# HUSCOKE RESOURCES HOLDINGS LIMITED
# 和嘉資源控股有限公司

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 704)**

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board (the "**Board**") of directors (the "**Directors**") of Huscoke Resources Holdings Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2017 (the "**Reporting Period**") together with the comparative figures for the corresponding period in 2016 as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
*For the six months ended 30 June 2017*

| | | For the six months ended 30 June | |
|---|---|---|---|
| | | **2017** | 2016 |
| | | **(Unaudited)** | (Unaudited) |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| **Revenue** | *3* | **601,670** | 261,280 |
| Cost of sales | | **(505,744)** | (207,256) |
| **Gross profit** | | **95,926** | 54,024 |
| Other income and gains | *4* | **29,623** | 9,726 |
| Selling and distribution costs | | **(60,840)** | (335) |
| Administrative expenses | | **(25,178)** | (26,676) |
| Finance costs | *5* | **(3,199)** | (315) |
| Other operating expenses | | **—** | (19,397) |
| Reversal of impairment loss in respect of property, plant and equipment | *10* | **99,222** | — |
| **Profit before tax** | *6* | **135,554** | 17,027 |
| Income tax expense | *7* | **(349)** | (7,421) |
| **Profit for the period** | | **135,205** | 9,606 |

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(Continued)*

*For the six months ended 30 June 2017*

| | Notes | For the six months ended 30 June | |
|---|---|---|---|
| | | **2017** | 2016 |
| | | **(Unaudited)** | (Unaudited) |
| | | ***HK$'000*** | *HK$'000* |
| **Profit for the period attributable to:** | | | |
| Owners of the parent | | **121,211** | 7,443 |
| Non-controlling interests | | **13,994** | 2,163 |
| | | **135,205** | 9,606 |
| **Earnings per share** | *9* | | |
| Basic | | **HK4.67 cents** | HK0.62 cents |
| Diluted | | **HK4.53 cents** | HK0.62 cents |

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the six months ended 30 June 2017*

| | For the six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| **Profit for the period** | **135,205** | 9,606 |
| Other comprehensive income: | | |
| *Items that may be reclassified to profit or loss:* | | |
| — Exchange differences arising on translation of foreign operation | **7,234** | (4,026) |
| **Total comprehensive income for the period** | **142,439** | 5,580 |
| **Total comprehensive income for the period attributable to:** | | |
| Owners of the parent | **127,847** | 3,649 |
| Non-controlling interests | **14,592** | 1,931 |
| | **142,439** | 5,580 |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*At 30 June 2017*

| | Notes | As at 30 June 2017 (Unaudited) HK$'000 | As at 31 December 2016 (Audited) HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 10 | **495,274** | 412,849 |
| Available-for-sale investments | | **1,099** | 1,099 |
| Total non-current assets | | **496,373** | 413,948 |
| **CURRENT ASSETS** | | | |
| Inventories | | **45,980** | 55,120 |
| Trade and bill receivables | 12 | **81,418** | 61,027 |
| Amount due from the Non-controlling Shareholder | 13 | **185,584** | 168,483 |
| Prepayments, deposits and other receivables | | **276,282** | 151,800 |
| Tax recoverable | | **6,746** | 6,958 |
| Cash and bank balances | | **85,719** | 97,931 |
| Total current assets | | **681,729** | 541,319 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 14 | **216,526** | 247,162 |
| Other payables, accruals and deposits received | | **486,562** | 372,586 |
| Other borrowings | | **19,813** | 25,813 |
| Convertible bonds | | **39,787** | — |
| Tax payable | | **209** | 209 |
| Total current liabilities | | **762,897** | 645,770 |
| **NET CURRENT LIABILITIES** | | **(81,168)** | (104,451) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **415,205** | 309,497 |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred income | | **5,161** | 5,057 |
| Convertible bonds | | **—** | 36,835 |
| Total non-current liabilities | | **5,161** | 41,892 |
| **NET ASSETS** | | **410,044** | 267,605 |
| **EQUITY** | | | |
| Equity attributable to the owners of parent | | | |
| Share capital | | **25,966** | 24,036 |
| Reserves | | **346,491** | 220,574 |
| | | **372,457** | 244,610 |
| Non-controlling interests | | **37,587** | 22,995 |
| **TOTAL EQUITY** | | **410,044** | 267,605 |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*For the six months ended 30 June 2017*

### 1. Basic of preparation

The unaudited condensed consolidated financial statements for the six months ended 30 June 2017 (the "Interim Financial Statements") have been prepared in accordance with the Hong Kong Accounting Standards 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Interim Financial Statements do not include all of the information required for annual financial statements and thereby should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016 (the "2016 Annual Report").

The Interim Financial Statements are unaudited, but have been reviewed by the Audit Committee of the Company and were approved for issue on 31 August 2017.

