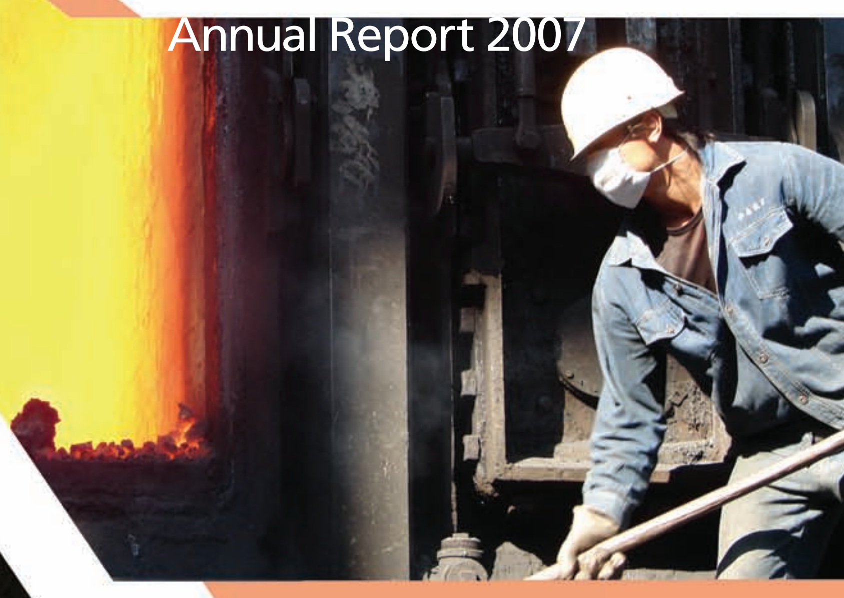
Hidili Industry International Development Limited
恒鼎實業國際發展有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock code : 1393



Annual Report 2007

Contents

Corporate Information

Directors

Executive Directors

Mr. Xian Yang *(Chairman)*
Mr. Sun Jiankun
Mr. Wang Rong

Non-executive Director

Mr. Tsang Kwong Yue Conrad

Independent non-executive Directors

Mr. Chan Chi Hing
Mr. Huang Rongsheng
Mr. Wang Zhiguo

Audit Committee

Mr. Chan Chi Hing *(Chairman)*
Mr. Huang Rongsheng
Mr. Wang Zhiguo

Remuneration Committee

Mr. Chan Chi Hing *(Chairman)*
Mr. Huang Rongsheng
Mr. Tsang Kwong Yue Conrad
Mr. Wang Zhiguo
Mr. Xian Yang

Auditors

Deloitte Touche Tohmatsu
Certified public accountants
35/F One Pacific Place
88 Queensway
Hong Kong

Company Secretary and Qualified Accountant

Mr. Chan Bing Chung, *HKICPA, FCCA*

Authorized Representatives

Mr. Xian Yang
Mr. Chan Bing Chung, *HKICPA, FCCA*

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Head Office

16th Floor, Dingli Mansion
No. 81 Renmin Road
Panzhihua
Sichuan 617000
PRC

Principal Place of Business in Hong Kong

Room 1103, 11th Floor
Ka Wah Bank Centre
232 Des Voeux Road Central
Hong Kong

Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Legal Adviser

Mallesons Stephen Jaques
37th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

Compliance Adviser

VC Capital Limited
28th Floor
The Centrium
60 Wyndham Street
Central
Hong Kong

Stock Code

1393

Website

http://www.hidili.com.cn

Principal Bankers

Pudong Development Bank Chengdu Branch
98-1 Shuangling Road
Chengdu, Sichuan Province
PRC

China Citic Bank Chengdu Branch
Associate Building, Huaneng Tower
No. 47, Fourth Block, Renmin Nan Road
Chengdu, Sichuan Province
PRC

Agricultural Bank of China
Panzhihua Branch
10 Renmin Street, East District
Panzhihua, Sichuan Province
PRC

Bank of Communications
Panzhihua Branch
129 Bingcaogang Grand Street
Panzhihua, Sichuan Province
PRC

Industrial and Commercial Bank of China (Asia) Limited
33rd Floor, ICBC Tower
3 Garden Road
Central
Hong Kong

Chairman's Statement

To the respectful shareholders of Hidili Industry International Development Limited,

With the support of our shareholders and the concerted efforts of our staff, Hidili Industry International Development Limited (the "Company") achieved encouraging results in 2007. On behalf of the board (the "Board") of directors (the "Directors") of the Company, I am pleased to present the 2007 Annual Report and the operating results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2007 to our shareholders as follows.

The Board proposes a cash dividend of RMB 8.4 cents (equivalent to approximately HK$9.3 cents) per share of the Company for the year ended 31 December 2007, amounting to a total of approximately RMB173.0 million (equivalent to approximately HK$191.6 million).

The audit committee of the Company has reviewed the Group's results for the year ended 31 December 2007.

Performance of the Company's Shares

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 21 September 2007. As at 31 December 2007, the closing price for the Company's shares was HK$11.98, representing a growth of approximately 75.40% as compared with the issue price amidst a rise in the Hang Seng Index of approximately 8.22% and an average growth in the average share prices of other listed coal companies in Hong Kong of approximately 12.06% during the period from the listing of the Company's shares from September to December 2007.

The Company will strive to maintain its growth momentum through mergers and acquisitions, expansion of production capacity and cost control. We will also strengthen the relationship with investors by keeping shareholders well informed on the Company's strategy of development and the growth of operation in a timely manner. The Board and the management of the Company are determined to, with unremitting efforts, achieve long-term stable growth, endeavour to attain the highest return for shareholders whilst balancing and minimising business risks, maintaining a high degree of integrity and enhancing the Company's transparency.

The Company's Operation

The Company achieved a revenue and a profit attributable to the equity holders of the Company of approximately RMB1,042.5 million and RMB570.3 million respectively from its operations for the year ended 31 December 2007, representing a growth of approximately 27.9% and approximately 535.8% respectively as compared with the previous year, and this was mainly attributable to the increase in sales of products with higher profit margins and the general rise in prices of coke and coking coal in the domestic market as well as increase in interest income from proceeds from the global offering of the shares of the Company.

The Company has produced approximately 2.3 million tonnes of raw coal, approximately 1.2 million tonnes of clean coal and approximately 0.5 million tonnes of coke in 2007, maintaining at substantially the same level as compared with those produced in 2006, in which approximately 2.2 million tonnes of raw coal, approximately 1.2 million tonnes of clean coal and approximately 0.5 million tonnes of coke were produced in Panzhihua region while the annual production for raw coal was approximately 0.07 million tonnes at Liupanshui, Guizhou province in 2007. The sales of clean coal in 2007 experienced a slight decrease as compared with the previous year and this was mainly attributable to the reduction in the external sales of clean coal caused by the Company's application of more clean coal in the processing of coke, which commanded higher profit margin in 2007.

In terms of operation, we have effectively controlled our operating costs with our persistent improvement of our cost control system. Our cash cost for exploitation of raw coal in 2007 was approximately RMB97 per tonne in average.

We have also progressed well in establishing our management and technical team in Panxian, Guizhou province, the second strategic location for the Company's development. The team comprises more than 300 professionals from different parts of China who are well qualified and experienced in their respective scopes of work. We believe that they will become a professional and outstanding team with high efficiency after a period of training and co-operation.

Environmental protection and safety management have always been our top priority in our business development. In 2007, we engaged an overseas consultation body as the Company's environment, safety and health consultant for providing guidance and evaluation over the Company's environmental protection and safety measures, aiming at promoting the standard of the Company's environment and safety management to become one of the highest amongst its peers. In 2007, the fatality rate of the Company's raw coal production was approximately 0.440 per million tonnes, lower than the average fatality rate of approximately 1.485 per million tonnes for coal production in China and the average fatality rate of approximately 3.031 per million tonnes for small-to-medium sized coal production enterprises in China, the scale of the mines of which are comparable to those of the Company.

Significant Events of the Year

One of the Company's most significant events of 2007 was the listing of the shares of the Company on the Main Board of the Stock Exchange on 21 September 2007.

On 15 October 2007, Baring Private Equity Asia III Holding (5A) Limited, the Company's Pre-IPO investor, disposed of 220 million shares of the Company (representing approximately 10.7% of the total issued shares of the Company) in the secondary market.

During the first half of 2007, the Company has completed acquisitions of five coal mines in Liupanshui, Guizhou province. In the second half of 2007, we have completed further acquisitions of nine coal mines in Liupanshui with an aggregate consideration of approximately RMB1,543 million, equivalent to approximately RMB6.5 per tonne. All such mines are quality coke mines. As at 31 December 2007, the Company had a total of approximately 355 million tonnes of coal reserves (based on the estimation under the PRC coal reserves standard) in Guizhou.

On 18 October 2007, Mr. Tu Xiaoyu, an executive Director, chief financial officer and compliance officer of the Company, passed away unexpectedly in a fatal traffic accident when he was on a business trip. Mr. Tu had made significant contribution to the development of the Company and his unfortunate death caused a great loss to his family and the Company. He has been one of the key members of management in establishing a comprehensive internal control and financial management system for the smooth operation of the Group. We are now identifying a suitable candidate to fill Mr. Tu's position and an announcement will be made by the Company upon the appointment of a new chief financial officer.

Acquisition and Development in the Guizhou Province

Coke is the major raw material for the production of iron and steel while coking coal, used for production of coke, is the scarcest coal resource. Panxian in Guizhou province has abundant resources of quality coking coal and is the region in Southern China where coking coal reserves are highly concentrated and the expected total reserve of which amounts to more than 20 billion tonnes. Panxian serves as the major source of coking coal for all the major iron and steel companies in Southern China due to its strategic location and convenience to such iron and steel companies when compared with the coking coal suppliers in Northern China and overseas. In comparison with the suppliers in the provinces in the north, the average shipment cost to Guangxi and Guangdong by rail is about RMB150 to 200 per tonne, which is RMB100 to 150 lower for each tonne of product, while such shipment cost to Sichuan and Yunnan by rail can be about RMB 200 to 300 per tonne, which is RMB350 lower for each tonne of product.

In the circumstances, the Company selected Panxian, Guizhou province, as the strategic region for its coking coal business development in the medium term. We intend to realise our business expansion in Panxian through the acquisition and consolidation of the existing coal mines in the region as well as the substantial enhancement of the production capacity through technology modification. We have acquired nine coal mines in the region from October to December 2007, and a further coal mine in the first quarter of 2008, and together with the five coal mines acquired prior to our initial public offering, the reserves of such coal mines as at 31 December 2007 amounted to approximately 360 million tonnes (based on the estimation under the PRC coal reserves standard) and the designed production capacity is approximately 6 million tonnes under full capacity. With the scarcity of coking coal, we expect the price will maintain at the present level at least in the medium term. Hence, the Company's management will further its effort in the construction of mining wells under the strict compliance with the PRC's highest safety and environmental protection standards and it is expected that the mines will be available for full operation and will achieve the designed capacity in 2011.

Outlook

We believe that under the impetus for accelerated development of the macro-economy of the PRC, the steady and continuous growth of the iron and steel industry will drive the demand for its raw materials (namely iron ore and coking coal) and scale a height in prices and this would help create a favourable and profitable environment for the resources segment of the upstream iron and steel industry.

On the other hand, we believe that the persistent growth of the Company's results should not solely rely on the higher profit margin driven by higher selling price of the products. The profit margin of the products may reduce when their selling price falls if we cannot achieve a corresponding reduction in our costs, and there is a time period of which we are entitled to preferential tax treatment for foreign-invested enterprises which we currently enjoy. Therefore, we consider that the speedy and long-term stable growth of the results of the Company shall be realised through acquisition and expansion of production capacity under effective control

of the overall risks of operation. We will continue to identify opportunities for acquisition of various quality mineral resources in China, particularly the resources for the upstream iron and steel industry, such as coking coal and iron ores. It is our plan to further our efforts in acquiring coking coal resources in Panxian, Guizhou Province. Our target is to further acquire 10 to 15 coal mines in the region, making a total of reserves of more than approximately 400 million tonnes. We expect that the purchase price for the coal mines would be raised to approximately RMB10 to15 per tonne with the surge of the coking coal prices. Moreover, we may also consider acquiring vanadium and titanomagnetite (釩鈦磁鐵) resources at Panzhihua, Sichuan province if such opportunity arises. The plan we have formulated is based on the consideration that: (i) such projects, exhibiting considerable potential, are in line with our corporate development strategy; (ii) the location of such projects are highly concentrated, facilitating our centralised management and operation; and (iii) we, with our years of operation experience in the designated location, have acquired extensive knowledge over the projects and the location and are well-prepared in terms of technology and management.

