福山國際能源集團有限公司

Fushan International Energy Group Limited

Stock Code: 639

CONTINUED GROWTH

ANNUAL REPORT 2010

LOCATIONS OF THE GROUP'S COKING COAL MINES

CORPORATE PROFILE

Fushan International Energy Group Limited
is one of the most sizable integrated coking coal corporations in
central-western China.
Taking Shanxi Province as its major investment base,
it is principally engaged in
mining of coking coal, production and sales of raw and clean coking coal.

Contents

Corporate Information

BOARD OF DIRECTORS

Wang Pingsheng *(Chairman)*
Chen Zhouping *(Vice-chairman and Managing Director)*
Wong Lik Ping *(Vice-chairman)*
So Kwok Hoo *(Deputy Managing Director)*
Chen Zhaoqiang *(Deputy Managing Director)*
Xue Kang *(Deputy Managing Director)*
Liu Qingshan *(Deputy Managing Director)*
Leung Shun Sang, Tony *(Non-executive Director)*
Zhang Yaoping *(Non-executive Director)*
Zhang Wenhui *(Non-executive Director)*
Kee Wah Sze *(Independent Non-executive Director)*
Choi Wai Yin *(Independent Non-executive Director)*
Chan Pat Lam *(Independent Non-executive Director)*

EXECUTIVE COMMITTEE

Wang Pingsheng *(Chairman)*
Chen Zhouping
Wong Lik Ping
So Kwok Hoo
Chen Zhaoqiang
Xue Kang
Liu Qingshan

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

Wang Pingsheng *(Chairman)*
Wong Lik Ping
Kee Wah Sze
Choi Wai Yin
Chan Pat Lam

REMUNERATION COMMITTEE

Leung Shun Sang, Tony *(Chairman)*
So Kwok Hoo
Kee Wah Sze
Choi Wai Yin
Chan Pat Lam

COMPANY SECRETARY

Cheng Man Ching

AUDITOR

BDO Limited
Certified Public Accountants

SHARE REGISTRARS

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

STOCK CODE

639

WEBSITE

www.fushan.com.hk

Directors' Biographies

Mr. Wang Pingsheng, aged 60, steel engineer and senior economist, graduated from Beijing Institute of Iron and Steel. Mr. Wang was appointed the Chairman and an Executive Director as well as the Chairman of each of the Executive Committee and the Nomination Committee of the Company in May 2010. He joined Shougang Corporation, the ultimate holding company of Shougang Holding (Hong Kong) Limited ("Shougang Holding"), in 1975 and act as the vice-chairman of Shougang Holding with effect from 10 May 2010. Shougang Holding is a substantial shareholder of the Company within the meaning the Part XV of the Securities and Futures Ordinance (the "SFO"). Mr. Wang also acts as the vice-chairman of Shougang International Trade and Engineering Corporation. He has extensive experience in management and operation of steel industry.

A service contract was entered into between Mr. Wang and a wholly-owned subsidiary of the Company commencing from 10 May 2010. Under the service contract, Mr. Wang is entitled to a monthly salary of HK$350,000 or such higher salary and discretionary bonus as may be determined by the board of directors of the Company (the "Board") from time to time. For the period from 10 May 2010 (the date of appointment of Mr. Wang as an Executive Director of the Company) to 31 December 2010, Mr. Wang's monthly salary is HK$350,000 and his discretionary bonus is HK$5,330,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Wang's individual performance.

Mr. Chen Zhouping, aged 45, graduated from the School of Economics and Management, Beijing Tsinghua University and is a member of the Chinese Institute of Certified Public Accounts. Mr. Chen was appointed a Non-executive Director of the Company in January 2009 and was re-designated as the Vice-chairman and Managing Director of the Company from 10 May 2010 (the "Re-designation"). He is a member of the Executive Committee of the Company. Mr. Chen is the deputy managing director of each of Shougang Holding and Shougang Concord International Enterprises Company Limited ("Shougang International"), and a director of Fine Power Group Limited ("Fine Power"), each of Shougang Holding, Shougang International and Fine Power is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Chen is also a non-executive director of Mount Gibson Iron Limited, a company listed on the Australian Securities Exchange. He has extensive experience in steel industry, engineering design, human resources and management.

A service contract was entered into between Mr. Chen and a wholly-owned subsidiary of the Company commencing from 10 May 2010. Under the service contract, Mr. Chen is entitled to a monthly salary of HK$350,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the period from 1 January 2010 to 9 May 2010, the director's fee of Mr. Chen is HK$107,258 which was paid for services provided by Mr. Chen as a Non-executive Director of the Company. For the period from 10 May 2010 (the effective date of the Re-designation) to 31 December 2010, Mr. Chen's monthly salary is HK$350,000 and his discretionary bonus is HK$5,330,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Chen's individual performance.

Directors' Biographies

Mr. Wong Lik Ping, aged 50. Mr Wong was appointed the Chairman and an Executive Director of the Company in September 2001 and was re-designated as a Vice-chairman of the Company in March 2009. He is a member of each of the Executive Committee and the Nomination Committee of the Company. Mr. Wong is a substantial shareholder of the Company within the meaning of Part XV of the SFO. He is the chairman and an executive director of Theme International Holdings Limited ("Theme International"), a listed company in Hong Kong. Mr. Wong is also a member of the Shenzhen Committee of Chinese Peoples Political Consultative Conference. Mr. Wong has extensive experience in trading business, financial industry and investments in a wide range of businesses including mine industry in the People's Republic of China (the "PRC").

A service contract was entered into between Mr. Wong and a wholly-owned subsidiary of the Company commencing from 1 January 2010. Under the service contract, Mr. Wong is entitled to a monthly salary of HK$350,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2010, Mr. Wong's monthly salary is HK$350,000 and his discretionary bonus is HK$8,000,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Wong's individual performance.

Mr. So Kwok Hoo, aged 57, holds bachelor degrees in applied science with major in chemical engineering and business administration in Canada. Mr. So was appointed an Executive Director of the Company in March 1998 and was re-designated as a Deputy Managing Director of the Company in January 2010. He is a member of each of the Executive Committee and the Remuneration Committee of the Company. Mr. So is a non-executive director of APAC Resources Limited ("APAC"), a listed company in Hong Kong. He has extensive experience in marketing of electrochemical and industrial products sales in Asia Pacific Region together with property investment experience in Hong Kong.

A service contract was entered into between Mr. So and a wholly-owned subsidiary of the Company commencing from 1 January 2010. Under the service contract, Mr. So is entitled to a monthly salary of HK$250,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2010, Mr. So's monthly salary is HK$250,000 and his discretionary bonus is HK$3,500,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. So's individual performance.

Mr. Chen Zhaoqiang, aged 43, graduated from Jiaozuo Mining Institute with a bachelor degree majoring in mining engineering and obtained a master degree in management science from Huazhong University of Science & Technology. Mr Chen was appointed as an Executive Director and Deputy Managing Director of the Company in January 2010. He is also a member of the Executive Committee of the Company. He was a director of APAC from July 2007 to October 2009. Mr. Chen had engaged in many important posts in coal mining industry, including in Pingdingshan Coal Co. Ltd., Henan Pingbao Coal Co. Ltd., and Henan Company for Coal Seam Gas Development & Application. He has extensive experience in coal mining industry including in the areas of production safety management for coal mining, purchase and logistics management, mineral resources development and coal trading.

A service contract was entered into between Mr. Chen and a wholly-owned subsidiary of the Company commencing from 1 January 2010. Under the service contract, Mr. Chen is entitled to a monthly salary of HK$220,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2010, Mr. Chen's monthly salary is HK$220,000 and his discretionary bonus is HK$3,080,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Chen's individual performance.

Directors' Biographies

Mr. Xue Kang, aged 47, holds a diploma of electrical and mechanical engineering from Shanxi Yangquan Coal Mine Vestibule School Electro-mechanics Specialist and a diploma of logistic management from Shanxi Coal-Mining Administrative College Logistic Management Specialist. Mr. Xue was appointed an Executive Director of the Company in January 2008 and has been re-designated as a Deputy Managing Director of the Company from January 2010. He is a member of the Executive Committee of the Company. Mr. Xue is also the general manager as well as a director of Jinshan Energy Group Limited, a non-wholly owned subsidiary of the Company in the PRC. Mr. Xue has extensive experience in the field of mine industry in the PRC.

A service contract was entered into between Mr. Xue and a wholly-owned subsidiary of the Company commencing from 1 January 2010. Under the service contract, Mr. Xue is entitled to a monthly salary of HK$200,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2010, Mr. Xue's monthly salary is HK$200,000 and his discretionary bonus is HK$2,800,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Xue's individual performance.

Mr. Liu Qingshan, aged 52, graduated from Shanxi University of Finance and Economics Department of Accounting and obtained a master of business administrative from Capital University of Economics and Business. Mr. Liu was appointed an Executive Director of the Company in November 2008 and was re-designated as a Deputy Managing Director of the Company in January 2010. He is a member of the Executive Committee of the Company. Before joining the Group, Mr. Liu worked as chief financial controller in Fortune Dragon Group Limited and in other sizable energy resources companies in the PRC. Mr. Liu has extensive experience in the fields of accounting and finance in the mining industry in the PRC.

A service contract was entered into between Mr. Liu and a wholly-owned subsidiary of the Company commencing from 1 January 2010. Under the service contract, Mr. Liu is entitled to a monthly salary of HK$200,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2010, Mr. Liu's monthly salary is HK$200,000 and his discretionary bonus is HK$2,800,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Liu's individual performance.

Mr. Leung Shun Sang, Tony, aged 68, holds a master degree in business administration from New York State University. Mr. Leung was appointed a Non-executive Director of the Company in March 2009 and is the Chairman of the Remuneration Committee of the Company. Mr. Leung is a non-executive director of Shougang International, a substantial shareholder of the Company within the meaning of Part XV of the SFO. He is also a non-executive director of each of Shougang Concord Grand (Group) Limited, Shougang Concord Technology Holdings Limited, Shougang Concord Century Holdings Limited and Global Digital Creations Holdings Limited. Mr. Leung is the managing director of CEF Group. He has over 40 years of experience in finance, investment and corporate management.

An engagement letter was entered into with Mr. Leung for a term of three years commencing from 1 January 2010 subject to renewal. Under the engagement letter, Mr. Leung is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2010, the director's fee of Mr. Leung is HK$300,000. Such director's fee was determined with reference to Mr. Leung's experience and duties as well as the then prevailing market conditions.

Directors' Biographies

Mr. Zhang Yaoping, aged 43, attended Party School of the Central Committee of C.P.C. in the PRC where he studied economic management. Mr. Zhang was appointed a Non-executive Director of the Company in January 2010. He was an officer of the board of directors' office of a coal mining company in Shanxi Province, the PRC and currently is the chairman of board of secretary as well as a member of the board of directors of such company. Mr. Zhang has extensive experience in the field of energy resources industries and steel trading in the PRC.

An engagement letter was entered into with Mr. Zhang for a term of three years commencing from 1 January 2010 subject to renewal. Under the engagement letter, Mr. Zhang is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2010, the director's fee of Mr. Zhang is HK$300,000. Such director's fee was determined with reference to Mr. Zhang's experience and duties as well as the then prevailing market conditions.

Mr. Zhang Wenhui, aged 55, graduated from the University of Science and Technology Beijing. Mr. Zhang was appointed a Non-executive Director of the Company in May 2010. He is a deputy managing director of Shougang Holding and Shougang International, and a director of Fine Power. Each of Shougang Holding, Shougang International and Fine Power is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Zhang joined Shougang Corporation, the ultimate holding company of Shougang Holding, in 1982 and had been working in various companies under Shougang Corporation during the period from 1990 to 2001. He was a director and the president of Shougang Technology during the period from July 2004 to July 2006 and was the vice chairman of Shougang Technology from July 2006 to September 2006. Mr. Zhang has extensive experience in management and company operations.

An engagement letter was entered into with Mr. Zhang with a term commencing from 10 May 2010 and expiring on 31 December 2012 subject to renewal. Under the engagement letter, Mr. Zhang is entitled to a director's fee as may be determined by the Board from time to time. For the period from 10 May 2010 (the date of appointment of Mr. Zhang as a Non-executive Director of the Company) to 31 December 2010, the director's fee of Mr. Zhang is HK$192,741 which was paid based on the annual director's fee of HK$300,000 in proportion to the actual length of services provided by Mr. Zhang. For the financial year ending 31 December 2011, the director's fee of Mr. Zhang will be HK$300,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Zhang. Such director's fees were determined with reference to Mr. Zhang's experience and duties as well as the then prevailing market conditions.

Mr. Kee Wah Sze, aged 63, holds a Master Degree in Chinese and Comparative Law of City University of Hong Kong and Master Degree in Law of the People's University of the PRC. Mr. Kee was appointed an Independent Non-executive Director of the Company in April 1997 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. Mr. Kee is also an executive director of Goldbond Group Holdings Limited and an independent non-executive director of Theme International, and was an independent non-executive director of Hengli Properties Development (Group) Limited from May 2001 to October 2007 respectively. All the aforesaid companies are listed companies in Hong Kong. Mr. Kee is a partner of Messrs. Michael Cheuk, Wong & Kee and has been a practicing solicitor in Hong Kong for over 20 years specialized in both the commercial and conveyancing fields. He is a Notary Public of Hong Kong and a China Appointed Attesting Officer.

An engagement letter was entered into with Mr. Kee for a term of three years commencing from 1 January 2010 subject to renewal. Under the engagement letter, Mr. Kee is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2010, the director's fee of Mr. Kee is HK$300,000. Such director's fee was determined with reference to Mr. Kee's experience and duties as well as the then prevailing market conditions.

Directors' Biographies

Mr. Choi Wai Yin, aged 52, holds a Master degree of Science in Finance from the City University of Hong Kong, a Bachelor Degree in Business Administration from the Chinese University of Hong Kong and a Bachelor Degree in law from the Peking University. Mr. Choi was appointed an Independent Non-executive Director of the Company in July 2004 and is the Chairman of the Audit Committee and a member of each of the Nomination Committee and the Remuneration Committee of the Company. Mr. Choi was a director of Incutech Investments Limited, a listed company in Hong Kong, from January 2002 to October 2007. He was also appointed an executive director of a company which is the investment manager of a Hong Kong listed company. Mr. Choi is an investment adviser registered under the SFO. Mr. Choi has over 25 years of experience in the fields of finance and fund management.

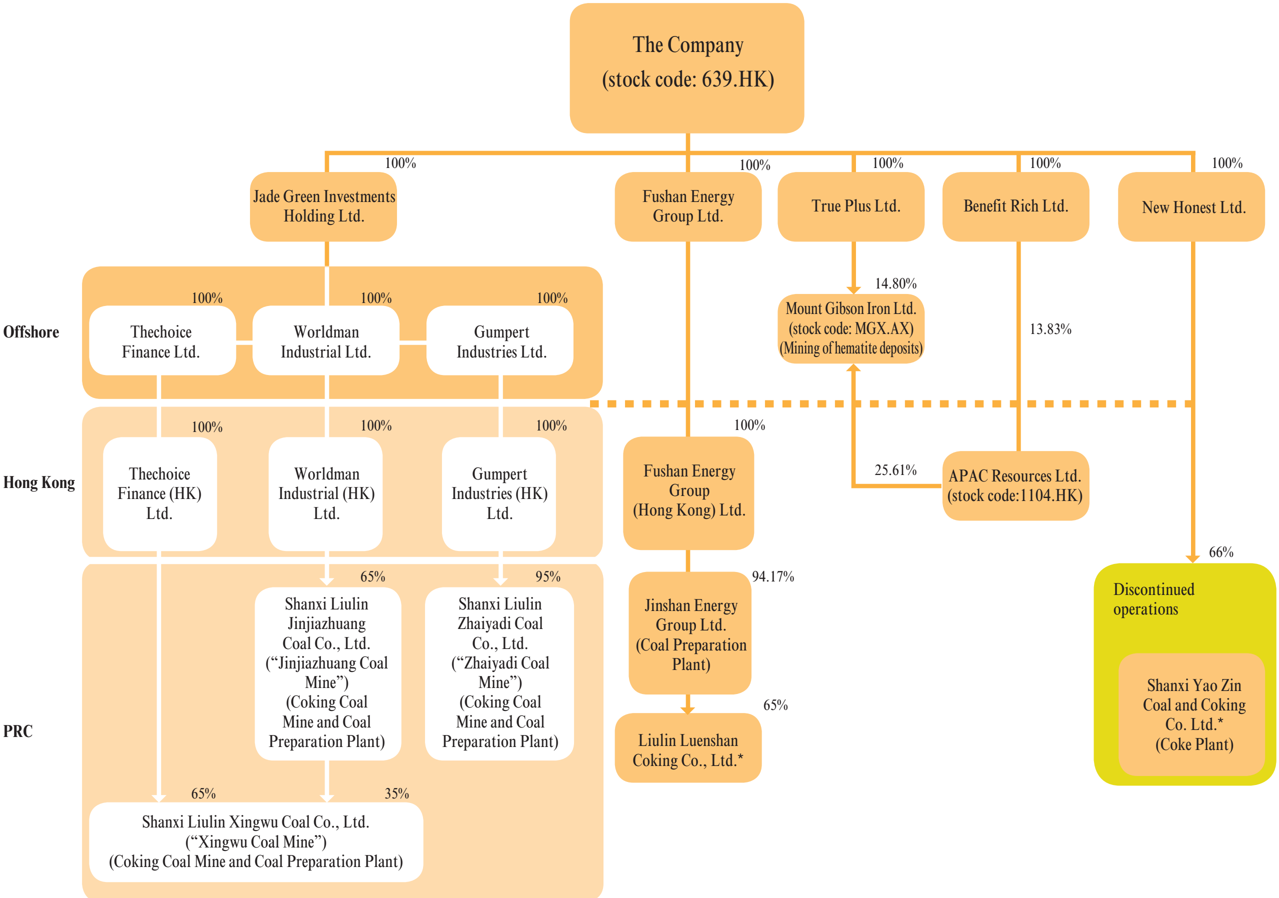
An engagement letter was entered into with Mr. Choi for a term of three years commencing from 1 January 2010 subject to renewal. Under the engagement letter, Mr. Choi is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2010, the director's fee of Mr. Choi is HK$300,000. Such director's fee was determined with reference to Mr. Choi's experience and duties as well as the then prevailing market conditions.

Mr. Chan Pat Lam, aged 62. Mr. Chan was appointed an Independent Non-executive Director of the Company in December 2004 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. Mr. Chan is also an independent non-executive director of Theme International, a listed company in Hong Kong. Currently, he is the assistant to the managing director of a private company, which is engaged in acting as an international container shipping agency in the Western region of Pearl River Delta. He is also the business advisor of a commercial bank in Macau and a partner of another private company which is engaged in trading and wholesaling of grocery items. Mr. Chan has over 35 years of experience in the field of international banking industry in Hong Kong, Macau and California.

An engagement letter was entered into with Mr. Chan for a term of three years commencing from 1 January 2010 subject to renewal. Under the engagement letter, Mr. Chan is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2010, the director's fee of Mr. Chan is HK$300,000. Such director's fee was determined with reference to Mr. Chan's experience and duties as well as the then prevailing market conditions.

Main Operational Structure

The main operational structure of the Group as at 31 December 2010 is as follows:



* For identification purpose only

Financial Highlights

- Record 2010 operating profit of HK$2,977 million (2009 (Restated): HK$2,271 million) – sharp increase by HK$706 million or a year-on-year increase of 31%.
- Record 2010 net profit of HK$2,215 million (2009: HK$1,442 million) – sharp increase by HK$773 million or a year-on-year increase of 54%.
- Record 2010 net profit attributable to owners of the Company ("Owners") of HK$1,803 million (2009: HK$1,126 million) – sharp increase by HK$677 million or a year-on-year increase of 60%.
- 2010 gross profit margin achieved at 74% (2009 (Restated): 72%).
- 2010 EBITDA[1] of HK$3,395 million (2009 (Restated): HK$2,662 million) – sharp increase by HK$733 million or a year-on-year increase of 28%.
- 2010 basic earnings per share was HK33.52 cents (2009: HK23.53 cents).
- 2010 proposed final dividend is HK10 cents per ordinary share (2009: HK11 cents per ordinary share).
- Net assets of HK$19,623 million as at 31 December 2010 (31 December 2009: HK$17,330 million) – sharp increase by HK$2,293 million or a year-on-year increase of 13%.
- Gearing ratio[2] was 6% as at 31 December 2010 (31 December 2009: 5%).

Note:

1. EBITDA is defined as operating profit plus depreciation and amortisation.

2. Gearing ratio is computed from total borrowings divided by total equity.

Financial Highlights

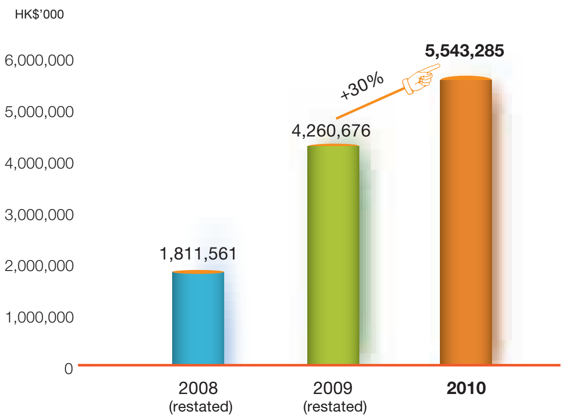
(HK$'000)	2008 (Restated)	2009 (Restated)	2010	Percentage change
	For the year ended 31 December			
Turnover	1,811,561	4,260,676	5,543,285	+30%
Gross profit	1,271,583	3,086,827	4,091,525	+33%
Gross profit margin	70%	72%	74%	+3%
Operating profit	1,097,450	2,270,842	2,976,588	+31%
EBITDA	1,236,896	2,661,817	3,395,058	+28%
Profit for the year	706,627	1,442,483	2,215,067	+54%
Profit attributable to Owners	567,649	1,126,274	1,802,791	+60%
Earnings per share (HK cents)	16.86	23.53	33.52	+42%

(HK$'000)	2008	2009	2010	Percentage change
	As at 31 December			
Total assets	19,252,268	22,557,408	26,119,627	+16%
Total liabilities	(6,803,271)	(5,227,644)	(6,496,405)	+24%
Total equity	12,448,997	17,329,764	19,623,222	+13%
of which: Equity attributable to Owners	10,821,739	15,825,194	18,149,894	+15%
Net assets per share attributable to Owners (HK$)	2.37	2.95	3.37	+14%

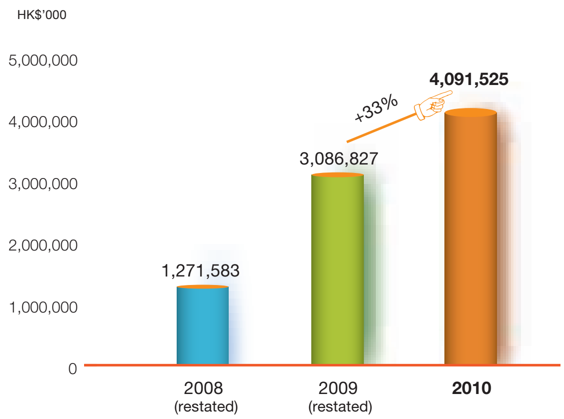
Financial Highlights

PROFIT & LOSS SUMMARY

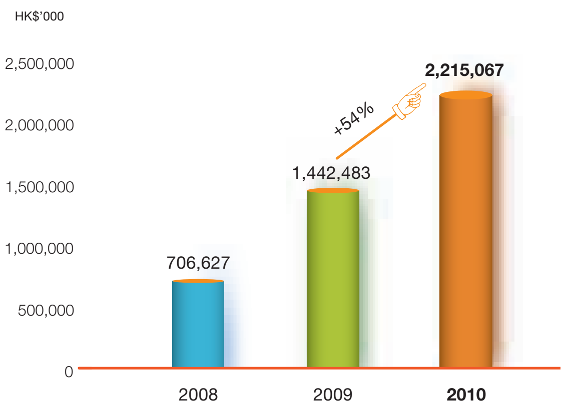
Turnover



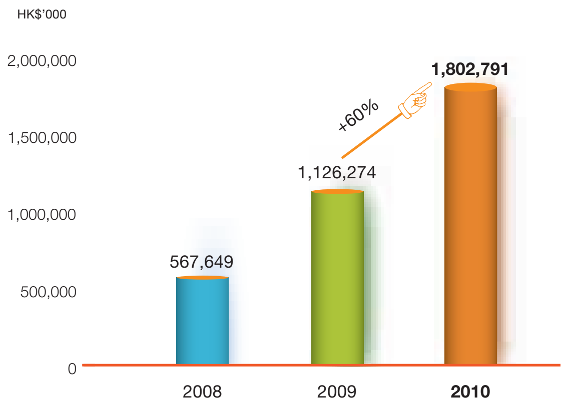
Gross Profit



Profit for the year

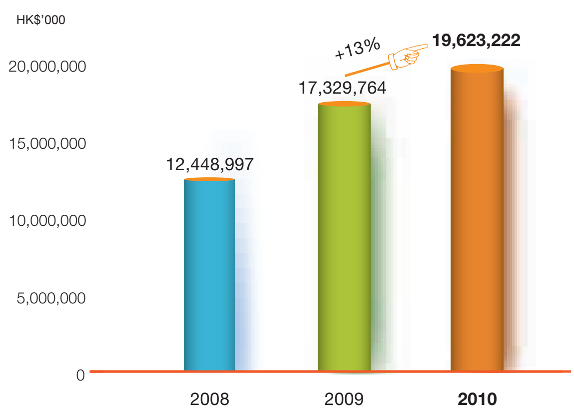


Profit Attributable to Owners

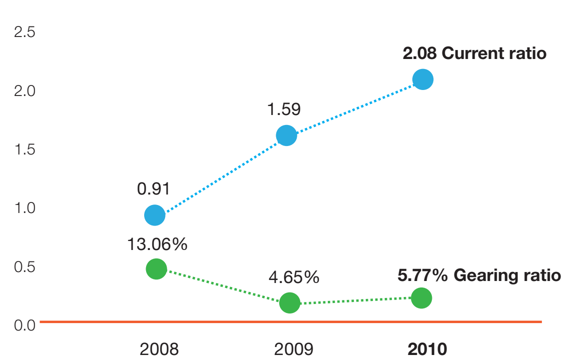


HEALTHY FINANCIAL POSITION

Net Assets



Gearing Ratio & Current Ratio



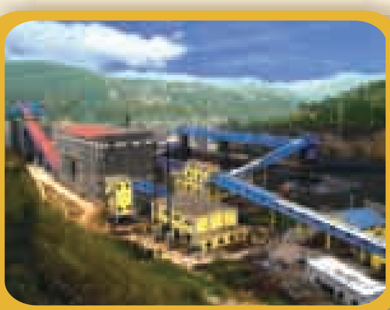
Operating Mines

Xingwu Coal Mine

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

Jinjiazhuang Coal Mine

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



Zhaiyadi Coal Mine

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

Operating Mines

COAL CHARACTERISTICS

✓ Located within the Lishi-Liulin mining area of Hedong coalfield, one of China's key reserve areas for high-quality hard coking coal.

✓ Regarded as "panda coal" because of its scarcity and high economic value.

✓ The Group's coking coal is of particularly good quality due to its high calorific value and caking index but low ash and sulfur content, characteristics that are highly desirable for coke and steel making.