The financial information relating to the financial year ended 31 December 2016 that is included in the Interim Financial Statements as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. In the auditor's report dated 29 March 2017, the auditor expressed an unqualified opinion on those financial statements but included an emphasis of matter paragraph drawing attention to conditions which indicated the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

At 30 June 2017, the Group's net current liabilities were HK$81,168,000 (at 31 December 2016: HK$104,451,000). The Group is dependent upon the financial support from the controlling shareholder and its ability to generate sufficient cash flows from future operations to cover its operating costs and to meet its financing commitments.

The Directors have made an assessment and concluded that the Group is able to continue as a going concern for at least the next twelve months and to meet its obligations, as and when they fall due, having regard to the following during and subsequent to the Reporting Period:

(a) The management has used the best endeavour in improving the Group's operating performance to attain positive operating cash flow. The Group's operation has gradually recovered in light of an improved market demand for coke production in the PRC during the Reporting Period. A gross profit of HK$95,926,000 (2016: HK$54,024,000) and a net profit excluding the reversal of impairment loss in respect of property, plant and equipment of HK$35,983,000 (2016: HK$9,606,000) were recorded for the Reporting Period. The Directors of the Company believe that the recovery momentum will continue and the operation will contribute positive cash inflows to the Group in the foreseeable future.

(b) On 15 March 2017, the Group secured agreements with the lenders of other borrowings and certain creditors to waive a total amount of HK$7,132,000, comprising a total principal amount of other borrowings of HK$6,000,000; accrued interests of HK$632,000; and other payables of HK$500,000. One of the lenders has agreed to waive interest charged on the loan balance from 1 January 2017 onwards. It was further agreed that a portion of the remaining balance of other borrowings and payables to these creditors of HK$4,417,000 is to be settled by cash; while another portion of HK$18,538,000 is to be settled by cash or by issue of new shares or securities of the Company on or before 1 July 2017 subject to further agreement among the parties.

(c) Further to note (b) above, on 27 July 2017, the Group secured a supplementary agreement with each of the lenders of other borrowings and certain creditors to extend the settlement deadline to 31 December 2017. Up to the announcement date, no agreement in relation to any issue of new shares or securities has been entered into. The Group is negotiating with these lenders and creditors on details of the settlement arrangement. In the opinion of the Directors, the conclusion of the arrangement is forthcoming.

(d) The convertible bonds of HK$39,787,000, which mature in May 2018, were reclassified from the non-current liabilities to the current liabilities as at 30 June 2017. If the reclassification effect was excluded, the net current liabilities could be further improved from HK$81,168,000 to HK$41,381,000 as at 30 June 2017.

Consequently, the Interim Financial Statements have been prepared on a going concern basis.

**2. Significant Accounting Policies**

The accounting policies used in preparing the Interim Financial Statements are consistent with those used in the Group's 2016 Annual Report, except for the new and revised Hong Kong Financial Reporting Standards, amendments and interpretations (collectively "new and revised HKFRSs") issued by HKICPA which have become effective in this Reporting Period as detailed in note 2 of the 2016 Annual Report. The adoption of such new and revised HKFRSs has no material impact on the accounting policies in the Group's Interim Financial Statements for the Reporting Period.

**3. Revenue and segment information**

The Revenue represents the net amounts received and receivables for goods sold by the Group to outside customers, less returns and allowance for the Reporting Period.

***Business segments***

For management purposes, the Group is organised into business units based on their products and services and has the following reportable operating segments:

(a) the coke trading segment — purchases and sales of coke;

(b) the coal-related ancillary segment — washing of raw coal into refined coal for sale and for further processing, and sale of electricity and heat which are generated as the by-products during the washing of raw coal; and

(c) the coke production segment — processing of refined coal into coke for sales, and sale of coke by-products that are generated during coke production.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that interest income, corporate administrative expenses, unallocated finance costs, reversal of impairment loss in respect of property, plant and equipment and income tax are excluded from such measurement.

Intersegment sales and transfers are transacted at cost plus a certain percentage of mark-up.

*Segment revenue and results*

*For the six months ended 30 June 2017*

| | Coke Trading (Unaudited) *HK$'000* | Coal-related ancillary (Unaudited) *HK$'000* | Coke Production (Unaudited) *HK$'000* | Eliminations (Unaudited) *HK$'000* | Total (Unaudited) *HK$'000* |
|---|---|---|---|---|---|
| Segment revenue | | | | | |
| — external sales | — | **47,752** | **553,918** | — | **601,670** |
| — intersegment sales | — | **129,630** | — | **(129,630)** | — |
| Other income | — | **22,463** | — | — | **22,463** |
| Total | — | **199,845** | **553,918** | **(129,630)** | **624,133** |
| Segment results | — | **13,353** | **44,779** | **(583)** | **57,549** |
| Interest income and sundry income | | | | | **7,160** |
| Corporate administrative expenses | | | | | **(25,178)** |
| Unallocated finance costs | | | | | **(3,199)** |
| Reversal of impairment loss in respect of property, plant and equipment | | | | | **99,222** |
| Profit before tax | | | | | **135,554** |
| Income tax expense | | | | | **(349)** |
| Profit for the period | | | | | **135,205** |