In addition, rail transportation has a critical and strategic implication for our sales of products in Guizhou province, and hence in 2008, we will consider acquiring and/or investing in a logistic company with rail transport capacity to facilitate the delivery of our products in bulk by rail in the future.

To implement the above plans, the Company may require additional funding on top of the proceeds raised during the initial public offering. The Company's management will evaluate the various methods of financing carefully, taking into consideration the actual requirements for the Company's development and the environment of the finance market.

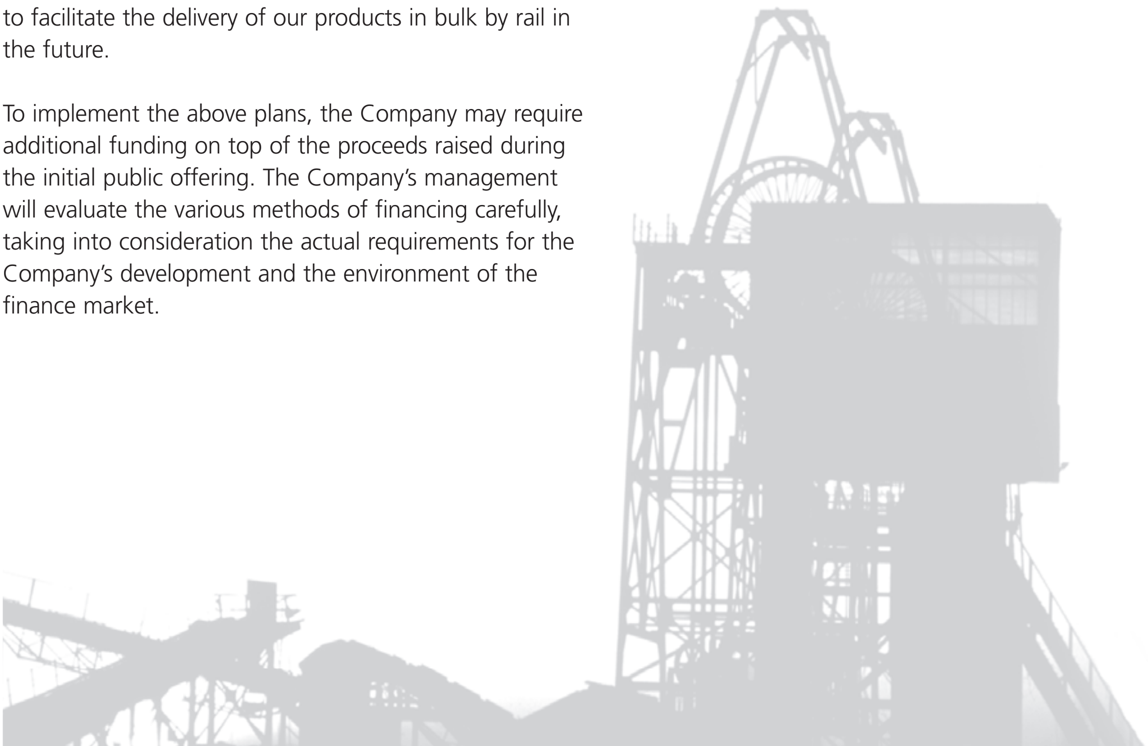
Since the fourth quarter in 2007, significant rise in the market price of coking coal and coke was experienced and the barrier has been raised for the acquisition of coking coal. In 2008, the Company may face even more radical challenges. We will execute and complete our operation and acquisition in accordance with the strategies established by the Board in an effective and efficient manner.

In 2008, we will commit ourselves to perfecting our corporate management, raising the level of corporate governance and further improving the efficiency of the Company's operation system. The Company's management and staff will spare no effort in promoting the rapid and healthy development of the Company for honouring the promise of "delivering higher returns for shareholders" in which I have full confidence.

By order of the Board

Xian Yang
Chairman

Panzhihua, the PRC
13 April 2008



Management Discussion and Analysis

Financial Review

Turnover

During the year, turnover of the Group reached approximately RMB1,042.5 million, representing an increase of approximately 27.9%, as compared to approximately RMB814.8 million in the year 2006. The increase was primarily attributable to the increase in sales volumes and average selling prices of coke under the keen demand from state-owned steel manufacturing companies. Besides, during the year, the Group also enlarged the production and sales of alloy pig iron and related by-products and engaged in the sales of raw coal in Guizhou, contributing approximately 6.7% and 2.2% respectively to the Group's turnover.

The following table sets forth the Group's turnover contribution, sales volume and average selling price by products for the year, together with the comparative amounts for the year 2006:

	2007			2006		
	Turnover RMB'000	Sales volume (thousand tonnes)	Average selling price (RMB/ tonne)	Turnover RMB'000	Sales volume (thousand tonnes)	Average selling price (RMB/ tonne)
Principal products						
Clean coal	382,402	587.5	650.9	390,669	621.1	629.0
Coke	520,245	514.6	1,010.9	371,772	472.2	787.4
Principal products total	902,647			762,441		
By-products						
High-ash thermal coal	29,544	272.1	108.6	36,549	335.0	109.1
Coal tar	17,335	12.8	1,354.1	11,835	9.3	1,273.7
Titanium slag	13,582	13.1	1,036.4	681	0.8	841.1
Other by-products	128	–	–	263	–	–
By-products total	60,589			49,328		
Other products						
Alloy pig iron	56,698	25.9	2,189.4	3,063	1.7	1,849.5
Raw coal	22,607	61.7	366.5	–	–	–
Other products total	79,305			3,063		
Total turnover	1,042,541			814,832		

Cost of sales

Cost of sales for the year was approximately RMB364.1 million, an increase of approximately RMB38.8 million, or approximately 11.9%, as compared with approximately RMB325.3 million in 2006. The increase was primarily due to the increase in cost of material, fuel and power, staff costs and depreciation and amortization in line with the increase in turnover during the year.

Material, fuel and power costs for the year were approximately RMB155.8 million, an increase of approximately RMB15.1 million, or approximately 11.0%, as compared with approximately RMB140.7 million in 2006. The increase was primarily due to the enlarged production volumes of coke and alloy pig iron in Panzhihua and raw coal in Guizhou.

Staff costs for the year were approximately RMB123.1 million, an increase of approximately RMB22.9 million, or approximately 22.9%, as compared with approximately RMB100.2 million in 2006. The increase was primarily attributable to the increase of numbers of mine workers to 3,736 during the year resulted in the commencement of coal production in Guizhou and the rising wages in line with the enlarged production volumes.

Depreciation and amortization for the year were approximately RMB51.3 million, an increase of approximately RMB9.6 million, or approximately 23.0%, as compared with approximately RMB41.7 million in 2006. The increase was primarily attributable to the additional capital expenditure incurred in connection with the coal mines and alloy pig iron and titanium slag plant.

Gross profit

As a result of the foregoing, the gross profit for the year was approximately RMB678.4 million, an increase of approximately RMB188.9 million or approximately 38.6%, as compared with approximately RMB489.5 million in 2006. The gross profit margin was approximately 65.1% as compared with approximately 60.1% in 2006.

Other income

Other income for the year amounted to approximately RMB283.1 million, an increase of approximately RMB244.3 million or approximately 629.6%, as compared with approximately RMB38.8 million in 2006. The increase was mainly related to the interest income arising from subscription monies received in global offering of the Company's shares in September 2007 of approximately RMB188.2 million and increase in other bank interest income resulted from IPO money received and brought up the Group's average bank balances.

Distribution costs

Distribution costs for the year were approximately RMB48.9 million, a slight increase of approximately RMB3.6 million or approximately 7.9%, as compared to approximately RMB45.3 million in 2006. The increase was primarily attributable to the increase in transportation costs which is in line with the increase in sales volumes of the Company's products.

Administrative expenses

Administrative expenses were approximately RMB210.2 million, representing a significant increase of approximately RMB158.1 million or approximately 303.5%, as compared with approximately RMB52.1 million in 2006. The sharp increase was contributed from the one-time charges of IPO expenses of approximately RMB44.1 million and an exchange loss of approximately RMB89.3 million resulting from the appreciation of RMB to Hong Kong dollars.

Fair value adjustment on convertible note

The amount represented a negative fair value adjustment on convertible note, which was issued on 5 September 2006 and exercised by the then holder of the convertible note on 25 May 2007, amounting to approximately RMB65.6 million.

Net loss on derivative financial instruments classified as held-for-trading

The amount represented the net impact of a loss on fair value change of outstanding derivative financial instruments of approximately RMB48.0 million and a gain on derivative financial instruments which matured during the year of approximately RMB41.8 million which matured during the year. The derivative financial instruments entered into during the year by the Group principally related to foreign currency forward exchange contracts. The Group aimed at hedge against the appreciation of RMB.

Finance costs

Finance costs for the year amounted to approximately RMB38.8 million, an increase of approximately RMB8.5 million or approximately 28.1%, as compared with approximately RMB30.3 million in 2006. During the year, the Group recorded an increase in interest expenses in both bank borrowings wholly repayable within five years and bills receivable discounted of an aggregate amount of approximately RMB21.3 million or approximately 121.7% as compared with approximately RMB17.5 million in 2006. At the same time, no interest expense relating to the issue cost for convertible note was charged during the year as compared to approximately RMB12.8 million in 2006.

Taxation

Taxation during the year was approximately RMB22.5 million, an increase of approximately RMB4.2 million or approximately 23.0%, as compared with approximately RMB18.3 million in 2006. The effective income tax rate decreases from 17.0% to 3.8%. The decrease was mainly due to the decrease in negative fair value adjustment on the convertible note of approximately RMB227.0 million which was not subject to income tax and the change of tax rate and entitlement of tax exemption of the Company's subsidiaries upon conversion into foreign-invested enterprise during the year.

Profit for the year

As a result of the foregoing, the profit for the year was approximately RMB569.3 million, an increase of approximately RMB479.6 million or approximately 534.7%, as compared with approximately RMB89.7 million in 2006. The net profit margin was approximately 54.6% for the year as compared with approximately 11.0% in 2006.

Liquidity, financial resources and capital structure

The Group adopted stringent financial management policies and maintained a healthy financial condition. The Group continued to fund operations principally with internally generated cash flow from operating activities and short-term bank borrowings.

The net current assets as at 31 December 2007 were approximately RMB2,332.3 million (2006: RMB47.6 million). As at 31 December 2007, the bank balances and cash of the Group amounted to approximately RMB2,560.8 million (2006: RMB200.5 million). The increase was mainly attributable to the listing of the Company's shares on the Main Board of Stock Exchange in September 2007 brought along with net proceeds of approximately RMB3,457.9 million.

As at 31 December 2007, the total bank and other borrowings of the Group were approximately RMB1,333.9 million (2006: RMB290.0 million), which are repayable within one year, with effective weighted average interest rate of 6.37%. The gearing ratio (calculate as total bank and other borrowings, excluding convertible note, divided by total assets) of the Group as at 31 December 2007 was 18.9% (2006: 17.6%).

Pledge of assets of the Group

As at 31 December 2007, the Group pledged assets in an aggregate amount of approximately RMB1,685.5 million (2006: RMB228.2 million) and also the 100% interests in three PRC subsidiaries to banks for credit facilities in the amount of RMB1,333.9 million (2006: RMB226.6 million) granted to the Group. Subsequent to the year end date, the said pledge of interests in the three PRC subsidiaries was released.

Employees

As at 31 December 2007, the number of employees of the Group reached 6,180, showing a steady increase arising from the Group's development in its Guizhou operations. During the year, the staff costs (including directors' remuneration in the form of salaries and other allowances) was approximately RMB154.3 million (2006: RMB117.5 million).

The salary and bonus policy of the Group is principally determined by the performance and working experience of the individual employee and with reference to prevailing market conditions.

Final dividend

The Board recommends the payment of a final cash dividend of RMB8.4 cents (equivalent to approximately HK$9.3 cents) per share for the year ended 31 December 2007 to all shareholders of the Company whose names appear on the register of members of the Company on 11 June 2008.

Risk in foreign exchange

The Group mainly operates in the PRC and the exposure in exchange rate risk mainly arises from the foreign currency bank balances. The Group has been monitoring the exchange rate between RMB and Hong Kong dollar and will consider hedging against foreign currency exposure to minimize such risks.

Significant investment held

The Group did not have significant investment held as at 31 December 2007.