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

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

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

Operating Mines

OPERATING DATA

Reserves and output

	Operating Mines			
	XINGWU	JINJIAZHUANG	ZHAIYADI	TOTAL
Reserves				
In-Place Reserves as at 31 December 2007 (Mt)	63.23	64.18	78.34	205.75
Recoverable Reserves as at 31 December 2007 (Mt) – Proven reserves	11.11	20.78	13.32	45.21
Recoverable Reserves as at 31 December 2007 (Mt) – Probable reserves	35.23	23.02	38.89	97.14
Total proven and probable reserves as at 31 December 2007 (Mt)	46.34	43.80	52.21	142.35
Less : Raw coking coal output in 2008 (Mt)	(1.47)	(1.46)	(2.43)	(5.36)
Raw coking coal output in 2009 (Mt)	(1.68)	(1.91)	(2.59)	(6.18)
Raw coking coal output in 2010 (Mt)	(1.78)	(1.99)	(2.46)	(6.23)
As at 31 December 2010 (Mt)	**41.41**	**38.44**	**44.73**	**124.58**
Raw coking coal output				
Raw coking coal output in 2006 (Mt)	1.514	1.201	1.425	4.140
Raw coking coal output in 2007 (Mt)	1.639	1.508	1.936	5.083
Raw coking coal output for the 7 months ended 31 July 2008 (Mt)	0.777	0.818	1.295	2.890
Raw coking coal output for the 5 months ended 31 December 2008 (Mt)	0.695	0.639	1.133	2.467
Total raw coking coal output in 2008 (Mt)	1.472	1.457	2.428	5.357
Total raw coking coal output in 2009 (Mt)	1.683	1.912	2.594	6,189
Total raw coking coal output in 2010 (Mt)	**1.784**	**1.987**	**2.455**	**6.226**
Current raw coking coal production capacity (Mt per annum)	2.100	2.100	2.100	6.300
Current input processing capacity (Mt per annum)	1.200	3.000	2.100	6.300
Clean coking coal output				
Clean coking coal output in 2006 (Mt)	0.560	–	–	0.560
Clean coking coal output in 2007 (Mt)	0.830	–	–	0.830
Clean coking coal output for the 7 months ended 31 July 2008 (Mt)	0.493	–	–	0.493
Clean coking coal output for the 5 months ended 31 December 2008 (Mt)	0.273	–	–	0.273
Total clean coking coal output in 2008 (Mt)	0.766	–	–	0.766
Total clean coking coal output in 2009 (Mt)	0.717	0.276	–	0.993
Total clean coking coal output in 2010 (Mt)	**0.610**	**0.926**	**0.069**	**1.605**

Operating Mines

OPERATING DATA *(continued)*

Historical realised selling price and production costs

	AVERAGE OF THREE OPERATING MINES
Average realised selling price (inclusive of VAT) of raw coking coal per tonne	
For the 7 months ended 31 July 2008	RMB582
For the 5 months ended 31 December 2008	RMB785
For the year ended 31 December 2008	RMB670
For the year ended in 31 December 2009	RMB644
For the year ended in 31 December 2010	**RMB836**
Average realised selling price (inclusive of VAT) of clean coking coal per tonne	
For the 7 months ended 31 July 2008	RMB984
For the 5 months ended 31 December 2008	RMB1,544
For the year ended 31 December 2008	RMB1,178
For the year ended 31 December 2009	RMB1,401
For the year ended 31 December 2010	**RMB1,706**
Raw coking coal production cost per tonne#	
For the year ended 31 December 2008	RMB136
For the year ended 31 December 2009	RMB154
For the year ended 31 December 2010	**RMB181**
Raw coking coal mine cash cost per tonne*#	
For the year ended 31 December 2008	RMB87
For the year ended 31 December 2009	RMB95
For the year ended 31 December 2010	**RMB120**

Sources: *Data for the period from 7 months ended 31 July 2008 and for the three years ended 31 December 2010 are extracted from the unaudited management accounts of the operating mines for the 7 months ended 31 July 2008 prepared in accordance with the accounting principles generally accepted in the PRC ("PRCGAAP") and the unaudited management accounts of three operating mines for the three years ended 31 December 2010 prepared in accordance with the PRCGAAP respectively.*

* *Mine Cash Cost means production cost less (1) production maintenance fee, (2) safety fund, (3) other expenses of similar nature and (4) depreciation and amortisation*

\# *Cost is calculated in accordance with the PRCGAAP*

Chairman's Statement

Dear Honorable Shareholders,

On behalf of the Board of Directors of Fushan International Energy Group Limited ("Fushan Energy" or the "Company"), I hereby present the annual results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010 (the "Review Year").

2010 had marked another strong year in China as the GDP rose to 10.3% when compared against 9.2% in 2009. China had literally overtook Japan as the second largest economy in the world. The strong growth in China's economy drove crude steel production to rise by 10.4% from 2009 to 627 million tonnes in 2010. Chinese government realised that fast economic growth had led to environmental issues, therefore, they strengthened efforts in energy saving and emission reduction policy in the fourth quarter. As a result coking coal production in the Mainland was also adversely affected. Management discreetly dealt with these challenges and took decisive measures to rectify these matters. Be committed to our long term policy, we expanded our clean coking coal operation and enhanced our coal processing capacity. As a result, we managed to achieve our production targets for 2010 with 6.23 million tonnes of raw coking coal and 1.6 million tonnes of clean coking coal. Moreover, both our revenue and profit recorded double-digit growth when compared to that in the preceding year.

The Group was able to quickly recognise the signs of a slow season in China's steel production in April last year, we responded by taking advantage of this opportunity to upgrade the long wall of our coal mines in April and May. This production efficiency enhancement enabled us to capture the rise in market demand in the second half of 2010 and to deliver persistent growth in our business.

During the Review Year, we expanded our clean coking coal operation and successfully raised its contribution to the Group and implemented tight cost control. Together with the drastic increment in the selling price, operating profit increased substantially to HK$2,977 million in the Review Year from HK$2,271 million in 2009. The coal preparation plant at Zhaiyadi Coal Mine had commenced trial-run in the second half of last year, laying a solid foundation for further development of our clean coal business. When it comes into full operation, our clean coking coal business is set to experience phenomenal growth.

The Chinese government has recently announced the blueprint of the "Twelfth Five-year Plan", the next five years, the drive for China's social and economic development will come from infrastructure projects. Investment on railway construction alone is estimated to be RMB3.5 trillion, which is over RMB1 trillion higher than the expenditure made in the "Eleventh Five-year Plan". About half of this investment is earmarked for the development of the 16,000 km-long national express rail network. In addition, the government is planning to launch 36 million units of social housing in the "Twelfth Five-year Plan". These massive construction works will generate robust demand for steel. Management believes that coking coal especially premium coking coal which is an essential raw material for steel production, will face a strong demand in the foreseeable future, creating a favorable environment for our business.

According to the "Steel Industry Development Policy", China will proceed with the policy of energy saving and emission reduction for the steel sector. Blast furnaces with capacity of less than 1,000 m^3 will gradually be replaced and only large blast furnaces are allowed to be built in the future. These large blast furnaces require premium coke as ingredient in order to make their production run smoothly, however domestic supply of premium coking coal is tight and mainly comes from Shanxi Province. As a result attracted a lot of these potential prestige customers to purchase premium clean coking coal from mines in Shanxi. Recently the government has stepped up measures to restructure the coking coal sector, the objective is to eliminate obsolete producers and hence improve the market structure and make the sector more competitive and create a better environment for living. We believe as domestic steel mills continues to integrate, the supply of premium coking coal will become tighter. Our three premium coking coal mines in Shanxi Province are set to benefit from such market conditions.

Chairman's Statement

China relies more on import in recent years as domestic supply of premium coking coal is scarce. International prices of premium coking coal went up drastically as Australia, one of the world's largest coal exporter suffered from severe floods wrecked havoc during the fourth quarter of 2010 and January this year, it will take an extensive period of time for Australia's mines to resume normal production. This will further drive up the imbalance between the supply and demand. As a result, the international coking coal prices are expected to remain at a high level for a while. The domestic coking coal producers will hence have greater room to increase their prices.

Fushan Energy as a leading coking coal producer in central-western China, will closely monitor market developments and take appropriate actions to respond to this situation. We will take advantage of our economies of scale and competent management to further strengthen our clean coal operation. In the coming year, we will continue to strengthen our long-term strategic cooperation with major domestic steelmakers including Shougang Group, Hebei Iron and Steel Group and Inner Mongolia Baosteel Group while we will extend our business to other steel mills by providing them with premium coking coal.

With solid financial strengths and ample cash flow as well as strong support from our largest shareholder, Shougang Group, the Group is in good position for continuing growth. We aim at developing a complete value chain and expanding our production capacity to reinforce our leading position in China's coking coal sector and pave the way for our business to thrive. In addition to organic growth, we actively look for suitable acquisition opportunities within and outside China to increase and secure premium resources. We are fully confident about our future development and are determined to work hard to generate maximum value to our shareholders.

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

Wang Pingsheng
Chairman

29 March 2011

Management Discussion and Analysis

INDUSTRY REVIEW

The coking coal sector in China experienced substantial fluctuations in 2010 amid various difficulties. The Chinese government tightened economic measures and stretched to achieve the targets of energy saving and emission reduction, which posed severe challenges to coking coal producers. Nevertheless, the tight supply of coking coal in China in the past few years was due to structural shortages and policies launched to consolidate coal resources in some major mining provinces also resulted in a shortage of coal supply. During the first quarter of 2010, the prices of international coking coal increased significantly, this drove up the prices of China's domestic coking coal until the second quarter. Although coking coal prices came down in the second quarter of 2010, the prices resumed growth momentum in the third quarter to peak at the end of the year.

As a result of robust economic growth, China's crude steel production stayed on an uptrend in the first five months. During the period, coking coal prices firmly climbed up. However, the government's efforts to realise the targets of energy saving and emission reduction set out in the "Eleventh Five-year Plan" by the year end caused domestic steel sector, to slow down crude steel production for four months since June 2010. Coking coal prices were adversely affected for a short period of time but started to rebound gradually in August.

Crude steel production bounced back in the fourth quarter, as inventories gradually reduced following market adjustments and the government accomplished the targets of energy saving and emission reduction in the third quarter. As a result, demand for coking coal was boosted up again. During the fourth quarter, severe floods wrecked havoc in Queensland, Australia, a major coking coal exporter in the world, led to tight global supply. As a result, the domestic coking coal prices reached its peak by December 2010.

In 2010, the Group's average realised selling price (inclusive of value added tax ("VAT")) of raw coking coal increased by 30% to Renminbi ("RMB") 836/tonne when compared with the same period of 2009 (2009: RMB644/tonne) and the Group's average realised selling price (inclusive of VAT) of clean coking coal increased by 22% to RMB1,706/tonne when compared with the same period of 2009 (2009: RMB1,401/tonne). For the month of December 2010, the Group's average realised selling prices (inclusive of VAT) of raw and clean coking coal were RMB961/tonne and RMB1,757/tonne respectively.

BUSINESS REVIEW

During the year under review, we proceeded with our long term strategy and made vigorous efforts to expand our clean coal business. Operations of all of our three premium coking coal mines in Liulin County, Shanxi (Xingwu Coal Mine, Jinjiazhuang Coal Mine and Zhaiyadi Coal Mine) ran smoothly. We continued to maintain good work safety record.

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

As domestic steel sector showed signs of slowdown in the first quarter, we took decisive measures in April and May to upgrade the long wall at one of our mines. These measures enabled us to enhance production efficiency and hence we prepare well for future expansion. As a result, our raw coal production in the first half of 2010 dropped by approximately 0.29 million tonnes when compared to the corresponding period in 2009 to 2.96 million tonnes. Our raw coal production picked up as a result of long wall upgrade and in the second half of 2010 raw coal production reached 3.27 million tonnes. Although the Liulin County government reduced electricity supply from mid-November to the end of December in order to realise the targets of energy saving and emission reduction set out in the "Eleventh Five-year Plan", our production was not material adversely affected. Eventually, the Group reached production target of 6.23 million tonnes of raw coal in 2010.

We achieved phenomenal growth in clean coal operation last year. The productivity of our clean coal business increased substantially after the coal preparation plant at Jinjiazhuang Coal Mine had come on stream in the middle of 2009 and another one at Zhaiyadi Coal Mine had commenced a trial-run in the fourth quarter of 2010. All of our three premium coking coal mines have their own coal preparation plants that increase our efficiency and the total annual input processing capability reached 6 million tonnes. Clean coking coal production volume jumped 61% year-on-year to 1.61 million tonnes in 2010, while its sales volume soared by 58% to approximately 1.58 million tonnes in 2010.

Average realised selling price (inclusive VAT) of raw coking coal was steadily moving up on a quarter-to-quarter basis during the year under review. It climbed up from RMB788/tonne in the first quarter to RMB902/tonne in the fourth quarter and reached RMB836/tonne for the full year, representing an increase of 30% year-on-year. Meanwhile, average realised selling price (inclusive VAT) of clean coking coal slightly increased from RMB1,718/tonne in the first quarter to RMB1,720/tonne in the fourth quarter. As we started to sell No. 9 clean coking coal in the fourth quarter, the average realised selling price came down on a quarter-to-quarter basis because the selling price of No.9 clean coking coal was lower than that of No.4 clean coking coal. Average realised selling price (inclusive VAT) of clean coking coal for the full year was RMB1,706/tonne, representing an increase of 22% year-on-year.

We achieved satisfactory results in strengthening sales of clean coal business development. This segment contributed 48% to total revenue in 2010 as compared to 30% in 2009.

During the year under review, we maintained good strategic relationship with major steel manufacturers in China, including Shougang Group, Hebei Iron and Steel Group and Inner Mongolia Baotou Steel Union Company Limited. Such relationship lays a solid foundation for the sustainable growth of our clean coal business. In 2010, total turnover from those three prestige customers accounted for 47% of the Group's turnover.

The Company was not only selected as a constituent in the Hang Seng Composite Index and the MSCI Emerging Markets Index in 2009, but was also added to the Xinhua FTSE HK Index in March 2010. These reflected the Group is widely recognised by investors and markets.

Management Discussion and Analysis

FINANCIAL REVIEW

For the year ended 31 December 2010, the Group recorded a turnover of approximately HK$5,543 million, representing an increase of approximately HK$1,282 million or 30% as compared with that of approximately HK$4,261 million for the same period of 2009. The growth in turnover was mainly attributable to the substantial increase in realised selling prices of raw and clean coking coal by 30% and 22% respectively. Average realised selling prices (inclusive of VAT) of raw and clean coking coal were RMB836/tonne (2009: RMB644/tonne) and RMB1,706/tonne (2009: RMB1,401/tonne) respectively in 2010, representing a year-on-year increase of 30% and 22% respectively. For 2010, sales volume of raw and clean coking coal were 3.53 million tonnes (2009: 4.75 million tonnes) and 1.58 million tonnes (2009: 1.00 million tonnes) respectively. In terms of turnover, sales of raw and clean coking coal accounted for 52% and 48% of the Group's turnover, respectively in 2010 compared against 70% and 30%, respectively in 2009.

For the year ended 31 December 2010, the Group recorded net profit of approximately HK$2,215 million, representing an increase of approximately HK$773 million or 54% as compared with that of approximately HK$1,442 million for the same period of 2009. For the year ended 31 December 2010, the Group also recorded profit attributable to the owners of the Company (the "Owners") of approximately HK$1,803 million, representing an increase of approximately HK$677 million or 60% as compared with that of approximately HK$1,126 million for the same period of 2009. The substantial increase in net profit and profit attributable to the Owners in 2010 were mainly attributable to the substantial increase in raw and clean realised coking coal prices by 30% and 22% respectively and the tight cost control by management. In addition, during the year under review, the Company did not suffer an one-off non-cash net transaction loss of HK$221 million arising from the acquisition of Mount Gibson Iron Limited ("Mount Gibson") 's shares in 2009. During the year under review, earnings per share was HK33.52 cents, representing a year-on-year increase of 42%.

For the year ended 31 December 2010, the Group incurred a non-cash share based compensation expense of approximately HK$287 million arising from the granting of share options by the Company in August 2009. If this expense was excluded, the Group's net profit and profit attributable to the Owners would have been approximately HK$2,502 million and approximately HK$2,090 million, respectively.

Cost of Sales

During the year under review, cost of sales was approximately HK$1,452 million, representing an increase of approximately HK$278 million or 24%, as compared with that of approximately HK$1,174 million for the same period of 2009. The increase was due to (i) increase in staff costs by approximately HK$128 million from approximately HK$199 million in 2009 to approximately HK$327 million in 2010 as a result of the adjustments of staff wages in order to maintain the competitive advantage in the labour market and to retain quality management and staff and due to the increase in number of staff upon the commencement of production of two coal preparation plants in 2010; (ii) increase in the payment of levies of land restoration fee and mine resources compensation fee by approximately HK$34.56 million in 2010; (iii) increase in depreciation of property, plant and equipment from approximately HK$81.15 million in 2009 to approximately HK$103 million in 2010, representing an increase of approximately HK$21.85 million or 27% over the same period of 2009. The increase was mainly attributable to the completion of a Jinjiazhuang coal preparation plant in June 2009. During the year under review, additions of property, plant and equipment (exclusive of construction in progress) amounted to approximately HK$227 million; and (iv) increase in production costs as a result of increase in sales volume of clean coking coal from 1 million tonnes in 2009 to 1.58 million tonnes in 2010.

Included in cost of sales, amortisation of mining rights was approximately HK$267 million for the year ended 31 December 2010 (2009: HK$261 million). The amortisation of mining rights remained at similar level as that in 2009 as the production volume of raw coking coal in 2010 is close to that in 2009.

Management Discussion and Analysis

FINANCIAL REVIEW *(continued)*

Gross Profit and Gross Profit Margin

As a result of the reasons above, gross profit for the year ended 31 December 2010 was approximately HK$4,092 million, representing an increase of approximately HK$1,005 million or 33% as compared with that of approximately HK$3,087 million for the same period of 2009. Gross profit margin achieved at 74% during the year under review and 72% for the same period of 2009. Even though the average realised selling prices in 2010 were substantially higher than that in the same period of 2009, its gross profit margin slightly increased to 74% due to the increase in labour cost, depreciation, levies and production costs as mentioned in the above under "**Cost of Sales**".

Other Operating Income

During the year under review, other operating income was approximately HK$162 million, representing a substantial increase of approximately HK$124 million or 331% as compared with that of approximately HK$37.55 million for the same period of 2009. The increase was mainly attributable to (i) increase of income from sales of scrapped products generated from Jinjiazhuang coal preparation plant, which commenced production in June 2009, by approximately HK$32.81 million; (ii) net exchange gain of approximately HK$56.84 million on retranslation of the Company's current assets denominated in RMB in 2010 as a result of the appreciation of RMB; and (iii) increase in interest income from approximately HK$9.72 million in 2009 to approximately HK$42.05 million in 2010 as a result of the effective cash management.

Selling and Distribution Expenses

During the year under review, selling and distribution expenses were approximately HK$381 million, representing an increase of approximately HK$158 million or 71% as compared with that of approximately HK$223 million for the same period of 2009. The increase was mainly a result of the substantial increase in transportation costs arising from the increase in sales volume of clean coking coal by 58% from 1 million tonnes in 2009 to 1.58 million tonnes in 2010.

General and Administrative Expenses

During the year under review, administrative expenses were approximately HK$621 million, representing an increase of approximately HK$245 million or 65% as compared with that of approximately HK$376 million for the same period of 2009. The increase was a result of (i) the non-cash share-based compensation expense of approximately HK$287 million in 2010 (2009: HK$110 million) arising from granting of 281,050,000 share options to eligible participants by the Company in August 2009 as disclosed in the annual report of the Company for the year ended 31 December 2009 (the "Annual Report 2009"); (ii) increase in directors' remuneration and staff costs by approximately HK$26.03 million during the year under review; and (iii) increase in professional fees by approximately HK$11.52 million mainly for certain potential acquisition projects during the year under review.

Other Operating Expenses

During the year under review, other operating expenses were approximately HK$275 million, representing an increase of approximately HK$21 million or 8% as compared with that of approximately HK$254 million for the same period of 2009. Other operating expenses included the charitable donation of approximately HK$127 million made during the year under review by the Group to the Liulin Provincial Government for the construction of modern schools and provision of education facilities as disclosed in the Annual Report 2009.

Management Discussion and Analysis

FINANCIAL REVIEW *(continued)*

Finance Costs

During the year under review, actual finance costs were approximately HK$66.76 million, representing a substantial decrease of approximately HK$68.04 million or 50% as compared with that of approximately HK$135 million for the same period of 2009. During the year under review, approximately HK$27.11 million (2009: HK$17.12 million) borrowing costs were capitalised in the property, plant and equipment. The decrease in actual finance costs was due to the substantial reduction in the average annual interest rate charge on the bank borrowings from approximately 10% in 2009 to approximately 5% in 2010.

Income Tax Expense

During the year under review, income tax expense was approximately HK$529 million (2009: HK$425 million), of which approximately HK$109 million (2009: HK$146 million) represented the provision of withholding tax of 5% (2009: 10%) on the dividend declared from the three premium coking coal mines in accordance with the tax regulations in the PRC. The income tax expense was mainly incurred by the three premium coking coal mines. The three premium coking coal mines were entitled to 50% relief on the income tax in 2010, thus the income tax rate of the three coking coal mines was 12.5% in 2010.

Owner's Attributable Profit

As a result of the reasons above, profit attributable to the Owners during the year under review was approximately HK$1,803 million, representing a sharp increase of approximately HK$677 million or 60% as compared with that of approximately HK$1,126 million for the same period of 2009.

MATERIAL INVESTMENTS AND ACQUISITIONS

During the year ended 31 December 2010, the Group had no material investments and acquisitions. However, during the year under review, a wholly-owned subsidiary of the Company further acquired 6,000,000 equity shares of Mount Gibson at a total cost of approximately HK$64 million. As at 31 December 2010, the Group held approximately 14.80% equity interest in Mount Gibson directly.

As at 31 December 2010, benefiting from the appreciation of Mount Gibson's share price and Australian Dollars ("AUD") exchange rate by approximately 28% and 14% year-on-year respectively, the carrying value of investments in Mount Gibson increased by approximately HK$600 million (deduction of tax effect) year-on-year.

MATERIAL DISPOSALS

On 10 December 2010, one of the Group's subsidiaries, New Honest Limited entered into a conditional sale and purchase agreement with an independent third party to dispose its whole 66% equity interest in Shanxi Yao Zin Coal and Coking Company Limited ("Shanxi Yao Zin") for a cash consideration of RMB211.2 million (HK$249.2 million equivalent), on condition that the Group shall waive its shareholders' loans to Shanxi Yao Zin amounting to RMB124.9 million (HK$147.4 million equivalent) and the corresponding interest. Shanxi Yao Zin is engaged in production and sales of coke products in Shanxi, the PRC. Since the commencement of its commercial production in mid of 2008, Shanxi Yao Zin has been suffering loss. As at 31 December 2010, the disposal had not yet been completed. The Group would record a gain of approximately HK$100 million when the disposal is completed.

Save for disclosed above, the Group had no material disposals during the year ended 31 December 2010.

SAFETY PRODUCTION AND ENVIRONMENTAL PROTECTION

The Group has always been paying great attention to production safety and environmental protection while achieving growth in coal production. Thus, the Group made great efforts in promoting safety management and strengthened measures for environmental protection, aiming to build itself into a safety-oriented and environmental-friendly enterprise. During the year under review, all coal mines of the Group operated smoothly and recorded no material safety incidents.

Management Discussion and Analysis

CHARGES ON ASSETS

As at 31 December 2010, save for bank deposits of approximately HK$32.51 million and bills receivables of approximately HK$350 million that were used for securing bills facilities of approximately HK$371 million the pledge of shares by certain subsidiaries of the Company namely Jade Green Investments Holding Limited, Thechoice Finance Limited, Worldman Industrial Limited, Gumpert Industries Limited, Thechoice Finance (HK) Limited, Worldman Industrial (HK) Limited and Gumpert Industries (HK) Limited that were used for securing United States Dollars ("US$")100 million of bank loan for the Company, none of the Group's assets were charged or subject to any encumbrance.

CONTINGENT LIABILITIES

As at 31 December 2010, there were no guarantees given to any banks or financial institutions by the Group.

GEARING RATIO

As at 31 December 2010, gearing ratio of the Group, computed from the Group's borrowings divided by the total equity, was approximately 6%. The total borrowings amounted to approximately HK$1,132 million as at 31 December 2010.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

As at 31 December 2010, other than assets and liabilities denominated in RMB and AUD, the Group had no material exposure to foreign exchange fluctuations. Due to the appreciation of RMB and AUD exchange rate in 2010 when compared to 2009 by approximately 4% and 14% respectively, carrying amounts of the Group's assets denominated in RMB and AUD were increased by approximately 4% and 14% respectively in 2010.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the Group's current ratio (current assets divided by current liabilities) was approximately 2.08 and the Group's cash and bank deposits amounted to approximately HK$2,800 million, of which approximately HK$32.51 million was deposited mainly to secure bills facilities of approximately HK$32.50 million.

Included in trade and bills receivables, the Group had total bills receivables amounting to approximately HK$1,600 million (except for bill receivables of approximately HK$350 million that were used for securing bills facilities of approximately HK$339 million) as at 31 December 2010 that were readily convertible into cash, but would be subject to finance cost when conversion before the maturity. Taking into account of the bills receivables of HK$1,600 million, the Group's cash resources would have approximately HK$4,400 million as at 31 December 2010.

CAPITAL STRUCTURE

Total equity, bank loans and other borrowings are classified as capital. As at 31 December 2010, the amount of capital of the Group was approximately HK$20,755 million.

As at 31 December 2010, the issued share capital of the Company was approximately HK$538 million, represented approximately 5,381 million shares in number. The Company issued 10 million shares with par value of HK$0.1 each at an exercise price of HK$1.5 per share upon the exercise of share options during the year under review.

Management Discussion and Analysis

CAPITAL STRUCTURE *(continued)*

As at 31 December 2010, the total borrowings of the Group amounted to approximately HK$1,132 million which were denominated in US$ or RMB. The US$ borrowing of approximately HK$654 million bears an interest calculated at LIBOR plus 1.85% per annum and is repayable by 13 installments during the period from September 2010 to September 2013. The RMB borrowings of approximately HK$472 million are subject to floating interest rates adopted by the People's Bank of China and are repayable in March 2012. The remaining balances of borrowings of approximately HK$6 million are subject to fixed interest rates and are repayable within 1 year to 2 years from 31 December 2010.

EMPLOYEES

As at 31 December 2010, the Group had 24 Hong Kong employees and 7,119 PRC employees. The remuneration packages of the employees are subject to annual review. The Group provides a mandatory provident fund scheme for its employees in Hong Kong and the state-sponsored retirement plan for its employees in PRC. The Group has also adopted a share option scheme since 20 June 2003. During the year under review, no share option was granted.

OUTLOOK

Inventories of China's steel sector has reduced to a healthier level after a remarkable market correction last year. Steel production is expected to gradually resume to normal this year as the Government has already achieved the targets of energy saving and emission reduction. We believe that both steel production and steel price will steadily move up, thereby creating a favourable operation environment for coking coal producers.