***Segment revenue and results** (Continued)*
*For the six months ended 30 June 2016*

| | Coke Trading (Unaudited) *HK$'000* | Coal-related ancillary (Unaudited) *HK$'000* | Coke production (Unaudited) *HK$'000* | Eliminations (Unaudited) *HK$'000* | Total (Unaudited) *HK$'000* |
|---|---|---|---|---|---|
| Segment revenue | | | | | |
| — external sales | — | 46,825 | 214,455 | — | 261,280 |
| — intersegment sales | — | 78,779 | — | (78,779) | — |
| Other income | 1,036 | 8,653 | — | — | 9,689 |
| Total | 1,036 | 134,257 | 214,455 | (78,779) | 270,969 |
| Segment results | 1,036 | 27,977 | 14,968 | — | 43,981 |
| Interest income and sundry income | | | | | 37 |
| Corporate administrative expenses | | | | | (26,676) |
| Unallocated finance costs | | | | | (315) |
| Profit before tax | | | | | 17,027 |
| Income tax expense | | | | | (7,421) |
| Profit for the period | | | | | 9,606 |

## 4. Other income and gains

| | For the six months ended 30 June **2017** **(Unaudited)** ***HK$'000*** | 2016 (Unaudited) *HK$'000* |
|---|---|---|
| Interest income | **8** | — |
| Commission income | **—** | 1,036 |
| Government subsidies | **22,463** | 8,653 |
| Gain on debt restructuring | **7,132** | — |
| Sundry income | **20** | 37 |
| | **29,623** | 9,726 |

## 5. Finance costs

| | For the six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Interest expenses on bank and other borrowings repayable within five years | **247** | 315 |
| Interest expenses on convertible bonds repayable within five years | **2,952** | — |
| | **3,199** | 315 |

## 6. Profit before tax

Profit before tax has been arrived at after charging/(crediting):

| | For the six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Cost of inventories sold | **505,744** | 207,256 |
| Depreciation | **30,583** | 33,007 |
| Operating lease payments in respect of leasehold interests in land and rented properties | **1,302** | 617 |
| Employee benefit expense (including directors' remuneration): | | |
| Wages and salaries | **28,614** | 24,209 |
| Pension scheme contributions | **110** | 55 |
| | **28,724** | 24,264 |
| Reversal of impairment loss in respect of property, plant and equipment | **(99,222)** | — |

## 7. Income tax expense

| | For the six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Current — Hong Kong | **—** | — |
| Current — Elsewhere | **349** | 7,421 |
| | **349** | 7,421 |

No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2016 and 2017 as there is no assessable profit for the Reporting Periods.

Taxation arising in other jurisdictions is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year.

## 8. Dividend

The Directors do not recommend payment of an interim dividend for the six months ended 30 June 2017 (2016: Nil).

## 9. Earnings per share

### (a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average numbers of ordinary shares in issue during the Reporting Period.

| | For the six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | **(Unaudited)** | (Unaudited) |
| Profit attributable to equity holders of the Company *(HK$'000)* | **121,211** | 7,443 |
| Weighted average number of ordinary shares in issue | **2,596,625,258** | 1,196,625,258 |
| Basic earnings per share | **HK4.67 cents** | HK0.62 cents |

## 9. Earnings per share *(Continued)*

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares. The Company's potentially dilutive ordinary shares comprised of convertible bonds.

| | **For the six months ended 30 June** | |
|---|---|---|
| | **2017** | 2016 |
| | **(Unaudited)** | (Unaudited) |
| Profit attributable to equity holders of the Company *(HK$'000)* | **121,211** | 7,443 |
| *Add:* Interest expense on convertible bonds *(HK$'000)* | **2,952** | — |
| Profit attributable to equity holders of the Company for diluted earnings per share *(HK$'000)* | **124,163** | 7,443 |
| Weighted average number of ordinary shares in issue | **2,596,625,258** | 1,196,625,258 |
| Adjustments for convertible bonds | **144,256,976** | — |
| Weighted average number of ordinary shares for diluted earnings per share | **2,740,882,234** | 1,196,625,258 |
| Diluted earnings per share | **HK4.53 cents** | HK0.62 cents |