From the mid of November 2007 to the end of 2007, the Group had applied for several new PRC A shares. The subscription money paid up at any time during that period for application remained under RMB300 million. The total subscription money involved amounted to approximately RMB733 million. All A shares successfully subscribed by the Group were disposed before 31 December 2007. The Group obtained a profit of approximately RMB2 million from the disposal, representing an around 5% deemed interest rate to the total funding of RMB300 million assuming to be locked up throughout the period.

Material acquisition and disposal

For the period between October and December 2007, the Group entered into various sales and purchase agreements for the acquisition of 9 coal mines in Guizhou province at an aggregate consideration of RMB1,543 million.

Contingent liabilities

As at 31 December 2007, the Group did not have any material contingent liabilities.

Connected transaction

During the year, rental expenses amounting to RMB1.2 million were paid to Mr. Xian Jilun, father of Mr. Xian Yang, a controlling shareholder and director of the Company, for the leasing of the Company's head office located at 16th and 17th Floor, Dingli Mansion, No. 81 Renmin Road, Panzhihua, Sichuan province, the PRC. The rent paid by the Company is determined with reference to the market rent of comparable properties in the market.

Use of proceeds

The net proceeds from the share offer received by the Company was approximately HK$3,601.3 million (RMB3,457.9 million). The proposed use of proceeds and utilization of the proceeds for the year ended 31 December 2007 is listed as follows:

	Use of proceeds Per Prospectus HK$ million	Utilization HK$ million
Acquisition of coking coal resources in Liupanshui, Guizhou province	2,062.5	1,302.3
Building of coking plant in Liupanshui	516.4	–
Building of coal washing plant in Liupanshui	103.3	–
Prepayment of Baring loan	62.4	62.4
Purchase of heavy long-haul cargo trucks	40.3	–
Working capital	816.4	–
	3,601.3	1,364.7

Outlook

Seeking rapid and sustainable growth through acquisitions of coal resources

During the first half of 2007, the Company has completed acquisition of 5 coal mines in Guizhou. In the second half of 2007, the Company had completed further acquisition of 9 coal mines in Guizhou with an aggregate consideration of RMB1,543 million.

As at 31 December 2007, the Company has a total of approximately 355 million tonnes of coal reserves (in accordance with the estimation under the PRC coal reserves standard) from all coal mines acquired in Guizhou.

The Company plans to speed up the development of the mining structure in order to reach full capacity in the year 2011 and resulting in an annual production capacity of raw coal of approximately 6 million tonnes.

Vertical integration of production capacity

For the year ended 31 December 2007, the Company maintained the core strategy to expand coal reserves through acquisition and follow by further development of coal processing capacity, in which the raw coal production in Guizhou and the production volume of the alloy pig iron plant experienced an outstanding increase.

The following table listed out the production volume of respective business segment of the Group for the year ended 31 December 2007 together with the comparative figures of the year 2006.

	2007 Thousand tonnes	2006 Thousand tonnes
Raw coal production		
Panzhihua	2,210	2,180
Guizhou	65	–
Clean coal production		
Clean coal	1,192	1,195
High-ash thermal coal	351	409
Coke production		
Coke	514	496
Coal tar	13	9
Alloy pig iron production		
Alloy pig iron	27	2
Titanium slag	13	1

The Company had build up an operational and management team of over 300 employees including expertises in coal industry and technicians in Guizhou to support and implement the development of the mining structures and coal processing facilities. Accordingly, the Company believes the production capacity of respective products in 2008 will lead a further growth.

Development in Guizhou

Coke is the principal raw material in the production of steel. Guizhou ranks third in terms of coking coal resources in the PRC and is the main power exporting province in South West China. Liupanshui is centrally located in relation to the major steel manufacturers in Sichuan, Yunnan, Guangdong and Hunan provinces, Guangxi Zhuang autonomous region and Chongqing municipality, with railway networks connecting to these areas. Considering the abundant coal reserves and the well-established railway transportation infrastructure in Liupanshui, the Company has decided to expose Guizhou as the strategic region for further corporate development and vertical integration of production.

To refine the coking coal extracted from the existing and future coal mines, the Company intends to build in Liupanshui by the end of 2009 a coal washing plant with three million tonnes of annual coal washing capacity and a coking plant with one million tonnes of annual coke production capacity.

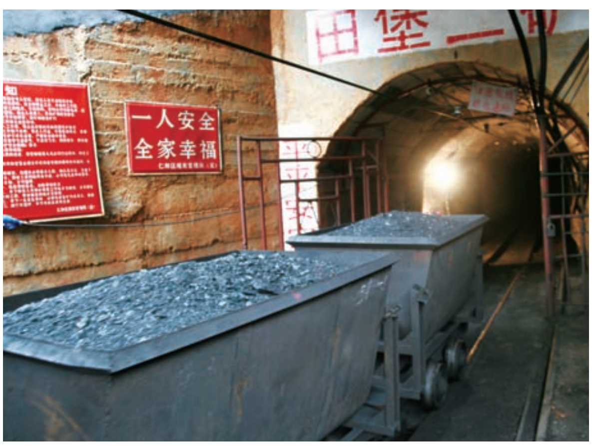
The Company believes the production volumes of the respective business segments in the year 2008 will continue to rise resulting from the acquisition of raw coal resources and development of coal processing facilities in 2008 in Guizhou. Meanwhile, in line with the rapid growth in coal resources of the Company through acquisition of coal mines, the Company is currently in negotiations with regard to possible acquisition of certain existing coal washing plants, coking plants, warehouse facilities and logistic service providers in area adjacent to the newly acquired coal mines. Such possible acquisitions may or may not constitute notifiable transactions of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company will comply with the applicable requirements under the Listing Rules.

Other Information

Closure of the Register of Members

The register of members of the Company will be closed from 12 June to 18 June 2008, both days inclusive, during which period no transfer of shares will be registered.

In order to qualify for the proposed final dividend, all transfer instruments accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by shareholders of the Company for registration no later than 4:30 p.m. on 11 June 2008.



Annual General Meeting

The annual general meeting ("AGM") will be held on 18 June 2008. The notice of the AGM will be posted on the websites of the Company and the Stock Exchange respectively and despatched to the shareholders of the Company in due course.

Audit committee

The audit committee was established on 25 August 2007 in compliance with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures.

As of the date of this announcement, the audit committee consists of three independent non-executive Directors, namely, Mr. Chan Chi Hing (Chairman), Mr. Huang Rongsheng and Mr. Wang Zhiguo.

The audit committee has reviewed together with the management the accounting principles, accounting standards and methods adopted by the Company, discussed the matters concerning internal control, auditing and financial reporting matters and has reviewed the consolidated financial statements of the Group for the year ended 31 December 2007.

Profile of Directors and Senior Management

Executive Directors

Mr. XIAN Yang (鮮揚)

Mr. Xian, aged 34, is an executive Director and our founder, chairman and president. Mr. Xian graduated from The People's Police School of Sichuan (四川省人民警察學校) in 1994, studied law in Southwest University of Political Science and Law (西南政法大學) from 1994 to 1997 and is studying MBA courses at Sichuan University (四川大學). He worked in the police force and Customs Bureau of Panzhihua City prior to establishing our Group in May 2000. He was awarded a Grade Three Achievement (三等功) by the Ministry of Public Security for his distinguished service. He is responsible for the overall management and business development of our Group. He also chairs our Group's investment management committee and production safety committee. Mr. Xian is a cousin of Mr. Xian Qingping and a brother of Mr. Xian Fan, both of whom are members of our senior management. Mr. Xian is also a director of Sanlian Investment Holding Limited, a company which holds approximately 55.8% of the issued share capital of the Company.

Mr. SUN Jiankun (孫建坤)

Mr. Sun, aged 44, is an executive Director and our chief operating officer. He is a senior engineer and graduated from East China University of Metallurgy (華東冶金學院) (now known as Anhui University of Technology (安徽工業大學)) in 1986 with a bachelor's degree in steel metallurgy. Mr. Sun is responsible for the management of day-to-day operations and development of our operations in Panzhihua. He is also the vice chairman of our production safety committee. Prior to joining us in December 2006, Mr. Sun worked at Panzhihua Steel Group since 1986 and accumulated broad experience in steel production, quality control and raw material procurement. He served as the vice general manager of Chengdu Steel Company, a subsidiary of Panzhihua Steel Group, from 2003 to 2006 and the vice general manager of Panzhihua New Steel & Vanadium Co., Ltd. (攀枝花新鋼釩股份有限公司), a Shenzhen Stock Exchange listed company, from 2002 to 2003.

Mr. WANG Rong (王榮)

Mr. Wang, aged 35, is an executive Director and our vice president. He joined our Group in 2000. He is responsible for the management of day-to-day operations and development of our operations in Guizhou province.

Non-executive Director

Mr. TSANG Kwong Yue Conrad (曾光宇)

Mr. Tsang, aged 35, is a non-executive Director. He joined our Board since March 2007. He was also a director of Hidili Investment Holding Limited from 5 September 2006 to 25 August 2007 and a director of 四川恒鼎實業有限公司 (Sichuan Hidili Industry Company Limited*) from 29 August 2006 to 25 August 2007. He received a master's degree in management studies from the University of Oxford and a bachelor's degree in electrical and electronic engineering from Imperial College, University of London. Mr. Tsang is currently a Managing Director with Baring Private Equity Asia. Since joining Baring Private Equity Asia in 1999, he has led or participated in numerous investments primarily in China, Hong Kong and Taiwan. He is also the Vice Chairman, PRC Committee of the Hong Kong Venture Capital and Private Equity Association and a director of Noah Education Holdings Limited, a company listed on the New York Stock Exchange. Prior to joining Baring Private Equity Asia, he was with the equity research department of Merrill Lynch (Asia Pacific) Limited. During the period between 16 February 2000 and 16 May 2003, Mr. Tsang was a director of BOOPBOOP.COM (ASIA) LIMITED ("BB Company"), a company incorporated in Hong Kong which was engaged in the internet and e-commerce business. Mr. Tsang was involved in providing strategic advice to BB Company. In May 2003, BB Company was dissolved by deregistration based on its own application pursuant to section 291AA of the Hong Kong Companies Ordinance. Mr. Tsang confirmed that there was no wrongful act on his part leading to the dissolution of BB Company by deregistration and that, as far as Mr. Tsang is aware, no actual or potential claim has been or will be made against him as a result of such dissolution.

Independent non-executive Directors

Mr. CHAN Chi Hing (陳志興)

Mr. Chan, aged 44, is an independent non-executive Director. He joined our Board since June 2007. He is currently the chief operating officer of Far East Consortium International Limited ("FECIL"), a company listed on the main board of The Stock Exchange of Hong Kong Limited and a director of various subsidiaries of FECIL. Mr. Chan joined FECIL in 1990 as the chief accountant and served as the financial controller since 2002. From 1990 to 2003, he was in charge of FECIL's financial, treasury and accounting matters. Before joining FECIL, he was an audit manager with an international accounting firm for over 10 years. Mr. Chan has extensive experience in accounting and auditing of Hong Kong listed companies. Since May 2003, Mr. Chan has been an alternate director to Mr. Deacon Te Ken Chiu, director of Far East Hotels and Entertainment Limited, a Hong Kong listed company.

Mr. WANG Zhiguo (王治國)

Mr. Wang, aged 68, is an independent non-executive Director. He joined our Board since June 2007. He is a senior engineer and a fellow of the World Academy of Productivity Science. Mr. Wang graduated from Northeast Forestry University (東北林業大學) in 1964. Prior to his retirement in 2004, he was the vice chairman of All-China Federation of Industry and Commerce (中華全國工商業聯合會). Mr. Wang was a secretary at the secretariat of China Association for Science and Technology (中國科學技術協會) from 1985 to 1994 and served as the general manager of China National Scientific Instruments & Materials Corporation (中國科學器材公司) in the early 1980s. During the period between February 2005 and October 2006, Mr. Wang was a director of Zhongyin Guoji Wenhua Chanye Co., Ltd. (中音國際文化產業有限公司) ("Zhongyin Company"), a company established in China which was engaged in the business of copyright agency, development and sale of computer software and hardware and show agency. He was involved in the overall management of Zhongyin Company, particularly in the area of public relations. In July 2005, all equity holders of Zhongyin Company agreed to dissolve Zhongyin Company. Since the equity holders were unable to reach a consensus as to the distribution of the assets of Zhongyin Company, they did not proceed with the application for revocation of its business licence. Zhongyin Company was unable to apply for annual inspection in 2005 as only part of the voluntary dissolution process was completed. In the circumstances, the business licence of Zhongyin Company was revoked by the Administration for Industry and Commerce of Dongcheng District, Beijing in October 2006. Mr. Wang confirmed that there was no wrongful act on his part leading to the dissolution of Zhongyin Company or the revocation of the business licence of Zhongyin Company; that, as far as he is aware, no actual or potential claim has been or will be made against him as a result of or in connection with such dissolution or the revocation of the business licence of Zhongyin Company and that, as far as he is aware, there was no circumstance indicating that he would not be qualified to act as a director of a company under the PRC Company Law.

