing a YoY increase of 20%.

As the Three Mines operated smoothly under planned during the Period Under Review, the raw coking coal production volume increased by 3% YoY. As planned, the total production volume of raw coking coal of approximately 2.70 Mt for the six months ended 30 June 2022 represented 51% of total approved production volume.

The increase in production volume of clean coking coal by 20% YoY is mainly due to the increase in raw coking coal production and the rise in clean coking coal recovery rate resulting from mixing of different qualities of self-produced raw coking coal effectively during the Period Under Review.

In line with the increase in production volume of clean coking coal, after excluding the purchase of clean coking coal from outsiders for sales of approximately 0.13 Mt in Last Period, the sales volume of self-produced clean coking coal increased by 16% YoY for the Period Under Review. For the six months ended 30 June 2022 and the Last Period, sales of clean coking coal accounted for 100% of the Group's revenue. This is in line with the Group's long-term strategy to concentrate on clean coking coal sales.

Benefit from the average benchmark market selling prices of clean coking coal surged by approximately 89% YoY in the first half of 2022, the Group has seized the market opportunities. For the six months ended 30 June 2022, the Group's average realised selling price (inclusive of value added tax "VAT") of clean coking coal sharply increased by 78% YoY to Renminbi ("RMB") 2,521/tonne (1H 2021: RMB1,415/tonne), which was in line with the upside trend of coking coal market prices. In terms of its sales volume, sales of low sulfur and medium-high sulfur clean coking coal accounted for 27% and 73% (1H 2021: 31% and 69%) of the total clean coking coal sales volume respectively for the six months ended 30 June 2022.

FINANCIAL REVIEW

For the six months ended 30 June 2022, the Group recorded a revenue of approximately Hong Kong Dollars ("HK$") 4,663 million, representing a sharp increase of approximately HK$2,219 million or 91% YoY as compared with that of approximately HK$2,444 million for the Last Period. The sharp increase in revenue was mainly driven by the increase in sales volume of clean coking coal by 7% YoY and the significant increase in average realised selling prices of clean coking coal by 78% YoY for the Period Under Review.

For the six months ended 30 June 2022, the total revenue to the top five customers accounted for 68% (1H 2021: 86%) of the Group's revenue. Of which, the total revenue to the largest customer, Shougang Group Co., Limited together with its subsidiaries, accounted for 43% (1H 2021: 46%) of the Group's revenue.

For the six months ended 30 June 2022, gross profit margin was 64% while 50% for the Last Period. The significant rise in gross profit margin was mainly due to the increase in average realised selling prices of clean coking coal by 78% YoY as explained above. Gross profit was sharply increased by approximately HK$1,789 million or 147% YoY. The significant increase in gross profit was mainly due to the increase in revenue by approximately 91% YoY for the six months ended 30 June 2022 as explained above.

For the six months ended 30 June 2022, the Group recorded a net profit of approximately HK$1,936 million, representing a significant increase of 150% YoY, and profit attributable to the owners of the Company (the "Owners") of approximately HK$1,607 million, representing a significant increase of 139% YoY. It was also recorded historical high profit for interim period. During the Period Under Review, the significant increase in the Group's net profit by 150% YoY is in line with the surge in gross profit by approximately HK$1,789 million or 147% YoY. In addition, as a result of the significant rise in coal market prices, income from sales of coal related by-products increased by approximately HK$57 million YoY. Also, as a result of the rise in market interest rates, the interest income was increased by approximately HK$16 million YoY. Nevertheless, there was negative effect on depreciation of RMB resulting in a net foreign exchange loss of approximately HK$75 million during the Period Under Review, the Group recorded net profit of approximately HK$1,936 million, significantly increased by 150% YoY during the Period Under Review.

During the Period Under Review, due to the depreciation in RMB to HK$ exchange rate by approximately 2.54% as at reporting date on 30 June 2022 when compared with that as at 31 December 2021 (1H 2021: appreciation in RMB to HK$ exchange rate as at 30 June 2021 by approximately 2.61% when compared with that as at 31 December 2020), the Group recorded net foreign exchange loss of approximately HK$75 million from net foreign exchange gain of approximately HK$69 million for the Last Period.

For the Period Under Review, basic earnings per share was HK31.80 cents (1H 2021: HK13.33 cents).