The Ministry of Land and Resources announced to continue to suspend grant of exploration rights to new coal mines until 31 December 2013. As new supplies will be limited and the local governments in a number of coal production areas have stepped up efforts to rationalise local coal enterprises, domestic supply of premium coking coal will remain tight this year and China will be more dependent on import of coking coal. In 2009, China imported 34.4 million tonnes of coking coal, up 402% from the previous year and became a net coking coal importer for the first time. The import volume of coking coal in 2010 soared by 37% year-on-year to 47.27 million tonnes and the figure for 2011 will continue to go up.

In addition, major exporters such as Australia were hard hit by severe weather and it takes a long time for them to resume normal production. As a result, domestic coking coal price is expected to increase dramatically this year.

We will take advantage of such favourable environment to further expand and strengthen our long-term strategic cooperation with major steel producers and make extensive efforts to develop our clean coal business. With strong financial strengths and solid liquidity position, we will continue to seek business expansion through organic growth and acquisition of suitable targets in a prudent manner, whereby generating greater operating efficiency and delivering better returns to shareholders in response to their continual support to us.

Corporate Governance Report

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

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") during the financial year ended 31 December 2010, except for the following deviation:

- Under the first part of code provision E.1.2 of the Code, the chairman of the board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting.

  The Chairman of the Board did not attend the annual general meeting of the Company held on 8 June 2010 (the "Meeting") as he had another business engagement. The Vice-chairman and Managing Director of the Company, who took the chair of the Meeting, and other members of the Board together with certain members of the Audit, Remuneration and Nomination Committees attended the Meeting. The Company considers that the members of the Board and the Audit, Remuneration and Nomination Committees who attended the Meeting were already of sufficient calibre and number for answering questions at the Meeting.

BOARD OF DIRECTORS

Composition

The Board currently comprises seven Executive Directors, three Non-executive Directors and three Independent Non-executive Directors. The list of Directors is set out in the section headed "Report of the Directors" of this annual report.

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

The Non-executive Directors are of sufficient calibre and number for their views to carry weight. The functions of Non-executive Directors include, but not limited to:

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

The Board members have no financial, business, family or other material/relevant relationships with each other.

The Board has a balance of skills and experience appropriate for the requirements of the business of the Company. The Directors' biographical information is set out in the section headed "Directors' Biographies" of this annual report.

Composition of the Board, including names of Independent Non-executive Directors of the Company, is disclosed in all corporate communications to shareholders.

Corporate Governance Report

BOARD OF DIRECTORS *(continued)*

Role and function

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

Board meetings

The Board has four scheduled meetings a year at approximately quarterly intervals. Additional meetings would be arranged, if and when required. The Directors can attend meetings in person or through other means of electronic communication in accordance with the articles of association of the Company (the "Articles").

The Company Secretary assists the Chairman in drawing the agenda of each meeting and each Director may request inclusion of matters in the agenda. Generally, at least 14 days' notice of a regular Board meeting is given and the Company aims at giving reasonable notice for all other Board meetings. The Company also aims at sending the agenda and the accompanying board papers, which are prepared in such form and quality as will enable the Board to make an informed decision on matters placed before it, to all Directors at least 3 days before the intended date of a Board meeting.

All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and all applicable rules and regulations are followed.

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

If a substantial shareholder or a Director has a conflict of interest in a matter (including material transaction with connected persons) which the Board has determined to be material, a Board meeting will be held instead of by way of circulation.

Attendance records

During the financial year ended 31 December 2010, the Directors have made active contribution to the affairs of the Group and eight Board meetings were held to consider, among other things, various projects contemplated by the Group and to review and approve the interim results and annual results of the Group.

Corporate Governance Report

BOARD OF DIRECTORS *(continued)*

Attendance records *(continued)*

Details of Directors' attendance records in 2010 were as follows:

	Meetings attended/Eligible to attend
Executive Directors	
Wang Pingsheng (appointed on 10 May 2010)	2/2
Chen Zhouping	6/8
Wong Lik Ping	5/8
So Kwok Hoo	8/8
Chen Zhaoqiang (appointed on 5 January 2010)	6/8
Xue Kang	2/8
Liu Qingshan	8/8
Cao Zhong (resigned on 10 May 2010)	6/6
Non-executive Directors	
Leung Shun Sang, Tony	8/8
Zhang Yaoping (appointed on 1 January 2010)	3/8
Zhang Wenhui (appointed on 10 May 2010)	2/2
Wang Qinghai (appointed on 5 January 2010 and resigned on 10 May 2010)	0/6
Independent Non-executive Directors	
Kee Wah Sze	7/8
Choi Wai Yin	7/8
Chan Pat Lam	8/8

Access to information

The Directors may seek independent professional advice in appropriate circumstances, at the Company's expenses. The Company will, upon request, provide separate independent professional advice to Directors to assist the relevant Directors to discharge their duties to the Company.

The Board is supplied with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group before each Board meeting. Where any Director requires more information than is volunteered by the management, each Director has the right to separately and independently access to the Company's senior management to make further enquiries if necessary.

Corporate Governance Report

BOARD OF DIRECTORS *(continued)*

Appointments and re-election of Directors

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

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

Every newly appointed Director will be given an introduction of regulatory requirements. The Directors are continually updated on the latest development of the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practice.

Independent Non-executive Directors

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

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

Directors' and officers' liability

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

CHAIRMAN AND MANAGING DIRECTOR

The roles of Chairman and Managing Director are separate and are not performed by the same individual to reinforce their independence and accountability. Mr. Cao Zhong continued to serve as the Chairman of the Company during the period from 1 January 2010 to 4 January 2010. Mr. Wang Qinghai assumed the role of the Chairman and Mr. Cao Zhong was redesignated the Managing Director of the Company during the period from 5 January 2010 to 9 May 2010. From 10 May 2010, Mr. Wang Pingsheng succeeded Mr. Wang Qinghai as the Chairman while Mr. Chen Zhouping succeeded Mr. Cao Zhong as the Managing Director of the Company. The Chairman provides leadership for the Board. The Managing Director has overall chief executive responsibility for the Group's business development and day-to-day management generally.

With the support of Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

Corporate Governance Report

BOARD COMMITTEES

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

Executive Committee

An Executive Committee of the Board was established in May 2009 and comprises all Executive Directors of the Company.

The members of the Executive Committee during the year were as follows:

- Wang Pingsheng *(Chairman)* (appointed as a member on 10 May 2010)
- Chen Zhouping
- Wong Lik Ping
- So Kwok Hoo
- Chen Zhaoqiang
- Xue Kang
- Liu Qingshan
- Cao Zhong *(Chairman)* (ceased to act as a member from 10 May 2010)

The Executive Committee has been conferred with the general powers of the Board (except those matters specifically reserved for the Board) to manage and oversee the operations of the Group. During the year, twenty three meetings of the Executive Committee were held.

Audit Committee

An Audit Committee of the Board was established in October 1999 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Audit Committee are available on request and are posted on the Company's website.

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

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

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

Corporate Governance Report

BOARD COMMITTEES *(continued)*

Audit Committee *(continued)*

The Audit Committee comprised three Independent Non-executive Directors of the Company. None of the members of the Audit Committee are former partners of the auditor of the Company. The members of the Audit Committee during the year and their attendance were as follows:

	Meetings attended/Eligible to attend
Choi Wai Yin *(Chairman)*	2/2
Kee Wah Sze	2/2
Chan Pat Lam	2/2

During the year, two meetings of the Audit Committee were held for, amongst other things:

- reviewing the final results of the Group for the financial year ended 31 December 2009; and
- reviewing the interim results of the Group for the six months ended 30 June 2010.

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

Nomination Committee

A Nomination Committee of the Board was established in May 2009 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Nomination Committee are available on request and are posted on the Company's website.

The principal duties of the Nomination Committee include:

- reviewing the structure, size and composition of the Board;
- identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board;
- making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors; and
- assessing the independence of Independent Non-executive Directors.

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

The Nomination Committee has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice if it considers necessary.

Corporate Governance Report

BOARD COMMITTEES *(continued)*

Nomination Committee *(continued)*

The members of the Nomination Committee during the year and their attendance were as follows:

	Meeting attended/Eligible to attend
Wang Pingsheng *(Chairman)* (appointed as a member on 10 May 2010)	0/0
Wong Lik Ping	2/2
Kee Wah Sze	2/2
Choi Wai Yin	1/2
Chan Pat Lam	2/2
Cao Zhong *(Chairman)* (ceased to act as a member from 10 May 2010)	2/2

The Independent Non-executive Directors of the Company constitute the majority of the Nomination Committee.

During the year, two meetings of the Nomination Committee were held for considering and making recommendations to the Board for appointment and redesignation of Directors.

Remuneration Committee

A Remuneration Committee of the Board was established in September 2005 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Remuneration Committee are available on request and are posted on the Company's website.

The principal duties of the Remuneration Committee include:

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

Corporate Governance Report

BOARD COMMITTEES *(continued)*

Remuneration Committee *(continued)*

The Remuneration Committee may consult the Chairman about their proposals relating to the remuneration of other Executive Directors. It has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice if it considers necessary.

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

The members of the Remuneration Committee during the year and their attendance were as follows:

	Meetings attended/Eligible to attend
Leung Shun Sang, Tony *(Chairman)*	3/3
So Kwok Hoo	2/3
Kee Wah Sze	3/3
Choi Wai Yin	2/3
Chan Pat Lam	3/3

The Independent Non-executive Directors of the Company constitute the majority of the Remuneration Committee.

During the year, three meetings of the Remuneration Committee were held for, amongst other things:

- considering and reviewing the remuneration and terms of service contracts of the Executive Directors of the Company;
- determining the bonuses of the Executive Directors of the Company for the year 2010; and
- making recommendations to the Board on the directors' fee of the Non-executive Directors of the Company for the year 2011.

Corporate Governance Report

INTERNAL CONTROL

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

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

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

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

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

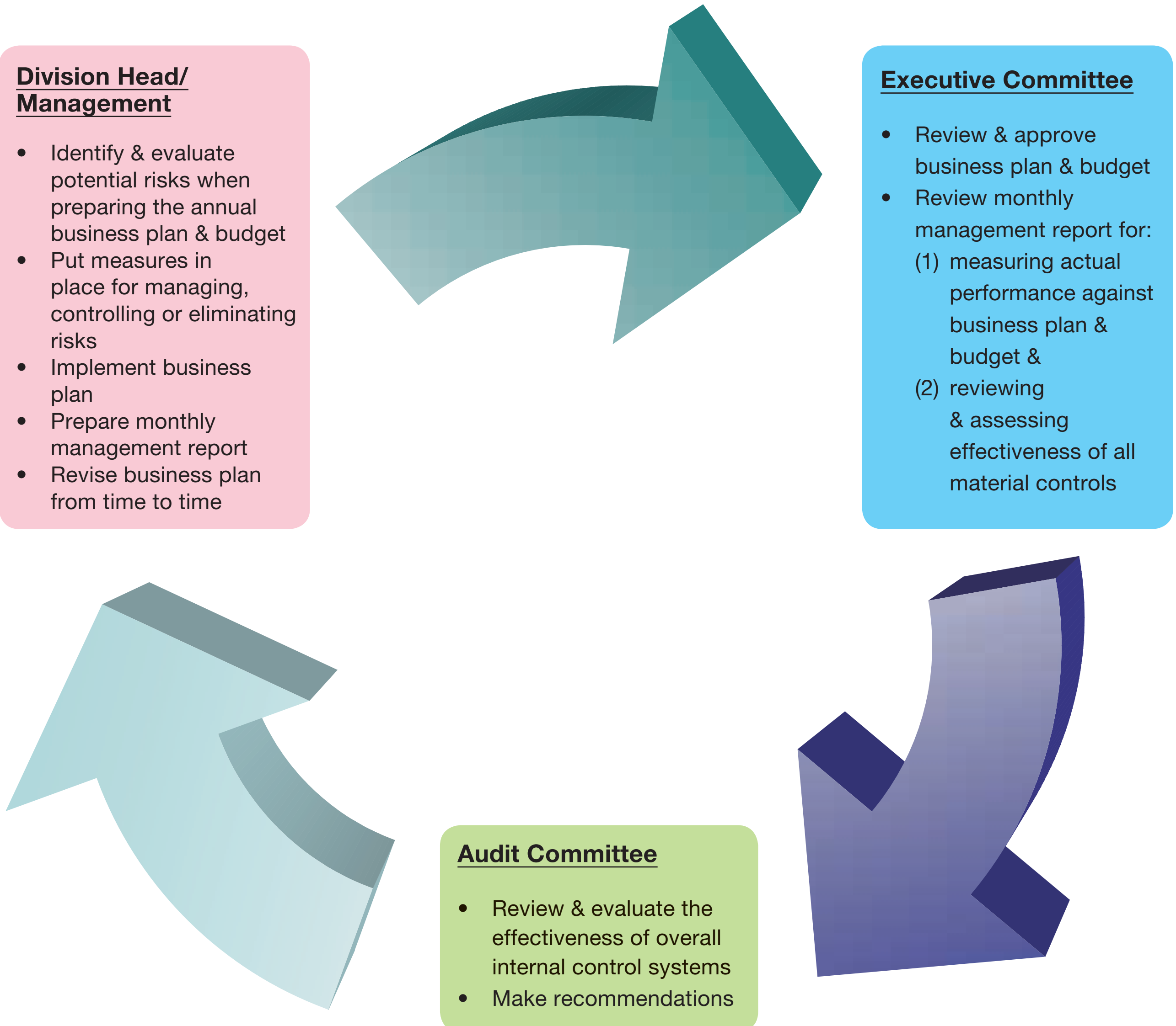
The internal control system is documented and if any revision is required, such information will be submitted to the Audit Committee for evaluation.

The Audit Committee assists the Board to fulfill its oversight role over the Group's internal control function by reviewing and evaluating the effectiveness of the overall internal control systems, including financial, operational and compliance controls as well as risk management.

Corporate Governance Report

INTERNAL CONTROL *(continued)*

Internal Control System



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

Corporate Governance Report

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules as a code of conduct of the Company for Directors' securities transactions.

Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the year ended 31 December 2010.

Employees who are deemed to be in possession of unpublished price sensitive information in relation to the Company or its shares are required to prohibit from dealing in shares of the Company during the black-out period.

AUDITOR'S REMUNERATION

Due to a merger of the practices of Grant Thornton Hong Kong ("GTHK") with that of BDO Limited ("BDO"), GTHK resigned as the auditor of the Company with effect from 2 December 2010 and BDO was appointed as auditor of the Company to fill the vacancy caused by the resignation of GTHK.

During the year, the remuneration paid to the Company's ex-auditor, GTHK, is set out as follows:

Services rendered	*HK$'000*
Non-statutory audit services:	
Review on interim financial report for 2010	300
Professional services rendered for financial due diligence on potential projects	500
	800

During the year, the remuneration payable to BDO is set out as follows:

Services rendered	*HK$'000*
Statutory audit services for 2010	1,450
Non-statutory audit services:	
Other services	50
	1,500

Corporate Governance Report

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

The statement of the auditor of the Company, BDO, about its reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 57 to 58 of this annual report.

COMMUNICATION WITH SHAREHOLDERS

To foster effective communications with the shareholders, the Company provides extensive information in its annual and interim reports and announcements. All shareholders' communications are also available on the Company's website at www.fushan.com.hk.

The annual general meeting of the Company provides a useful forum for shareholders to exchange views with the Board. All Directors will make an effort to attend. External auditor is also available at the annual general meeting to address shareholders' queries. In case of any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval, members of the independent Board committee will also make an effort to attend to address shareholders' queries.

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

Report of the Directors

The Directors herein present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries and associates are set out in notes 22 and 24 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2010 and the state of affairs of the Group at that date are set out in the financial statements on pages 59 to 145 of this annual report.

The Board of Directors of the Company recommends a final dividend of HK10 cents per ordinary share for the year ended 31 December 2010 (2009: HK11 cents per ordinary share) payable to shareholders whose names appear on the register of members of the Company on Thursday, 19 May 2011. This dividend is subject to shareholders' approval at the Company's annual general meeting to be held on Thursday, 19 May 2011. The register of members of the Company will be closed from Wednesday, 18 May 2011 to Thursday, 19 May 2011 (both days inclusive), during which period no transfer of shares of the Company will be registered. The final dividend is expected to be paid on or about Monday, 13 June 2011.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on page 146 of this annual report.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2010 are set out in note 34 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 18 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 40 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on pages 65 to 66 of this annual report and in note 41 to the financial statements, respectively.

Report of the Directors

DONATIONS

Charitable donations made by the Group during the year amounted to approximately HK$144,210,000 (2009: HK$125,321,000).

DIRECTORS

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

Wang Pingsheng	(appointed on 10 May 2010)
Chen Zhouping	
Wong Lik Ping	
So Kwok Hoo	
Chen Zhaoqiang	(appointed on 5 January 2010)
Xue Kang	
Liu Qingshan	
Leung Shun Sang, Tony	
Zhang Yaoping	(appointed on 1 January 2010)
Zhang Wenhui	(appointed on 10 May 2010)
Kee Wah Sze*	
Choi Wai Yin*	
Chan Pat Lam*	
Wang Qinghai	(appointed on 5 January 2010 and resigned on 10 May 2010)
Cao Zhong	(resigned on 10 May 2010)
Shi Jianping	(resigned on 1 January 2010)

* *Independent Non-executive Directors*

In accordance with article 103(A) of the Company's articles of association, Messrs. Xue Kang, Leung Shun Sang, Tony, Kee Wah Sze, Choi Wai Yin and Chan Pat Lam will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' SERVICE CONTRACTS

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

MANAGEMENT CONTRACTS

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

Report of the Directors

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

The Directors of the Company who held office at 31 December 2010 had the following interests in the shares and underlying shares of the Company as at 31 December 2010 as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance (the "SFO") or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules:

(a) Long positions in the shares and underlying shares of the Company

		Number of shares/ underlying shares in the Company			Total interests as to % of the issued share capital
Name of Director	**Capacity in which interests are held**	**Interests in shares**	**Interests in underlying shares***	**Total interests**	**of the Company as at 31.12.2010**
Chen Zhouping	Beneficial owner	–	6,000,000	6,000,000	0.11%
Wong Lik Ping	Beneficial owner, interests of controlled corporation	591,571,900#	4,500,000	596,071,900	11.07%
So Kwok Hoo	Beneficial owner	4,000,000	3,500,000	7,500,000	0.13%
Chen Zhaoqiang	Beneficial owner	280,000	8,000,000	8,280,000	0.15%
Xue Kang	Beneficial owner	6,000,000	3,000,000	9,000,000	0.16%
Liu Qingshan	Beneficial owner	–	6,000,000	6,000,000	0.11%
Leung Shun Sang, Tony	Beneficial owner	–	6,000,000	6,000,000	0.11%
Zhang Yaoping	Beneficial owner	–	4,500,000	4,500,000	0.08%
Kee Wah Sze	Beneficial owner	700,000	3,200,000	3,900,000	0.07%
Choi Wai Yin	Beneficial owner	–	3,200,000	3,200,000	0.05%
Chan Pat Lam	Beneficial owner	350,000	3,200,000	3,550,000	0.06%

* *The relevant interests are unlisted physically settled options granted pursuant to the Company's share option scheme adopted on 20 June 2003 (the "Scheme"). Upon exercise of the share options in accordance with the Scheme, ordinary shares of HK$0.10 each in the share capital of the Company are issuable. The share options are personal to the respective Directors. Further details of the share options are set out in the section headed "Share Option Scheme" below.*

\# *Mr. Wong Lik Ping indicated in his disclosure form dated 17 September 2010 (being the latest disclosure form filed up to 31 December 2010) that as at 14 September 2010, his interests included 396,600,000 shares of the Company held by China Merit Limited ("China Merit") which was wholly-owned by Mr. Wong Lik Ping. The interest held by China Merit was disclosed under the section headed "Interests and Short Positions of Shareholders Discloseable Under the SFO" below.*

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

(b) Short positions in the shares of the Company

Name of Director	Capacity in which interests are held	Number of shares	Interests as to % of the issued share capital of the Company as at 31.12.2010
Wong Lik Ping	Interests of controlled corporation	189,025,000#	3.51%

Mr. Wong Lik Ping indicated in his disclosure form dated 17 September 2010 (being the latest disclosure form filed up to 31 December 2010) that as at 14 September 2010, the interest was held by China Merit which was wholly-owned by Mr. Wong Lik Ping. The interest held by China Merit was disclosed under the section headed "Interests and Short Positions of Shareholders Discloseable Under the SFO" below.

Save as disclosed above, as at 31 December 2010, none of the Company's Directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

Report of the Directors

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

Name of Director	Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of interest of the Director in the entity
Chen Zhouping	Shougang International#	Sale and trading of coal	Director
Wong Lik Ping	King Steel Limited#^	Production and sales of coal products	Shareholder
Leung Shun Sang, Tony	Shougang International#	Sale and trading of coal	Director
Zhang Wenhui&	Shougang International#	Sale and trading of coal	Director
Wang Qinghai@	Shougang International#	Sale and trading of coal	Director
Cao Zhong*	Shougang International#	Sale and trading of coal	Director

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

^ *Mr. Wong Lik Ping acquired such business during the year.*

& *Mr. Zhang Wenhui was appointed as a Director of the Company during the year.*

@ *Mr. Wang Qinghai was appointed as a Director of the Company and subsequently resigned during the year.*

* *Mr. Cao Zhong resigned as a director of the Company during the year.*

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

Report of the Directors

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2010, according to the register kept by the Company under Section 336 of the SFO (the "Register"), the following companies and persons had interests or short positions in the shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

(a) Long positions in the shares of the Company

Name of shareholder	Capacity in which interests are held	Number of shares	Interests as to % of the issued share capital of the Company as at 31.12.2010	*Note(s)*
Shougang Holding	Interests of controlled corporations	1,461,446,490	27.16%	*1*
Shougang International	Beneficial owner, interests of controlled corporations	1,314,872,497	24.43%	*1*
Fine Power	Beneficial owner	663,918,497	12.33%	*1*
Xing Libin	Beneficial owner, interests of controlled corporation	422,772,081	7.85%	*2*
Firstwealth Holdings Limited ("Firstwealth")	Beneficial owner	418,272,081	7.77%	*2*
China Merit	Beneficial owner	396,600,000	7.37%	*3*

Report of the Directors

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

(b) Short positions in the shares of the Company

Name of shareholder	Capacity in which interests are held	Number of shares	Interests as to % of the issued share capital of the Company as at 31.12.2010	*Note(s)*
Xing Libin	Interests of controlled corporation	400,000,000	7.43%	*2*
Firstwealth	Beneficial owner	400,000,000	7.43%	*2*
China Merit	Beneficial owner	189,025,000	3.51%	*3*

Notes:

1. *Shougang Holding indicated in its disclosure form dated 13 July 2010 (being the latest disclosure form filed up to 31 December 2010) that as at 12 July 2010, its interests included the interests held by Shougang International, a company which was held as to 41.9% by Shougang Holding, and Fine Power, a company which was wholly-owned subsidiary of Shougang International.*

   Shougang International indicated in its disclosure form dated 4 January 2010 (being the latest disclosure form filed up to 31 December 2010) that as at 30 December 2009, its interests included the interests held by Fine Power.

2. *Mr. Xing Libin indicated in his disclosure form dated 13 August 2010 (being the latest disclosure form filed up to 31 December 2010) that as at 10 August 2010, his interests included the interests held by Firstwealth, a company which was wholly-owned by Mr. Xing Libin.*

3. *China Merit was wholly owned by Mr. Wong Lik Ping, a director of the Company, and its interest was disclosed as the interest of Mr. Wong Lik Ping under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above.*

Save as disclosed above, as at 31 December 2010, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

PUBLIC FLOAT

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

Report of the Directors

SHARE OPTION SCHEME

On 20 June 2003, the Scheme which complies with the requirements of Chapter 17 of the Listing Rules was adopted by the shareholders of the Company.

The purpose of the Scheme is to enable the Company to grant share options to selected participants as incentives or rewards for their contribution to the Company and its subsidiaries. The Scheme will remain in force for a period of 10 years commencing on 20 June 2003, being the date of adoption of the Scheme, to 19 June 2013.

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

The total number of shares of the Company which may be issued upon exercise of all outstanding share options granted under the Scheme is 267,200,000 which represents approximately 4.97% of the issued share capital of the Company as at the date of this annual report. The maximum number of shares of the Company available for issue upon exercise of all share options which may be granted under the Scheme is 176,425,535, representing approximately 3.28% of the issued share capital of the Company as at the date of this annual report. The total number of shares of the Company issued and to be issued upon the exercise of share options granted under the Scheme (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, in excess of in aggregate 0.1% of the shares of the Company in issue (based on the date of offer) and an aggregate value of HK$5,000,000 (based on the closing price of the Company's shares at the date of each offer), within any 12-month period, are subject to shareholders' approval in advance in a general meeting. Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the Independent Non-executive Directors.

The period during which a share option may be exercised will be determined by the Directors at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the Directors are empowered to impose at their discretion any such minimum period at the time of grant of any share options.

The exercise price in relation to each share option will be determined by the Directors at their absolute discretion and shall not be less than the highest of (i) the official closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of offer of share options; (ii) the average of the official closing prices of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of the share of the Company on the date of offer of share options. Each of the grantees is not required to pay consideration for the grant of options in accordance with the Scheme. The offer shall not be open for acceptance after the expiry of the Scheme or the termination of the Scheme in accordance with the provisions of the Scheme.

Report of the Directors

SHARE OPTION SCHEME *(continued)*

Share options do not confer rights on the holders to dividends or to vote at general meetings.

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

	Options to subscribe for shares of the Company								
Category or name of grantees	At the beginning of the year	Transferred to other category during the year	Transferred from other category during the year	Exercised during the year[1]	Lapsed during the year	At the end of the year	Date of grant	Exercise period	Exercise price per share
Directors of the Company									
Chen Zhouping	6,000,000	–	–	–	–	6,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Wong Lik Ping	4,500,000	–	–	–	–	4,500,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
So Kwok Hoo	3,500,000	–	–	–	–	3,500,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Chen Zhaoqiang	–	–	8,000,000[2]	–	–	8,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Xue Kang	3,000,000	–	–	–	–	3,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Liu Qingshan	6,000,000	–	–	–	–	6,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Leung Shun Sang, Tony	6,000,000	–	–	–	–	6,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Zhang Yaoping	–	–	4,500,000[3]	–	–	4,500,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Kee Wah Sze	3,200,000	–	–	–	–	3,200,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Choi Wai Yin	3,200,000	–	–	–	–	3,200,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Chan Pat Lam	3,200,000	–	–	–	–	3,200,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Cao Zhong	15,000,000	–	–	–	(15,000,000)[4]	–	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Shi Jianping	4,500,000	(4,500,000)[5]	–	–	–	–	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
	58,100,000	(4,500,000)	12,500,000	–	(15,000,000)	51,100,000			

Report of the Directors

SHARE OPTION SCHEME *(continued)*

Category or name of grantees	Options to subscribe for shares of the Company: At the beginning of the year	Transferred to other category during the year	Transferred from other category during the year	Exercised during the year[1]	Lapsed during the year	At the end of the year	Date of grant	Exercise period	Exercise price per share
Employees of the Group	16,000,000	–	–	(10,000,000)	–	6,000,000	26.04.2006	26.04.2008 – 25.04.2013	HK$1.50
	106,950,000	(8,000,000)[2]	–	–	(4,850,000)[6]	94,100,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
	122,950,000	(8,000,000)	–	(10,000,000)	(4,850,000)	100,100,000			
Other participants	116,000,000	(4,500,000)[3]	4,500,000[5]	–	–	116,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
	116,000,000	(4,500,000)	4,500,000	–	–	116,000,000			
	297,050,000	(17,000,000)	17,000,000	(10,000,000)	(19,850,000)	267,200,000			

Notes:

1. The weighted average closing price of the shares of the Company immediately before the date on which the share options were exercised was HK$7.115 per share.