Mr. HUANG Rongsheng (黃容生)

Mr. Huang, aged 62, is an independent non-executive Director. He joined our Board since June 2007. He graduated from Tsinghua University in 1970. He has over 30 years' experience in the steel industry. Prior to his retirement in December 2006, he worked at Central Iron & Steel Research Institute (鋼鐵研究總院) since 2003. He served as vice general manager and vice president of Panzhihua Steel (Group) Company from 1993 to 2003.

Senior Management

Mr. XIAN Fan (鮮帆)

Mr. Xian, aged 30, is our chief marketing officer. Mr. Xian graduated from Sichuan University (四川大學) in 1999 with a bachelor's degree. Prior to joining us in March 2004, Mr. Xian worked at the Chengdu branch of a mobile company for over four years. From April 2005 to June 2005, he was assistant to the manager of our management department and since July 2005, he has been deputy manager of our management department. Mr. Xian has served as a visiting professor at the Electronic Information Faculty of Sichuan University since 2006. Mr. Xian Fan is a brother of Mr. Xian Yang, our founder, chairman, president and executive Director and a cousin of Mr. Xian Qingping, a member of our senior management.

Mr. XIAN Qingping (鮮清平)

Mr. Xian, aged 33, is our general manager of production. He is responsible for the management of our coal washing operations and coke production in Panzhihua. Prior to joining us in 2000, he worked at Panzhihua Medicines Group (攀枝花市藥業集團) for five years. Mr. Xian Qingping is a cousin of Mr. Xian Yang, our founder, chairman, president and executive Director and a cousin of Mr. Xian Fan, a member of our senior management.

Mr. YANG Dingguo (楊定國)

Mr. Yang, aged 42, is our general manager of the alloy pig iron and titanium slag plant. He is responsible for the management of day-to-day operations, research and development and development of our alloy pig iron and titanium slag plant. Mr. Yang graduated from Central South University (中南大學) in 1985 with a bachelor's degree in minerals engineering. Prior to joining us in October 2005, he had 20 years' experience in Panzhihua Steel Company in quality control and business management.

Mr. ZHUANG Xianwei (莊顯偉)

Mr. Zhuang, aged 37, is our general manager of coal mines. He is responsible for the management of our mining operations in Panzhihua. Prior to joining our Group in March 2002, Mr. Zhuang worked for the production technology division at Panzhihua Coal Group for over 10 years.

Company Secretary and Qualified Accountant

Mr. CHAN Bing Chung (陳秉中)

Mr. Chan, aged 39, is the company secretary and qualified accountant of our Company and is employed by us on a full time basis. He is responsible for financial reporting and general investor affairs of the Company. Prior to joining us in July 2007, Mr. Chan had approximately 12 years of working experience with local and international audit firms and was mainly responsible for financial auditing, internal control reporting and compliance advisory. He graduated from City Polytechnic of Hong Kong with a bachelor's degree (Hons) in accountancy. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.

* *for identification purposes only*

Directors' Report

The Directors present their annual report and the audited consolidated financial statement of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007.

Corporate Reorganisation

The Company was incorporated in the Cayman Islands under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 1 September 2006.

Pursuant to the group reorganisation (the "Reorganisation") in preparation of the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the group formed after the completion of the Reorganisation.

Details of the Reorganisation are set out in the paragraph headed "Corporate reorganisation" on pages 4 to 8 of Appendix VII (Statutory and general information) to the prospectus of the Company dated 10 September 2007.

The Company's shares were listed on the Main Board of the Stock Exchange on 21 September 2007.

Principal Activities

The Company acts as an investment holding company. The activities of its principal subsidiaries are engaged in coal mining, manufacture and sale of coke and clean coal and provision of transportation services.

Results and Dividends

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on pages 32 of this report.

The Directors propose the payment of a final dividend of RMB8.4 cents (equivalent to approximately HK$9.3 cents) per share for the year ended 31 December 2007 to the shareholders whose names appear on the register of members of the Company at the close of business on 11 June 2008. The total amount of such dividend is approximately RMB173,040,000 (equivalent to approximately HK$191,580,000). The proposed distribution of dividends will be considered and approved by the shareholders of the Company at the annual general meeting of the Company to be held on 18 June 2008. The exchange rate adopted for conversion is the mid-point exchange rate published by the People's Bank of China on 11 April 2008, being the business day prior to the declaration of dividends.

Property, Plant and Equipment

Additions to property, plant and equipment of the Group for the year ended 31 December 2007 amounted to approximately RMB2,028 million. Details of the movements during the year in the Group's property, plant and equipment are set out in note 15 to the consolidated financial statements.

Share Capital

Details of the movements during the year in the issued share capital of the Company are set out in note 28 to the consolidated financial statements.

Distributable Reserves of the Company

Details of the movements during the year in the reserves of the Group are set out in the consolidated statement of changes in equity on page 35 of this report.

As at 31 December 2007, the Company's reserves available for distribution to shareholders amounted to approximately RMB4,414 million.

Principal Subsidiaries

Details of the Company's principal subsidiaries as at 31 December 2007 are set out in note 39 to the consolidated financial statements.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last four years is set out on pages 79 and 80.

Borrowings

Details of the borrowings of the Group are set out in note 27 to the consolidated financial statements.

Major Customers and Suppliers

For the year ended 31 December 2007, sales to the Group's five largest customers amounted to approximately RMB 682.6 million, representing approximately 65.5% of the total turnover of the Group. Sales to the single largest customer amounted to approximately RMB322.8 million, representing approximately 31.0% of the total turnover of the Group.

For the year ended 31 December 2007, the amount of purchases made from the Group's five largest suppliers amounted to approximately RMB46.3 million, representing approximately 32.8% of the total purchases of the Group. Purchase from the single largest supplier amounted to approximately RMB19.9 million, representing approximately 14.2% of the total purchases of the Group.

For the year ended 31 December 2007, none of the Directors or any of their associates and any shareholders (which, to be best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's top five largest customers and suppliers.

Directors

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

Executive Directors

Mr. Xian Yang	(appointed on 1 September 2006 and designated as an executive Director on 25 August 2007)
Mr. Sun Jiankun	(appointed on 8 March 2007 and designated as an executive Director on 25 August 2007)
Mr. Wang Rong	(appointed on 8 March 2007 and designated as an executive Director on 25 August 2007)
Mr. Tu Xiaoyu	(appointed on 8 March 2007 and designated as an executive Director on 25 August 2007 and passed away on 18 October 2007)

Non-executive Directors

Mr. Tsang Kwong Yue Conrad	(appointed on 8 March 2007 and designated as a non-executive Director on 25 August 2007)

Independent non-executive Directors

Mr. Chan Chi Hing	(appointed on 21 June 2007 and designated as an independent non-executive Director on 25 August 2007)
Mr. Wang Zhiguo	(appointed on 21 June 2007 and designated as an independent non-executive Director on 25 August 2007)
Mr. Huang Rongsheng	(appointed on 21 June 2007 and designated as an independent non-executive Director on 25 August 2007)

Biographical details of the above Directors are set out in the section headed "Profile of Directors and Senior Management" on pages 17 to 19 of this report.

In accordance with the provisions of the Company's Articles of Association, one third of the Directors will retire from directorship by rotation at each annual general meeting and, being eligible, shall offer themselves for re-election.

Directors' Service Contracts

Each of the executive Directors has entered into a service agreement with the Company for an initial fixed term of three years commencing on 1 September 2007. The non-executive Director and each of the independent non-executive Directors have been appointed by the Company for a fixed term of two years commencing on 1 September 2007.

None of the Directors has entered into any service agreement with the Company which is not determinable within one year without payment of compensation (other than the statutory compensation).

Remuneration of the Directors

Details of the remuneration of the Directors are set out in note 12 to the consolidated financial statements.

Independence of Independent Non-Executive Directors

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers that all of the independent non-executive Directors are independent.

Directors' and Chief Executive's Interests and Short Position in Shares

As at 31 December 2007, the Directors and chief executive had the following interests and/or short positions in the shares, underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (the "SFO")) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Listing Rules, to be notified to the Company and the Stock Exchange:

Name	Name of the entity	Number of issued ordinary shares held	Nature of interest	Approximate percentage of the issued share capital of the Company/ percentage of shareholding
Mr. Xian Yang ("Mr. Xian") *(Note)*	The Company	1,150,000,000	Interest of controlled corporation	55.8%
Mr. Xian	Sanlian Investment Holding Limited ("Sanlian Investment")	1,000	Beneficial owner	100%

Note: The 1,150,000,000 shares of the Company are held by Sanlian Investment, the entire issued share capital of which is held by Mr. Xian. Accordingly, Mr. Xian is deemed to be interested in 1,150,000,000 Shares held by Sanlian Investment by virtue of the SFO. Mr. Xian is also a director of Sanlian Investment.

Saved as disclosed, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders

As at 31 December 2007, the following persons had an interest or short position in the shares or underlying shares of the Company or associated corporations which would fall to be disclosed to us pursuant to the provision of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name	Name of the member of the Group	Number of issued ordinary shares held/ Amount of registered capital held	Nature of interest	Approximate percentage of the issued share capital of the Company/ Percentage of equity holding
Sanlian Investment *(Note 1)*	The Company	1,150,000,000	Beneficial owner	55.8%
Mr. Xian *(Note 1)*	The Company	1,150,000,000	Interest of controlled corporation	55.8%
Ms. Qiao Qian *(Note 2)*	The Company	1,150,000,000	Interest of spouse	55.8%
Mr. Yu Zhengyong *(Notes 3 and 4)*	盤縣次凹子工貿有限公司（"次凹子"）(Panxian Ciaozi Industry and Trading Company Limited*)	RMB1,000,000	Beneficial owner	20%
Mr. Tan Wenxing *(Note 3)*	盤縣黔榮實業有限公司 (Panxian Qian Rong Industry Company Limited*)	RMB4,900,000	Beneficial owner	49%
北京金字天正智能控制股份有限公司 (Beijing Jin Zi Tian Zheng Intelligent Control Joint Stock Limited*)	攀枝花恒鼎金字天正信息工程有限公司 (Panzhihua Hidili Jin Zi Tian Zheng Information System Company Limited*)	RMB2,450,000	Beneficial owner	49%

Notes:

1. *The entire issued share capital of Sanlian Investment is owned by Mr. Xian. Mr. Xian is deemed to be interested in 1,150,000,000 shares of the Company held by Sanlian Investment by virtue of the SFO.*

2. *Ms. Qiao Qian is the spouse of Mr. Xian. By virtue of the SFO, Ms. Qiao Qian is also deemed, as spouse, to be interested in all the shares of the Company in which Mr. Xian is deemed to be interested.*

3. *Mr. Yu Zhengyong and Mr. Tan Wenxing are independent third parties of the Company, save for their interest disclosed above.*

4. *Up to 31 December 2007, Mr. Yu Zhengyong had paid up the registered capital of 次凹子 to the extent of RMB600,000.*

* *For identification purposes only*

Save as disclosed above, the Company has not been notified by any person (other than the Directors or the chief executive of the Company) who had/would have interests or short positions in the shares or underlying shares of the Company or its associated corporations of 5% or more which were required to be disclosed to the Company under Part XV of the SFO or which were recorded in the register kept by the Company under section 336 of the SFO.

Management Contracts

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company.

Contracts of Significance

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

No contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries subsisted at the end of the year or at any time during the year.

No contracts of significance between the Company or any of its subsidiary companies and a controlling shareholder of the Company or any of its subsidiaries subsisted at the end of the year or at any time during the year.

Directors' Interests in Competing Business

So far as the Directors were aware, none of the Directors or their associates had any interest in a business that competes or may compete with the business of the Group.

Connected Transaction

During the year, rental expenses amounting to RMB1.2 million were paid to Mr. Xian Jilun, father of Mr. Xian Yang, a controlling shareholder of the Company and a Director, for the leasing of the Company's head office located at 16th and 17th Floor, Dingli Mansion, No. 81 Renmin Road, Panzhihua, Sichuan province, the PRC. The rent paid by the Company is determined with reference to the market rent of comparable properties in the market.