For the Period Under Review, the Group recorded EBITDA of approximately HK$3,267 million (1H 2021: approximately HK$1,363 million) and generated a positive cash flow of approximately HK$1,880 million (1H 2021: approximately HK$1,050 million) from our operating activities.

As at 30 June 2022, the Group continues to maintain a healthy financial position and has free bank balances and cash of approximately HK$7,401 million (As at 31 December 2021: approximately HK$6,426 million). The increase in free bank balances and cash is mainly due to the considerable positive cash flow generated from our operating activities of approximately HK$1,880 million during the Period Under Review.

The Group has reviewed its exposure and risks related to COVID-19 and variants of coronavirus but it would not material impact the financial performance for the Period Under Review and financial position of the Group as at 30 June 2022. The Group believed that current healthy financial position and strong cash position had sufficient headroom to service its operating activities and investments in the foreseeable future.

Cost of Sales

For the Period Under Review, cost of sales was approximately HK$1,656 million, representing an increase of approximately HK$430 million or 35% YoY, as compared with that of approximately HK$1,226 million for the Last Period. The increase in cost of sales was mainly due to the increase in sales volume of clean coking coal by 7% YoY and the increase in production costs as disclosed below.

The unit production costs are summarised as follows:

Unit: RMB/tonne

	Six months ended 30 June 2022	2021	Change Amount	Change Percentage	Full Year 2021	Change Percentage
Production cost of raw coking coal Note 1	**418**	325	+93	+29%	379	+10%
Less: Depreciation and amortisation	***(74)***	*(74)*	–	–	*(75)*	*-1%*
Cash production cost of raw coking coal	**344**	251	+93	+37%	304	+13%
Less: Uncontrollable costs Note 2	***(127)***	*(64)*	*+63*	*+98%*	*(110)*	*+15%*
Total	**217**	187	*+30*	+16%	194	+12%
Processing cost for clean coking coal	**47**	44	+3	+7%	50	-6%
of which, depreciation	***7***	*8*	*-1*	*-13%*	*7*	–

Note 1: Excluded one-off additional amortisation of relocation and reconstruction costs for village located in Xingwu Coal Mine (i.e. amortisation of long-term deferred expenses) amounting to RMB168 million for comparison purpose.

Note 2: Included resources tax and levies, water resources fee, mine environmental restoration fund and land restoration fee.

During the Period Under Review, costs of sales included a one-off non-cash additional amortisation of relocation and reconstruction costs for village located in Xingwu Coal Mine amounting to RMB168 million in order to release certain upper coal seam reserves for mining since 2016, after considering its production will be transferred from upper to lower coal seam in 2023.

Included in cost of sales, amortisation of mining rights was approximately HK$133 million for the six months ended 30 June 2022, representing an increase of approximately HK$4 million or 3% YoY, as compared with that of approximately HK$129 million for the Last Period. The increase in amortisation of mining rights was mainly due to the increase in actual usage volume of raw coking coal for sales during the Period Under Review.

Due to the substantial increase in average realised selling prices of clean coking coal by 78% YoY, uncontrollable costs such as 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, increased sharply by RMB60/tonne YoY during the Period Under Review. In addition, the mine environmental restoration fund, which is also calculated based on the revenue from sales of coking coal, also increased by RMB6/tonne YoY.

Nevertheless the stringent cost controls continuously implemented by the Group, the Group faced the rising concern in cost pressure. Excluding the effect on the increase in those uncontrollable costs as above, unit of production cost of raw coking coal unavoidable increased by 16% YoY resulted from (i) the increase in staff costs by RMB15/tonne YoY mainly due to the provision of bonus as recorded a significant increase in net profit of the Group by 150% YoY and reached historical high interim profit, payment would be made subject to performance appraisal system and overall annual results; (ii) the increase in electricity charges YoY due to the rise in electricity price; (iii) increase in material market prices due to inflation and market factors; and (iv) due to the policy requirements, it is necessary to renovate certain buildings in order to meet the updated standards that lead to increase the repair and maintenance fees YoY during the Period Under Review.

In addition, the unit processing cost of clean coking coal also unavoidable increased by 7% YoY as a result of the increase in labour cost, material market prices and electricity charges due to the reason mentioned above and the increase in drainage fee for gangue.