2. Mr. Chen Zhaoqiang was appointed as an Executive Director of the Company on 5 January 2010. Such share options were re-classified from the category of "Employees of the Group" to "Directors of the Company" during the year.

3. Mr. Zhang Yaoping was appointed as a Non-executive Director of the Company on 1 January 2010. Such share options were re-classified from the category of "Other participants" to "Directors of the Company" during the year.

4. Mr. Cao Zhong resigned as an Executive Director of the Company on 10 May 2010. Such share options lapsed during the year.

5. Mr. Shi Jianping resigned as a Non-executive Director of the Company on 1 January 2010. Such share options were re-classified from the category of "Directors of the Company" to "Other participants" during the year.

6. The share options were held by nine grantees who ceased to be employees of the Group on 20 March 2010, 27 June 2010, 8 September 2010, 20 September 2010, 2 October 2010, 5 October 2010 and 12 October 2010 respectively. Such share options lapsed during the year.

Report of the Directors

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

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

DISTRIBUTION RESERVES

At the reporting date, the Company had approximately HK$870,140,000 reserves available for distribution as calculated in accordance with the provisions of Section 79B of the Companies Ordinance, of which approximately HK$538,056,000 has been proposed as a final dividend for the year.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 58.9% of the total sales for the year and sales to the largest customer included therein amounted to 34.5%. Purchases from the Group's five largest suppliers accounted for 43.6% of the total purchases for the year and purchases from the largest supplier included therein amounted to 10.8%. A shareholder who owns more than 5% of the share capital of the Company has interests in the Group's largest suppliers. Save as disclosed above, none of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's share capital) had any interest in the Group's five largest customers and suppliers.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

Connected transaction

The following connected transaction was recorded during the year and up to the date of this annual report:

On 13 April 2010, Jade Green Investments Limited (now known as Jade Green Investments Holding Limited) ("Jade Green"), a wholly-owned subsidiary of the Company, and Mr. Xing Libin ("Mr. Xing") entered into a loan agreement pursuant to which Jade Green had conditionally agreed to make available a loan of HK$937,367,261 (RMB824,883,190) to Mr. Xing for offsetting all outstanding liabilities of Mr. Xing under the sale and purchase agreement dated 9 May 2008 entered into, among others, Jade Green and Mr. Xing, details of which are contained in the circular of the Company dated 25 June 2008. The entering into of the loan agreement is for the purpose of better protecting the interest of the Company by fixing the terms of settlement in respect of the outstanding liabilities of Mr. Xing under the said sale and purchase agreement. The loan shall be repaid in three installments whereby (i) 50% of the loan shall be repaid on the date falling after the 12th month of the drawdown date; (ii) 25% of the loan shall be repaid on the date falling after the 18th month of the drawdown date; and (iii) 25% of the loan shall be repaid on the date falling after the 24th month of the drawdown date. Interest of the loan is LIBOR plus 2.5% per annum.

The making available of the loan is conditional upon:

(i) the Company having obtained approvals from the independent shareholders in respect of the loan agreement and the transactions contemplated under the loan agreement at the extraordinary general meeting;

(ii) Jade Green and the Company having obtained the relevant approvals and authorizations (if required) in respect of the loan agreement and the transactions contemplated under the loan agreement in accordance with the Listing Rules and other applicable laws;

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Connected transaction *(continued)*

(iii) Mr. Xing having delivered the following duly executed pledge documents to Jade Green prior to the date of the extraordinary general meeting of the Company for approving the loan agreement;

(a) a pledge agreement pursuant to which Shanxi Luensheng Energy Limited ("Luensheng") agrees to pledge its 35% interest in Liulin Luenshan Coking Co., Ltd. to Jade Green or its designated company;

(b) a pledge agreement pursuant to which Luensheng agrees to pledge its dividend rights in respect of its 35% shareholding in Shanxi Liulin Jinjiazhuang Coal Co., Ltd ("Jinjiazhuang") to Jade Green or its designated company. Jinjiazhuang in turn holds 35% shareholding in Shanxi Liulin Xingwu Coal Co., Ltd ("Xingwu"); and

(c) a pledge agreement pursuant to which Luensheng agrees to pledge its dividend rights in respect of its 5% shareholding in Shanxi Liulin Zhaiyadi Coal Co., Limited ("Zhaiyadi") to Jade Green or its designated company and any other documents in relation thereof; and

(iv) Jade Green having satisfied that all relevant consents, approvals and authorizations in respect of the loan agreement, the pledge documents and the transactions contemplated under the loan agreement, as may be required by Jade Green, have been obtained.

As at the date of the loan agreement, Mr. Xing was an associate of a substantial shareholder of each of certain subsidiaries of the Company and was therefore a connected person of the Company under the Listing Rules. Accordingly, the making available of the loan under the loan agreement constituted a connected transaction for the Company. Details of the loan agreement were disclosed in the announcement of the Company dated 13 April 2010 and in the circular of the Company dated 4 May 2010. The agreement was approved by the independent shareholders of the Company on 8 June 2010. The loan had been made available to Mr. Xing on 9 June 2010.

Continuing connected transactions

The following continuing connected transactions were recorded during the year and up to the date of this annual report:

(a) As stated in the announcement of the Company dated 4 June 2008, a tenancy agreement dated 2 June 2008 (the "Tenancy Agreement 1") was entered into between Xingwu, Jinjiazhuang and Zhaiyadi (collectively the "PRC Subsidiaries") as tenants and Luensheng as landlord in relation to the lease of the property situated at Luensheng Office Tower, No. 38 Qing He West Road, Liulin County, Shanxi Province, PRC for a term of three financial years ended 31 December 2010. The annual rental payable under the Tenancy Agreement 1 was RMB1,866,975 for each of the financial years ended 31 December 2008 and 2009 and RMB2,053,672.50 for the financial year ended 31 December 2010.

As at the date of the Tenancy Agreement 1, Luensheng was a connected person of the Company as it was controlled by the spouse of Mr. Xing who was a substantial shareholder of the Company. The property was used by the PRC Subsidiaries as office space.

Report of the Directors

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Continuing connected transactions *(continued)*

(b) As stated in the announcement of the Company dated 4 November 2008 and in the circular of the Company dated 25 November 2008, a supply contract dated 3 November 2008 (the "Supply Contract 1"), which superseded the supply contract dated 2 June 2008, was entered into between the PRC Subsidiaries and Mr. Xing and his associates (collectively "Party A") in relation to the purchase of raw coking coal, accessories and small tools by the PRC Subsidiaries from Party A and the sale of raw coking coal and electricity by the PRC Subsidiaries to Party A for a term of three financial years ended 31 December 2010. The annual cap amounts for the accessories and small tools transactions for the two financial years ended 31 December 2010 had been further revised by a revised supply contract dated 6 October 2009 (the "Revised Supply Contract 1"). Details of the Revised Supply Contract 1 were disclosed in the announcement of the Company dated 7 October 2009 and in the circular of the Company dated 28 October 2009.

The annual cap amounts (exclusive of VAT) for the coking coal transactions for each of the three financial years ended 31 December 2010 were as follows:

Supplier	Purchaser	From 15 December 2008 to 31 December 2008 *RMB*	For the financial year ended 31 December 2009 *RMB*	For the financial year ended 31 December 2010 *RMB*
Party A	Xingwu	47,300,000	172,800,000	186,700,000
Party A	Jinjiazhuang	–	432,000,000	466,600,000
Party A	Zhaiyadi	–	383,400,000	828,200,000
		47,300,000	988,200,000	1,481,500,000
Xingwu	Party A	196,000,000	660,800,000	714,500,000
Jinjiazhuang	Party A	141,000,000	956,800,000	992,000,000
Zhaiyadi	Party A	108,000,000	764,300,000	849,600,000
		445,000,000	2,381,900,000	2,556,100,000

Report of the Directors

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Continuing connected transactions *(continued)*

(b) *(continued)*

The annual cap amounts for the electricity transactions for each of the three financial years ended 31 December 2010 were as follows:

Supplier	**Purchaser**	**From 15 December 2008 to 31 December 2008** *RMB*	**For the financial year ended 31 December 2009** *RMB*	**For the financial year ended 31 December 2010** *RMB*
Xingwu	Party A	1,100,000	6,100,000	6,850,000

The annual cap amounts for the accessories and small tools transactions for each of the three financial years ended 31 December 2010 were as follows:

Supplier	**Purchaser**	**From 15 December 2008 to 31 December 2008** *RMB*	**For the financial year ended 31 December 2009** *RMB*	**For the financial year ended 31 December 2010** *RMB*
Party A	PRC Subsidiaries	7,100,000	118,165,350*	120,000,000*

* *as revised by the Revised Supply Contract 1*

As at the dates of the Supply Contract 1 and the Revised Supply Contract 1, Mr. Xing was a connected person of the Company as he was a substantial shareholder of the Company. By entering into of the Supply Contract 1, the PRC Subsidiaries could benefit from a lower transaction cost for the supply of raw coking coal as each of the PRC Subsidiaries and Mr. Xing' coal mines were within Liulin Area of Shanxi Province and could secure supply of raw coking coal. The Supply Contract 1 was approved by the independent shareholders of the Company on 15 December 2008. The entering into of the Revised Supply Contract 1 to increase the cap amounts in respect of the accessories and small tools transactions would provide more flexibility for the PRC Subsidiaries to purchase accessories and small tools from Party A. The Revised Supply Contract 1 was approved by the independent shareholders of the Company on 13 November 2009.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Continuing connected transactions *(continued)*

(c) As stated in the announcement of the Company dated 4 November 2008 and in the circular of the Company dated 25 November 2008, a supply contract dated 3 November 2008 (the "Shi Supply Contract") was entered into between the PRC Subsidiaries and Mr. Shi Jianping and his associates (collectively "Party B") in relation to the supply of coking coal by the PRC Subsidiaries to Party B for a term of three financial years ended 31 December 2010. The annual cap amounts (exclusive of VAT) for the transactions contemplated under the supply contract for each of the three financial years ended 31 December 2010 were as follows:

Supplier	Purchaser	From 15 December 2008 to 31 December 2008	For the financial year ended 31 December 2009	For the financial year ended 31 December 2010
		RMB	*RMB*	*RMB*
Xingwu	Party B	21,800,000	110,200,000	119,100,000
Jinjiazhuang	Party B	15,700,000	159,500,000	165,400,000
Zhaiyadi	Party B	12,000,000	127,400,000	141,600,000
		49,500,000	397,100,000	426,100,000

As at the date of the Shi Supply Contract, Mr. Shi Jianping was a director of the Company and hence a connected person of the Company. The PRC Subsidiaries had supplied raw coking coal to Party B since 2006. The Shi Supply Contract was entered into by the Company when Mr. Shi Jianping was appointed a director of the Company on 1 November 2008 in order to comply with the Listing Rules. The Shi Supply Contract was approved by the independent shareholders of the Company on 15 December 2008.

(d) A long term strategic cooperation agreement dated 15 June 2008 was entered into between the Company, Shougang Holding and Mr. Wong Lik Ping whereby the Company, inter alia, agreed to supply to Shougang Holding or any companies designated by Shougang Holding not less than two million tonnes of premier clean coking coal for each calendar years from 2009 onwards. A coal supply framework agreement dated 20 August 2008 (the "Coal Supply Framework Agreement") was entered into between the Company and Shougang Corporation to finalise the terms for coal supply under the long term strategic cooperation agreement.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Continuing connected transactions *(continued)*

(d) *(continued)*

As stated in the announcement of the Company dated 3 March 2009 and in the circular of the Company dated 17 March 2009, a supplemental coal supply framework agreement dated 24 February 2009 (the "Supplemental Coal Supply Framework Agreement") was entered into between the Company and Shougang Corporation to further govern the coal supply under the Coal Supply Framework Agreement in order to comply with the Listing Rules. According to the Supplemental Coal Supply Framework Agreement, the term of the Coal Supply Framework Agreement would terminate on 31 December 2011 and the caps for the quantity and in monetary terms (exclusive of VAT) for clean coking coal supply for each of the three financial years ending 31 December 2011 were fixed as follows:

From 8 April 2009 (being the date of approval by the independent shareholders) to 31 December 2009	For the financial year ended 31 December 2010	For the financial year ending 31 December 2011
2,000,000 tonnes	3,000,000 tonnes	5,000,000 tonnes
RMB3,634,000,000 (approximately HK$4,121,724,000)	RMB5,886,000,000 (approximately HK$6,675,967,000)	RMB10,595,000,000 (approximately HK$12,016,968,000)

Shougang Corporation became a connected person of the Company as a result of its wholly-owned subsidiary, Shougang Holding became a substantial shareholder of the Company from 24 February 2009 upon completion of the share purchase under the share sale agreement dated 9 February 2009. The entering into of the Supplemental Coal Supply Framework Agreement was for the purpose of compliance with Chapter 14A of the Listing Rules. The Supplemental Coal Supply Framework Agreement was approved by the independent shareholders of the Company on 8 April 2009.

(e) As stated in the announcement of the Company dated 1 June 2009, a sale master agreement dated 1 June 2009 (the "Supply Contract 2") was entered into between the PRC Subsidiaries and Party A pursuant to which the PRC Subsidiaries agreed to sell certain equipment, accessories and small tools to Party A for a term of three financial years ending 31 December 2011. The annual cap amounts (exclusive of VAT) for the transactions under the Supply Contract 2 are RMB12,000,000 for the period from 1 June 2009 to 31 December 2009; RMB20,000,000 for the year ended 31 December 2010; and RMB 20,000,000 for the year ending 31 December 2011 respectively.

As at the date of the Supply Contract 2, Party A was a connected person of the Company as Mr. Xing was a substantial shareholder of the Company and certain subsidiaries of the Company. The entering into of the Supply Contract 2 would enable the Group to strengthen its income base and enable the PRC Subsidiaries to dispose of equipment not required by them and thereby increase cashflow.

Report of the Directors

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Continuing connected transactions *(continued)*

(f) As stated in the announcement of the Company dated 1 June 2009, a tenancy agreement dated 1 June 2009 (the "Tenancy Agreement 2") was entered into between the PRC Subsidiaries as tenants and Luensheng as landlord in relation to the lease of one floor of office premises situated at Luensheng Office Tower, No. 38 Qing He West Road, Liulin County, Shanxi Province, PRC for a term of two financial years ended 31 December 2010. The annual rental payable (exclusive of electricity, heat, water, and other charges) under the Tenancy Agreement 2 was RMB934,400 for the financial year ended 31 December 2009 and RMB1,026,836.25 for the financial year ended 31 December 2010 respectively.

As at the date of the Tenancy Agreement 2, Luensheng was a connected person of the Company as it was controlled by the spouse of Mr. Xing who was a substantial shareholder of the Company. The PRC Subsidiaries had rented certain office premises which were in the same building of the premises and such office premises had been used by the PRC Subsidiaries as their office. It was beneficial to the PRC Subsidiaries to enter into the Tenancy Agreement 2 as the PRC Subsidiaries would need more office space for operation and therefore all operation could be centralized at the same location.

(g) As stated in the announcement of the Company dated 10 September 2009, a master construction contract dated 10 September 2009 (the "Master Construction Contract") was entered into between the PRC Subsidiaries and Shanxi Panlong Construction Project Co., Ltd. ("Shanxi Panlong") in relation to provision of certain construction services by Shanxi Panlong to the PRC Subsidiaries for a term of three financial years ending 31 December 2011. The cap amounts for the transactions under the Master Construction Contract are RMB10,000,000 for the period from 10 September 2009 to 31 December 2009; RMB10,000,000 for the financial year ended 31 December 2010 and RMB10,000,000 for the financial year ending 31 December 2011.

As at the date of the Master Construction Contract, Shanxi Panlong was a connected person as it was controlled by the brother of Mr. Xing who was a substantial shareholder of the Company. It is essential that the mining areas for mining and coal preparation plants of the PRC Subsidiaries should have the infrastructure and auxiliary facilities as necessary for producing the products of required quantity and quality. As it was expected that on-going construction works would need to be carried out at the mining areas from time to time in the future, the entering into of the Master Construction Contract would enable the PRC Subsidiaries to have greater degree of flexibility if and when transacting with Shanxi Panlong in the future.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Continuing connected transactions *(continued)*

(h) The Supply Contract 1 (as revised by the Revised Supply Contract 1), the Tenancy Agreement 1 and the Tenancy Agreement 2 expired on 31 December 2010. Due to the increases in the price of coal products and raw materials and the expansion of the scale of production, it was also expected that the annual caps for 2011 under the Supply Contract 2 and the Master Construction Contract would be exceeded based on the business projection. The Tenancy Agreement 1, the Tenancy Agreement 2, the Supply Contract 1 (as revised by the Revised Supply Contract 1), the Supply Contract 2 and the Master Construction Contract are essential to the operation of the Company and were being carried out in the ordinary and usual course of businesses of the Group. In order to enhance the flexibility of the operation of the Group, a master agreement dated 12 November 2010 (the "Master Agreement") was entered into between the Company and Mr. Xing for governing such continuing connected transactions and other continuing connected transactions to be taken place in the three financial years ending 31 December 2011. Upon the Master Agreement becoming effective, the Supply Contract 2 and the Master Construction Contract would be terminated.

Pursuant to the Master Agreement, the Group would supply products (principally clean coking coal, raw coking coal and other coal products) and side products, raw materials, materials, fuel, energy (principally electricity and water), mechanical equipment, equipment, spare parts, accessories, tools, fixed assets, provision of construction and/or other services; and leasing of properties (the "Products/Services") to Mr. Xing and his associates (the "Sales") and Mr. Xing and his associates would supply the Products/Services to the Group (the "Purchases") during the three financial years ending 31 December 2013. The cap amounts of the Sales and the Purchases for each of the three financial years ending 31 December 2013 (exclusive of VAT) are as follows:

	For the financial year ending 31 December 2011 *RMB' million*	**For the financial year ending 31 December 2012** *RMB' million*	**For the financial year ending 31 December 2013** *RMB' million*
Cap amount for the Sales	1,120	1,210	1,310
Cap amount for the Purchases	1,660	1,800	1,950

As at the date of the Master Agreement, Mr. Xing was an associate of a substantial shareholder of each of certain subsidiaries and a director of a subsidiary of the Company, thus, he was a connected person of the Company under the Listing Rules. Accordingly, the transactions under the Master Agreement constitute continuing connected transactions for the Company. Details of the Master Agreement were disclosed in the announcement of the Company dated 12 November 2010 and in the circular of the Company dated 1 December 2010. The Master Agreement was approved by the independent shareholders of the Company on 17 December 2010.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

The continuing connected transactions as set out in (a) to (g) above which took place during the year have been reviewed by the Independent Non-executive Directors of the Company who have confirmed that:

(1) the transactions were entered into in the ordinary and usual course of business of the relevant members of the Group;

(2) the transactions were conducted on normal commercial terms, or if there was no available comparison, on terms that were no less favourable than terms available to or from (as the case may be) independent third parties; and

(3) the transactions were entered into in accordance with the relevant agreements governing such transactions on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company has provided a letter to the Board of Directors of the Company confirming the matters stated in Rule 14A.38 of the Listing Rules in respect of the continuing connected transactions as set out in (a) to (g) above which took place during the year.

As far as the transactions set out in note 46 to the financial statements under the heading of "Related Party Transactions – Group" are concerned, the transactions relating to the sale of clean coking coal to a wholly-owned subsidiary of Shougang International by the Group as set out in note (i) were continuing connected transactions which had been approved by the independent shareholders of the Company. The transactions as set out in note (ii) were connected transaction which was exempt from any disclosure and shareholders' approval requirements under the Listing Rules. The transaction as set out in note (iii) was connected transaction which had been previously disclosed by way of announcement of the Company. The transaction as set out in note (iv) was connected transaction which had been approved by the independent shareholders of the Company. The transaction as set out in note (v) did not constitute connected transaction of the Company under the Listing Rules.

As far as the transactions set out in note 46(vi) to the financial statements under the heading of "Related Party Transactions – Group" are concerned, the remuneration of the Directors as determined pursuant to the service contracts entered into between the Directors and the Group and the securities issued and to be issued upon exercise of options granted to the Directors under the share option scheme of the Company were connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 25 to 36 of this annual report.

Report of the Directors

AUDITOR

The financial statements in respect of the previous two financial years were audited by Grant Thornton ("GTHK"). Due to a merger of the businesses of GTHK and BDO Limited ("BDO") to practise in the name of BDO as announced by the Company on 2 December 2010, GTHK resigned and BDO was appointed as auditor of the Company effective from 2 December 2010. The financial statements for the year ended 31 December 2010 were audited by BDO.

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

By Order of the Board
Wang Pingsheng
Chairman

29 March 2011

Independent Auditor's Report

To the shareholders of Fushan International Energy Group Limited
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Fushan International Energy Group Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 59 to 145, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants
Au Yiu Kwan
Practising Certificate Number P05018
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

Hong Kong, 29 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
Continuing operations			
Revenue	5	**5,543,285**	4,260,676
Cost of sales		**(1,451,760)**	(1,173,849)
Gross profit		**4,091,525**	3,086,827
Other operating income	7	**161,855**	37,551
Selling and distribution expenses		**(381,020)**	(222,800)
General and administrative expenses		**(620,536)**	(376,252)
Other operating expenses		**(275,236)**	(254,484)
Operating profit		**2,976,588**	2,270,842
Gain on disposals of subsidiaries	8	**–**	38,264
Finance costs	9	**(39,646)**	(117,678)
Change in fair value of derivative financial instruments		**9,672**	4,370
Net transaction loss arising from acquisition of available-for-sale financial assets	25(a), 25(b)	**–**	(221,221)
Share of losses of associates		**(526)**	(386)
Profit before income tax	10	**2,946,088**	1,974,191
Income tax expense	11	**(529,125)**	(424,620)
Profit for the year from continuing operations		**2,416,963**	1,549,571
Discontinued operations			
Loss for the year from discontinued operations	12	**(201,896)**	(107,088)
Profit for the year		**2,215,067**	1,442,483
Other comprehensive income for the year			
Fair value gain/(loss) on available-for-sale financial assets		**670,502**	(100)
Exchange differences on translation of financial statements of foreign operations		**469,529**	1,353
Total comprehensive income for the year		**3,355,098**	1,443,736
Profit for the year attributable to:			
Owners of the Company	13	**1,802,791**	1,126,274
Non-controlling interests		**412,276**	316,209
Profit for the year		**2,215,067**	1,442,483
Total comprehensive income for the year attributable to:			
Owners of the Company		**2,883,403**	1,126,788
Non-controlling interests		**471,695**	316,948
Total comprehensive income for the year		**3,355,098**	1,443,736
		HK (Cents)	HK (Cents)
Earnings per share from continuing and discontinued operations	15		
– Basic		**33.52**	23.53
– Diluted		**33.39**	23.04
Earnings per share from continuing operations	15		
– Basic		**35.90**	24.96
– Diluted		**35.77**	24.44

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*18*	**2,732,027**	2,535,879
Prepaid lease payments	*19*	**47,323**	56,273
Mining rights	*20*	**10,413,660**	10,289,882
Goodwill	*21*	**2,156,320**	2,080,050
Interests in associates	*24*	**19,398**	19,196
Available-for-sale financial assets	*25*	**3,161,097**	2,214,369
Deposits, prepayments and other receivables	*26*	**443,990**	323,004
Loan to a party	*29*	**234,342**	–
Amount due from a party	*29*	**–**	937,150
Deferred tax assets	*39*	**16,193**	20,191
Total non-current assets		**19,224,350**	18,475,994
Current assets			
Inventories	*27*	**134,758**	159,485
Trade and bills receivables	*28*	**2,317,901**	1,113,647
Deposits, prepayments and other receivables		**123,788**	196,022
Loan to a party	*29*	**703,025**	–
Amounts due from other parties	*29*	**292,876**	376,044
Financial assets at fair value through profit or loss		**–**	25,967
Derivative financial instruments		**12,224**	–
Pledged bank deposits	*30*	**32,512**	105,771
Cash and cash equivalents	*31*	**2,766,063**	2,104,478
		6,383,147	4,081,414
Assets classified as held for sale	*12*	**512,130**	–
Total current assets		**6,895,277**	4,081,414
Current liabilities			
Trade and bills payables	*32*	**537,808**	328,732
Other payables and accruals	*33*	**1,394,709**	1,753,024
Borrowings	*34*	**233,381**	162,420
Derivative financial instruments		**11,597**	–
Amounts due to other parties	*36*	**22,878**	27,526
Amounts due to related companies	*37*	**–**	12,008
Amounts due to non-controlling shareholders of subsidiaries	*38*	**256,919**	42,964
Tax payables		**344,369**	245,695
		2,801,661	2,572,369
Liabilities classified as held for sale	*12*	**515,894**	–
Total current liabilities		**3,317,555**	2,572,369
Net current assets		**3,577,722**	1,509,045
Total assets less current liabilities		**22,802,072**	19,985,039

Consolidated Statement of Financial Position *(continued)*

As at 31 December 2010

	Notes	**2010** **HK$'000**	2009 HK$'000
Non-current liabilities			
Borrowings	*34*	**898,482**	643,665
Deferred tax liabilities	*39*	**2,280,368**	2,011,610
Total non-current liabilities		**3,178,850**	2,655,275
Net assets		**19,623,222**	17,329,764
EQUITY			
Equity attributable to owners of the Company			
Share capital	*40*	**538,056**	537,056
Reserves	*41*	**17,611,838**	15,288,138
Total equity attributable to owners of the Company		**18,149,894**	15,825,194
Non-controlling interests		**1,473,328**	1,504,570
Total equity		**19,623,222**	17,329,764

Wang Pingsheng
Director

Chen Zhouping
Director

Statement of Financial Position

As at 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*18*	**2,285**	3,339
Interests in subsidiaries	*22*	**544,920**	544,920
Interests in associates	*24*	**–**	–
Total non-current assets		**547,205**	548,259
Current assets			
Amounts due from subsidiaries	*23*	**16,738,022**	14,578,192
Deposits, prepayments and other receivables		**853**	1,004
Cash and cash equivalents	*31*	**793,122**	1,920,793
Total current assets		**17,531,997**	16,499,989
Current liabilities			
Amounts due to subsidiaries	*35*	**999,879**	364,037
Other payables and accruals	*33*	**10,971**	12,370
Borrowings	*34*	**229,430**	111,238
Total current liabilities		**1,240,280**	487,645
Net current assets		**16,291,717**	16,012,344
Total assets less current liabilities		**16,838,922**	16,560,603
Non-current liabilities			
Borrowings	*34*	**424,742**	640,231
Net assets		**16,414,180**	15,920,372
EQUITY			
Share capital	*40*	**538,056**	537,056
Reserves	*41*	**15,876,124**	15,383,316
Total equity		**16,414,180**	15,920,372