Such connected transaction falls under the de minimis provision set forth in Rule 14A.33(3)(a) of the Listing Rules and is therefore exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Audit Committee

In compliance with Rule 3.21 of the Listing Rules and the Code the Company established an audit committee on 25 August 2007. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures.

The audit committee consists of three independent non-executive Directors, namely, Mr. Chan Chi Hing (Chairman), Mr. Huang Rongsheng and Mr. Wang Zhiguo.

The audit committee has reviewed together with the management of the Company the accounting principles, accounting standards and methods adopted by the Company, discussed the matters concerning internal control, auditing and financial reporting matters and has reviewed the consolidated financial statements of the Group for the year ended 31 December 2007.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Model Code for Securities Transactions by Directors of the Company

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. All Directors have confirmed their compliance with the required standards set out in the Model Code throughout the period from the date of the listing of shares of the Company on the Main Board of the Stock Exchange to 31 December 2007.

Corporate Governance

Mr. Xian Yang is both the Chairman of the Board and Chief Executive Officer of the Company. The Board considers that although such structure deviates from Rule A.2.1 of the Code, the effective operation of the Group will not be impaired since Mr. Xian has exercised sufficient delegation in the daily operation of the Group's business as Chief Executive Officer while being responsible for the effective operation of the Board as Chairman of the Board. The Board is of the view that such structure has been operating well over the years and the Board and senior management have benefited from the leadership and experience of Mr. Xian. Under code provision A.1.1 of the Code, the board of directors of a listed issuer should meet regularly and board meetings should be held at least four times a year. The Company was listed on the Main Board of the Stock Exchange on 21 September 2007. During the year under review, only one board meeting had been held. The Company will ensure that code provision A1.1 of the Code is complied with in the future.

Save as disclosed above, the Board is of the view that the Company has complied with the provisions of the Code during the period from the date of listing of the shares of the Company on the Main Board of the Stock Exchange to 31 December 2007. No Director is aware of any information that reasonably reveals that there is any non-compliance with the Code by the Company during any time of the year.

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report contained in this annual report.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period between the date of the listing of shares of the Company on the Main Board of the Stock Exchange and 31 December 2007.

Share Options

The Company has adopted a share option scheme on 25 August 2007 (the "Share Option Scheme"). During the period between the date of the listing of shares of the Company on the Main Board of the Stock Exchange and 31 December 2007, no share option has been granted by the Company under the Share Option Scheme.

Sufficiency of Public Float

On the basis of publicly available information and to the best of the Directors' knowledge, information and belief, the Company has maintained sufficient public float since the listing of the Company's shares on the Main Board of the Stock Exchange.

Auditors

The Company has appointed Messrs. Deloitte Touche Tohmatsu as auditors of the Company for the year ended 31 December 2007. A resolution will be proposed for approval by shareholders at the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

Closure of Register of Members

The register of members will be closed from 12 June 2008 to 18 June 2008 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and to attend and vote at the AGM, all transfer instruments for the transfer of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 11 June 2008.

On behalf of the Board of
Hidili Industry International Development Limited

Xian Yang
Chairman

Panzhihua, the PRC,
13 April 2008

Corporate Governance Report

The Company is committed to maintain a high level of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the success of the Group and for safeguarding and maximising shareholders' interests. The Company has complied with the applicable provisions of the Code during the period from the date of the listing of the shares of the Company on the Main Board of the Stock Exchange to 31 December 2007, except for the deviation from code provisions A1.1 and A2.1 under the Code. Under code provision A.1.1 of the Code, the board of directors of a listed issuer should meet regularly and board meetings should be held at least four times a year. The Company was listed on the Main Board of the Stock Exchange on 21 September 2007. During the year under review, only one board meeting had been held. The Company will ensure that code provision A1.1 of the Code is complied with in the future.

In addition to the Code, the Board will also continuously enhance the corporate governance standard of the Company by reference to certain recommended best practices contained in the Code whenever suitable and appropriate.

Directors' securities transactions

The Company has adopted the Model Code as set out in Appendix l0 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiry of all Directors, all Directors have confirmed their compliance with the required standards as set out in the Model Code throughout the period from the date of the listing of the shares of the Company on the Main Board of the Stock Exchange to 31 December 2007.

Board of Directors

The Board currently consists of seven Directors, three of whom are independent non-executive Directors who are expressly identified in all corporate communications that disclose the names of Directors. At least one of the independent non-executive Directors possesses appropriate professional qualifications (or accounting or related financial management expertise) as required by the Listing Rules. The composition of the Board is as follows:

Executive Directors

Mr. Xian Yang *(Chairman)*	(appointed on 1 September 2006 and designated as an executive Director on 25 August 2007)
Mr. Sun Jiankun	(appointed on 8 March 2007 and designated as an executive Director on 25 August 2007)
Mr. Wang Rong	(appointed on 8 March 2007 and designated as an executive Director on 25 August 2007)
Mr. Tu Xiaoyu	(appointed on 8 March 2007 and designated as an executive Director on 25 August 2007 and passed away on 18 October 2007)

Non-executive Directors

Mr. Tsang Kwong Yue Conrad	(appointed on 8 March 2007 and designated as an executive Director on 25 August 2007)

Independent non-executive Directors

Mr. Chan Chi Hing	(appointed on 21 June 2007 and designated as an independent non-executive Director on 25 August 2007)
Mr. Wang Zhiguo	(appointed on 21 June 2007 and designated as an independent non-executive Director on 25 August 2007)
Mr. Huang Rongsheng	(appointed on 21 June 2007 and designated as an independent non-executive Director on 25 August 2007)

The brief biographical details of the Directors are set out in the section headed "Profile of Directors and Senior Management" on pages 17 to 19 of this report.

Each of the executive Directors has entered into a service agreement with the Company for an initial fixed term of three years but is subject to retirement by rotation and is eligible for re-election.

All of the non-executive Directors (including the independent non-executive Directors) were appointed for a specific term of two years but are subject to retirement by rotation and are eligible for re-election.

None of the Directors has any financial, business, family or other material or relevant relationships among members of the Board.

The Board is responsible for the overall development and guidance of the Group. The Board determines the overall strategies, monitors and control operating and financial performance and sets appropriate policies to manage risks in pursuit of the Group's strategic objectives. The Board has delegated the day-to-day operation to the Executive Directors and senior management under the supervision of the Board to ensure effectiveness and appropriateness.

For the period from the date of the listing of the shares of the Company on the Main Board of the Stock Exchange to 31 December 2007, only one meeting was held by the Board. All of the Directors attended the meeting. In the coming years, the Board will schedule meetings at least in quarterly intervals and no less than four times a year.

Role of Chairman and Chief Executive Officer

Mr. Xian Yang is both the Chairman of the Board and Chief Executive Officer of the Company. The Board considers that although such structure deviates from code provision A.2.1 of the Code, the effective operation of the Group will not be impaired since Mr. Xian has exercised sufficient delegation in the daily operation of the Group's business as Chief Executive Officer while being responsible for the effective operation of the Board as Chairman of the Board. The Board is of the view that such structure has been operating well over the years and the Board and senior management have benefited from the leadership and experience of Mr. Xian.

Appointment and re-election of the Directors

The Company's Articles of Association set out a formal, considered and transparent procedure for the appointment of new directors to the Board. The appointment of Directors are fixed for a specific term, but at every annual general meeting one-third of the Directors, including the Chairman, will be subject to retirement by rotation and re-election by shareholders. All Directors eligible for re-election will have their biographical details made available to the shareholders to enable them to make an informed decision on their re-election. Any other appointment, resignation, removal or re-designation of Director will be timely disclosed to the shareholders by announcement and shall include in such announcement, the reasons given by the Director for his resignation.

The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Company's business.

Remuneration Committee

The remuneration committee (the "Remuneration Committee") was established by the Board on 25 August 2007 with written terms of reference in compliance with the Code. The Remuneration Committee consists of an executive Director, Mr. Xian Yang, the non-executive Director, Mr. Tsang Kwong Yue Conrad and all the independent non-executive Directors, namely, Mr. Chan Chi Hing, Mr. Huang Rongsheng and Mr. Wang Zhigou. Mr. Chan Chi Hing is the Chairman of the Remuneration Committee. The role of the Remuneration Committee is to review and give recommendations to the Board regarding the remuneration package of the Directors and the senior management of the Company and other remuneration related matters. During the period from the date of listing of the shares of the Company on the Main Board of the Stock Exchange to 31 December 2007, no meeting was held by the Remuneration Committee.

The Company's emolument policy of the employees is set up by the Remuneration Committee on the basis of the expertise, capability, performance and responsibility of the employees. In addition to the basic salaries, the Company also provide staff with retirement benefit scheme contributions. The Company may grant bonus to individuals for their contributions on a discretionary basis.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees. Details of the scheme is set out in note 29 to the consolidated financial statements.

Audit Committee

The audit committee (the "Audit Committee") was established on 25 August 2007 with written terms of reference in compliance with the Code. The primary duties of the Audit Committee include reviewing and supervising the financial reporting process and internal control procedures of the Group, overseeing the audit process and performing other duties and responsibilities as may be assigned by the Board from time to time.

The Audit Committee consists of three independent non-executive Directors, namely, Mr. Chan Chi Hing (Chairman), Mr. Huang Rongsheng and Mr. Wang Zhiguo.

During the period from the date of the listing of the shares of the Company on the Main Board of the Stock Exchange to 31 December 2007, only one meeting was held. All the members of the Audit Committee attended the meeting. The Audit Committee has reviewed together with the management the accounting principles, accounting standards and methods adopted by the Company, discussed the matters concerning internal control, auditing and financial reporting matters and has reviewed the combined financial statement of the Group for the year ended 31 December 2007.

Auditors' remuneration

The external auditor of the Company is Deloitte Touche Tohmatsu. During the year ended 31 December 2007, the remuneration paid and payable to the auditors of the Company in respect of the audit services and non-audit services provided amounted to approximately RMB1.8 million and RMB0.6 million respectively. The non-audit services provided by the auditors to the Company involve reviewing the interim results of the Group for the six months ended 30 June 2007.

The Audit Committee is responsible for making recommendation to the Board as to the appointment, re-appointment and removal of the external auditors, which is subject to the approval by the Board and at the general meetings of the Company by its shareholders.

Directors' and auditors' responsibilities for the financial statement

The Directors acknowledge their responsibility for the preparation of financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Company deploys appropriate and sufficient resources to prepare audited account. Senior management is required to present and explain the financial reporting and matters that materially affect or may have material impact on the financial performance and operations of the Company to the Audit Committee and the Board and respond to the queries and concerns raised by the Audit Committee and the Board to their satisfaction. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance. The reporting responsibility of the external auditor of the Company on the consolidated financial statements of the Group are set out in the independent auditor's report on page 31 of this report.

Internal controls

The Board is responsible for maintaining an effective internal control system of the Group and is committed to the ongoing development of an effective internal control system to safeguard assets, and to enhance risk management and compliance with applicable legislation and regulations. The Group has adopted a set of internal control procedures and policies to safeguard the Group's assets and to ensure the reliability of financial reporting.

The Board, through the Audit Committee, has conducted a review of the effectiveness of the Company's system of internal control in the year of 2007, and the Board confirms that the provision C.2.1 of the Code has been complied with.