Gross Profit and Gross Profit Margin

As a result of the reasons above, gross profit was approximately HK$3,007 million for the six months ended 30 June 2022, representing a sharp increase of approximately HK$1,789 million or 147% YoY as compared with that of approximately HK$1,218 million for the Last Period. Gross profit margin was 64% for the Period Under Review and 50% for the Last Period.

Interest Income

During the Period Under Review, interest income was approximately HK$47 million, representing a significant increase of approximately HK$16 million or 52% YoY as compared with approximately HK$31 million for the Last Period. The significant increase in interest income was the result of the increase in market interest rates for the Period Under Review.

Other Income and Gains, Net

During the Period Under Review, other income and gains, net was approximately HK$3 million, representing a significant decrease of approximately HK$87 million or 97% YoY as compared with approximately HK$90 million for the Last Period. Excluding the impact of net foreign exchange loss of approximately HK$75 million (1H 2021: net foreign exchange gain of approximately HK$69 million) during the Period Under Review, other income and gains, net was significant increased by approximately HK$57 million YoY, was mainly attributable to the increase in income from sales of coal related by-products by approximately HK$57 million YoY as a result of the significant rise in market prices of coal.

During the Period Under Review, the Group recorded a turnaround from net foreign exchange gain of approximately HK$69 million to net foreign exchange loss of approximately HK$75 million as a result of the depreciation in RMB to HK$ exchange rate by approximately 2.54% as at 30 June 2022 when compared with that as at 31 December 2021 (1H 2021: appreciation in RMB to HK$ exchange rate by approximately 2.61% as at 30 June 2021 when compared with that as at 31 December 2020).

Selling and Distribution Expenses

For the Period Under Review, selling and distribution expenses were approximately HK$168 million, representing an increase of approximately HK$22 million or 15% YoY as compared with that of approximately HK$146 million for the Last Period. Selling and distribution expenses mainly included logistic costs such as the trucking fees for short distance and freight costs by trucks and sea for sales of clean coking coal, of which are usually re-charged to customers. The increase was mainly due to the increase in sales volume of clean coking coal and the proportion of sales by train for the Period Under Review.

General and Administrative Expenses

For the Period Under Review, general and administrative expenses were approximately HK$89 million, representing a decrease of approximately HK$4 million or 4% YoY as compared with that of approximately HK$93 million for the Last Period. The drop was mainly resulted from the continuous implementation of cost control measures during the Period Under Review.

Other Operating Expenses

During the Period Under Review, other operating expenses were approximately HK$49 million, representing an increase of approximately HK$7 million or 17% YoY as compared with approximately HK$42 million for the Last Period. The increase in other operating expenses is mainly attributable from the charitable donation in the PRC related to precaution measures for COVID-19 of approximately HK$9 million (1H 2021: nil).

Other operating expenses mainly included the additional depreciation arising from the accelerated depreciation related to the underground mining structures of the upper coal seam of Xingwu Coal Mine amounted to approximately HK$38 million (1H 2021: approximately HK$36 million), as it was expected that production will be transferred from upper to lower coal seam in 2023 as disclosed in the 2021 Annual Report.

Finance Costs

For the Period Under Review, finance costs were approximately HK$0.7 million (1H 2021: approximately HK$0.7 million), of which approximately HK$0.7 million (1H 2021: approximately HK$0.6 million) was the interest expense on lease liabilities recognised under the adoption of HKFRS 16 and the remaining balance was interest derived from the early redemption of bills receivables of the Group for the short-term financing. For the Period Under Review, no borrowing costs (1H 2021: nil) were capitalised in the construction in progress.

Income Tax Expense

For the Period Under Review, income tax expense amounted to approximately HK$813 million (1H 2021: approximately HK$283 million). Income tax expense mainly includes the enterprise income tax calculated at a tax rate of 25% for the Group's major PRC subsidiaries incorporated in the People's Republic of China (the "PRC") ("major PRC Subsidiaries") and the provision of withholding tax of 5% on the dividend to be declared from the major PRC Subsidiaries in accordance with the relevant tax regulations in the PRC. The significant increase in income tax expenses was in line with the significant increase in profit and the increase in dividend withholding tax during the Period Under Review.

Owner's Attributable Profit

By reasons of the foregoing, the profit attributable to the Owners during the Period Under Review was approximately HK$1,607 million, an increase of approximately HK$934 million or 139% YoY, while approximately HK$673 million for the six months ended 30 June 2021.