## 10. Property, plant and equipment

| | Land and Buildings *HK$'000* | Furnaces and infrastructure *HK$'000* | Plant and machinery *HK$'000* | Computer equipment *HK$'000* | Leasehold improvement *HK$'000* | Furniture and fixtures *HK$'000* | Motor vehicles *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|---|---|
| COST | | | | | | | | |
| At 1 January 2017 | 351,586 | 462,339 | 524,451 | 69,370 | — | 842 | 45,484 | 1,454,072 |
| Additions | — | 89 | 327 | 281 | 1,910 | 114 | 1,506 | 4,227 |
| Write-off | — | — | — | (3,670) | — | — | — | (3,670) |
| Exchange realignment | 7,212 | 9,455 | 10,763 | 1,366 | — | — | 909 | 29,705 |
| At 30 June 2017 | 358,798 | 471,883 | 535,541 | 67,347 | 1,910 | 956 | 47,899 | 1,484,334 |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT | | | | | | | | |
| At 1 January 2017 | 112,149 | 415,278 | 404,381 | 68,218 | — | 786 | 40,411 | 1,041,223 |
| Provided for the year | 3,547 | 8,871 | 16,419 | 199 | 505 | 2 | 1,040 | 30,583 |
| Reversal of impairment loss | — | (99,222) | — | — | — | — | — | (99,222) |
| Write-off | — | — | — | (3,643) | — | — | — | (3,643) |
| Exchange realignment | 2,357 | 7,039 | 8,558 | 1,344 | — | 1 | 820 | 20,119 |
| At 30 June 2017 | 118,053 | 331,966 | 429,358 | 66,118 | 505 | 789 | 42,271 | 989,060 |
| NET CARRYING AMOUNTS | | | | | | | | |
| At 30 June 2017 | 240,745 | 139,917 | 106,183 | 1,229 | 1,405 | 167 | 5,628 | 495,274 |
| At 31 December 2016 | 239,437 | 47,061 | 120,070 | 1,152 | — | 56 | 5,073 | 412,849 |

## 11. Impairment test on property, plant and equipment

For the purpose of impairment testing, property, plant and equipment have been allocated to two cash-generating units, being the coal-related ancillary segment and coke production segment. The carrying amounts of property, plant and equipment as at 30 June 2017 and 31 December 2016 allocated to these units are as follows:

| | **At 30 June 2017 (Unaudited)** ***HK$'000*** | At 31 December 2016 (Audited) *HK$'000* |
|---|---|---|
| Coal-related ancillary segment | **343,359** | 361,280 |
| Coke production segment | **99,222** | — |
| Unallocated | **52,693** | 51,569 |
| | **495,274** | 412,849 |

***Coal-related ancillary cash-generating unit***

The recoverable amounts of the coal-related ancillary cash-generating unit as at 30 June 2017 and 31 December 2016 were determined based on a value in use calculation using cash flow projections based on financial budgets covering a 11.5-year period (2016: 12-year period) which is assessed and approved by senior management with reference to the physical conditions of property, plant and equipment at the current status and the expected obsolescence and retirement based on prior year experience. The discount rate applied to the cash flow projections was 14.1% (2016: 14.1%).

Key assumptions were used in the value in use calculation of the coal-related ancillary cash-generating unit as at 30 June 2017 and 31 December 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing:

*Budgeted manufacturing capacity utilisation rate* — The rate is determined on the basis of the average actual utilisation rate achieved in prior years, increased gradually for expected revival and improvement in market.

*Discount rate* — The discount rate used reflects specific risks relating to the coal-related ancillary cash-generating unit.

*Raw materials purchase costs, production costs and product selling price inflation* — The basis used to determine the value assigned to costs and price inflation is the forecasted inflation indices of the budget year.

Based on the results from the discounted cash flows, the recoverable amounts of the coal-related ancillary segment as at 30 June 2017 and 31 December 2016 were approximately HK$507,507,000 and HK$556,225,000 respectively. The directors were of the view that no additional impairment was required for items of property, plant and equipment in the coal-related ancillary segment as at 30 June 2017 and 31 December 2016.

## 11. Impairment test on property, plant and equipment *(Continued)*

***Coke production cash-generating unit***

The recoverable amounts of the coke production cash-generating unit as at 30 June 2017 and 31 December 2016 were determined based on a value in use calculation using cash flow projections based on financial budgets covering a 8.5-year period (2016: 9-year period) which is assessed and approved by senior management with reference to the physical conditions of property, plant and equipment at the current status and the expected obsolescence and retirement based on prior year experience. The discount rate applied to the cash flow projections was 14.1% (2016: 14.1%).

Key assumptions were used in the value in use calculation of the coke production cash-generating unit as at 30 June 2017 and 31 December 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing:

*Budgeted manufacturing capacity utilisation rate* — The rate is determined on the basis of the average actual utilisation rate achieved in prior years, stabilized within the manufacturing facility's designed capacity level for expected revival and improvement in market.

*Discount rate* — The discount rate used reflects specific risks relating to the coke production cash-generating unit.