Independent Auditors' Report

Deloitte.
德勤

TO THE MEMBERS OF HIDILI INDUSTRY INTERNATIONAL DEVELOPMENT LIMITED
恒鼎實業國際發展有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Hidili Industry International Development Limited (the "Company") and its subsidiaries (collectively referred to the "Group") set out on pages 32 to 78, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, 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 judgment, 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 and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

13 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	NOTES	2007 RMB'000	2006 RMB'000
Turnover	7	1,042,541	814,832
Cost of sales		(364,134)	(325,329)
Gross profit		678,407	489,503
Other income	8	283,109	38,785
Distribution costs		(48,878)	(45,269)
Administrative expenses		(210,225)	(52,086)
Fair value adjustment on convertible note	32	(65,602)	(292,628)
Net loss on derivative financial instruments classified as held-for-trading		(6,155)	—
Finance costs	9	(38,808)	(30,318)
Profit before taxation	10	591,848	107,987
Taxation	11	(22,527)	(18,310)
Profit for the year		569,321	89,677
Attributable to:			
Equity holders of the Company		570,289	89,677
Minority interests		(968)	—
		569,321	89,677
Dividends	13	—	220,000
Earnings per share, basic (RMB cents)	14	37.1	7.5

Consolidated Balance Sheet

At 31 December 2007

	NOTES	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	2,632,821	681,339
Prepaid lease payment	16	32,414	6,260
Deposits for acquisition of coal mines	17	24,000	133,616
		2,689,235	821,215
CURRENT ASSETS			
Inventories	18	65,288	31,111
Bills and trade receivables	19(a)	274,455	232,834
Bills receivables discounted with recourse	19(b)	80,600	220,032
Other receivables and prepayments	20	122,460	64,251
Other loan receivables	21	—	6,454
Amounts due from related parties	22(a)	—	2,057
Pledged bank deposits	23	1,248,682	68,577
Bank balances and cash	23	2,560,779	200,522
		4,352,264	825,838
CURRENT LIABILITIES			
Trade payables	24(a)	45,395	19,211
Advances drawn on bills receivables discounted with recourse	24(b)	80,600	220,032
Other payables and accrued expenses	25	478,146	218,061
Amount due to a related party	22(b)	1,000	1,717
Derivative financial instruments	26	47,981	—
Tax payables		32,894	29,275
Bank and other borrowings	27	1,333,900	289,974
		2,019,916	778,270
NET CURRENT ASSETS		2,332,348	47,568
		5,021,583	868,783

	NOTES	2007 RMB'000	2006 RMB'000
CAPITAL AND RESERVES			
Share capital	28	198,605	8
Reserves	30	4,809,880	244,964
Equity attributable to equity holders of the parent		5,008,485	244,972
Minority interests		6,982	—
TOTAL EQUITY		5,015,467	244,972
NON-CURRENT LIABILITIES			
Provision for restoration and environmental costs	31	6,116	3,982
Convertible note	32	—	619,829
		6,116	623,811
		5,021,583	868,783

The consolidated financial statements on pages 32 to 78 were approved and authorised for issue by the Board of Directors on 13 April 2008 and are signed on its behalf by:

Xian Yang
DIRECTOR

Sun Jiankun
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Attributable for equity holders of the parent									
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 Note 30(d)	Statutory surplus reserve RMB'000 Note 30(a)	Statutory public welfare fund RMB'000 Note 30(b)	Future development fund RMB'000 Note 30(c)	Accumulated profits RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2006	66,416	—	—	40,663	20,330	24,461	278,568	430,438	—	430,438
Arising from group reorganisation	(66,416)	—	7,416	—	—	—	—	(59,000)	—	(59,000)
Contribution from a shareholder for waiver of the balance due to him	—	—	3,849	—	—	—	—	3,849	—	3,849
Issue of share	8	—	—	—	—	—	—	8	—	8
Profit for the year, representing total recognised income for the year	—	—	—	—	—	—	89,677	89,677	—	89,677
Transfer	—	—	—	60,732	(20,330)	22,885	(63,287)	—	—	—
Dividends	—	—	—	—	—	—	(220,000)	(220,000)	—	(220,000)
At 31 December 2006	8	—	11,265	101,395	—	47,346	84,958	244,972	—	244,972
Issue of shares from conversion of convertible note	2	685,429	—	—	—	—	—	685,431	—	685,431
Arising from Reorganisation	(10)	(685,429)	684,227	—	—	—	—	(1,212)	—	(1,212)
Issue of shares for Reorganisation	1,212	—	—	—	—	—	—	1,212	—	1,212
Issue of shares by capitalisation of share premium account	143,386	(143,386)	—	—	—	—	—	—	—	—
Issue of new shares upon IPO	48,221	3,245,235	—	—	—	—	—	3,293,456	—	3,293,456
Issue of shares upon exercise of over-allotment option	5,786	389,429	—	—	—	—	—	395,215	—	395,215
Transaction costs attributable to issue of shares	—	(180,878)	—	—	—	—	—	(180,878)	—	(180,878)
Profit for the year, representing total recognised income for the year	—	—	—	—	—	—	570,289	570,289	(968)	569,321
Transfer	—	—	—	51,679	—	23,888	(75,567)	—		—
Capital contribution by minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	7,950	7,950
At 31 December 2007	198,605	3,310,400	695,492	153,074	—	71,234	579,680	5,008,485	6,982	5,015,467

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 RMB'000	2006 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	591,848	107,987
Adjustments for:		
Amortisation of prepaid lease payment	380	135
Interest income	(248,051)	(3,260)
Depreciation and amortisation of property, plant and equipment	56,074	44,716
Fair value adjustment on convertible note	65,602	292,628
Finance costs	38,808	30,318
(Gain) loss on disposal of property, plant and equipment	(1,667)	51
Gain on disposal of held-for-trading investments	(1,888)	—
Impairment loss recognised on financial assets	5,144	—
Loss on fair value changes of outstanding derivative financial instruments	47,981	—
Provision for restoration and environmental costs	2,134	2,439
Operating cash flows before movements in working capital	556,365	475,014
Increase in inventories	(34,177)	(16,806)
Increase in bills and trade receivables	(42,294)	(127,111)
Increase in other receivables and prepayments	(41,100)	(3,758)
Decrease in amounts due from related parties	2,057	46,646
Increase (decrease) in trade payables	26,184	(7,211)
Decrease in other payables and accrued expenses	(7,475)	(17,097)
Net cash generated from operations	459,560	349,677
Proceeds on disposal of held-for-trading investments	174,757	—
Purchase of held-for-trading investments	(172,869)	—
Income tax paid	(18,908)	(7,398)
NET CASH FROM OPERATING ACTIVITIES	442,540	342,279
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,624,982)	(193,813)
(Increase) decrease in pledged bank deposits	(1,180,105)	110,727
Additions of prepaid lease payment	(27,076)	—
Deposits paid for acquisition of coal mines	(24,000)	(133,616)
Interest received	248,051	3,260
Proceeds from disposal of property, plant and equipment	20,269	199
Decrease in other loan receivables	6,951	24,765
NET CASH USED IN INVESTING ACTIVITIES	(2,580,892)	(188,478)

	2007 RMB'000	2006 RMB'000
FINANCING ACTIVITIES		
Proceeds received from issue of shares	3,667,136	8
New bank and other borrowings raised	1,385,900	157,593
Capital contribution from minority shareholders	7,950	—
Repayment of bank and other borrowings	(341,974)	(156,487)
Expenses on issue of shares	(180,878)	—
Interest paid on bank and other borrowings	(38,808)	(17,524)
Repayment to a related party	(717)	(9,307)
Proceeds from issue of convertible note	—	327,201
Funds raised from related parties	—	950
Dividend paid	—	(220,000)
Issue cost paid for issue of convertible note	—	(12,794)
Capital injection returned to a shareholder	—	(55,151)
NET CASH FROM FINANCING ACTIVITIES	4,498,609	14,489
INCREASE IN CASH AND CASH EQUIVALENTS	2,360,257	168,290
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	200,522	32,232
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash	2,560,779	200,522

1. GENERAL

Hidili Industry International Development Limited 恒鼎實業國際發展有限公司 (the "Company") was incorporated in the Cayman Islands under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 1 September 2006. In the opinion of the directors, the Company's ultimate holding company is Sanlian Investment Holding Limited ("Sanlian Investment"), a company incorporated in the British Virgin Islands. The Company together with its subsidiaries are hereinafter collectively referred to as the Group. The Company acts as investment holding while its subsidiaries are engaged in coal mining, manufacturing and sale of coke and clean coal and provision of transportation services.

Pursuant to the group reorganisation (the "Reorganisation") in preparation of the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the group formed after the completion of the Reorganisation. The Reorganisation was completed on 25 August 2007 with a final step of the exchange of shares of the Company with all the issued shares of Hidili Investment Holding Limited ("Hidili Investment"). Details of the Reorganisation are set out in the paragraph headed "Corporate reorganisation" on pages 4 to 8 of Appendix VII (Statutory and general information) to the Prospectus of the Company dated 10 September 2007 (the "Prospectus").

The Company's shares were listed on the Stock Exchange on 21 September 2007.

The Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, for the purpose of this report, the consolidated financial statements of the Group have been prepared using principles of merger accounting in accordance with the accounting policy set out in note 3, as if the current group structure had been in existence throughout the years ended 31 December 2006 and 2007.

The Group's principal operations are conducted in the People's Republic of China (the "PRC"). The consolidated financial statements are presented in Chinese Renminbi ("RMB"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In current year, the Group has applied all the standards, amendment and interpretations ("New IFRSs") issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are effective for the Group's financial year beginning on 1 January 2007.

The Group has not early applied the following new and revised standards or interpretations that have been issued at the date of this report but are not yet effective.

IAS 1 (Revised)	Presentation of Financial Statements[1]
IAS 23 (Revised)	Borrowing Costs[1]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
IAS 32 & IAS 1 (Amendment)	Putable Financial Instruments and Obligations Arising on Liquidation[1]
IFRS 2 (Amendment)	Vesting Condition and Cancellations[1]
IFRS 3 (Revised)	Business Combinations[2]
IFRS 8	Operating Segments[1]
IFRIC–INT 11	IFRS 2: Group and Treasury Share Transactions[3]
IFRIC–INT 12	Service Concession Arrangements[4]
IFRIC–INT 13	Customer Loyalty Programmes[5]
IFRIC–INT 14	IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING ("IFRSs") *(continued)*

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 March 2007
[4] Effective for annual periods beginning on or after 1 January 2008
[5] Effective for annual periods beginning on or after 1 July 2008

The adoption of IFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The principal accounting policies adopted are set out as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discount and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment, other than construction in progress and the mining structures and mining rights, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress and the mining structures and mining rights, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

The mining structures and mining rights are stated at cost less subsequent accumulated amortisation and accumulated impairment losses. Amortisation is provided to write off the cost of the mining rights using the units of production method over the total proven reserves of the coal mines. Amortisation is provided to write off the cost of the mining structures using the units of production method based on the estimated production volume for which the structure was designed and over the total proven reserves of the coal mine.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purpose. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Leasing

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

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Prepaid lease payment

Prepaid lease payment represents lease payment paid for the right to use the land on which various plants and buildings are situated for a definite period, less accumulated amortisation. Amortisation of prepaid lease payment is calculated on a straight-line basis over the expected period of the rights.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transaction. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as other income.

Retirement benefits costs

Payments to state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable nor deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

Provision for restoration and environmental costs

The Group is required to make payments for restoration, rehabilitation or environmental protection of the land after the underground sites have been mined. Provisions for restoration and environmental costs are required when the Group has a present obligation as a result of past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimation of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

An estimate of such costs is recognised in the period in which the obligation is identified and is charged as an expense in proportion to the coal extracted.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including bills and trade receivables, bills receivables discounted with recourse, other receivables, other loan receivables, amounts due from related parties, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at each balance sheet date. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of loan and receivables asset, the estimated future cash flows of the loan and receivables have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

For certain categories of loans and receivables, such as bills and trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90–120 days and observable changes in national or local economic conditions that correlate with default on receivables.

For loans and receivables, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the loans and receivables is reduced by the impairment loss directly for all the loans and receivables with the exception of trade receivables and loan receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis, other than those financial liability designated as at fair value through profit and loss ("FVTPL") of which the interest expense is included in net gain or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Financial liabilities at fair value through profit or loss
The Group's financial liabilities at FVTPL are those designated at FVTPL.

A financial liability may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Convertible note
The convertible note of the Company consists of the liability component and embedded derivatives. The conversion option embedded in convertible note that will or may be settled other than by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments is a derivative embedded in the financial liability. Derivatives embedded in a financial instrument are treated as separate derivatives when their economic risks and characteristics are not closely related to those of the host contract (the liability component).

The convertible note (including the embedded derivatives) as a whole is designated as financial liabilities at FVTPL on initial recognition. At each balance sheet date subsequent to initial recognition, the entire convertible note is measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Transaction costs that are directly attributable to the issue of the convertible note designated as financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial liabilities other than convertible note
Other financial liabilities of the Group including bank and other borrowings, bills and trade payables, advances drawn on bills receivables discounted with full recourse, other payables and amounts due to related parties are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments
Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Issue costs of new shares

The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extend they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognised as an expense.

Transaction costs that relate jointly to more than one transaction are allocated to those transactions using a basis of allocation that is rational and consistent with similar transactions.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in Note 3, management makes various estimates and judgements (other than those involving estimates) based on past experience, expectations of the future and other information. The key source of estimation uncertainty that can significantly affect the amounts recognised in the consolidated financial statements is disclosed below.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual value. The Group assesses annually the residual value and the useful lives of the property, plant and equipment. If the expectation differs from the original estimate, such difference will impact the depreciation charged in the year in which such estimate is changed.