Material Investments and Acquisitions

During the six months ended 30 June 2022, the Group had no material investments and acquisitions.

Material Disposals

During the six months ended 30 June 2022, the Group had no material disposals.

Safety Production and Environmental Protection

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

The Three Mines have been awarded the level II workplace safety standard issued by the Provincial Coal Mine Safety Supervision Bureau, and each of their coal processing plants obtained level I workplace safety standard issued by the Municipal Energy Bureau.

For the Period Under Review, all coal mines of the Group operated smoothly.

Charges on Assets

As at 30 June 2022, save for disclosed below, none of the Group's assets was charged or subject to any encumbrance.

As at 30 June 2022, bank deposits of approximately HK$366 million and bills receivables of approximately HK$212 million were used for securing bills facilities. As at 30 June 2022, bills facilities of approximately HK$311 million has been utilised.

Contingent Liabilities

As at 30 June 2022, there were no guarantees given by the Group and the Group has no material contingent liabilities.

Gearing Ratio

As at 30 June 2022, the Group had no borrowings. Thus, the gearing ratio of the Group was 0% (As at 31 December 2021: 0%).

Exposure to Fluctuations in Exchange Rates

As at 30 June 2022, other than assets and liabilities denominated in RMB and Australian Dollars ("AUD"), the Group had no material exposure to foreign exchange fluctuations. As at 30 June 2022, the exchange rate of RMB to HK$ depreciated by approximately 2.54% and AUD to HK$ depreciated by approximately 4.52% when compared to that as at 31 December 2021 respectively. As the net assets value of PRC business operations denominated in RMB represented approximately 81% of the Group's net assets value as at 30 June 2022, the depreciation in RMB also led to an exchange loss of approximately HK$393 million (other than the foreign exchange difference recognised in profit or loss stated above) recognised in the other comprehensive income upon translation of its net assets in the financial statements of coal business operations in the PRC for the six months ended 30 June 2022. Besides, the aggregate carrying amount of assets denominated in AUD represented approximately 3% of the Group's net assets. Thus, such fluctuation in AUD exchange rate is not expected to have any material impact on the financial position and results of the Group. The above exposure to fluctuation in exchange rates did not have any material impact on the financial position of the Group.

Liquidity and Financial Resources

As at 30 June 2022, the Group's current ratio (total current assets divided by total current liabilities) was approximately 2.28 times and the Group's cash and bank deposits amounted to approximately HK$8,037 million, of which approximately HK$366 million was deposited to secure bills facilities of approximately HK$112 million and approximately HK$270 million was restricted bank deposits for land reclamation and mine environmental restoration fund. The Group continued to maintain a healthy net cash balance.

The Group has total bills receivables amounting to approximately HK$2,058 million (of which approximately HK$111 million represented and endorsed bills receivables and approximately HK$212 million was used for securing bills facilities of approximately HK$199 million) as at 30 June 2022. The free bills receivables were readily convertible into cash, but would be subject to finance cost upon conversion before the maturity. Taking into account for the free bills receivables of approximately HK$1,735 million, the Group's free cash resources would have approximately HK$9,136 million as at 30 June 2022.

Capital Structure

Total equity and borrowings are classified as capital of the Group. As at 30 June 2022, the share capital of the Company was approximately HK$15,157 million, represented approximately 5,052 million shares in number. During the Period Under Review, there is no change in number and amount of issued shares. As at 30 June 2022, the Group had no borrowings.

EMPLOYEES

As at 30 June 2022, the Group had 4,587 PRC and Hong Kong employees. The remuneration packages of the employees are subject to annual review. The Group provides mandatory and voluntary provident fund schemes for its employees in Hong Kong and the state-sponsored retirement plan for its employees in the PRC. The Group also provides training to PRC employees. The Group's share option scheme has expired on 25 May 2022. For the Period Under Review, no share option was granted or exercised. As at 30 June 2022, no share options was outstanding.

FUTURE PROSPECTS

Since 2022, with the outbreak of the Russia-Ukraine War and the domestic pandemic flare-up etc., Chinese economy plunged from a recovery situation. With several negative factors impact, such as bulk commodity prices further surging, the real estate market continued slumping under pessimistic expectations, and European and American monetary policies' sharp turn driven by global inflation, China's Gross Domestic Product ("GDP") growth takes a sudden turn from the first quarter's 4.8%, though held positive, to 0.4% in the second quarter by withstanding all kinds of pressures. In the first half of 2022 ("1H 2022"), China's overall GDP growth increased by 2.5% YoY.