*Raw materials purchase costs, production costs and product selling price inflation* — The basis used to determine the value assigned to costs and price inflation is the forecasted inflation indices of the budget year.

Based on the results from the discounted cash flows, the recoverable amounts of the coke production segment as at 30 June 2017 and 31 December 2016 were approximately HK$99,222,000 and HK$21,528,000 respectively. The directors noticed that the recoverable amount as at 31 December 2016 was already slightly higher than the carrying value at the time due to the coal market recovery in 2016. However, the directors preferred to observe the recovery trend for a while and did not reverse the previously impaired value of the segment as the market rebounded for around six months only since the second half 2016.

For the first half 2017, China reported economic growth data that topped market expectations. It eased concerns of economic slowdown and resulted in increase in domestic infrastructure spending and steel demand. The growing steel production and consumption in turn boosted the demand for metallurgical coke, which provided a solid foundation for the metallurgical coke price staying strong. The directors were of the view that the coal market upward trend will be sustainable and solid. The previous unfavorable market conditions that led to impairment of coke production segment were no longer applicable to the current circumstance. The growth in revenue and the remarkable improvement in profitability of the Group is a solid support to the directors' point of view. As a result, the directors believed that a reversal of impairment loss in respect of coke production segment equivalent to the recoverable amount of HK$99,222,000 as at 30 June 2017 fairly reflected the current market value of the segment.

## 12. Trade and bill receivables

| | At 30 June 2017 (Unaudited) *HK$'000* | At 31 December 2016 (Audited) *HK$'000* |
|---|---|---|
| Bills receivable | **1,262** | — |
| Trade receivable | **277,720** | 243,703 |
| Trade receivables from related companies | **41,358** | 38,073 |
| Impairment | **(53,338)** | (52,266) |
| | **267,002** | 229,510 |
| *Less:* Trade receivables due from the Non-controlling Shareholder | **(185,584)** | (168,483) |
| | **81,418** | 61,027 |

Group's trading terms with its customers are mainly on credit. The credit period is generally 120 days. Each customer has a maximum credit limit. Advances are required for certain customers. The Directors consider that these arrangements enable the Group to limit its credit risk exposure. As at 30 June 2017, approximately 70% (31 December 2016: 73%) of the Group's trade receivables was due from one customer, and there was a significant concentration of credit risk. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances due from customers other than the Non-controlling Shareholder (Note 13). Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

The carrying amounts of trade and bill receivables approximate their fair values.

An aged analysis of the trade receivables as at the end of the reviewing period, based on the invoice date and net of provisions, is as follows:

| | At 30 June 2017 (Unaudited) *HK$'000* | At 31 December 2016 (Audited) *HK$'000* |
|---|---|---|
| Within 3 months | **219,840** | 19,945 |
| 3 to 4 months | **5,735** | 2,712 |
| Over 4 months | **41,427** | 206,853 |
| | **267,002** | 229,510 |

## 13. Amount due from the Non-controlling Shareholder

| | Notes | At 30 June 2017 (Unaudited) *HK$'000* | At 31 December 2016 (Audited) *HK$'000* |
|---|---|---|---|
| **Current** | | | |
| Trade receivables due from the Non-controlling Shareholder *(Note 12)* | *(i), (iii)* | **185,584** | 168,483 |
| Other receivables from the Non-controlling Shareholder | *(ii), (iii)* | **192,984** | 107,756 |

*Notes:*

(i) The balances are trade in nature, non-interest-bearing and have a credit term of 120 days (2016: 120 days), which are similar to those granted to major trading customers of the Group.

(ii) The balances are advances to the Non-controlling Shareholder, which are non-interest-bearing and repayable on demand.

(iii) With respect to items mentioned in notes (i) and (ii), the Group and the Non-controlling Shareholder entered into a repayment agreement on 28 February 2016, pursuant to which the Non-controlling Shareholder committed to repay the balances due to the Group by monthly instalments of RMB50,000,000 from October 2016 onwards after its new coking plant started operation, and that the entire amount would be settled within 12 months.

Furthermore, an asset pledge agreement was provided by the Non-controlling Shareholder on 29 February 2016 whereby certain property, plant and equipment with a value of HK$1,347,000,000 as at 29 February 2016, were pledged to the Group to secure the repayment of the balances due from the Non-controlling Shareholder and an aggregate amount due from affiliates of the Non-controlling Shareholder.

The repayment and the asset pledge agreements were renewed in March 2017 to cover the trade and other receivables due from the Non-controlling Shareholder of HK$276,239,000 and an aggregate amount due from affiliates of the Non-controlling Shareholder of HK$40,321,000 at 31 December 2016. Pursuant to the renewed repayment agreement, a monthly repayment of RMB50,000,000 will be made by the Non-controlling Shareholder from October 2017 onwards after its new coking plant starts operation, and that the entire amount will be settled within 12 months. The pledged property, plant and equipment were valued at HK$1,229,023,000 at 28 February 2017.