Provision for restoration and environmental costs

Provision for restoration and environmental costs is determined by the management based on their best estimates of the current and future cost and past experiences. If the expectation differs from the original estimate, such difference will impact the cost of production charged in the year in which such estimated is changed.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Allowances for bad and doubtful debts

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of bills and trade receivables, other receivables and other loans receivables. Allowances are applied to bills and trade receivables, other receivables and other loan receivables where events or changes in circumstances indicated that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying amounts of bills and trade receivables and other loan receivables and doubtful debts expenses in the year in which such estimate is changed. An amount of RMB5,144,000 has been recognised in the year (2006:nil) for impairment.

Fair value of convertible note at fair value through profit or loss

The convertible note designated at fair value through profit or loss is subject to the limitation of the Binomial model that incorporated market data and involved uncertainty in estimates used by management in the assumptions. Because the Binomial model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

Fair value of derivatives

Assumptions on the fair value of derivatives are made based on quoted market rates adjusted for specific features of the instrument. The carrying amounts of these derivatives financial liabilities are RMB 47,981,000.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which included the borrowings disclosed in note 27, convertible note disclosed in note 32 and equity attributable to equity holders of the parent, comprising share capital and reserves, as disclosed in notes 28 and 30, respectively.

The management of the Group reviews the capital structure regularly, taking into account of the cost and risk associated with the capital. The Group will then balance its capital structure through the payment of dividends, new shares issues as well as the issue of new debt or the redemption of the existing debt.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2007 RMB'000	2006 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	4,273,182	780,986
Financial liabilities		
Amortised cost	1,903,379	710,769
Derivative financial instruments	47,981	—
Fair value through profit and loss (FVTPL)		
Convertible note	—	619,829
Financial liabilities designated as at FVTPL		
Difference between carrying amount and maturity amount		
Financial liabilities at fair value	—	619,829
Amount payable at maturity	—	(327,965)
	—	291,864

6b. Financial risk management objectives and policies

The Group's major financial instruments include bills and trade receivables, bills receivables discounted with recourse, other receivables, other loan receivables, amounts due from (to) related parties, pledged bank deposits, bank balances, trade payables, advances drawn on bills receivables discounted with recourse, other payables and bank and other borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) *Currency risk*

The Group mainly operates in the PRC and the exposure in exchange rate risk mainly arises from the foreign currency bank balances and convertible note.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Hong Kong Dollars ("HKD")	5,975	260	2,473,833	248
Australia Dollars ("AUD")	—	—	366,404	—
United States Dollars ("USD")	47,981	682,153	343	7,857

The Group does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(i) *Currency risk (continued)*

Sensitivity analysis

The Group is mainly exposed to the fluctuation of HKD, AUD and USD against RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currency. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes bank balances denominated in USD, HKD and AUD and convertible note, other loans and derivatives denominated in USD. A positive number below indicates an increase in profit where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	2007 RMB'000	2006 RMB'000
Profit/loss for the year		
— HKD	123,393	(1)
— AUD	18,320	—
— USD	(2,382)	(33,715)

(ii) *Interest rate risk*

The Group is exposed to fair value and cash flow interest rate risk mainly related to fixed rate bank borrowings, variable interest rate bank balances and convertible note. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for bank balances and convertible note at the balance sheet date. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would increase/decrease by RMB12,797,000 (2006: increase/decrease by RMB999,000). This is mainly attributable to the Group's exposure to interest rates on its bank balances.

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(iii) *Other price risk*

The Group is exposed to price risk mainly related to its substantial involvement in subscription of new A shares in the PRC stock exchange. The Group had utilised its funds of approximately RMB733 million for subscription and had successfully subscribed for the A shares with the cost of RMB173 million. In order to minimise this risk, the Group had disposed of all these held-for-trade investments before year end date and a gain of approximately RMB2 million was resulted. Accordingly, there was no exposure at the balance sheet date.

The Group is also exposed to price risk related to the convertible note. As the convertible note was fully converted during the year, there was no exposure to price risk at the balance sheet date.

Credit risk

As at 31 December 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group is exposed to some concentration of credit risk. At 31 December 2007, the five largest debtors accounted for approximately 60% (2006: 89%) of the Group's total trade receivables. Apart from delegating a team for determining the credit limits, credit approval and other monitoring procedures on customers, the Group had also explored new markets and new customers for coal related products as well as launched new products such as alloy pig iron in order to minimise the concentration of credit risk.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2007, the Group has available unutilised short-term bank loan facilities of approximately RMB200 million (2006: Nil).

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

2007

	Weighted average effective interest rate %	Less than 1 month RMB'000	1–3 months RMB'000	3 months to 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31.12.2007 RMB'000
Non-derivative financial liabilities						
Trade payables	—	6,264	39,131	—	45,395	45,395
Advances drawn on bills receivables discounted with recourse	5.32	44,761	40,127	—	84,888	80,600
Other payables	—	442,484	—	—	442,484	442,484
Amount due to a related party	—	1,000	—	—	1,000	1,000
Bank and other borrowings	6.37	616,946	564,718	237,205	1,418,869	1,333,900
		1,111,455	643,976	237,205	1,992,636	1,903,379

2006

	Weighted average effective interest rate %	Less than 1 month RMB'000	1–3 months RMB'000	3 months to 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31.12.2006 RMB'000
Non-derivative financial liabilities						
Trade payables	—	6,855	12,356	—	19,211	19,211
Advances drawn on bills receivables discounted with recourse	3.49	88,739	107,408	31,564	227,711	220,032
Other payables	—	179,835	—	—	179,835	179,835
Amount due to a related party	—	1,717	—	—	1,717	1,717
Bank and other borrowings	6.74	65,197	137,236	107,086	309,519	289,974
Convertible note	5.80	—	—	327,965	327,965	619,829
		342,343	257,000	466,615	1,065,958	1,330,598

6. FINANCIAL INSTRUMENTS *(continued)*

6c. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. TURNOVER AND SEGMENT INFORMATION

The Group is engaged in manufacture and sale of coke, clean coal, alloy pig iron and related products.

Turnover is related to revenue earned from the sales described above and exclude applicable value-added tax in the PRC.

All of the Group's turnover are derived from the operation in the PRC and all customers of the Group are located in the PRC. In addition, the Group's assets are substantially located in the PRC. Therefore, no geographical segment is presented.

Business segments

For management purposes, the Group is currently organised into two main operating divisions — coal mining and coking. These divisions are the basis on which the Group reports its primary segment information.

Principal activities of the Group are as follows:

Coal mining	—	Manufacture and sale of raw coal, clean coal and its by-products
Coking	—	Manufacture and sale of coke and its by-products
Others	—	Manufacture and sale of alloy pig iron and others

7. TURNOVER AND SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

Consolidated income statement

	For the year ended 31 December 2007				
	Coal mining RMB'000	Coking RMB'000	Others RMB'000	Inter-segment eliminations RMB'000	Consolidated RMB'000
GROSS REVENUE					
External	434,553	537,580	70,408	—	1,042,541
Inter-segment	224,984	—	—	(224,984)	—
Total	659,537	537,580	70,408	(224,984)	1,042,541
Inter-segment transactions were carried out at cost.					
RESULT					
Segment results	256,142	341,361	33,693	—	631,196
Unallocated corporate expenses					(210,225)
Unallocated corporate income					281,442
Fair value adjustment on convertible note					(65,602)
Net loss on derivative financial instruments classified as held-for-trading					(6,155)
Finance costs					(38,808)
Profit before taxation					591,848
Taxation					(22,527)
Profit for the year					569,321

Consolidated balance sheet

	At 31 December 2007			
	Coal mining RMB'000	Coking RMB'000	Others RMB'000	Consolidated RMB'000
ASSETS				
Segment assets	2,493,734	412,852	155,181	3,061,767
Unallocated corporate assets				3,979,732
				7,041,499
LIABILITIES				
Segment liabilities	404,373	79,845	8,880	493,098
Unallocated corporate liabilities				1,532,934
				2,026,032

7. TURNOVER AND SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

Other information

	For the year ended 31 December 2007 Coal mining RMB'000	Coking RMB'000	Others RMB'000	Unallocated RMB'000	Consolidated RMB'000
Capital additions	1,953,333	14,995	40,122	19,908	2,028,358
Impairment loss on financial assets	637	36	—	4,471	5,144
Amortisation of prepaid lease payment	—	—	—	380	380
Depreciation and amortisation of property, plant and equipment	37,637	8,753	4,204	5,480	56,074
Provision for restoration and environmental costs	2,134	—	—	—	2,134

Consolidated income statement

	For the year ended 31 December 2006 Coal mining RMB'000	Coking RMB'000	Others RMB'000	Inter-segment eliminations RMB'000	Consolidated RMB'000
GROSS REVENUE					
External	427,218	383,607	4,007	—	814,832
Inter-segment	166,115	—	—	(166,115)	—
Total	593,333	383,607	4,007	(166,115)	814,832
Inter-segment transactions were carried out at cost.					
RESULT					
Segment results	238,578	203,750	1,906	—	444,234
Unallocated corporate expenses					(52,086)
Unallocated corporate income					38,785
Fair value adjustment on convertible note					(292,628)
Finance costs					(30,318)
Profit before taxation					107,987
Taxation					(18,310)
Profit for the year					89,677

7. TURNOVER AND SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

Consolidated balance sheet

	At 31 December 2006			
	Coal mining RMB'000	Coking RMB'000	Others RMB'000	Consolidated RMB'000
ASSETS				
Segment assets	625,142	439,266	88,608	1,153,016
Unallocated corporate assets				494,037
				1,647,053
LIABILITIES				
Segment liabilities	238,440	133,738	23,669	395,847
Unallocated corporate liabilities				1,006,234
				1,402,081

Other information

	For the year ended 31 December 2006				
	Coal mining RMB'000	Coking RMB'000	Others RMB'000	Unallocated RMB'000	Consolidated RMB'000
Capital additions	60,780	49,663	73,022	11,375	194,840
Amortisation of prepaid lease payment	—	—	—	135	135
Depreciation and amortisation of property, plant and equipment	32,251	8,026	—	4,439	44,716
Net loss on disposal of property, plant and equipment	—	—	—	51	51
Provision for restoration and environmental costs	2,439	—	—	—	2,439

8. OTHER INCOME

	2007 RMB'000	2006 RMB'000
Bank interest income arising from subscription monies received in global offering	188,157	—
Bank interest income - other	59,894	3,260
Government grant (Note)	30,000	34,260
Gain on disposal of property, plant and equipment	1,667	—
Gain on disposal of held-for-trading investments	1,888	—
Others	1,503	1,265
	283,109	38,785

Note: The amount represented the unconditional grants from the PRC government specifically for encouraging the Group's business development in Sichuan Province, the PRC. During the year, a subsidy of RMB30 million (2006: RMB30 million) was granted to Panzhihua City Hidili Coal Company Limited ("Hidili Coal") from Panzhihua City Economic Committee, Panzhihua City Development and Reformation Committee and Panzhihua City Science and Technology Bureau to appraise and in recognition of the achievement of the Group in having successfully developed new products combining vanadium, titanium and magnet which would encourage new business development in Panzhihua.

9. FINANCE COSTS

	2007 RMB'000	2006 RMB'000
Interest expenses on borrowings wholly repayable within five years:		
— bank borrowings	25,423	8,649
— advances drawn on bills receivables discounted	13,385	8,875
Issue cost for convertible note	—	12,794
	38,808	30,318

10. PROFIT BEFORE TAXATION

	2007 RMB'000	2006 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Directors' remuneration (note 12)	1,431	521
Other staff costs	144,371	112,113
Retirement benefits scheme contributions	8,460	4,841
Total staff costs	154,262	117,475
Impairment loss (reversal of impairment loss) recognised on		
— trade receivables	673	—
— other receivables and prepayments	4,968	—
— other loan receivables	(497)	—
Impairment loss recognised on financial assets	5,144	—
Auditors' remuneration	1,800	226
Amortisation of prepaid lease payment	380	135
Provision for restoration and environmental costs (note 31)	2,134	2,439
Depreciation and amortisation of property, plant and equipment	56,074	44,716
Loss on disposal of property, plant and equipment	—	51
Expenses relating to listing of shares (included in administrative expenses)	44,114	5,880
Cost of inventories recognised in the consolidated income statement	346,254	297,656
Transportation costs of coal and coke	17,880	27,673
Gain on disposal of property, plant and equipment	(1,667)	—
Loss on fair value change of outstanding derivative financial instruments	47,981	—
Gain on derivative financial instruments which matured during the year	(41,826)	—
Exchange loss (included in administrative expenses)	89,340	—

11. TAXATION

The Company is not subject to any taxation in the Cayman Islands as the Cayman Islands levies no tax on the income of the Group.