Wang Pingsheng
Director

Chen Zhouping
Director

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Cash flows from operating activities			
Profit before income tax from continuing operations		**2,946,088**	1,974,191
Loss before income tax from discontinued operations		**(201,896)**	(103,858)
Profit before income tax		**2,744,192**	1,870,333
Adjustments for:			
Amortisation of prepaid lease payments		**1,416**	1,505
Amortisation of mining rights		**266,871**	260,581
Depreciation of property, plant and equipment		**197,104**	172,411
Finance costs		**75,166**	125,213
Share-based compensation		**287,205**	110,304
Provision for impairment on trade receivables		**117,318**	31,765
Provision for impairment on other receivables		**–**	4,530
Write-down of inventories to net realisable value		**15,666**	9,987
Share of losses of associates		**526**	386
Interest income		**(42,048)**	(9,858)
Gain on disposals of subsidiaries		**–**	(38,264)
(Gain)/Loss on disposals of property, plant and equipment		**(636)**	6,725
Net transaction loss arising from acquisition of available-for-sale financial assets		**–**	221,221
Change in fair value of derivative financial instruments		**(9,672)**	(4,370)
Net foreign exchange (gain)/loss		**(61,702)**	2,664
Operating profit before working capital changes		**3,591,406**	2,765,133
(Increase)/Decrease in inventories		**(16,785)**	18,076
Increase in trade and bills receivables	*47*	**(1,251,567)**	(379,284)
Decrease in deposits, prepayments and other receivables		**29,486**	15,269
Decrease in amounts due from other parties	*47*	**98,893**	346,207
Increase/(Decrease) in trade and bills payables		**487,000**	(52,231)
Decrease in other payables and accruals		**(346,541)**	(382,537)
Decrease in amount due to a director		**–**	(20,000)
Increase in amounts due to non-controlling shareholders of subsidiaries		**5,295**	–
Increase/(Decrease) in amounts due to other parties		**8,251**	(23,634)
Cash generated from operations		**2,605,438**	2,286,999
Income tax paid		**(444,792)**	(720,113)
Net cash generated from operating activities		**2,160,646**	1,566,886

Consolidated Statement of Cash Flows *(continued)*

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Cash flows from investing activities			
Payments to acquire property, plant and equipment		**(758,599)**	(660,219)
Proceeds from disposals of property, plant and equipment		**2,837**	628
Proceeds from disposals of subsidiaries	*8*	**–**	140,356
Proceeds from loan novation agreements	*8(a)*	**–**	39,763
Payments to acquire available-for-sale financial assets		**(42,075)**	(4,720)
Payments to acquire financial assets at fair value through profit or loss		**–**	(21,597)
Interest received		**26,904**	9,858
Net cash used in investing activities		**(770,933)**	(495,931)
Cash flows from financing activities			
Net proceeds from issue of new shares upon placement		**–**	1,719,027
Net proceeds from exercise of share options		**14,982**	124,369
Proceeds from bank loans		**460,000**	1,100,754
Repayments of bank loans		**(116,596)**	(1,755,510)
Proceeds from other loans		**17,135**	3,408
Repayments of other loans		**(26,383)**	(99,588)
Repayments to non-controlling shareholders of subsidiaries		**–**	(59,995)
Decrease in pledged bank deposits		**77,346**	63,244
Finance costs paid		**(61,106)**	(168,469)
Dividends paid to shareholders		**(863,331)**	(497,025)
Dividends paid to non-controlling shareholders of subsidiaries		**(266,583)**	(149,469)
Net cash (used in)/generated from financing activities		**(764,536)**	280,746
Net increase in cash and cash equivalents		**625,177**	1,351,701
Cash and cash equivalents at 1 January		**2,104,478**	760,163
Reclassified to assets classified as held for sale	*12*	**(160)**	–
Effect of foreign exchange rates changes		**36,568**	(7,386)
Cash and cash equivalents at 31 December	*31*	**2,766,063**	2,104,478

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Equity attributable to owners of the Company									Non-controlling interests	Total equity
	Share capital	Share premium	Statutory reserve	Other reserves	Retained profits	Share-based compensation reserve	Security investment reserve	Translation reserve	Total		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010	**537,056**	**14,601,448**	**168,293**	**147,698**	**234,169**	**115,860**	**(100)**	**20,770**	**15,825,194**	**1,504,570**	**17,329,764**
Share-based compensation	-	-	-	-	-	287,205	-	-	287,205	-	287,205
Issue of shares upon exercise of share options	1,000	17,455	-	-	-	(3,473)	-	-	14,982	-	14,982
Contribution from non-controlling shareholders of subsidiary	-	-	-	-	-	-	-	-	-	9,200	9,200
2009 dividends approved *(Note 14)*	-	-	-	-	(591,862)	-	-	-	(591,862)	-	(591,862)
2010 interim dividends declared *(Note 14)*	-	-	-	-	(269,028)	-	-	-	(269,028)	-	(269,028)
Dividends paid to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	(512,137)	(512,137)
Transactions with owners of the Company	1,000	17,455	-	-	(860,890)	283,732	-	-	(558,703)	(502,937)	(1,061,640)
Profit for the year	-	-	-	-	1,802,791	-	-	-	1,802,791	412,276	2,215,067
Other comprehensive income:											
– Fair value gain on available-for-sale financial assets	-	-	-	-	-	-	670,502	-	670,502	-	670,502
– Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	-	-	410,110	410,110	59,419	469,529
Total comprehensive income for the year	-	-	-	-	1,802,791	-	670,502	410,110	2,883,403	471,695	3,355,098
Appropriations to other reserves *(Note 41)*	-	-	-	123,633	(123,633)	-	-	-	-	-	-
Appropriations to statutory reserve *(Note 41)*	-	-	92,162	-	(92,162)	-	-	-	-	-	-
Lapse of share options	-	-	-	-	12,511	(12,511)	-	-	-	-	-
At 31 December 2010	**538,056**	**14,618,903**	**260,455**	**271,331**	**972,786**	**387,081**	**670,402**	**430,880**	**18,149,894**	**1,473,328**	**19,623,222**

Consolidated Statement of Changes in Equity *(continued)*

For the year ended 31 December 2010

	Equity attributable to owners of the Company									Non-controlling interests	Total equity
	Share capital	Share premium	Statutory reserve	Other reserves	Accumulated (losses)/ Retained profits	Share-based compensation reserve	Security investment reserve	Translation reserve	Total		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2009	456,456	10,384,646	107,343	–	(183,861)	36,999	–	20,156	10,821,739	1,627,258	12,448,997
Disposals of a subsidiary *(Note 8(a))*	–	–	–	–	–	–	–	–	–	(437)	(437)
Share-based compensation	–	–	–	–	–	110,304	–	–	110,304	–	110,304
Placing of shares	40,000	1,679,027	–	–	–	–	–	–	1,719,027	–	1,719,027
Issue of consideration shares	32,300	2,390,263	–	–	–	–	–	–	2,422,563	–	2,422,563
Issue of shares upon exercise of share options	8,300	147,512	–	–	–	(31,443)	–	–	124,369	–	124,369
2009 interim dividends declared *(Note 14)*	–	–	–	–	(499,596)	–	–	–	(499,596)	–	(499,596)
Dividends paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	(439,199)	(439,199)
Transactions with owners of the Company	80,600	4,216,802	–	–	(499,596)	78,861	–	–	3,876,667	(439,636)	3,437,031
Profit for the year	–	–	–	–	1,126,274	–	–	–	1,126,274	316,209	1,442,483
Other comprehensive income:											
– Fair value loss on available-for-sale financial assets	–	–	–	–	–	–	(100)	–	(100)	–	(100)
– Exchange differences on translation of financial statements of foreign operations	–	–	–	–	–	–	–	614	614	739	1,353
Total comprehensive income for the year	–	–	–	–	1,126,274	–	(100)	614	1,126,788	316,948	1,443,736
Appropriations to other reserves *(Note 41)*	–	–	–	138,351	(138,351)	–	–	–	–	–	–
Appropriations to other reserves for prior year as a result of the change in PRC regulations *(Note 41)*	–	–	–	9,347	(9,347)	–	–	–	–	–	–
Appropriations to statutory reserve *(Note 41)*	–	–	60,950	–	(60,950)	–	–	–	–	–	–
At 31 December 2009	537,056	14,601,448	168,293	147,698	234,169	115,860	(100)	20,770	15,825,194	1,504,570	17,329,764

Notes to the Financial Statements

For the year ended 31 December 2010

1. GENERAL INFORMATION

Fushan International Energy Group Limited (the "Company") is a limited liability company incorporated and domiciled in Hong Kong. Its registered office address is 6th Floor, Bank of East Asia Harbour View Centre, No.56 Gloucester Road, Wanchai, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Group's principal places of the 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 and side products. Details of the activities of the principal subsidiaries of the Group are set out in Note 22 to the financial statements.

On 10 December 2010, one of the Group's subsidiaries, New Honest Limited ("New Honest") entered into a conditional sale and purchase agreement with an independent third party to dispose its entire 66% equity interest in a subsidiary of the Group, namely Shanxi Yao Zin Coal and Coking Company Limited ("Shanxi Yao Zin"), for a cash consideration of Renminbi ("RMB") 211,200,000 (Hong Kong Dollars ("HK$") 249,216,000 equivalent) (the "2010 Disposal"). In addition, the Group shall waive the shareholders' loans to Shanxi Yao Zin amounting to RMB124,900,000 (HK$147,400,000 equivalent) and the corresponding interest upon the completion of the 2010 Disposal. Shanxi Yao Zin was incorporated in the PRC and is principally engaged in production and sales of coke products in Shanxi, the PRC. As at 31 December 2010, the 2010 Disposal had not yet been completed. As operations carried out by Shanxi Yao Zin represent components of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and also represent separate major lines of businesses. The Group presented, in its financial statements, the Shanxi Yao Zin's operations as Discontinued Operations in accordance with Hong Kong Financial Reporting Standard 5 ("HKFRS 5"). Further details regarding the Discontinued Operations are set out in Note 12 to the financial statements.

Other than the disposal transaction as described above, there were no significant changes in the Group's operations during the year.

The financial statements for the year ended 31 December 2010 were approved for issue by the board of directors on 29 March 2011.

Notes to the Financial Statements

For the year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements on pages 59 to 145 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretation issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The significant accounting policies that have been used in the preparation of the financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended HKFRSs and the impacts on the Group's financial statements, if any, are disclosed in Note 3.

The financial statements have been prepared under historical cost convention except for certain financial instruments classified as available-for-sale financial assets (Note 25), financial assets at fair value through profit or loss and derivative financial instruments which are stated at fair values. The measurement bases are fully described in the accounting policies below.

The financial statements are presented in HK$ which is also the functional currency of the Company and all values are rounded to the nearest thousand except when otherwise indicated.

It should be noted that accounting estimates and assumptions are used in the preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are described in Note 4.

2.2 Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries made up to 31 December each year. Intra-group transactions and balances and unrealised gains and lossess on transactions between group companies are eliminated in full in preparing the consolidated financial statements. When unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective.

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

Notes to the Financial Statements

For the year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Business combination and basis of consolidation *(continued)*

Business combination from 1 January 2010

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed.

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

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

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

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

Business combination prior to 1 January 2010

On acquisition, assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connected with business combinations were capitalised as part of the cost of the acquisition.

Notes to the Financial Statements

For the year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Business combination and basis of consolidation *(continued)*

Business combination prior to 1 January 2010 *(continued)*

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group are recognised profit or loss. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary.

2.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivables at the reporting date. All dividends whether received out of the investee's pre or post acquisition profits are recognised in the Company's profit or loss.

2.4 Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture.

In consolidated financial statements, investment in associates is initially recognised at cost and subsequently accounted for using the equity method. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. Goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment. Any excess of the Group's share of net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate's profit or loss in the year in which the investment is acquired.

Notes to the Financial Statements

For the year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Associates *(continued)*

Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Profit or loss for the year includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on investment in associates recognised for the year.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Where unrealised losses on assets sales between the Group and its associates are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying equity method.

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. At each reporting date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (higher of value-in-use and fair value less costs to sell) of the associate and its carrying amount. In determining the value-in-use, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associate, including cash flows arising from the operations of the associate and the proceeds on ultimate disposal of the investment.

In the Company's statement of financial position, investment in associates is stated at cost less any impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

Notes to the Financial Statements

For the year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assume, and equity instruments issued by the Group, plus any costs directly attributable to the business combination or investment.

Goodwill is stated at cost less any impairment losses. Goodwill is allocated to cash-generating units ("CGUs") and is tested annually for impairment (see Note 4.2). In respect of associates, the carrying amount of goodwill, if any, is included in the carrying amount of the Group's interests in the associate and is assessed for impairment as part of the interests in the associate.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in profit or loss.

On subsequent disposal of a subsidiary, an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

2.6 Property, plant and equipment

Property, plant and equipment, other than construction in progress ("CIP"), are stated at cost less accumulated depreciation and any identified impairment. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use.

Other than mining structures, depreciation is provided to write off the cost less their estimated residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Buildings and plants	The shorter of the lease terms and 5%
Mining machinery and equipment	10%
Leasehold improvements	$33^1/_3$%
Office equipment	20%
Furniture and fixtures	20%
Motor vehicles	25%

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.6 Property, plant and equipment *(continued)*

CIP represents assets in the course of construction for production or for its own use purpose. CIP is stated at cost less any impairment loss and is not depreciated. Cost includes direct costs incurred during the periods of construction, installation and testing plus interest charges arising from borrowings used to finance these assets during the construction period. CIP is reclassified to the appropriate category of property, plant and equipment and depreciation commences when the construction work is completed and the asset is ready for use.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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

2.7 Mining rights

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

2.8 Impairment of non-financial assets

Goodwill arising on an acquisition of subsidiary, prepaid lease payments, mining rights, property, plant and equipment and interests in subsidiaries and associates are subject to impairment testing.

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Impairment of non-financial assets *(continued)*

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

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

2.9 Foreign currency translation

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Revenue recognition

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

Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend is recognised when the right to receive payment is established.

2.11 Borrowing costs

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

2.12 Leases

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

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

Prepaid lease payments

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

Notes to the Financial Statements

For the year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.12 Leases *(continued)*

Assets acquired under finance leases

Where the Group acquires the right to use the assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments of such asset, are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligation under finance leases.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for the year in which they are incurred.

Operating lease charges as the lessee

When the Group has the right to use the assets held under operating leases, payments made under the leases are charged to profit or loss using straight-line method over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the year in which they are incurred.

2.13 Financial assets

Financial assets are classified into financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

Notes to the Financial Statements

For the year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Financial assets *(continued)*

Financial assets at fair value through profit or loss

These include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term, or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or

- the assets are part of a group of financial assets which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or

- the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in profit or loss. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists. Fair value gain or loss does not include any dividend or interest earned on these financial assets. Dividend and interest income is recognised in accordance with the Group's policies in Note 2.10 to the financial statements.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Notes to the Financial Statements

For the year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Financial assets *(continued)*

Available-for-sale financial assets

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as available-for-sale financial assets.

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend or interest income is recognised in other comprehensive income and accumulated separately in the security investment reserve in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss is reclassified from equity to profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

Fair value of available-for-sale financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in other comprehensive income.

For available-for-sales investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each reporting date subsequent to initial recognition.

Impairment of financial assets

At each reporting date, financial assets other than those at fair value through profit or loss are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- Significant financial difficulty of the debtor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Notes to the Financial Statements

For the year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Financial assets *(continued)*

Impairment of financial assets *(continued)*

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group. If any such evidence exists, impairment loss is measured and recognised as follows:

(i) *Financial assets carried at amortised cost*

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

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

(ii) *Available-for-sale financial assets*

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and accumulated in the security investment reserve in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in profit or loss as an impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Reversals in respect of investment in equity instruments classified as available-for-sale and stated at fair value are not recognised in profit or loss. The subsequent increase in fair value is recognised in other comprehensive income.

Notes to the Financial Statements

For the year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Financial assets *(continued)*

Impairment of financial assets *(continued)*

(iii) Financial assets carried at cost

The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

Financial assets other than financial assets at fair value through profit or loss and trade receivables that are stated at amortised cost, impairment losses are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Impairment losses recognised in an interim period in respect of available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of an annual period, or in a subsequent period, the increase is recognised in other comprehensive income.

2.14 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using first-in, first-out basis, and in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated net selling prices in the ordinary course of business less the estimated costs and any applicable selling expenses.

2.15 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Notes to the Financial Statements

For the year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.15 Accounting for income taxes *(continued)*

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

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

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset is realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

  (i) the same taxable entity; or

  (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Notes to the Financial Statements

For the year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.16 Derivative financial instruments

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

2.17 Cash and cash equivalents

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

2.18 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

2.19 Employee benefit

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.19 Employee benefit *(continued)*

Short-term employee benefits

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

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

Share-based employee compensation

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

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

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

2.20 Financial liabilities

The Group's financial liabilities include borrowings, amounts due to related companies, non-controlling shareholders of subsidiaries and other parties, derivative financial instruments, trade and bills payables, other payables and accruals.

Financial liabilities are recognised when, and only when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2.11).

Notes to the Financial Statements

For the year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 Financial liabilities *(continued)*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

Borrowings

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

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

Finance lease liabilities

Finance lease liabilities are measured at initial value less the capital element of lease repayments (see Note 2.12).

Other financial liabilities at amortised cost

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

Derivatives

Derivatives including separated embedded derivatives are measured at fair value (see Note 2.16).

Notes to the Financial Statements

For the year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any amortisation, if appropriate.

2.22 Related parties

For the purpose of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly, or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of the key management personnel of the Group; or is a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individual; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

Notes to the Financial Statements

For the year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.23 Segment reporting

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

Coking coal mining:	Mining and exploration of coal resources and production of raw and clean coking coal in the PRC
Coke production:	Production of coke in the PRC (Discontinued Operations during the year)

Each of these operating segments is managed separately as each of the product lines requires different resources as well as operating approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that change in fair value of derivative financial instruments, net transaction loss arising from acquisition of available-for-sale financial assets, gain on disposal of subsidiaries, share-based compensation, interest income, finance costs, share of results of associates, income tax and corporate income and expenses which are not directly attributable to the business activities of any operating segment, are not included in arriving at the operating results of the operating segment.

Segment assets include property, plant and equipment, prepaid lease payments, mining rights, goodwill, inventories, receivables and operating cash and mainly exclude available-for-sale financial assets, derivative financial instruments, deferred tax assets, interests in associates, financial assets at fair value through profit or loss and corporate assets which are not directly attributable to the business activities of any operating segment.

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

Notes to the Financial Statements

For the year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.24 Financial guarantees issued

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

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

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

2.25 Assets held for sale

Non-current assets held for sale and assets in disposal groups are classified as held for sale if their carrying amount is recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. These assets (and disposal groups), other than financial assets, classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

2.26 Discontinued operations

A discontinued operation is a clearly distinguishable component of the Group's business that has been disposed of or is classified as held for sale, which represents a separate major line of business or geographical area of operations of the Group.

Notes to the Financial Statements

For the year ended 31 December 2010

3. ADOPTION OF NEW/REVISED HKFRSs

3.1 Adoption of new/revised HKFRSs

During the year, the Group has applied for the following amendments issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2010:

HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRSs (Amendments)	Improvements to HKFRSs

Other than as noted below, the adoption of these new/revised HKFRSs had no material impact on how the results and financial positions for the current and prior periods have been prepared and presented.

(a) HKFRS 3 (Revised) – Business Combinations and HKAS 27 (Revised) – Consolidated and Separate Financial Statements

The revised accounting policies are described in Note 2.2 to the financial statements, which are effective prospectively for business combinations effected in financial periods beginning on or after 1 July 2009. Changes in HKFRS 3 include the valuation of non-controlling interest, accounting for transaction costs, initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill and the results in the period that an acquisition occurs and future results. The adoption of revised HKFRS 3 has had no impact to the financial statements as there has been no business combination transaction during the year.

The revised HKAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners, accordingly, such transactions are recognised within equity. When control is lost and any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The adoption of revised HKAS 27 has had no impact on the current year.

(b) HKAS 17 (Amendments) – Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the statement of financial position. The amendment to HKAS 17 has removed such a requirement and requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. The Group has reassessed the classification of the land elements of its unexpired leases at 1 January 2010 on the basis of information existing at the inception of those leases and has determined that none of its leases require reclassification.

Notes to the Financial Statements

For the year ended 31 December 2010

3. ADOPTION OF NEW/REVISED HKFRSs *(continued)*

3.2 New/Revised HKFRSs that have been issued but are not yet effective

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

HKFRS 9	Financial Instruments[3]
HKFRSs (Amendments)	Improvements to HKFRSs 2010[1&2]

1 Effective for annual periods beginning on or after 1 July 2010
2 Effective for annual periods beginning on or after 1 January 2011
3 Effective for annual periods beginning on or after 1 January 2013

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on the Group's financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

4.1 Impairment of non-financial assets

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

Notes to the Financial Statements

For the year ended 31 December 2010

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

4.2 Impairment of goodwill

The Group tests on an annual basis whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.5. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of judgement and estimates about future cash flow expected to arise from the CGUs, the timeframe for the cash flows forecast and the suitable discount rates in order to calculate the present value. In the process of estimating expected future cash flows, management makes assumptions about future revenues and profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause a material adjustment to the carrying amount of goodwill within the next financial year. Determining the appropriate discount rate involves estimating the appropriate adjustment for market risk and for asset specific risk factors. In addition, since the cash flow projections are extrapolated beyond 5 years and the license period of the mining rights held by the Group ranges from three to five years, management is of the opinion that the Group is able to renew the license of the mining rights from the relevant authority continuously and at minimal charges. Details of impairment assessment are set out in Note 21.

4.3 Impairment of loans and receivables

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

4.4 Depreciation

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

4.5 Amortisation of mining rights

Mining rights are amortised over the estimated reserves of the coal mines using units of production method. The Group assesses on an annual basis the estimated reserve of the coal mine. However, the license period of the mining rights held by the Group ranges from three to five years which is shorter than the estimated useful lives of the coal mine estimated by the Group. Management is of the opinion that the Group is able to renew the license of the mining rights from the relevant authority continuously and at minimal charges. If the expectation differs from the original estimate, such differences will impact the amortisation charged in the period in which such estimate is changed.

Notes to the Financial Statements

For the year ended 31 December 2010

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

4.6 Net realisable value of inventories

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

4.7 Income taxes

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the amount of the provision for income taxes and the timing of payment of related taxes. There could have transactions and calculations for which the ultimate tax determination is uncertain in the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4.8 Valuation of share options granted

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

5. REVENUE

The Group's principal activities are disclosed in Note 1 to the financial statements. Turnover of the Group is the revenue from these activities. Revenue from the Group's principal activities recognised during the year is as follows:

	2010 **HK$'000**	2009 HK$'000 (Restated)
Continuing operations		
Sales of raw coking coal	**2,900,273**	2,967,059
Sales of clean coking coal	**2,643,012**	1,293,617
	5,543,285	4,260,676
Discontinued operations		
Sales of coke *(Note 12)*	**232,228**	209,455
	5,775,513	4,470,131

Notes to the Financial Statements

For the year ended 31 December 2010

6. SEGMENT INFORMATION

The executive directors have identified the Group's two product lines as operating segments as further described in Note 2.23.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results. The Group's segment operating profit reconciles to the Group's profit before income tax as follows:

	Continuing operations				Discontinued operations *(Note 12)*			
	Coking coal mining		Total		Coke production		Consolidated	
	2010 HK$'000	2009 HK$'000 (Restated)	**2010 HK$'000**	2009 HK$'000 (Restated)	**2010 HK$'000**	2009 HK$'000 (Restated)	**2010 HK$'000**	2009 HK$'000 (Restated)
Segment revenue:								
Sales to external results	**5,543,285**	4,260,676	**5,543,285**	4,260,676	**232,228**	209,455	**5,775,513**	4,470,131
Segment operating profit/(loss)	**3,245,094**	2,437,053	**3,245,094**	2,437,053	**(193,488)**	(96,323)	**3,051,606**	2,340,730
Share-based compensation			**(287,205)**	(110,304)	**–**	–	**(287,205)**	(110,304)
Interest income			**42,048**	9,858	**–**	–	**42,048**	9,858
Other operating income not allocated			**70**	–	**–**	–	**70**	–
General and administrative expenses not allocated			**(23,419)**	(65,765)	**–**	–	**(23,419)**	(65,765)
Operating profit/(loss)			**2,976,588**	2,270,842	**(193,488)**	(96,323)	**2,783,100**	2,174,519
Gain on disposals of subsidiaries			**–**	38,264	**–**	–	**–**	38,264
Finance costs			**(39,646)**	(117,678)	**(8,408)**	(7,535)	**(48,054)**	(125,213)
Change in fair value of derivative financial instruments			**9,672**	4,370	**–**	–	**9,672**	4,370
Net transaction loss arising from acquisition of available-for-sale financial assets			**–**	(221,221)	**–**	–	**–**	(221,221)
Share of losses of associates			**(526)**	(386)	**–**	–	**(526)**	(386)
Profit/(Loss) before income tax			**2,946,088**	1,974,191	**(201,896)**	(103,858)	**2,744,192**	1,870,333

Notes to the Financial Statements

For the year ended 31 December 2010

6. SEGMENT INFORMATION *(continued)*

	Continuing operations						Discontinued operations *(Note 12)*			
	Coking coal mining		Corporate		Total		Coke production		Consolidated	
	2010 HK$'000	2009 HK$'000 (Restated)	**2010 HK$'000**	2009 HK$'000 (Restated)	**2010 HK$'000**	2009 HK$'000 (Restated)	**2010 HK$'000**	2009 HK$'000 (Restated)	**2010 HK$'000**	2009 HK$'000 (Restated)
Depreciation	**149,665**	128,620	**755**	503	**150,420**	129,123	**46,684**	43,288	**197,104**	172,411
Amortisation of mining rights	**266,871**	260,581	**–**	–	**266,871**	260,581	**–**	–	**266,871**	260,581
Amortisation of prepaid lease payments	**1,179**	1,164	**–**	107	**1,179**	1,271	**237**	234	**1,416**	1,505
Write-down of inventories to net realisable value	**–**	–	**–**	–	**–**	–	**15,666**	9,987	**15,666**	9,987
Provision for impairment of trade and other receivables	**117,318**	32,142	**–**	–	**117,318**	32,142	**–**	4,153	**117,318**	36,295

	Continuing operations						Discontinued operations *(Note 12)*			
	Coking coal mining		Corporate		Total		Coke production		Consolidated	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Segment assets	**20,663,873**	17,759,118	**1,734,712**	2,025,964	**22,398,585**	19,785,082	**512,130**	492,603	**22,910,715**	20,277,685
Interests in associates			**19,398**	19,196	**19,398**	19,196	**–**	–	**19,398**	19,196
Deferred tax assets			**16,193**	20,191	**16,193**	20,191	**–**	–	**16,193**	20,191
Available-for-sale financial assets			**3,161,097**	2,214,369	**3,161,097**	2,214,369	**–**	–	**3,161,097**	2,214,369
Financial assets at fair value through profit or loss			**–**	25,967	**–**	25,967	**–**	–	**–**	25,967
Derivative financial instruments			**12,224**	–	**12,224**	–	**–**	–	**12,224**	–
Group assets					**25,607,497**	22,064,805	**512,130**	492,603	**26,119,627**	22,557,408
Segment liabilities	**2,200,148**	1,873,943	**12,166**	12,392	**2,212,314**	1,886,335	**479,210**	277,919	**2,691,524**	2,164,254
Deferred tax liabilities			**2,280,368**	2,011,610	**2,280,368**	2,011,610	**–**	–	**2,280,368**	2,011,610
Tax payables			**344,369**	243,267	**344,369**	243,267	**989**	2,428	**345,358**	245,695
Borrowings			**1,131,863**	785,238	**1,131,863**	785,238	**35,695**	20,847	**1,167,558**	806,085
Derivative financial instruments			**11,597**	–	**11,597**	–	**–**	–	**11,597**	–
Group liabilities					**5,980,511**	4,926,450	**515,894**	301,194	**6,496,405**	5,227,644

Notes to the Financial Statements

For the year ended 31 December 2010

6. SEGMENT INFORMATION *(continued)*

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

	Revenue from external customers		Non-current assets	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Principal markets				
PRC	**5,775,513**	4,470,131	**15,809,775**	15,300,945
Hong Kong	**–**	–	**2,943**	3,339
	5,775,513	4,470,131	**15,812,718**	15,304,284

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

During the year, HK$1,914,151,000 or 35% (2009: HK$633,588,000 or 15%) of the Group's revenue is generated from a single customer under coking coal mining segment. At 31 December 2010, 13% (2009: 20%) of the Group's trade and bills receivables was due from this customer.