Due to strategic changes of the corporate plan, the Non-controlling Shareholder transferred the ownership of the pledged property, plant and equipment to an affiliate of the Non-controlling Shareholder. In June 2017, the Group, Non-controlling Shareholder and the affiliate of the Non-controlling Shareholder entered into a new asset pledge agreement to replace the original asset pledge agreement signed in March 2017. Pursuant to the new asset pledge agreement, the affiliate of the Non-controlling Shareholder agrees to pledge the property, plant and equipment, which were transferred from the Non-controlling Shareholder, to the Group to cover the same trade and other receivables due from the Non-controlling Shareholder of HK$276,239,000 and an aggregate amount due from affiliates of the Non-controlling Shareholder of HK$40,321,000 at 31 December 2016.

The carrying amounts of the above balances approximate their fair values.

**14. Trade payables**

| | **At 30 June 2017 (Unaudited)** ***HK$'000*** | At 31 December 2016 (Audited) *HK$'000* |
|---|---|---|
| Trade payables due to other parties | **211,562** | 239,475 |
| Trade payables due to related companies | **4,964** | 7,687 |
| | **216,526** | 247,162 |

An aged analysis of the trade payables as at the end of the reviewing period, based on the invoice date, is as follows:

| | **At 30 June 2017 (Unaudited)** ***HK$'000*** | At 31 December 2016 (Audited) *HK$'000* |
|---|---|---|
| Within 3 months | **54,615** | 70,940 |
| 3 to 4 months | **6,241** | 5,792 |
| Over 4 months | **155,670** | 170,430 |
| | **216,526** | 247,162 |

The trade payables are non-interest-bearing and are normally settled on 120-day terms.

The carrying amounts of trade payables approximate their fair values.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Overview

In the first half year of 2017, the Chinese coal and coke market extended the amazing revival trend in 2016 and kept maintaining stable. The average price of metallurgical coke, our Group's major product and a key input for the production of steel, stayed steady at a multi-year high level , backing by robust demand for steel and fading concerns that the coal supply will increase.

Chinese steel manufacturers boosted its production output to address increased infrastructure spending amid the country's stronger than expected GDP growth at 6.9% for the first two quarters in 2017 . The strong demand in steel market was the main driver of metallurgical coke demand and led to a strong support to its market price.

Slashing excess coal capacity was still the main theme of the supply-side structure reform and at the top of the Chinese government's agenda. Meanwhile, the Chinese government continued to tighten its environmental supervision of coking plants by increasing the frequency of field inspections and enforcing stronger emission standards. The government policies intervention limited the coking coal supply and upheld the raw material cost for coke production.

### Prospects

Locking forward, in the second half year of 2017, the Group will concentrate on its corporate annual targets, strengthen its existing coal industry value chain, enhance cost management, and strengthen risk control. China's economy grew faster than expected based on the economic data for the first half year of 2017. The huge push in domestic infrastructure spending which is already underway is expected to further pick up and increase the steel production need. It will certainly result in growing demand for metallurgical coke. The Group is well prepared to take benefit of the current coal market recovery with proper plans of production. The Group expects that the current metallurgical coke price would sustain with chances of further moving upward in an uptick market demand.

In a globalised economy, the Group cannot completely insulated from the external uncertainties and disruptions across other economies in the world. The presence of a diversified business portfolio is the best option in controlling the threat elements to precipitate and to impact on our operations. Hence, the Group will continue to search for new and profitable business opportunities which are related to the Group's current operations, and explore investment opportunities with sustainable and steady return to the shareholders of the Company.

## Financial Review

### *I. Consolidated Operating Results*

*Revenue*

For the Reporting Period, the Group recorded total revenue of approximately HK$601,670,000 (2016: HK$261,280,000), representing an increase of approximately HK$340,390,000 or 130%. The increase was mainly due to the increase in average selling price of the Group's major product — metallurgical coke.

*Gross profit and gross profit margin*

For the Reporting Period, the Group recorded gross profit of approximately HK$95,926,000 (2016: HK$54,024,000), representing an increase of approximately HK$41,902,000 or 78%. In respect of the overall gross profit margin, it dropped from 20.7% for the six months ended 30 June 2016 to 15.9% for the Reporting Period.

The decline in the overall gross profit margin was mainly due to the gross loss in other products such as power and heat generation, which partially offset the coke production segment's gross profit. Indeed, the coke production segment's gross profit margin increased from 19.9% for the six months ended 30 June 2016 to 23.1% for the Reporting Period as the average selling price of metallurgical coke surged notably. However, the huge rise in raw coal price due to the market recovery also hit the profitability of the Group's other products such as power and heat generation, whereas the other products reported a combined gross loss margin of 21.5% (2016: gross profit margin of 24.9%) for the Reporting Period.