Investment further plays a key role in economic development. The speeding up infrastructure projects and stable growth of investment demand provide strong support for stabilising economy fundamentals. All infrastructure investment growth rates of the first three months accelerated beyond 8%, although April's data decreased due to lockdown, following with stable growth again. However, the property sector continues to be the key drag on China's fixed-asset investment ("FAI"). The real estate enterprises are reluctant and lack the ability to spend money, operating under pressure, softening the demand for the steel sector. Meanwhile, although domestic pandemic curbs relaxed since May, the impact of the pandemic on the demand for steel industry continues. With the soft end-user demand, the steel product prices fell and the margin contracted, leading the steelmakers unwilling to produce. The steel supply is also declining. In June, several steel mills voluntarily cut production by advancing blast furnace maintenance shutdowns. In 1H 2022, Chinese crude steel output was down 6.5% YoY to around 530 million tonnes, the pig iron output was down 4.7% YoY to around 440 million tonnes.

Due to the continuing weak downstream demand, the coking coal prices slumped around a thousand Yuan from March and April's high levels. The raw metallurgical coal output accumulated a rise of 6.5% YoY in 1H 2022, with import volume increasing almost 17% YoY accordingly. The demand and supply trend twisted, from excess demand to excess supply.

It should be noted that with China's main cities pandemic under control and the stimulus package to stabilise the economy, the Chinese economy has been bottoming out. The government is generally advancing the budgetary policies and issuing incremental policies. The net issuance accounts for about 99% of the RMB3.45 trillion in special bond issuance for infrastructure – part of the 2022 special bond quota of RMB3.65 trillion.

Looking ahead to the second half of 2022 ("2H 2022"), China's macro-economy will be stabilised and grown by taking infrastructure investment as a strong foothold. The infrastructure FAI growth is expected to keep rebounding. According to "Mysteel.com" incomplete statistics, in July 2022, a total of 5,669 projects were started in China, up 19.5% month-on-month ("MoM"). The total investment amounted to RMB3.4827 trillion, up 12.1% MoM and 26.2% YoY. National Development and Reform Commission ("NDRC") issued successive regulations in July, like "notice on the implementation for the new urbanisation in the 14th Five-Year Plan", "national road network plan", and "interim measures for central government's earmarked investment on upgrading of urban gas pipelines, etc. and government-subsidised housing", etc. The Ministry of Industry and Information Technology aims to expand support for the purchase of new-energy vehicles, and continue to lead and stimulate home appliances consumption. In July, Politburo Meeting made arrangements to stabilise the property market and implement the "ensuring house delivery" plan. The property market is expected to be stable. All the above will improve the demand for steel, along with limited supply growth of coking coal, both the coke and coking coal market will be stabilised, and coking coal price is expected to recover and stay at a high level.

However, we also noted that the world situation remains turbulent. The global economic slowdown driven by the advanced economies is bound to significantly impact the global energy and resources market and pattern, accompanied by rising geopolitical tensions. All above makes the prospect of the macroeconomy hard to predict. Besides, in early August, NDRC asked steel mills to continue to cut crude steel production in 2H 2022 and prohibit new steel production capacity. Steel mills still have production cuts pressure. Therefore, the demand for coking coal will be generally bleak in 2H 2022.

When closely following the market pulse, the Group will continue to ensure production safety, update corporate governance, and promote Smart Mining. The operation, financial position, and cash flow of the Group continue to be stable during this period, for overcoming the instabilities due to the macro-environment change. We will also continue to bring stable and rigorous returns for society, our shareholders and our employees.

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 of Hong Kong Limited (the "Stock Exchange") or otherwise) during the six months ended 30 June 2022.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the six months ended 30 June 2022.

COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 of the Listing Rules (the "Model Code") as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors of the Company, all directors of the Company 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 six months ended 30 June 2022.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

The 2022 interim report containing all the information required under the Listing Rules will be despatched to shareholders of the Company and available on the above websites in due course.

APPRECIATION

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

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

Hong Kong, 30 August 2022

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