7. OTHER OPERATING INCOME

	2010	2009
	HK$'000	HK$'000
		(Restated)
Continuing operations		
Bank interest income on escrow accounts	**–**	135
Other bank interest income	**26,904**	9,723
Other interest income	**15,144**	–
Gain on disposals of property, plant and equipment	**636**	–
Gain on sales of scrapped products	**56,080**	23,269
Gain on trading of coal	**5,689**	1,539
Net foreign exchange gain	**56,841**	–
Profit on disposal of available-for-sale financial assets	**410**	–
Others	**151**	2,885
	161,855	37,551

Notes to the Financial Statements

For the year ended 31 December 2010

8. GAIN ON DISPOSALS OF SUBSIDIARIES

(a) Disposal of Risheng

On 15 January 2009 ("Completion Date"), one of the Group's subsidiaries, Jinshan Energy Group Limited ("Jinshan") completed the disposals of its 70% equity interest in Taiyuan Xishan Risheng Coal and Coking Co., Limited ("Risheng") to a subsidiary of the non-controlling shareholder of Risheng (the "Risheng Disposal") for a cash consideration of RMB110,000,000 (HK$124,971,000 equivalent), representing the aggregate consideration for the 70% equity interest of Risheng and the assumption of Risheng Loans of HK$102,519,000 (as defined in the Company's announcement dated 23 April 2008 (the "2008 Announcement")). Risheng is engaged in the production and sales of coke products in Shanxi, the PRC. Since then, Risheng ceased to be a subsidiary of the Group.

Furthermore, on 19 April 2008, Jinshan agreed to assume the Risheng Loans (as defined and described in the 2008 Announcement) in Risheng's books due to various creditors and Mr. Wong Lik Ping ("Mr. Wong"), one of the substantial shareholders of the Company, agreed to assume the liabilities amounting to RMB35,000,000 (HK$39,763,000 equivalent) owed by Jinshan to two creditors for nil consideration upon the completion of the Risheng Disposal. Thus, Risheng Disposal contributed a gain of RMB26,049,000 (HK$29,594,000 equivalent) to the Group. Net liabilities of the Risheng Disposal at the Completion Date were as follows:

	HK$'000
Net liabilities disposed of:	
Property, plant and equipment	164,503
Deposits and other receivables	6
Bank and cash balances	115
Amounts due to non-controlling interests	(2,272)
Other payables	(169,057)
	(6,705)
Non-controlling interests	(437)
Liabilities due to two creditors by Jinshan assumed by Mr. Wong	39,763
Gain on disposal of Risheng	29,594
Total consideration	62,215
Satisfied by:	
Cash consideration	124,971
Less: liabilities assumed by Jinshan	(102,519)
	22,452
Liabilities due to two creditors by Jinshan assumed by Mr. Wong	39,763
	62,215
An analysis of net inflow of cash and cash equivalents in respect of the Risheng Disposal is as follows:	
Cash consideration	124,971
Bank and cash balances disposed	(115)
Net inflow of cash and cash equivalents	124,856

Notes to the Financial Statements

For the year ended 31 December 2010

8. GAIN ON DISPOSALS OF SUBSIDIARIES *(continued)*

(b) Disposal of Jumbo Hall

On 31 December 2009, the Group completed the disposal of the entire issued share capital of Jumbo Hall International Limited ("Jumbo Hall") at a cash consideration of HK$15,500,000, resulting in a gain of HK$8,670,000 to the Group. The sole asset of Jumbo Hall was a property which was used by the Company as its registered office in Hong Kong. Details of the disposal were set out in the Company's announcement dated 7 October 2009. Net assets of Jumbo Hall at the date of disposal on 31 December 2009 were as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment *(Note 18)*	2,691
Prepaid lease payments *(Note 19)*	4,066
Deposits and other receivables	75
Other payables	(2)
	6,830
Gain on disposal of Jumbo Hall	8,670
Total consideration	15,500
Satisfied by:	
Cash consideration	15,500

9. FINANCE COSTS

	2010 HK$'000	2009 HK$'000 (Restated)
Continuing operations		
Interest charged on:		
– borrowings repayable within five years	**51,630**	110,320
– early redemption of bills receivables	**14,611**	24,062
Finance charges on finance leases	**517**	418
	66,758	134,800
Less: interest capitalised in CIP * *(Note 18)*	**(27,112)**	(17,122)
Total finance costs	**39,646**	117,678

* Borrowing costs were capitalised at the rates ranging from 2% to 5% (2009: 4% to 8%) per annum for the year ended 31 December 2010.

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10. PROFIT BEFORE INCOME TAX

	2010 HK$'000	2009 HK$'000 (Restated)
Continuing operations		
Profit before income tax is arrived at after charging/(crediting):		
Auditor's remuneration		
– audit services	1,450	1,425
– other services	850	250
Cost of inventories recognised as expenses	1,451,760	1,173,849
Amortisation of:		
– prepaid lease payments	1,179	1,271
– mining rights	266,871	260,581
Depreciation of property, plant and equipment		
– owned assets	148,758	127,481
– leased assets	1,662	1,642
Employee benefit expenses (including directors' remuneration, share based compensation and retirement benefits scheme contributions) *(Note 16)*	745,714	411,156
Net foreign exchange (gain)/loss	(56,841)	2,577
Operating lease charges in respect of land and buildings	14,626	21,247
Provision for impairment on trade receivables *(Note 28)*	117,318	27,612
Provision for impairment on other receivables	–	4,530
(Gain)/Loss on disposals of property, plant and equipment	(636)	6,991

11. INCOME TAX EXPENSE

	2010 HK$'000	2009 HK$'000 (Restated)
Continuing operations		
Current tax – PRC income tax		
– Current year	531,420	561,931
– Under-provision in respect of prior year	1,098	505
Deferred tax *(Note 39)*		
– Current year	(3,393)	(137,816)
	529,125	424,620

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For the year ended 31 December 2010

11. INCOME TAX EXPENSE *(continued)*

No provision for Hong Kong profits tax has been made in the financial statements as the Group had no assessable profit arising in Hong Kong in 2009 and 2010.

In accordance with the Income Tax Law of the PRC for Enterprises with Foreign Investment, the Group's certain major subsidiaries, namely Shanxi Liulin Xingwu Coal Co., Limited ("Xingwu"), Shanxi Liulin Jinjiazhuang Coal Co., Limited ("Jinjiazhuang") and Shanxi Liulin Zhaiyadi Coal Co., Limited ("Zhaiyadi"), all established in the PRC, were entitled to 50% relief on the income tax in the PRC for three years ended 31 December 2010. Thus, the enterprise income tax rate for the calendar years from 2008 to 2010 is 12.5%. From the calendar year of 2011 onwards, the enterprise income tax rate for these Group's major PRC subsidiaries shall become 25% without any exemption.

The Group is also subject to a withholding tax at the rate of 5% (2009: 10%) on the distributions of profits generated from the Group's major PRC subsidiaries which are directly owned by the Group's subsidiaries incorporated in Hong Kong.

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

	2010 **HK$'000**	2009 HK$'000 (Restated)
Continuing operations		
Profit before income tax	**2,946,088**	1,974,191
Tax calculated at the rates applicable to the tax jurisdiction concerned	**761,329**	538,764
Tax effect of tax exemption granted	**(419,616)**	(335,173)
Tax effect of non-deductible expenses	**70,776**	69,002
Tax effect of non-taxable income	**(12,573)**	(9,743)
Tax effect of unused tax losses not recognised	**18,779**	14,989
Effect of withholding tax at 5% (2009: 10%) on distributable profits of the Group's major PRC subsidiaries	**109,332**	146,276
Under-provision in respect of prior year	**1,098**	505
Income tax expense	**529,125**	424,620

Notes to the Financial Statements

For the year ended 31 December 2010

12. DISCONTINUED OPERATIONS/ASSETS/(LIABILITIES) IN DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

As described in Note 1, on 10 December 2010, New Honest entered into a conditional sale and purchase agreement to dispose of its entire 66% equity interest in Shanxi Yao Zin ("Disposal Group") which is engaged in production and sales of coke products in Shanxi, the PRC. As at 31 December 2010, the 2010 Disposal had not yet been completed. Loss for the year from the discontinued operations is as follows:

	2010 **HK$'000**	2009 HK$'000
Loss for the year from discontinued operations		
Revenue *(Note 5)*	**232,228**	209,455
Expenses	**(434,124)**	(313,313)
Loss before income tax	**(201,896)**	(103,858)
Income tax expense	**–**	(3,230)
Loss for the year	**(201,896)**	(107,088)
Loss for the year from discontinued operations attributable to:		
Owners of the Company *(Note 15)*	**(128,529)**	(68,101)
Non-controlling interests	**(73,367)**	(38,987)
Loss for the year	**(201,896)**	(107,088)
Cash flows from discontinued operations		
Operating cash flows	**(6,151)**	43,861
Investing cash flows	**(6,698)**	(7,584)
Financing cash flows	**8,833**	(37,083)
Total cash flows	**(4,016)**	(806)

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12. DISCONTINUED OPERATIONS/ASSETS/(LIABILITIES) IN DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE *(continued)*

To better present the financial information as a result of the 2010 Disposal and in accordance with HKFRS 5, assets and liabilities which can be directly allocated to coke products business at the reporting date are shown separately as assets and liabilities in Disposal Group classified as held for sale in the consolidated statement of financial position, are as follows:

	2010 HK$'000
Property, plant and equipment *(Note 18)*	379,107
Goodwill *(Note 21)*	3,183
Prepaid lease payments *(Note 19)*	9,671
Inventories	31,380
Trade and bills receivables	6,025
Deposits, prepayments and other receivables	82,604
Cash and cash equivalents	160
Total assets classified as held for sale	**512,130**
Borrowings	35,695
Trade and bills payables	294,281
Other payables and accruals	132,787
Amounts due to related companies	13,038
Amounts due to non-controlling shareholders of subsidiaries	39,104
Tax payables	989
Total liabilities classified as held for sale	**515,894**

For the purpose of presenting discontinued operations, the comparative consolidated statement of comprehensive income and the related notes have been re-presented as if the operations discontinued during the year had been discontinued at the beginning of the comparative period.

13. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated profit for the year attributable to the owners of the Company of HK$1,802,791,000 (2009: HK$1,126,274,000), a profit of HK$1,052,511,000 (2009: HK$1,760,681,000) (Note 41) has been dealt with in the financial statements of the Company.

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For the year ended 31 December 2010

14. DIVIDENDS

	2010 HK$'000	2009 HK$'000
Interim dividend of HK5 cents (2009: HK10 cents) per ordinary share	**269,028**	499,596
Proposed final dividend of HK10 cents (2009: HK11 cents) per ordinary share	**538,056**	591,862
	807,084	1,091,458

On 29 March 2011, the board of directors proposed a final dividend of HK10 cents per ordinary share totaling HK$538,056,000 to the owners of the Company. The final dividend is subject to the shareholders' approval at the forthcoming annual general meeting. The final dividend proposed after 31 December 2010 has not been recognised as a liability as at the reporting date.

15. EARNINGS PER SHARE

From continuing and discontinued operations

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

	2010 HK$'000	2009 HK$'000
Profit used to determine basic and diluted earnings per share from continuing and discontinued operations	**1,802,791**	1,126,274
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,379,043**	4,786,034
Effect of dilutive potential ordinary shares:		
– Share options	**19,904**	101,932
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**5,398,947**	4,887,966

Notes to the Financial Statements

For the year ended 31 December 2010

15. EARNINGS PER SHARE *(continued)*

From continuing operations

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

	2010 **HK$'000**	2009 HK$'000
Profit for the year attributable to owners of the Company	**1,802,791**	1,126,274
Add: Loss for the year attributable to owners of the Company from discontinued operations *(Note 12)*	**128,529**	68,101
Profit used to determine basic and diluted earnings per share from continuing operations	**1,931,320**	1,194,375

The weighted average number of ordinary shares used is the same as those detailed above for both basic and diluted earnings per share.

From discontinued operations

Basic loss and diluted loss per share for the discontinued operations are HK2.39 cents per share (2009: HK1.42 cents per share) and HK2.38 cents per share (2009: HK1.39 cents per share) respectively, based on the loss for the year attributable to owners of the Company from the discontinued operations of HK$128,529,000 (2009: HK$68,101,000) and the weighted average number of ordinary shares as detailed above for both basic and diluted losses per share.

16. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2010 **HK$'000**	2009 HK$'000 (Restated)
Continuing operations		
Salaries, wages and allowances	**441,867**	291,244
Share-based compensation	**287,205**	110,304
Unutilised annual leaves	**32**	108
Retirement benefits scheme contributions	**16,610**	9,500
	745,714	411,156
Discontinued operations		
Salaries, wages and allowances	**11,496**	10,944
	757,210	422,100

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For the year ended 31 December 2010

17. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Directors' emoluments

	2010					2009				
	Fees HK$'000	Salaries, bonuses, allowances and benefits HK$'000	Retirement benefits scheme contributions HK$'000	Share-based compensation HK$'000	Total HK$'000	Fees HK$'000	Salaries, bonuses, allowances and benefits HK$'000	Retirement benefits scheme contributions HK$'000	Share-based compensation HK$'000	Total HK$'000
Executive directors										
Mr. Wang Pingsheng*	-	8,142	6	-	8,148	-	-	-	-	-
Mr. Chen Zhouping#	-	8,142	8	6,872	15,022	-	-	-	-	-
Mr. Cao Zhong***	-	1,418	5	6,157	7,580	-	10,345	7	6,355	16,707
Mr. Wong Lik Ping	-	12,240	12	5,155	17,407	-	11,900	12	1,906	13,818
Mr. So Kwok Hoo	-	6,524	12	4,009	10,545	-	5,500	12	1,483	6,995
Mr. Chen Zhaoqiang****	-	5,756	12	9,213	14,981	-	-	-	-	-
Mr. Xue Kang	-	5,293	-	3,437	8,730	240	2,095	-	1,271	3,606
Mr. Liu Qingshan	-	5,293	-	6,873	12,166	240	2,284	-	2,542	5,066
Mr. Huang Bin*****	-	-	-	-	-	600	-	-	-	600
Non-executive directors										
Mr. Chen Zhouping#	106	-	-	-	106	233	-	-	2,542	2,775
Mr. Leung Shun Sang, Tony##	300	-	-	6,873	7,173	198	-	-	2,542	2,740
Mr. Li King Luk###	-	-	-	-	-	32	-	-	-	32
Mr. Shi Jianping####	-	-	-	-	-	240	-	-	1,906	2,146
Mr. Wang Qinghai**	105	-	-	-	105	-	-	-	-	-
Mr. Zhang Wenhui*	194	-	-	-	194	-	-	-	-	-
Mr. Zhang Yaoping#####	300	-	-	4,870	5,170	-	-	-	-	-
Independent non-executive Directors										
Mr. Kee Wah Sze	300	-	-	3,665	3,965	180	-	-	1,356	1,536
Mr. Choi Wai Yin	300	-	-	3,665	3,965	180	-	-	1,356	1,536
Mr. Chan Pat Lam	300	-	-	3,665	3,965	180	-	-	1,356	1,536
	1,905	52,808	55	64,454	119,222	2,323	32,124	31	24,615	59,093

* appointed on 10 May 2010

** appointed on 5 January 2010 and subsequently resigned on 10 May 2010

*** appointed on 4 March 2009 and subsequently resigned on 10 May 2010

**** appointed on 5 January 2010

***** resigned on 31 March 2009

appointed on 12 January 2009 and subsequently redesignated from a non-executive director to an executive director on 10 May 2010

appointed on 4 March 2009

resigned on 4 March 2009

resigned on 1 January 2010

appointed on 1 January 2010

Notes to the Financial Statements

For the year ended 31 December 2010

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

Directors' emoluments *(continued)*

For the year ended 31 December 2010, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office (2009: Nil).

For the year ended 31 December 2010, no share options were granted to the directors in respect of their services to the Group (2009: 58,100,000). Share-based compensation represents the fair value of the options granted to the directors during the year ended 31 December 2009. The fair value of share options is measured according to the Group's accounting policy for share-based employee compensation set out in Note 2.19 and Note 42. Details of these benefits in kind including the principal terms and number of options granted are disclosed under the heading "Share Option Scheme" in the Report of the Directors.

During the year ended 31 December 2009, Mr. Cao Zhong waived his emolument from 4 March 2009 to 31 May 2009. Save as disclosed, there was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included five (2009: four) directors whose emoluments are reflected in the analysis presented above. Emoluments payable to the remaining one individual in 2009 are as follows:

	2010 **HK$'000**	2009 HK$'000
Basic salaries, bonuses, allowances and benefits in kind	**–**	2,982
Retirement benefits scheme contributions	**–**	3
Share-based compensation	**–**	3,408
	–	6,393

Emoluments payable to the remaining one individual in 2009 are as follows:

Emolument bands	**2010** **Number of individuals**	2009 Number of individuals
HK$6,000,001 – HK$6,500,000	**–**	1

During the year, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2009: Nil).

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For the year ended 31 December 2010

18. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings and plants HK$'000	CIP HK$'000	Mining structures HK$'000	Mining machinery and equipment HK$'000	Leasehold improvements HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2009								
Cost	429,475	344,289	386,992	924,055	696	24,617	28,359	2,138,483
Accumulated depreciation	(10,354)	–	(7,485)	(45,447)	(696)	(2,393)	(9,573)	(75,948)
Net carrying amount	419,121	344,289	379,507	878,608	–	22,224	18,786	2,062,535
Year ended 31 December 2009								
Opening net carrying amount	419,121	344,289	379,507	878,608	–	22,224	18,786	2,062,535
Exchange retranslation	183	155	167	387	–	10	8	910
Disposal of subsidiaries *(Note 8(b))*	(2,691)	–	–	–	–	–	–	(2,691)
Additions	3	564,071	346	68,460	2,693	8,778	10,538	654,889
Transfers	226,550	(311,777)	15,993	68,946	–	288	–	–
Disposals	(84)	–	–	(6,770)	–	(481)	(18)	(7,353)
Depreciation	(26,446)	–	(30,298)	(104,342)	(128)	(5,718)	(5,479)	(172,411)
Closing net carrying amount	616,636	596,738	365,715	905,289	2,565	25,101	23,835	2,535,879
At 31 December 2009								
Cost	650,545	596,738	403,502	1,051,127	2,693	32,307	38,434	2,775,346
Accumulated depreciation	(33,909)	–	(37,787)	(145,838)	(128)	(7,206)	(14,599)	(239,467)
Net carrying amount	616,636	596,738	365,715	905,289	2,565	25,101	23,835	2,535,879
Year ended 31 December 2010								
Opening net carrying amount	**616,636**	**596,738**	**365,715**	**905,289**	**2,565**	**25,101**	**23,835**	**2,535,879**
Exchange retranslation	**29,382**	**26,251**	**14,713**	**36,723**	**–**	**1,762**	**1,066**	**109,897**
Additions	**17,185**	**437,647**	**603**	**184,947**	**272**	**7,889**	**16,120**	**664,663**
Transfers	**246,105**	**(325,401)**	**46,201**	**33,440**	**–**	**(345)**	**–**	**–**
Disposals	**(882)**	**–**	**–**	**(139)**	**–**	**–**	**(1,180)**	**(2,201)**
Depreciation	**(34,490)**	**–**	**(24,503)**	**(121,626)**	**(546)**	**(7,239)**	**(8,700)**	**(197,104)**
Classified as held for sale *(Note 12)*	**–**	**(18,822)**	**–**	**(359,389)**	**–**	**(80)**	**(816)**	**(379,107)**
Closing net carrying amount	**873,936**	**716,413**	**402,729**	**679,245**	**2,291**	**27,088**	**30,325**	**2,732,027**
At 31 December 2010								
Cost	**944,352**	**716,413**	**467,119**	**840,419**	**2,965**	**41,874**	**47,192**	**3,060,334**
Accumulated depreciation	**(70,416)**	**–**	**(64,390)**	**(161,174)**	**(674)**	**(14,786)**	**(16,867)**	**(328,307)**
Net carrying amount	**873,936**	**716,413**	**402,729**	**679,245**	**2,291**	**27,088**	**30,325**	**2,732,027**

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For the year ended 31 December 2010

18. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group *(continued)*

During the year, interest expense amounting to approximately HK$27,112,000 (2009: HK$17,122,000) (Note 9) was capitalised in CIP.

Net carrying amount of the Group's property, plant and equipment held under finance leases as at 31 December 2010 included in buildings amounted to approximately HK$9,602,000 (2009: HK$10,887,000). The Group's buildings are situated in the PRC and are held on leases of between 10 to 50 years.

As at 31 December 2010, the Group is still in the process of obtaining the building ownership certificates for certain buildings with net carrying amount of HK$109,765,000 (RMB93,022,000 equivalent) (2009: HK$11,896,000). In the opinion of directors, the Group has obtained the rights to use the buildings.

Company

	Leasehold improvements HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2009				
Cost	696	456	–	1,152
Accumulated depreciation	(696)	(397)	–	(1,093)
Net carrying amount	–	59	–	59
Year ended 31 December 2009				
Opening net carrying amount	–	59	–	59
Additions	2,692	176	635	3,503
Disposals	–	(12)	–	(12)
Depreciation	(128)	(30)	(53)	(211)
Closing net carrying amount	2,564	193	582	3,339
At 31 December 2009				
Cost	2,692	233	635	3,560
Accumulated depreciation	(128)	(40)	(53)	(221)
Net carrying amount	2,564	193	582	3,339
Year ended 31 December 2010				
Opening net carrying amount	**2,564**	**193**	**582**	**3,339**
Additions	**12**	**81**	**–**	**93**
Disposals	**–**	**–**	**(489)**	**(489)**
Depreciation	**(515)**	**(50)**	**(93)**	**(658)**
Closing net carrying amount	**2,061**	**224**	**–**	**2,285**
At 31 December 2010				
Cost	**2,704**	**311**	**–**	**3,015**
Accumulated depreciation	**(643)**	**(87)**	**–**	**(730)**
Net carrying amount	**2,061**	**224**	**–**	**2,285**

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For the year ended 31 December 2010

19. PREPAID LEASE PAYMENTS – GROUP

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

	2010 HK$'000	2009 HK$'000
Opening net carrying amount	**56,273**	61,819
Exchange retranslation	**2,137**	25
Disposal of subsidiaries *(Note 8(b))*	**–**	(4,066)
Classified as held for sale *(Note 12)*	**(9,671)**	–
Annual charges of prepaid lease payments	**(1,416)**	(1,505)
Closing net carrying amount	**47,323**	56,273
In the PRC held on:		
– Lease of between 10 and 50 years	**47,323**	56,273

20. MINING RIGHTS – GROUP

	2010 HK$'000	2009 HK$'000
Opening net carrying amount	**10,289,882**	10,545,819
Exchange retranslation	**390,649**	4,644
Amortisation charge	**(266,871)**	(260,581)
Closing net carrying amount	**10,413,660**	10,289,882
Gross carrying amount	**11,060,936**	10,649,389
Accumulated amortisation	**(647,276)**	(359,507)
Net carrying amount	**10,413,660**	10,289,882

The estimated remaining useful lives of the mining rights range between 28 years and 41 years based on exploration reports prepared in accordance with the relevant PRC Standards.

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21. GOODWILL – GROUP

	2010	2009
	HK$'000	HK$'000
Gross carrying amount at 1 January	**2,082,060**	2,081,155
Exchange retranslation	**79,453**	905
Classified as held for sale *(Note 12)*	**(3,183)**	–
Gross carrying amount at 31 December	**2,158,330**	2,082,060
Less: Accumulated impairment loss	**(2,010)**	(2,010)
Net carrying amount at 31 December	**2,156,320**	2,080,050

The carrying amount of goodwill was allocated as follows:

	2010	2009
	HK$'000	HK$'000
Xingwu	**824,875**	794,170
Jinjiazhuang	**768,015**	739,425
Zhaiyadi	**541,503**	521,345
Jinshan	**21,927**	21,927
Shanxi Yao Zin	**–**	3,183
Net carrying amount at 31 December	**2,156,320**	2,080,050

As described in Note 4.2, the recoverable amounts of goodwill totaling HK$2,156,320,000 (2009: HK$2,080,050,000) from each of the above CGUs were determined on the basis of value-in-use calculations, which are based on certain key assumptions on discount rates, growth rates and expected changes in selling prices and direct costs. All value-in-use calculations use cash flow projections based on the financial budgets prepared by management covering a 5-year period, using a growth rate of approximately 2% to 20% (2009: 2% to 5%) and with a discount rate of 14.97% (2009: 12.12%) per annum.

The cash flows beyond the 5-year period are extrapolated using a steady percentage growth rate of 2% (2009: 2%). Cash flow projections during the budget period for each of the above CGU are based on the budgeted revenue and expected gross margins during the budget period and the same raw materials price inflation during the budget period. Expected cash inflows/outflows, which include budgeted sales, gross margin and raw material price inflation, have been determined based on past performance and management's expectations for the market development.

Apart from the considerations described in determining the value-in-use of the CGUs above, the directors are not aware of any other probable changes that would necessitate changes in its key estimates. However, the estimated recoverable amount of the Group's CGUs is particularly sensitive to the long term growth rate applied. There is no impairment loss against the goodwill if the growth rate for the Group's CGUs was decreased by 2%.