### *II. Operating Results of Segments*

The Group is principally engaged in three business segments, namely: (i) trading of coke (the "Coke Trading Segment"); (ii) washing of raw coal into refined coal for sale and for further processing, and the sale of electricity and heat which are generated with by-products produced during washing of raw coal (the "Coal-related Ancillary Segment"); and (iii) processing of refined coal into coke for sale, and sale of coke by-products that are generated during coke production (the "Coke Production Segment").

*1. Coke trading segment*

The Group continued to explore business opportunities in coke trading business. During the Reporting Period, the Group decided to focus its resources on other segments and hold the coke trading agency service temporarily. Therefore, the Group did not derive agency fee income from this segment for the Reporting Period (2016: HK$1,036,000).

2. *Coal-related ancillary segment*

The coal-related ancillary segment is related to the washing of raw coal into refined coal for sales and for further processing, and the sale of electricity and heat which are generated as the by-products during washing of raw coal process.

The external sales mainly represented the revenue from sales of power and heat energy to the community in the Xiaoyi City, Shanxi Province, China. For the Reporting Period, the external sales amounted to HK$47,752,000 (2016: HK$46,825,000), representing almost the same level as that of the corresponding period last year.

The raw coal prices soared largely in 2017 following the coal market recovery trend and it led to a significant increase in production cost in this segment. Therefore, the segment result dropped from approximately HK$27,977,000 for the six months ended 30 June 2016 to approximately HK$13,353,000 for the Reporting Period.

3. *Coke production segment*

For the Reporting Period, the coke production segment's revenue increased from approximately HK$214,455,000 for the six months ended 30 June 2016 to approximately HK$553,918,000, representing an increase of 158%. The segment result increased from approximately HK$14,968,000 for the six months ended 30 June 2016 to approximately HK$44,779,000, representing an increase of 199%. This was mainly due to the significant increase in average selling price of metallurgical coke during the Reporting Period.

### *III. Selling and Distribution Costs*

For the Reporting Period, the Group's selling and distribution costs increased remarkably from approximately HK$335,000 for the six months ended 30 June 2016 to approximately HK$60,840,000. The huge jump was owing to the change of metallurgical coke delivery term, which the Group was the contract party to pay for the logistics cost, during the Reporting Period.

### *IV. Administrative Expenses*

The Group's administrative expenses amounted to approximately HK$25,178,000 for the Reporting Period, while it was approximately HK$26,676,000 for the six months ended 30 June 2016. The Group managed to control the administrative expenses even lower than that of the corresponding period last year under the leadership of the new management team.

### *V. Finance Costs*

For the Reporting Period, the finance costs increased from approximately HK$315,000 for the six months ended 30 June 2016 to approximately HK$3,199,000. The increase was mainly due to the interest expenses in relation to the convertible bonds issued in November 2016.

### *VI. Reversal of Impairment Loss in respect of Property, Plant and Equipment*

The reversal of impairment loss in respect of property, plant and equipment amounted to approximately HK$99,222,000 (2016: Nil), arising from the increase in fair value of coke production segment. The increase in fair value of coke production segment was mainly due to the solid revival trend of China's coal market and the expectation that the current metallurgical coke price would sustain with chances of further moving upward in an uptick market demand. More details regarding reversal of impairment loss in respect of property, plant and equipment are set out in note 11 to the condensed consolidated interim financial statements.

### *VII. Profit for the period*

For the Reporting Period, the Group's profit for the period increased from approximately HK$9,606,000 for the six months ended 30 June 2016 to approximately HK$135,205,000. The huge jump in profit for period was mainly due to the sharp increase in average selling price of metallurgical coke and the reversal of impairment loss in respect of property, plant and equipment during the Reporting Period.

## CHARGES OVER ASSETS

The Group had no pledged assets, including pledged deposit, as at 30 June 2017 (31 December 2016: Nil).

## CAPITAL STRUCTURE AND CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Reporting Period as compare with the year ended 31 December 2016.

The Group's principal financial instruments comprise convertible bonds and other borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, deposits and other receivables, amounts due from the Non-controlling Shareholder, cash and bank balances, trade payables, and other payables and accruals, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarized below.

The Group regularly monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. Net debt includes trade payables, other payables, accruals and deposits received, other borrowings, convertible bonds, net of cash and bank balances. Capital includes the convertible bonds issued in 2008 and equity attributable to owners of the parent. The gearing ratios as at 30 June 2017 was 65% (31 December 2016: 71%).

As at 30 June 2017, the equity attributable to owners of the parent amounted to HK$372,457,000 (31 December 2016: HK$244,610,000). The equity attributable to owners of the Company per share was approximately HK$0.14 per share (31 December 2016: HK$0.10 per share).