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22. INTERESTS IN SUBSIDIARIES – COMPANY

	2010 HK$'000	2009 HK$'000
Unlisted equity interest, at cost	**839,269**	839,269
Less: Provision for impairment	**(294,349)**	(294,349)
	544,920	544,920

Particulars of the subsidiaries at 31 December 2010 are as follows:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Effective interest held by the Group 2010	Effective interest held by the Group 2009
Xingwu *	PRC, limited liability company	Mining, production and sale of coal in the PRC	Registered capital of RMB250,000,000	**88%**	88%
Jinjiazhuang *	PRC, limited liability company	Mining, production and sale of coal in the PRC	Registered capital of RMB374,000,000	**65%**	65%
Zhaiyadi *	PRC, limited liability company	Mining, production and sale of coal in the PRC	Registered capital of RMB800,000,000	**95%**	95%
Shanxi Yao Zin *^	PRC, limited liability company	Production and sale of coke products in the PRC	Registered capital of RMB320,000,000 *(Note a)*	**66%**	66%
Jinshan*	PRC, limited liability company	Investment holding, production and sales of coal products in the PRC	Registered capital of RMB600,000,000	**94%**	94%
Liulin Luenshan Coking Company Limited ("Luenshan") *^	PRC, limited liability company	Production and sales of coal products in the PRC	Registered capital of RMB120,000,000	**61%**	61%
Fu Hui Investments Limited	Hong Kong, limited liability company	Administration and investments vehicle of the Group (Hong Kong)	100 ordinary shares of HK$1 each	**100%**	100%
Fu Hui Jewellery & Goldsmith Company Limited	Hong Kong, limited liability company	Administration and investments vehicle of the Group (Hong Kong)	2,000,000 ordinary shares of HK$1 each	**100%**	100%
Thechoice Finance (HK) Limited ("ThechoiceHK")	Hong Kong, limited liability company	Investment holding in Hong Kong	1 ordinary share of HK$1	**100%**	100%

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22. INTERESTS IN SUBSIDIARIES – COMPANY *(continued)*

Name	Place of incorporation and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Effective interest held by the Group 2010	2009
Worldman Industrial (HK) Limited ("WorldmanHK")	Hong Kong, limited liability company	Investment holding in Hong Kong	1 ordinary share of HK$1	**100%**	100%
Gumpert Industries (HK) Limited ("GumpertHK")	Hong Kong, limited liability company	Investment holding in Hong Kong	1 ordinary share of HK$1	**100%**	100%
Fushan Energy Group (Hong Kong) Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	1 ordinary share of HK$1	**100%**	100%
Jade Green Investments Holding Limited (formerly known as Jade Green Investments Limited) ("Jade Green")	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	**100%**	100%
Thechoice Finance Limited ("Thechoice")	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	**100%**	100%
Worldman Industrial Limited ("Worldman")	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	**100%**	100%
Gumpert Industries Limited ("Gumpert")	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	**100%**	100%
Fushan Energy Group Limited	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	**100%**	100%
New Honest	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	**100%**	100%
Maxease Limited	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	**100%**	100%
True Plus Limited	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	**100%**	100%
Benefit Rich Limited ("Benefit Rich")	Samoa, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	**100%**	100%
Shanxi Jinxinglong Energy Co., Ltd *^	PRC, limited liability company	Investment on coal projects in the PRC	Registered capital of RMB50,000,000	**100%**	100%
Shanxi Jinsheng Energy Co., Ltd *^	PRC, limited liability company	Investment on coal projects in the PRC	Registered capital of RMB50,000,000	**100%**	100%
Full Bright International Limited	New York, USA, limited liability company	Dormant	US$183,750	**100%**	100%

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22. INTERESTS IN SUBSIDIARIES – COMPANY *(continued)*

* These companies are indirectly held by the Company and are joint ventures incorporated in the PRC with limited liability.

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

Note a: As at 31 December 2010, the registered capital not yet contributed by other non-controlling equity holders amounted to RMB81,200,000 (2009: RMB89,200,000). The Group has paid up in full its proportional registered capital since 2008. Shanxi Yao Zin commenced operations in 2008. Details of the disposal of Shanxi Yao Zin are set out in Note 12.

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

The entire equity interests in Jade Green, Thechoice, Worldman, Gumpert, ThechoiceHK, WorldmanHK, GumpertHK with a carrying amount of HK$9,290,090,000 (2009: HK$9,290,090,000) were pledged for the banking facilities of United States Dollars ("US$")100,000,000 (31 December 2009: US$200,000,000) granted to the Group as at 31 December 2010 (Note 34).

23. AMOUNTS DUE FROM SUBSIDIARIES – COMPANY

	2010 **HK$'000**	2009 HK$'000
Amounts due from subsidiaries	**16,874,312**	14,613,990
Loans to subsidiaries	**75,741**	69,086
Less: Provision for impairment	**(212,031)**	(104,884)
	16,738,022	14,578,192

Amounts due from subsidiaries as at 31 December 2010 are unsecured, interest-free and repayable on demand.

Loans to subsidiaries are unsecured, interest bearing at 7.5% (2009: 7.5%) per annum and are repayable on demand. Included in the balance is interest receivable of HK$15,741,000 (2009: HK$9,086,000) which is repayable together with the principal debts.

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

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For the year ended 31 December 2010

24. INTERESTS IN ASSOCIATES

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted shares, at cost	**19,884**	19,884	**4**	4
Exchange retranslation	**(69)**	(797)	**–**	–
Share of net assets	**(417)**	109	**–**	–
Amounts due from associates	**3,739**	3,739	**3,739**	3,739
	23,137	22,935	**3,743**	3,743
Less: Provision for impairment	**(3,739)**	(3,739)	**(3,743)**	(3,743)
	19,398	19,196	**–**	–

Amounts due from associates are unsecured, interest-free and not repayable within 12 months from the reporting date.

Particulars of the associates at 31 December 2010 are as follows:

Name	Place of incorporation	Principal activities and place of operations	Particulars of registered capital/ issued share capital	Group's/Company's effective interest 2010	2009
Luliang Jin Yu Cangchu Company Limited# 呂梁晋煜倉儲有限公司	PRC	Provision of coal storage services in PRC	RMB42,000,000	**35%**	35%
Real Wide Limited	Hong Kong	In the progress of voluntary liquidation	100 ordinary shares of HK$1 each	**45%**	45%

\# The English translation is unofficial and for identification purpose only.

Summary of financial information of the Group's associates, in aggregate, as extracted from their unaudited management accounts are as follows:

	2010	2009
	HK$'000	HK$'000
Assets	**52,903**	50,704
Liabilities	**4,736**	2,848
Revenue	**2,356**	1,932
Loss	**(1,500)**	(1,099)

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25. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2010 **HK$'000**	2009 HK$'000
Equity securities, at fair value		
– listed in Australia *(Note (a))*	**2,684,397**	1,761,422
– listed in Hong Kong *(Note (b))*	**468,440**	444,540
	3,152,837	2,205,962
Unlisted security fund investment, at cost	**–**	454
Unlisted equity interest, at cost *(Note (c))*	**8,260**	7,953
	3,161,097	2,214,369

Notes:

(a) This represents an investment in a company listed on the Australian Securities Exchange Limited (the "Australian Securities Exchange"), Mount Gibson Iron Limited ("Mount Gibson"). In September 2009, the Group entered an agreement with Sky Choice International Limited ("Sky Choice"), a wholly-owned subsidiary of Shougang Concord International Enterprises Company Limited ("Shougang International") such that the Group, through one of its subsidiaries purchased from Sky Choice, 154,166,874 ordinary shares of Mount Gibson, accounting for approximately 14.34% of the issued share capital of Mount Gibson as at the date of completion, at a consideration of HK$1,604,389,000. The transaction was completed on 1 December 2009 and the consideration was satisfied in full by allotment and issuance of 213,918,497 new shares of the Company at HK$7.5 per share. Mount Gibson was incorporated under the laws of Australia and is engaged in mining of hematite iron ore deposits in Western Australia. Detailed information about the operations of Mount Gibson is set out in the Company's announcement dated 22 September 2009.

On the completion date at 1 December 2009, the fair value of the investment in Mount Gibson was HK$1,661,142,000 which represented the market value with reference to its closing price as at that day in the Australian Securities Exchange. As the fair value of the share considerations was HK$1,604,389,000, a transaction gain of HK$54,393,000 (net of transaction cost of HK$2,360,000) was recognised in profit or loss for the year ended 31 December 2009.

As at 31 December 2010, the Group directly held 14.8% interest in Mount Gibson and the fair value of the investment in Mount Gibson was HK$2,684,397,000 (2009: HK$1,761,422,000) which represented the market value with reference to its closing price as at that day in the Australian Securities Exchange. A fair value gain of HK$845,889,000 (2009: HK$100,280,000) was recognised in the security investment reserve during the year ended 31 December 2010.

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25. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP *(continued)*

(b) This represents an investment in a company listed on the Stock Exchange, APAC Resources Limited ("APAC"). In September 2009, the Group entered another agreement with Shougang Holding (Hong Kong) Limited ("Shougang Holding") such that the Group, through one of its subsidiaries, purchased from Shougang Holding the entire issued share capital of Benefit Rich which solely held 956,000,000 shares of APAC (accounting for approximately 16.80% of the issued share capital of APAC as at the date of completion). The transaction was also completed on 1 December 2009 and the consideration was satisfied in full by allotment and issuance of 109,089,993 new shares of the Company at HK$7.5 per share.

On the completion date at 1 December 2009, the fair value of the investment in APAC was HK$544,920,000 which represented the market value with reference to its closing price as at that day in the Stock Exchange. As the fair value of the share considerations was HK$818,175,000, a transaction loss of HK$275,614,000 (net of transaction cost of HK$2,359,000) was recognised in profit or loss for the year ended 31 December 2009.

As at 31 December 2010, the Group directly held 13.83% interest in APAC and the fair value of the investment in APAC was HK$468,440,000 (2009: HK$444,540,000) which represented the market value with reference to its closing price as at that day in the Stock Exchange. A fair value gain of HK$23,900,000 (2009: loss of HK$100,380,000) was recognised in the security investment reserve during the year ended 31 December 2010.

(c) This represents a 7% (2009: 7%) equity investment in an unlisted company incorporated in the PRC. The investee company has not yet commenced its business as at 31 December 2010 and will be engaged in transportation business in the PRC. The unlisted equity interest with a carrying amount of HK$8,260,000 (2009: HK$7,953,000) is measured at cost less impairment losses as there are no quoted market prices in active market and the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably. The Group plans to hold this equity interest for the foreseeable future. In the opinion of directors, no impairment is considered necessary.

The fair value of the Group's investments in listed and unlisted equity securities has been measured as described in Note 48(vi).

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

	2010 **HK$'000**	2009 HK$'000
Deposits for a potential mining project	**166,238**	160,053
Prepayments for CIP, purchase and installation of property, plant and equipment	**225,054**	111,245
Prepayments for land-use rights	**52,698**	51,706
	443,990	323,004

Notes to the Financial Statements

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27. INVENTORIES – GROUP

	2010 HK$'000	2009 HK$'000
Spare parts and consumables	128,764	111,592
Coking coal	5,994	9,207
Coke	–	38,686
	134,758	159,485

As at 31 December 2009, inventories stated at net realisable value amounted to HK$38,686,000. As at 31 December 2010, no inventories were stated at net realisable value.

28. TRADE AND BILLS RECEIVABLES – GROUP

	2010 HK$'000	2009 HK$'000
Trade receivables	903,640	557,439
Less: Provision for impairment	(159,308)	(44,859)
	744,332	512,580
Bills receivables	1,573,569	601,067
	2,317,901	1,113,647

Trade receivables generally have credit terms ranging from 60 to 90 days (2009: 60 to 90 days) and no interest is charged.

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

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For the year ended 31 December 2010

28. TRADE AND BILLS RECEIVABLES – GROUP *(continued)*

As at 31 December 2010, included in bills receivables is an amount of RMB297,000,000 (HK$350,460,000 equivalent) (2009: Nil) which was pledged for bills payables of RMB287,000,000 (HK$338,660,000 equivalent) (2009: Nil) (Note 32).

As at 31 December 2009, included in bills receivables is an amount of RMB10,500,000 (HK$11,929,000 equivalent) which represented the advance drawn from banks discounted with recourse.

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

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case impairment loss is written off against trade and bills receivables directly. As at 31 December 2010, ageing analysis of net trade and bills receivables, based on the invoice dates, is as follows:

	2010 **HK$'000**	2009 HK$'000
0 – 90 days	**1,455,413**	832,505
91 – 180 days	**695,300**	122,023
181 – 365 days	**80,027**	91,086
Over 365 days	**87,161**	68,033
	2,317,901	1,113,647

Up to the date of these financial statements, HK$84,781,000 had been received for the trade receivables over 365 days.

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

	2010 **HK$'000**	2009 HK$'000
Balance at the beginning of the year	**44,859**	13,089
Exchange retranslation	**4,709**	5
Classified as held for sale	**(4,313)**	–
Amounts written off as uncollectible	**(3,265)**	–
Impairment loss recognised *(Note 10)*	**117,318**	31,765
	159,308	44,859

Notes to the Financial Statements

For the year ended 31 December 2010

28. TRADE AND BILLS RECEIVABLES – GROUP *(continued)*

As at 31 December 2010, ageing analysis of trade and bills receivables that are not impaired is as follows:

	2010 **HK$'000**	2009 HK$'000
Neither past due nor impaired	**2,128,082**	929,983
1 – 90 days past due	**22,629**	30,397
91 – 180 days past due	**58,318**	43,367
181 – 365 days past due	**54,493**	60,323
Over 365 days past due	**54,379**	49,577
	189,819	183,664
	2,317,901	1,113,647

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

29. LOAN TO A PARTY/AMOUNT(S) DUE FROM A PARTY/OTHER PARTIES – GROUP

	2010 HK$'000	2009 HK$'000
Mr. Xing Libin ("Mr. Xing") *(Note)*	**937,367**	937,150
Liulin Xian Yongsheng Xuanmeichang ("Yongsheng Xuanmeichang") #	**224,044**	215,939
Shanxi Fortune Dragon Coalification Company Limited #	**56,622**	149,119
Luliang Fengfei Jingwei Intertexture Company Limited ("Luliang Fengfei") #	**2,067**	3,435
Shanxi Tongjiang Energy Group Company Limited ("Tongjiang Energy") #	**–**	2,292
Liulin Guojiashan Meiye Company Limited #	**5,094**	2,013
Liulin Xian Shiweigou Meiye Company Limited #	**2,708**	1,489
Mr. Xing Yanbin	**895**	870
Liulin Xian Nahagou Meiye Company Limited #	**607**	233
Liulin Xian Baicaoer Jiansing Xuanmei Company Limited #	**238**	229
Fortune Dragon Group Limited #	**177**	170
Shanxi Panlong Gongcheng Jixie Company Limited ("Panlong Gongcheng") #	**143**	137
Ms. Xing Xiaorui	**123**	118
Shanxi Liulin Xiasitou Meiye Company Limited #	**145**	–
Liulin Xian Chenjiawan Xiang Baicaoer Meikuang #	**13**	–
	1,230,243	1,313,194
Less: Amount due from Mr. Xing included under non-current assets	**–**	(937,150)
Less: Loan to a party included under current assets *(Note)*	**(703,025)**	–
Less: Loan to a party included under non-current assets *(Note)*	**(234,342)**	–
Amounts included under current assets	**292,876**	376,044

The unofficial English translation is for identification purpose only.

Note:

Pursuant to the loan agreement dated 13 April 2010 (the "Loan Agreement") entered into between Jade Green and Mr. Xing, Jade Green conditionally agreed to make the loan of HK$937,367,000 (RMB824,883,000 equivalent) (the "Loan Amount") to Mr. Xing to settle the outstanding liabilities owed by Mr. Xing. The Loan Amount and the transactions contemplated thereunder have been approved at the extraordinary general meeting of the Company held on 8 June 2010. The Loan Amount is secured by 35% equity interest in Luenshan and dividend rights in respect of 35% equity interest in Jinjiazhuang and 5% equity interests in Zhaiyadi. The Loan Amount is repayable in three installments where (i) HK$468,683,500 shall be repaid on 8 June 2011; (ii) HK$234,342,000 shall be repaid on 8 December 2011; and (iii) the remaining HK$234,342,000 shall be repaid on 8 June 2012. The Loan Amount is subject to floating interest of LIBOR plus 2.5% per annum. Details of the loan arrangement were disclosed in the circular of the Company dated 4 May 2010.

Remaining balances due are all unsecured, interest-free and repayable on demand.

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For the year ended 31 December 2010

30. PLEDGED BANK DEPOSITS – GROUP

As at 31 December 2010, all pledged bank deposits of RMB27,552,000 (HK$32,512,000 equivalent) (2009: RMB93,100,000 (HK$105,771,000 equivalent)) were denominated in RMB and were pledged for bills payables of RMB27,540,000 (HK$32,497,000 equivalent) (2009: HK$102,590,000) (Note 32).

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

31. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and on hand	**141,221**	659,307	**14,885**	484,135
Short-term bank deposits	**2,624,842**	1,445,171	**778,237**	1,436,658
	2,766,063	2,104,478	**793,122**	1,920,793

Cash at banks generates interest at the floating rates based on the daily bank deposit rates. Short-term bank deposits were made for varying periods of one week to three month depending on the immediate cash requirements of the Group and earned interest at the respective short-term time deposit rates ranging from 0.05% to 2.41% (2009: 0.015% to 1.71%) per annum.

Include in cash and cash equivalents are the following amounts denominated in a currency other than Hong Kong dollars:

	Group		Company	
'000	**2010**	2009	**2010**	2009
RMB	**1,264,317**	153,172	**133,057**	–
US$	**72,562**	42,732	**72,080**	41,634

RMB is not a freely convertible currency. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB into foreign currencies through the banks that are authorised to conduct foreign exchange business.

Notes to the Financial Statements

For the year ended 31 December 2010

32. TRADE AND BILLS PAYABLES – GROUP

The Group was granted by its suppliers the credit period ranging between 30 and 180 days (2009: 30 and 180 days) during the year. Based on the invoice dates, ageing analysis of trade and bills payables as at 31 December 2010 is as follows:

	2010 **HK$'000**	2009 HK$'000
0 – 90 days	**400,176**	214,758
91 – 180 days	**108,427**	26,805
181 – 365 days	**11,140**	25,435
Over 365 days	**18,065**	61,734
	537,808	328,732

As at 31 December 2010, bills payables of RMB314,540,000 (HK$371,157,000 equivalent) (2009: RMB90,300,000 (HK$102,590,000 equivalent)) were secured by the pledged bank deposits of RMB27,552,000 (HK$32,512,000 equivalent) (2009: RMB93,100,000 (HK$105,771,000 equivalent)) (Note 30) and bills receivables of RMB297,000,000 (HK$350,460,000 equivalent) (Note 28).

33. OTHER PAYABLES AND ACCRUALS

	Group		**Company**	
	2010 **HK$'000**	2009 HK$'000	**2010** **HK$'000**	2009 HK$'000
Advances from customers	**504,445**	747,717	**–**	–
Accruals	**327,696**	259,974	**10,971**	9,022
Leived sum on mining rights	**–**	218,808	**–**	–
Other payables	**562,568**	526,525	**–**	3,348
	1,394,709	1,753,024	**10,971**	12,370

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For the year ended 31 December 2010

34. BORROWINGS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current				
Bank loans – secured *(Note (a))*	**229,430**	111,238	**229,430**	111,238
Other loans *(Note (b))*	**2,125**	50,233	**–**	–
Finance lease payables *(Note (c))*	**1,826**	949	**–**	–
	233,381	162,420	**229,430**	111,238
Non-current				
Bank loans – secured *(Note (a))*	**896,742**	640,231	**424,742**	640,231
Finance lease payables *(Note (c))*	**1,740**	3,434	**–**	–
	898,482	643,665	**424,742**	640,231
Total borrowings	**1,131,863**	806,085	**654,172**	751,469

The carrying amounts of bank borrowings and other loans approximate to their fair value.

The Group's and the Company's interest-bearing bank borrowings and other loans were denominated in the following foreign currencies other than Hong Kong dollars:

	Group		Company	
'000	**2010**	2009	**2010**	2009
RMB	**401,800**	44,215	**–**	–
US$	**84,150**	96,995	**84,150**	96,995

Notes:

(a) Bank loans – secured

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**229,430**	111,238	**229,430**	111,238
In the second year	**703,011**	228,647	**231,011**	228,647
In the third to fifth years	**193,731**	411,584	**193,731**	411,584
	896,742	640,231	**424,742**	640,231
	1,126,172	751,469	**654,172**	751,469

Notes to the Financial Statements

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34. BORROWINGS *(continued)*

Notes: (continued)

(a) Bank loans – secured *(continued)*

In March 2010, two loans, each of RMB200,000,000 with a terms of 2 years, were drawn down from a bank and used as the working capital. Interest on the loans is charged at the floating lending rate adopted by the People's Bank of China. The Company has given guarantee to the bank for these loans.

In September 2009, the Company obtained secured banking facilities of US$200,000,000 (the "2009 Bank Borrowings") for a terms of 3 to 4 years. The 2009 Bank Borrowings were used to repay the Group's bank borrowings as at 31 December 2008. Interest is charged at LIBOR plus 1.85% per annum. The 2009 Bank Borrowings were secured by the undertaking by Shougang Holding, guarantees, share pledged and undertaking provided by Jade Green, Thechoice, Worldman, Gumpert, ThechoiceHK, WorldmanHK and GumpertHK, the negative share pledge of Xingwu, Jinjiazhuang and Zhaiyadi directly or indirectly owned by Thechoice, Worldman and Gumpert respectively.

As at 31 December 2009, the Company has drawn US$100,000,000 from the Banking Facilities. The remaining US$100,000,000 Banking Facilities has expired during the year.

(b) Other loans

	2010	2009
	HK$'000	HK$'000
Within one year	**2,125**	50,233

At 31 December 2010, other loans, obtained from third parties, are unsecured and interest-free (2009: interest bearing at fixed rates ranging from 0% to 18%) per annum. All these other loans are denominated in RMB.

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34. BORROWINGS *(continued)*

Notes: (continued)

(c) Finance lease payables

The analysis of the obligations under finance leases is as follows:

	2010 HK$'000	2009 HK$'000
Total minimum lease payments:		
Due within one year	**2,448**	1,529
Due in the second to fifth years inclusive	**2,448**	4,714
	4,896	6,243
Future finance charges on finance leases	**(1,330)**	(1,860)
Presents value of finance lease liabilities	**3,566**	4,383
Present value of finance lease liabilities is as follows:		
Due within one year	**1,826**	949
Due in the second to fifth years inclusive	**1,740**	3,434
	3,566	4,383
Less: Due within one year included under current portion of borrowings	**(1,826)**	(949)
Non-current portion included under non-current liabilities	**1,740**	3,434

35. AMOUNTS DUE TO SUBSIDIARIES – COMPANY

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

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36. AMOUNTS DUE TO OTHER PARTIES – GROUP

	2010 HK$'000	2009 HK$'000
Tongjiang Energy	–	12,175
Luliang Fengfei	9,428	7,532
Yongsheng Xuanmeichang	4,867	–
Shanxi Luensheng Energy Limited #	2,480	2,654
Panlong Gongcheng	3,333	1,900
Shanxi Shengtelong Material Trading Co., Ltd #	1,184	1,793
Liulin Xian Liansheng Duozhong Jingying Company Limited #	1,074	986
Liulin Xian Longmenta Meikuang #	6	–
Mr. Li Xingxing	260	252
Ms. Xing Xiaorui	222	214
Mr. Xing	24	20
	22,878	27,526

The English translation is unofficial and for identification purpose only.

These companies/parties are connected to Mr. Xing. All balances due are unsecured, interest-free and repayable on demand.

37. AMOUNTS DUE TO RELATED COMPANIES – GROUP

As at 31 December 2009, a balance of HK$10,883,000 denominated in RMB was due to a company in which a director of the Company is also a substantial equity holder. The balance was unsecured, interest bearing at 7% per annum and repayable on demand. The balance is included in liabilities in disposal group classified as held for sale as at 31 December 2010.

As at 31 December 2009, the remaining balance of HK$1,125,000 denominated in RMB due to another related company, in which a director of a subsidiary of the Company has interests, was unsecured, interest bearing at 9% to 10% per annum and was repayable on 20 November 2010. The balance was repaid during the year.

38. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES – GROUP

The balance as at 31 December 2010 is denominated in RMB and is unsecured, interest-free and repayable on demand.

The balance as at 31 December 2009 were denominated in RMB and unsecured of which RMB1,168,000 (HK$1,327,000 equivalent) was interest-free and repayable on demand. The remaining balance of RMB36,649,000 (HK$41,637,000 equivalent) was interest bearing at 6% to 7% per annum and repayable in one year.

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39. DEFERRED TAX ASSETS AND LIABILITIES – GROUP

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

	Tax deductible expense HK$'000
At 1 January 2009	–
Credited to profit or loss *(Note 11)*	20,191
At 31 December 2009 and 1 January 2010	**20,191**
Exchange retranslation	**659**
Charged to profit or loss *(Note 11)*	**(4,657)**
At 31 December 2010	**16,193**

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

	Withholding tax HK$'000 *(Note a)*	**Fair value adjustments of property, plant and equipment and mining rights** HK$'000	**Mining funds** HK$'000 *(Note b)*	**Total** HK$'000
At 1 January 2009	73,046	2,055,252	–	2,128,298
Exchange retranslation	32	905	–	937
(Credited)/Charged to profit or loss *(Note 11)*	(73,078)	(64,583)	20,036	(117,625)
At 31 December 2009 and 1 January 2010	**–**	**1,991,574**	**20,036**	**2,011,610**
Exchange retranslation	**–**	**75,764**	**1,757**	**77,521**
Charged to security investment reserve	**199,287**	**–**	**–**	**199,287**
(Credited)/Charged to profit or loss *(Note 11)*	**–**	**(45,726)**	**37,676**	**(8,050)**
At 31 December 2010	**199,287**	**2,021,612**	**59,469**	**2,280,368**

Notes to the Financial Statements

For the year ended 31 December 2010

39. DEFERRED TAX ASSETS AND LIABILITIES – GROUP *(continued)*

Notes:

(a) Pursuant to the Australian Capital Gains Tax Laws, the Group's net capital gains on the listed Australia equity investments is subject to 30% of the capital gains tax. During the year ended 31 December 2010, HK$199,287,000 were charged to security investment reserve.

(b) Pursuant to changes in certain regulations of the PRC government, the Group is required to set aside the production maintenance fee, safety fund, and other expense of similar nature (collectively the "Mining Funds"). As such amendments are deductible for the purpose when they are set aside but are expensed for accounting purpose only when they are utilised, a deferred tax liability is recorded for the temporary difference in respect of excess fund set aside for tax purposes.

As at 31 December 2009 and 2010, deferred tax assets mainly related to certain subsidiaries incorporated in Hong Kong and PRC have not been recognised in relation to the deductible temporary differences and unused tax losses as it is uncertain whether future taxable profit is available against which the deductible temporary differences and tax losses can be utilised. Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deductible temporary differences	**2,238**	1,753	**–**	–
Tax losses	**359,554**	226,833	**245,921**	197,209
	361,792	228,586	**245,921**	197,209

The Group has tax losses of approximately HK$4,566,000 (2009: HK$4,443,000) which shall expire in three to four years and tax losses of approximately HK$354,988,000 (2009: HK$222,390,000) which are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Notes to the Financial Statements

For the year ended 31 December 2010

40. SHARE CAPITAL

	Number of shares		Group and Company	
	2010	2009	**2010**	2009
	'000	'000	**HK$'000**	HK$'000
Authorised:				
Ordinary shares of HK$0.10 each				
At 31 December	**10,000,000**	10,000,000	**1,000,000**	1,000,000
Issued and fully paid:				
Ordinary shares of HK$0.10 each				
At 1 January	**5,370,563**	4,564,555	**537,056**	456,456
Placing of shares *(Note (a))*	**–**	400,000	**–**	40,000
Issue of consideration shares *(Note (b))*	**–**	323,008	**–**	32,300
Issue of new shares upon exercise of share options	**10,000**	83,000	**1,000**	8,300
At 31 December	**5,380,563**	5,370,563	**538,056**	537,056

Notes:

(a) The Company and the placing agent entered into a placing agreement on 21 July 2009 pursuant to which the placing agent conditionally agreed to procure the placees for a maximum of 400,000,000 new ordinary shares, at a price of HK$4.38 per share. On 28 July 2009, 400,000,000 placing shares were issued under the general mandate granted to the directors at the Company's annual general meeting held on 2 June 2009. Details of the transactions are set out in the Company's announcement dated 21 July 2009. Net proceeds of approximately HK$1,719,027,000 from the placing shares were received.

(b) On 1 December 2009, the Company issued 323,008,490 ordinary shares of HK$0.10 each at the fair value of HK$7.50 per share to settle the consideration for the acquisitions of 154,166,874 shares in Mount Gibson and the acquisition of the entire issued share capital of Benefit Rich. Details of these acquisitions have been set out in Note 25(a) and (b) to the financial statements.

Notes to the Financial Statements

For the year ended 31 December 2010

41. RESERVES

Group

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

Share premium

The share premium account of the Group includes the premium arising from issue of shares of the Company at a premium.

Statutory reserve

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

Other reserves

In accordance with the Notice of the Ministry of Finance and the State Administration of Safety Coal Mine in Liulin Province in May 2005 (Liucaizi [2005] No. 35), entities engaged in coal mining are required to provide for production maintenance fee and safety fund at fixed rates on coal production volume. These funds were charged as expenses in profit or loss and accounted for as payables accordingly. The payable balance not utilised at the end of financial year was reversed against the cost of related production when the Group prepared its financial statements in accordance with HKFRSs in previous years.

On 23 June 2009, the Ministry of Finance issued a notice of the Ministry of Finance issuing No. 3 document (Caikuai [2009] No.8) which provides that production maintenance fee and safety fund and other expense of similar nature are required to be charged to cost of production and credited to specific reserves retrospectively. Accordingly, during the year, these funds are appropriated from retained earnings. Appropriations to specific reserves for prior year were adjusted by the Group in 2009.

Notes to the Financial Statements

For the year ended 31 December 2010

41. RESERVES *(continued)*

Company

	Share premium HK$'000	(Accumulated losses)/ Retained profits HK$'000	Share-based compensation reserve HK$'000	Total HK$'000
At 1 January 2009	10,384,646	(595,077)	36,999	9,826,568
Share-based compensation	–	–	110,304	110,304
Placing of shares	1,679,027	–	–	1,679,027
Issue of consideration shares	2,390,263	–	–	2,390,263
Issue of shares upon exercise of share options	147,512	–	(31,443)	116,069
Profit for the year *(Note 13)*	–	1,760,681	–	1,760,681
2009 interim dividend declared	–	(499,596)	–	(499,596)
At 31 December 2009 and 1 January 2010	**14,601,448**	**666,008**	**115,860**	**15,383,316**
Share-based compensation	**–**	**–**	**287,205**	**287,205**
Issue of shares upon exercise of share option	**17,455**	**–**	**(3,473)**	**13,982**
Lapse of share options	**–**	**12,511**	**(12,511)**	**–**
Profit for the year *(Note 13)*	**–**	**1,052,511**	**–**	**1,052,511**
2009 final dividend approved	**–**	**(591,862)**	**–**	**(591,862)**
2010 interim dividend declared	**–**	**(269,028)**	**–**	**(269,028)**
At 31 December 2010	**14,618,903**	**870,140**	**387,081**	**15,876,124**

Notes to the Financial Statements

For the year ended 31 December 2010

42. SHARE OPTION SCHEME

At the Company's annual general meeting held on 20 June 2003, an option scheme (the "Scheme") was approved which empowered the directors to implement and administer the Scheme with effect from the date of the resolution. The Scheme was designed to reward and provide incentives to, and strengthen the Group's business relationship with the prescribed classes of participants, including but not limited to eligible employees and directors of any member of the Group, who contributed to the development of the Group. The Scheme is enforceable for a period of 10 years ending on 19 June 2013, after which no further options are to be granted.

The exercise price of the options is to be determined by the directors and is at least the highest of the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant and the nominal value of the share on the date of grant. No consideration is payable on the grant of an option. An option may generally be exercised during the period commencing on the date of grant and expiring on the date as determined by the directors, but in any event not more than 10 years from the date of grant. Options granted to a substantial shareholder or any independent non-executive director of the Company or to any of their associates in excess of in aggregate 0.1% of the issued capital of the Company (based on the date of grant) and with an aggregate value in excess of HK$5 million (based on the closing price of the Company's shares at the date of each grant) within any 12-month period must be approved in advance by the shareholders of the Company. Number of shares issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the Company's ordinary shares in issue.

By a resolution passed at the annual general meeting held on 2 June 2009 (the "2009 AGM"), 10% limit under the Scheme was refreshed by the shareholders of the Company such that the directors may grant share options to eligible participants to subscribe up to 457,475,535 shares, representing 10% of the shares in issue as at the date of the 2009 AGM.

The total number of options exercisable under the Scheme as at 31 December 2010 was 6,000,000 (2009: 16,000,000) which represents approximately 0.1% (2009: 0.3%) of the Company's issued shares at 31 December 2010. All share-based compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options other than by issuing the Company's ordinary shares.

Notes to the Financial Statements

For the year ended 31 December 2010

42. SHARE OPTION SCHEME *(continued)*

All share options granted are accounted for under HKFRS 2. Share options and weighted average exercise price for the years ended 31 December 2010 and 2009 are as follows:

	2010		2009	
	Number '000	**Weighted average exercise price HK$**	Number '000	Weighted average exercise price HK$
Outstanding at 1 January	**297,050**	**5.76**	99,000	1.50
Grant of share options	**–**	**–**	281,050	6.00
Forefeited	**(19,850)**	**6.00**	–	–
Exercised	**(10,000)**	**1.50**	(83,000)	1.50
Outstanding at 31 December	**267,200**	**5.90**	297,050	5.76
Exercisable at 31 December	**6,000**	**1.50**	16,000	1.50

Weighted average share price for share options exercised during the year at the date of exercise was HK$7.10 (2009: HK$5.82).

The exercise prices of the options outstanding at 31 December 2010 were HK$1.50 or HK$6.0 (2009: HK$1.50 or HK$6.0) respectively and a weighted average remaining contractual life of 5.6 years (2009: 6.5 years).

No options were grant during the year. On 19 August 2009, the Company granted 281,050,000 options to certain of its directors, employees and other eligible participants with exercise price of HK$6.00 per share. The closing share price at date of grant on 19 August 2009 was HK$5.22.

The fair value of options granted in 2009 was determined using the Black-Scholes Option Pricing Model. Significant inputs into the calculation included an expected volatility of 72.95% to 81.35%, estimated weighted average expected life of 3.53 years, risk-free interest rate of 1.07% to 1.824%, dividend yield of 3.83% and estimated employees' turnover rate of 15%. The expected volatility was determined with reference to the historical volatility based on 156-week weekly return on the Company's closing price. The expected volatility reflects the assumption that the historical volatility is indicative of future share market price trends, which may also not necessarily be the actual outcome. The risk-free interest rate was determined with reference to the corresponding period of Hong Kong Exchange Fund Notes interest rate at the date of options granted.

The fair value of the options granted in 2009, measured at the date of grant on 19 August 2009, totaled approximately HK$596,460,000. As the options vest after two years from the date of grant on 19 August 2009, the amount is recognised as a share-based compensation in profit or loss over 2 years from 19 August 2009 to 18 August 2011. An amount of HK$287,205,000 (2009: HK$110,304,000) has been charged as share compensation expense in profit or loss during the year. The corresponding amount has been credited share option reserve. No liabilities were recognised due to share-based payment transactions.

Notes to the Financial Statements

For the year ended 31 December 2010

43. BUSINESS COMBINATIONS

In 1 December 2009, the Group completed the acquisition of entire issued capital of Benefit Rich from Shougang Holding at a consideration of HK$818,175,000. The consideration was satisfied in full by allotment and issue of 109,089,993 new shares ("Consideration Shares") of the Company. Benefit Rich solely holds 956,000,000 shares of APAC, which accounted for approximately 16.80% of the issued capital of APAC on 1 December 2009. The shares of APAC are listed on the Stock Exchange. Benefit Rich did not contribute any turnover and profit to the Group for the period from 2 December 2009 to 31 December 2009. Had the acquisition occurred on 1 January 2009, there is no impact on the Group's turnover but a loss for the year would have been approximately of HK$18,000. Details of net asset acquired at the date of acquisition are as follows:

	Fair value HK$'000	**Acquiree's carrying amount** HK$'000
Available-for-sale financial assets *(Note 25(b))*	818,175	544,920
Net identifiable assets	818,175	544,920
Satisfied by:		
Purchase consideration settled by Consideration Shares		818,175

44. COMMITMENTS

(a) Operating lease commitments

Group

At 31 December 2010, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings payable by the Group are as follows:

	2010 **HK$000**	2009 HK$000
Within one year	**7,493**	10,684
In the second to fifth years	**24,564**	25,520
After fifth years	**144,064**	131,302
	176,121	167,506

The Group leases a number of land and buildings and other assets under operating leases arrangement. The leases run for an initial period of 1 to 50 years, without an option to renew the leases and renegotiate the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords. None of the leases include contingent rental.

Company

The Company did not have any significant operating lease commitments as at 31 December 2010 and 2009.

Notes to the Financial Statements

For the year ended 31 December 2010

44. COMMITMENTS *(continued)*

(b) Capital commitments

Group

	2010 HK$'000	2009 HK$'000
Contracted but not provided for:		
– Acquisition of property, plant and equipment	**405,190**	357,541
– Exploration and design fees for a potential mining project	**8,826**	8,498
	414,016	366,039

Company

The Company did not have any capital commitments as at 31 December 2010 and 2009.

(c) Other commitments

Group

In accordance with a notice issued by the Liulin County Government of Shanxi Province (Liufa [2008] No.31), certain mining companies in Liulin County, including Xingwu, Jinjiazhuang and Zhaiyadi, are obliged to pay subsidies for the construction of modern schools in Liulin County and provision of educational facilities from 2009 to 2011. Such subsidies are recognised in profit or loss in the corresponding year accordingly. Management expects that one further payment (2009: two payments) of RMB110,000,000 (HK$129,800,000 equivalent) are payable in 2011 (2009: payable in 2010 and 2011).

45. FINANCIAL GUARANTEE CONTRACTS

As at 31 December 2010, the Group has no outstanding financial guarantee contracts. As at 31 December 2009, Xingwu executed guarantees with respect to the bank loans and other loans, denominated in RMB282,000,000 (HK$320,380,000 equivalent), granted to two independent third parties. Under the above guarantees, Xingwu were liable to pay the banks and lenders if the banks and lenders were unable to recover the loans from these third parties. At 31 December 2009, no provision for the Group's obligation under the guarantee contracts had been made. These guarantees were released during 2010.

As at 31 December 2009 and 2010, the Company has executed guarantees amounting to RMB400,000,000 (HK$472,000,000 equivalent) with respect to the bank facilities granted to certain subsidiaries of the Group. Under the guarantees, the Company would be liable to pay the bank if the bank is unable to recover these loans. At 31 December 2009 and 2010, no provision for the Company's obligation under the guarantee contracts has been made as the directors considered that it was not probable that the repayment of the loan would be in default.

Notes to the Financial Statements

For the year ended 31 December 2010

46. RELATED PARTY TRANSACTIONS – GROUP

Except as disclosed elsewhere in the financial statements, the following transactions for the years ended 31 December 2010 and 2009 were carried out with related parties:

(i) During the year, the Group sold clean coking coal amounting to HK$419,467,000 (2009: Nil) to Shougang Corporation and group companies of Shougang Corporation (collectively referred to as the "Shougang Group") and also sold clean coking coal amounting to HK$5,687,000 (2009: Nil) to a wholly-owned subsidiary of Shougang International ("Shougang International Subsidiary"). Shougang Corporation is the ultimate holding company of Shougang Holding. These sales are made at market prices with a maximum discount of 3%. As at 31 December 2010, the balance of HK$178,667,000 (2009: Nil) due from the Shougang Group included in trade and bills receivables was outstanding. In addition, as at 31 December 2010, the balance of HK$40,373,000 (31 December 2009: Nil) due to Shougang International Subsidiary (included in other payables and accruals) related advance receipts for future orders to be placed.

(ii) During the year, the Group paid management fees and company secretarial service fees of HK$1,775,000 (2009: HK$120,000) to Shougang International, which is the single largest shareholder of the Company and paid rental expenses of HK$1,800,000 (2009: HK$450,000) to a wholly-owned subsidiary of Shougang Holding, which is the controlling shareholder of Shougang International.

(iii) The Group disposed of a subsidiary, Jumbo Hall, to Mr. Wong, being one of the substantial shareholders and a director of the Company, at a consideration of HK$15,500,000 in 2009 (Note 8(b)).

(iv) The Group purchased 154,166,874 shares of Mount Gibson from Sky Choice, a wholly owned subsidiary of Shougang International at a consideration of HK$1,604,389,000 in 2009 (Note 25(a)).

(v) The Group acquired the entire issued share capital of Benefit Rich from Shougang Holding at a consideration of HK$818,175,000 in 2009 (Notes 25(b) and 43).

(vi) The compensation payable to key management personnel during the year have been disclosed in Note 17 to the financial statements.

47. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Major non-cash transactions

Pursuant to resolutions passed on 31 December 2009, dividends of RMB31,438,000 (HK$35,717,000 equivalents) and RMB223,583,000 (HK$254,013,000 equivalents) attributable to non-controlling shareholders in Jinjiazhuang and Zhaiyadi for the period from January to November 2009 were used to settle the partial amounts due from other parties of RMB49,300,000 (HK$56,010,000 equivalents) and trade receivables of RMB205,721,000 (HK$233,720,000 equivalents) which was undertaken the respective recoverabilities by Mr. Xing.

Notes to the Financial Statements

For the year ended 31 December 2010

48. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

(i) Foreign currency risk

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

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

	Group				Company			
	2010 Expressed in HK$'000		2009 Expressed in HK$'000		**2010 Expressed in HK$'000**		2009 Expressed in HK$'000	
	AUD	**US$**	AUD	US$	**AUD**	**US$**	AUD	US$
Available-for-sales financial assets	**2,684,397**	**–**	1,761,422	–	**–**	**–**	–	–
Financial assets at fair value through profit or loss	**–**	**–**	25,967	–	**–**	**–**	–	–
Derivative financial instruments – assets	**–**	**12,224**	–	–	**–**	**–**	–	–
Cash and bank balances	**–**	**564,097**	–	331,400	**–**	**560,349**	–	322,887
Derivative financial instruments – liabilities	**–**	**(11,597)**	–	–	**–**	**–**	–	–
Bank loan	**–**	**(654,172)**	–	(751,469)	**–**	**(654,172)**	–	(751,469)
Overall net exposure	**2,684,397**	**(89,448)**	1,787,389	(420,069)	**–**	**(93,823)**	–	(428,582)

Notes to the Financial Statements

For the year ended 31 December 2010

48. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(i) Foreign currency risk *(continued)*

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

	Group						Company					
	2010			2009			2010			2009		
	Increase/ (Decrease) in foreign exchange rates	Effect on profit for the year HK$'000	Equity HK$'000	Increase/ (Decrease) in foreign exchange rates	Effect on profit for the year HK$'000	Equity HK$'000	Increase/ (Decrease) in foreign exchange rates	Effect on profit for the year HK$'000	Equity HK$'000	Increase/ (Decrease) in foreign exchange rates	Effect on profit for the year HK$'000	Equity HK$'000
AUD	+5%	-	96,107	+5%	1,298	88,071	+5%	-	-	+5%	–	–
AUD	–5%	-	(96,107)	–5%	(1,298)	(88,071)	–5%	-	-	–5%	–	–

(ii) Credit risk

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

The carrying amounts of trade and bills receivables, deposits, other receivables, amounts due from other parties, pledged bank deposits and cash and cash equivalents included in the statement of financial position represent the Group's maximum exposure to credit risk in relation to financial assets. Of which, financial assets carrying significant credit risk exposures are the trade receivables aged over 365 days amounting to HK$87,161,000 (2009: HK$68,033,000) (Note 28) and amount due from a party amounting to nil (2009: HK$937,150,000) (Note 29), management is of the opinion that reasonable actions and mitigations have been carried out to minimise the exposure to credit risk and details of such mitigations are set out in respective notes to the financial statements. Such trade receivables aged over 365 days were related to two independent customers that have good track records with the Group. Up to the date of these financial statements, HK$84,781,000 had been received. In this regards, the directors consider that the Group's credit risk is sufficiently managed.

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

Notes to the Financial Statements

For the year ended 31 December 2010

48. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(ii) Credit risk *(continued)*

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

(iii) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Group's/Company's major exposure to interest rate risk relates primarily to the bank loans and cash and cash equivalents. The Group's/Company's remaining borrowings are charged at floating interest rates. The interest rates and terms of repayment of pledged bank deposits, cash and cash equivalents, borrowings, loan to/amount due from a party, amounts due from/(to) other parties/related companies/non-controlling shareholders of subsidiaries, are disclosed in Notes 30, 31, 34, 29, 36, 37 and 38 respectively.

The following table illustrates the sensitivity of profit after income tax for the year and retained profits to a change in interest rates of +25 basis points and -25 basis points (2009: +25 basis points and -25 basis points) with effect from the beginning of the year. The calculations are based on the bank loans and cash and cash equivalents at 31 December 2010 and 2009. All other variables are held constant.

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
If interest rates were 25 basis point (2009: 25 basis point) higher				
Net profit for the year decrease by	**(2,469)**	(338)	**(1,598)**	(679)
If interest rates were 25 basis point (2009: 25 basis point) lower				
Net profit for the year increase by	**2,469**	338	**1,598**	679

(iv) Price risk

Price risk relates to the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than changes in interest rates and foreign exchange rates). The Group is exposed to other price risk arising from its listed equity investments classified as available-for-sale financial assets and purchased call options classified as financial assets at fair value through profit or loss. Details of the financial assets at available-for-sale financial assets are set out in Note 25. Management manages this exposure by maintaining a portfolio of investments with different risk and return profiles and will consider hedging the risk exposure should the need arise.

For the listed equity securities, an average volatility of 18.26% and 15.49% has been observed in the Heng Seng Index in Hong Kong and All Ordinary Index in Australia in 2010 respectively (2009: 33.03% and 20.48%). If the quoted stock price for these securities had increased or decreased by that amount, the Group's security investment reserve under equity would have been increased or decreased by approximately HK$376,606,000 (2009: HK$507,518,000).

Notes to the Financial Statements

For the year ended 31 December 2010

48. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(iv) Price risk *(continued)*

For the purchased call options, an average volatility of 75.82% of quoted stock price for Mount Gibson in 2009. If the quoted stock price had increased or decreased by that amount, the Group's profit or loss for the year 2009 and retained earnings would have been increased or decreased by approximately HK$19,687,000.

The Company does not expose to the price risk.

(v) Liquidity risk

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2010

48. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(v) Liquidity risk *(continued)*

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

	Group			
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but not exceeding four years HK$'000
As at 31 December 2010				
Non-derivative financial liabilities				
Trade and bills payables	537,808	537,808	537,808	–
Other payables and accruals	624,200	624,200	624,200	–
Borrowings	1,131,863	1,210,101	274,358	935,743
Amounts due to other parties	22,878	22,878	22,878	–
Amounts due to non-controlling shareholders of subsidiaries	256,919	256,919	256,919	–
Liabilities directly associated with assets classified as held for sale	515,894	523,616	523,616	–
	3,089,562	3,175,522	2,239,779	935,743
Derivative financial liabilities				
Gross settled forward foreign exchange contracts				
– Cash outflow	11,597	11,597	11,597	–

Notes to the Financial Statements

For the year ended 31 December 2010

48. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(v) Liquidity risk *(continued)*

	Company			
	Carrying amount HK$'000	**Total contractual undiscounted cash flow HK$'000**	**Within one year or on demand HK$'000**	**More than one year but not exceeding four years HK$'000**
As at 31 December 2010				
Non-derivative financial liabilities				
Amounts due to subsidiaries	**999,879**	**999,879**	**999,879**	**–**
Other payables and accruals	**10,971**	**10,971**	**10,971**	**–**
Borrowings	**654,172**	**682,115**	**245,303**	**436,812**
	1,665,022	**1,692,965**	**1,256,153**	**436,812**

	Group			
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but not exceeding four years HK$'000
As at 31 December 2009				
Non-derivative financial liabilities				
Trade and bills payables	328,732	328,732	328,732	–
Other payables and accruals	817,245	817,245	817,245	–
Borrowings	806,085	870,319	186,045	684,274
Amounts due to other parties	27,526	27,526	27,526	–
Amounts due to related companies	12,008	12,008	12,008	–
Amounts due to non-controlling shareholders of subsidiaries	42,964	42,964	42,964	–
	2,034,560	2,098,794	1,414,520	684,274

Notes to the Financial Statements

For the year ended 31 December 2010

48. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(v) Liquidity risk *(continued)*

	Company			
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but not exceeding four years HK$'000
As at 31 December 2009				
Non-derivative financial liabilities				
Amounts due to subsidiaries	364,037	364,037	364,037	–
Other payables and accruals	12,370	12,370	12,370	–
Borrowings	751,469	811,675	132,115	679,560
	1,127,876	1,188,082	508,522	679,560

(vi) Fair value measurement recognised in the statement of financial position – Group

The Group adopted the amendments to HKFRS 7 Improving Disclosures about Financial Instruments effective from 1 January 2009. These amendments introduce a three-level hierarchy for fair value measurement disclosures and additional disclosures about the relative reliability of fair value measurements.

The following table presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

– Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

– Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

– Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Notes to the Financial Statements

For the year ended 31 December 2010

48. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(vi) Fair value measurement recognised in the statement of financial position – Group *(continued)*

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

	Notes	2010 Level 1 HK$'000	 Level 2 HK$'000	 Level 3 HK$'000	 Total HK$'000
Assets					
Available-for-sale financial assets					
– Listed equity securities	(a)	**3,152,837**	**–**	**–**	**3,152,837**
Financial assets at fair value through profit or loss					
– Derivative financial assets	(c)	**–**	**12,224**	**–**	**12,224**
Total fair value		**3,152,837**	**12,224**	**–**	**3,165,061**
Liabilities					
Financial assets at fair value through profit or loss					
– Derivative financial liabilities	(c)	**–**	**(11,597)**	**–**	**(11,597)**
Net fair value		**3,152,837**	**627**	**–**	**3,153,464**

	Notes	2009 Level 1 HK$'000	 Level 2 HK$'000	 Level 3 HK$'000	 Total HK$'000
Assets					
Available-for-sale financial assets					
– Listed equity securities	(a)	2,205,962	–	–	2,205,962
Financial assets at fair value through profit or loss					
– Purchased call options	(b)	–	25,967	–	25,967
		2,205,962	25,967	–	2,231,929

There were no transfers between Level 1 and 2 in the reporting periods.

Notes to the Financial Statements

For the year ended 31 December 2010

48. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(vi) Fair value measurement recognised in the statement of financial position – Group *(continued)*

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to previous reporting periods.

(a) Listed securities

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

(b) Purchased call options

The purchased call options entered into by the Group are not traded on active markets. Fair values of such contracts are estimated using a valuation technique that maximises the use of certain observable market inputs such as market price volatility and interest rates.

(c) Derivative financial assets

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

Of the total gains or losses for the year included in profit or loss, profit of approximately HK$628,000 relates to forward contracts are included in change in fair value of derivative financial instruments in the consolidated statement of comprehensive income.

The Company does not expose to the risk on fair value measurement.

Notes to the Financial Statements

For the year ended 31 December 2010

48. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(vii) Summary of financial assets and liabilities by category

The carrying amounts of the Group's/Company's financial assets and liabilities as recognised at the reporting dates may also be categorised as follows. See Notes 2.13 and 2.20 for explanations about how the category of instruments affects their subsequent measurement.

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Non-current assets				
Loan and receivables:				
– Amount due from a party	**–**	937,150	**–**	–
– Loan to a party	**234,342**	–	**–**	–
Available-for-sale financial assets	**3,161,097**	2,214,369	**–**	–
	3,395,439	3,151,519	**–**	–
Current assets				
Loan and receivables:				
– Trade and bills receivables	**2,317,901**	1,113,647	**–**	–
– Other receivables	**27,950**	114,545	**159**	–
– Amounts due from subsidiaries	**–**	–	**16,738,022**	14,578,192
– Loan to a party	**703,025**	–	**–**	–
– Amounts due from other parties	**292,876**	376,044	**–**	–
Financial assets at fair value through profit or loss				
– Purchased call options	**–**	25,967	**–**	–
– Derivatives financial instruments	**12,224**	–	**–**	–
Pledged bank deposits	**32,512**	105,771	**–**	–
Cash and cash equivalents	**2,766,063**	2,104,478	**793,122**	1,920,793
	6,152,551	3,840,452	**17,531,303**	16,498,985
	9,547,990	6,991,971	**17,531,303**	16,498,985

Notes to the Financial Statements

For the year ended 31 December 2010

48. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(vii) Summary of financial assets and liabilities by category *(continued)*

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current liabilities				
Financial liabilities at amortised cost:				
– Trade and bills payables	**537,808**	328,732	**–**	–
– Other payables and accruals	**624,200**	817,245	**10,971**	12,370
– Borrowings	**233,381**	162,420	**229,430**	111,238
– Amounts due to other parties	**22,878**	27,526	**–**	–
– Amounts due to related companies	**–**	12,008	**–**	–
– Amounts due to non-controlling shareholders of subsidiaries	**256,919**	42,964	**–**	–
– Amounts due to subsidiaries	**–**	–	**999,879**	364,037
Financial liabilities at fair value through profit or loss				
– Derivative financial instruments	**11,597**	–	**–**	–
	1,686,783	1,390,895	**1,240,280**	487,645
Non-current liabilities				
Financial liabilities at amortised cost:				
– Borrowings	**898,482**	643,665	**424,742**	640,231
	2,585,265	2,034,560	**1,665,022**	1,127,876

49. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

(a) To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns and benefits for stakeholders;

(b) To support the Group's ability and growth; and

(c) To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and equity holder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy. Management regards total equity and its reserves as capital, for capital management purpose.

Five-year Financial Summary

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

	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000
Results					
Revenue	**5,543,285**	4,470,131	1,896,577	15,056	10,535
Profit/(Loss) attributable to owners of the Company	**1,802,791**	1,126,274	567,649	(77,948)	(30,988)
Assets and liabilities					
Total assets	**26,119,627**	22,557,408	19,252,268	1,295,084	517,104
Total liabilities	**(6,496,405)**	(5,227,644)	(6,803,271)	(503,074)	(417,524)
Net assets	**19,623,222**	17,329,764	12,448,997	792,010	99,580
Non-controlling interests	**(1,473,328)**	(1,504,570)	(1,627,258)	(58,279)	(42,034)
Equity attributable to owners of the Company	**18,149,894**	15,825,194	10,821,739	733,731	57,546