**LIQUIDITY AND FINANCIAL RESOURCES**

Net current liabilities and current ratio were HK$81,168,000 (31 December 2016: HK$104,451,000) and 0.89 (31 December 2016: 0.84), respectively as at 30 June 2017.

As at 30 June 2017, the Group's cash and bank balances amounted to HK$85,719,000 (31 December 2016: HK$97,931,000). The total other borrowings and convertible bonds amounting to HK$19,813,000 (31 December 2016: HK$25,813,000) and HK$39,787,000 (31 December 2016: HK$36,835,000) respectively.

As of 30 June 2017 and 31 December 2016, the Group has no bills payable.

**INTEREST RATE RISK**

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's fair value interest rate risk relates primarily to short term cash and bank balances. The Group is also exposed to cash flow interest rate risk through the impact of interest rate changes on deposits. To minimize the fair value interest rate risk, the Group keeps its borrowings with a fixed rate of interest. The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

## FOREIGN CURRENCY RISK

The Group's monetary assets, liabilities and transactions are principally denominated in Renminbi ("RMB"), United States dollars ("USD") and Hong Kong dollars ("HKD"). The Group is exposed to foreign currency risk arising from the monetary assets and liabilities that are denominated in currencies other than functional currencies of the respective group entities.

The Group does not have any hedging instruments outstanding. The Group will constantly review the economic situation and its foreign currency risk profile, and will consider appropriate hedging measures in the future as may be necessary.

## CONTINGENT LIABILITIES

As at 30 June 2017, the Group did not have any significant contingent liabilities which have not been provided for in the financial statements (31 December 2016: Nil).

## TREASURY POLICIES

The Group adopts a prudent approach with respect to treasury and funding policies, with a focus on risk management and transactions that are directly related to the underlying business of the Group.

## EMPLOYEES AND REMUNERATION

As at 30 June 2017, the Group had approximately 1,390 employees (December 2016: approximately 1,500 employees). Less than 15 staffs are stationed in Hong Kong and the rest are senior management and workers in Mainland China. The Group's staff costs amounted to approximately HK$28,724,000 for the six months ended 30 June 2017 and approximately HK$24,264,000 was recorded in the corresponding period of 2016.

Employees are remunerated according to the nature of the job and market trends, with a built-in merit component incorporated in the annual increment and a year-end performance bonus to reward motivated individual performance. Up to the date of this announcement, there are 10,400,000 share options outstanding under the share option scheme.

## AUDIT COMMITTEE

The Audit Committee is composed of three independent non-executive Directors namely, Mr. Lau Ka Ho, Mr. To Wing Tim, Paddy, Mr. Lam Hoy Lee, Laurie and one non-executive Director, Mr. Huang Man Yem. The Audit Committee has reviewed with management the accounting policies and practice adopted by the Group and discussed auditing, internal control and financial reporting matters. The unaudited condensed consolidated interim results of the Group for the Reporting Period have been reviewed by the Audit Committee.

## CODE ON CORPORATE GOVERNANCE PRACTICES

Save and except as disclosed below, the Company has complied with the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") for the six months ended 30 June 2017.

### Code Provision A.2.1

CG Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Zhao Xu Guang is the Chairman of the Board and also serves as Chief Executive Officer. The Board believes that the present arrangement provides the Company with strong and consistent leadership and facilitates the implementation and execution of the business strategies, and thus achieves the Company's objectives efficiently and effectively in response to the changing environment. The Board also believes that the Company has established a strong corporate governance structure in place to ensure effective management. The Board shall nevertheless review the structure from time to time in light of prevailing circumstances.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transaction by the Directors of the Company (the "Code"). Having made specific enquiry of the Directors of the Company, all Directors of the Company confirmed that they had complied with the required standard as set out in the Code during the Reporting Period.

## PURCHASE, SALE OR REDEMPTION OF OWN LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## PUBLICATION OF INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The Company's interim report for the Reporting Period will be published on the HKExnews website of the Stock Exchange (www.hkexnews.hk) and the official website for corporate communication of the Company (www.huscoke.com) in due course in compliance with the relevant Listing Rules.

## APPRECIATION

On behalf of the Board, I would like to express my sincere appreciation to the shareholders of the Company for their continued support and sincerely thank the Directors and staffs for their dedication and diligence. I also wish to take this opportunity to express my gratitude to the Group's customers, suppliers, bankers and convertible bonds holders for their ongoing support.

By Order of the Board
**Huscoke Resources Holdings Limited**
**Wong Siu Hung, Patrick**
*Executive Director*

Hong Kong, 31 August 2017

*As at the date of this announcement, the executive Directors of the Company are Mr. Zhao Xu Guang and Mr. Wong Siu Hung, Patrick, the non-executive Director of the Company is Mr. Huang Man Yem, the independent non-executive Directors of the Company are Mr. Lam Hoy Lee, Laurie, Mr. Lau Ka Ho and Mr. To Wing Tim, Paddy.*