No provision for Hong Kong Profits Tax has been made as the Group's income is not assessable to tax in Hong Kong.

The charge for the year, which represents the provision for the PRC Enterprise Income Tax ("EIT"), can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2007 RMB'000	2006 RMB'000
Profit before taxation	591,848	107,987
Tax at applicable tax rate of 33%	195,310	35,636
Effect of tax exemption granted	(178,021)	(140,587)
Effect of tax loss not recognised	1,266	267
Effect of utilisation of tax losses previously not recognised	(27)	(1,665)
Tax effect of fair value adjustment on the convertible note not deductible for tax purpose	21,649	96,567
Tax effect of expenses that are not deductible in determining taxable profit (note a)	61,851	17,778
Tax effect of income that is not taxable in determining taxable profit	(79,501)	—
Tax effect of gain arising on transfer of investments within the Group (note b)	—	10,314
Tax charge for the year	22,527	18,310

Notes:

a. *Expenses not deductible for tax purpose mainly included exchange loss, listing expenses incurred and other expenses that exceeded the maximum allowable amount for the PRC taxation purposes.*

b. *The amount represents tax effect of taxable gain arising on transfer of investment in certain subsidiaries within the Group.*

The provision for EIT is based on a statutory rate of 33% (including 30% State EIT and 3% local EIT) of the assessable profit of the group entities as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain PRC subsidiaries which are exempted from EIT in accordance with the approval from the relevant tax bureaus.

Pursuant to "Application of preferential tax treatment for Foreign Investment Enterprise", Sichuan Hidili Industry Company Limited ("Sichuan Hidili") is entitled to 2 years exemption from State EIT from 2007 to 2008 and a 50% deduction of State EIT for three years from 2009 to 2011. Therefore, Sichuan Hidili is subject to 3% local EIT with exemption of 30% State EIT (2006: 3% local EIT with 30% State EIT).

Panzhihua City Hidili Coke Company Limited ("Hidili Coal") was exempted from the EIT up to 2006 as an enterprise situated in old revolutionary base areas and areas inhabited by ethnic minorities, remote and impoverished ("老少邊窮地區"). In 2007, Hidili Coal is further entitled to the tax incentives of 2 year's exemption and 3 year's deduction. Therefore, Sichuan Hidili is subject to 3% local EIT with exemption of 30% State EIT (2006: exempted).

11. TAXATION *(continued)*

According to the confirmation from State Tax Bureau of Panzhihua Renhe District, Panzhihua City Tiandaoqin Industry & Trading Company Limited ("Tiandaoqin"), Panzhihua Yanjiang Industrial Company Limited ("Yanjiang") and Panzhihua City Tianchou Industry & Trading Company Limited ("Tianchou") were approved to reform to Reinvestment Enterprise by Foreign Investment on 15 February 2007. Pursuant to "Application of preferential tax treatment for Foreign Investment Enterprise", Tiandaoqin, Yanjiang and Tianchou are entitled to 2 years exemption from State EIT from 2007 to 2008 and a 50% deduction of State EIT from 2009 to 2011. In the actual income tax filing of the first quarter of 2007, from 1 January to 14 February 2007, Tiandaoqin, Yanjiang and Tianchou still adopted income tax rate of 33% and were entitled to the preferential tax treatment from 15 February to 31 December 2007.

According to the confirmation from State Tax Bureau of Panzhihua West District, Panzhihua Yangfan Industry & Trading Company Limited ("Yangfan") was approved to reform to Reinvestment Enterprise by Foreign Investment on 5 February 2007. Pursuant to "Application of preferential tax treatment for Foreign Investment Enterprise", Yangfan is entitled to 2 years exemption from State EIT from 2007 to 2008 and a 50% deduction of State EIT from 2009 to 2011. In the actual income tax filing of the first quarter of 2007, from 1 January to 14 February 2007, Yangfan still adopted income tax rate of 33% and was entitled to the preferential tax treatment from 15 February to 31 December 2007.

Panzhihua City Sanlian Transportation Company Limited ("Sanlian Transportation") is entitled to the tax incentives in connection with the development of the western part of the PRC. According to the official approval issued by State Administration of Taxation of Sichuan Province, Sanlian Transportation is entitled to the policy of 2 year's exemption and 3 year's deduction from 2005 to 2009. The applicable tax rate for 2007 is 16.5% (2006: exempted).

On 16 March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations would impose a single income tax rate of 25% for all the enterprises from 1 January 2008. Accordingly to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa 2007 No. 39), those entities that previously enjoyed tax preferential tax treatment would be granted a five-year transitional period. The tax exemption and deduction from FEIT for the foreign investment enterprises is still applicable until the end of the five-year transitional period under the New Law.

There was no significant unprovided deferred taxation for the year or at the balance sheet date.

12. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

(a) Details of directors' remuneration paid by the Group to the directors of the Company are as follows:

	2007 RMB'000	2006 RMB'000
Directors:		
Fees	600	—
Basic salaries and allowances	825	516
Retirement benefits scheme contributions	6	5
Bonus	—	—
	1,431	521

For the year ended 31 December 2007

	Executive directors				Non-executive director	Independent non-executive directors			
	Xian Yang RMB'000	Wang Rong RMB'000	Tu Xiaoyu RMB'000	Sun Jiankun RMB'000	Tsang Kwong Yue, Conrad RMB'000	Chan Chi Hing RMB'000	Wang Zhiguo RMB'000	Huang Rongsheng RMB'000	Total RMB'000
Directors' fees	—	—	—	—	—	200	200	200	600
Basic salaries and allowances	240	270	135	180	—	—	—	—	825
Retirement benefits scheme contributions	2	2	—	2	—	—	—	—	6
Bonus	—	—	—	—	—	—	—	—	—
	242	272	135	182	—	200	200	200	1,431

Note: In addition to the above, the Group has paid RMB1,290,000 to the family of Mr. Tu Xiaoyu who passed away unexpectedly in a fatal traffic accident when he was on a business trip.

For the year ended 31 December 2006

	Executive directors				
	Xian Yang RMB'000	Wang Rong RMB'000	Tu Xiaoyu RMB'000	Sun Jiankun RMB'000	Total RMB'000
Directors' fees	—	—	—	—	—
Basic salaries and allowances	240	180	96	—	516
Retirement benefits scheme contributions	2	2	1	—	5
Bonus	—	—	—	—	—
	242	182	97	—	521

12. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS *(continued)*

(b) Five highest paid employees' emoluments

During the year, the five highest paid individuals included three (2006: two) directors of the Company, details of whose emoluments are included in the disclosures set out above. The emoluments of the remaining individuals, which are individually below HKD1,000,000 (equivalent to RMB936,380; 2006: RMB1,004,670), were as follows:

	2007 RMB'000	2006 RMB'000
Basic salaries and allowances	860	765
Retirement benefit scheme contributions	2	3
Bonus	—	—
	862	768

13. DIVIDENDS

No dividend has been declared and paid by the Company since its incorporation.

The dividends for the year ended 31 December 2006 represented the dividends declared and paid by Sichuan Hidili and Hidili Coal of RMB200,000,000 and RMB20,000,000 respectively to their then shareholders prior to the Reorganisation.

The directors recommended the payment of a final dividend of RMB 8.4 cents per share for the year ended 31 December 2007. This proposed dividend is subject to approval by the shareholders at the forthcoming annual general meeting.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company for the year ended 31 December 2007 and 2006 and on the weighted average number of 1,538,356,164 and 1,200,000,000 shares respectively, assuming that the shares issued upon Reorganisation and the share capitalisation had been effective on 1 January 2006.

No diluted earnings per share has been presented for both years as the inclusion of the effect of potential ordinary shares will increase the earning per share for both years.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Mining structures and mining rights RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office and electronic equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2006	98,198	300,310	113,038	20,534	1,738	36,821	570,639
Additions	5,906	43,489	10,604	9,517	1,664	123,660	194,840
Transfer	61,191	12,887	38,189	—	—	(112,267)	—
Disposals	—	—	—	(1,266)	—	—	(1,266)
At 31 December 2006	165,295	356,686	161,831	28,785	3,402	48,214	764,213
Additions	38,804	1,669,788	44,278	13,937	2,658	258,893	2,028,358
Transfer	12,739	30,840	5,700	—	—	(49,279)	—
Disposals	(1,589)	(11,913)	(8,846)	(4,286)	(113)	—	(26,747)
At 31 December 2007	215,249	2,045,401	202,963	38,436	5,947	257,828	2,765,824
DEPRECIATION AND AMORTISATION							
At 1 January 2006	3,862	21,489	9,545	3,283	263	—	38,442
Provided for the year	3,078	29,364	7,835	4,131	308	—	44,716
Eliminated on disposals	—	—	—	(284)	—	—	(284)
At 31 December 2006	6,940	50,853	17,380	7,130	571	—	82,874
Provided for the year	5,088	33,906	11,600	4,587	893	—	56,074
Eliminated on disposals	(75)	(3,385)	(282)	(2,180)	(23)	—	(5,945)
At 31 December 2007	11,953	81,374	28,698	9,537	1,441	—	133,003
CARRYING VALUES							
At 31 December 2007	203,296	1,964,027	174,265	28,899	4,506	257,828	2,632,821
At 31 December 2006	158,355	305,833	144,451	21,655	2,831	48,214	681,339

The following estimated useful lives are used for the depreciation of property, plant and equipment, other than mining structures and mining rights as well as construction in progress:

Buildings	15 to 35 years
Machinery	5 to 15 years
Motor vehicles, office and electronic equipment	5 to 10 years

The mining structures and mining rights include the main and auxiliary mine shafts and underground tunnels.

Amortisation is provided to write off the cost of the mining structures and mining rights using the units of production method based on the estimated production volume for which the structure was designed over the total proven reserves of the coal mine.

At 31 December 2007, the legal titles of certain of the mining rights with carrying values of approximately RMB1,149,760,000 (2006: RMB24,410,000) have not been granted by the relevant government authorities and the relevant title transfers are still under application. In the opinion of the directors, taking into account of the PRC's legal opinion, all the risks and rewards of ownership of the mining rights have been transferred to the Group.

16. PREPAID LEASE PAYMENT

The carrying amount of prepaid lease payment of the Group is analysed for reporting purposes as:

	2007 RMB'000	2006 RMB'000
Current assets included in other receivables and prepayments	677	135
Non-current asset	32,414	6,260
	33,091	6,395

The prepayment for land use rights which relates to production plant for coking and coal washing, is under medium term lease and is amortised over 50 years on a straight-line basis.

17. DEPOSITS FOR ACQUISITION OF COAL MINES

Balance as at 31 December 2007 represents deposits paid for acquisition of a coal mine in Guizhou, the PRC. Up to the date of this report, the Group is still negotiating with the coal mine owner to agree the final amount of consideration which will not be more than RMB50 million.

Balance as at 31 December 2006 represented deposits paid for acquisition of four coal mines in Guizhou, the PRC, at an aggregate consideration of approximately RMB230 million. The acquisition was completed in 2007.

18. INVENTORIES

	2007 RMB'000	2006 RMB'000
Coke	5,981	4,654
Coal products	38,623	17,842
Alloy pig iron	7,251	—
Auxiliary materials and spare parts	13,433	8,615
	65,288	31,111

19. BILLS AND TRADE RECEIVABLES AND BILLS RECEIVABLES DISCOUNTED WITH RECOURSE

(a) Bills and trade receivables

	2007 RMB'000	2006 RMB'000
Trade receivables	123,034	192,254
Impairment loss recognised	(3,460)	(5,787)
	119,574	186,467
Bills receivables	154,881	46,367
	274,455	232,834

19. BILLS AND TRADE RECEIVABLES AND BILLS RECEIVABLES DISCOUNTED WITH RECOURSE *(continued)*

(a) Bills and trade receivables *(continued)*

The Group generally allows an average credit period ranging from 90–120 days to its trade customers. The aged analysis of trade receivables and bills receivables, net of allowances, is as follows:

	2007 RMB'000	2006 RMB'000
Aged:		
0–90 days	273,055	218,951
91–120 days	863	7,609
121–180 days	386	—
181–365 days	151	6,274
	274,455	232,834

Included in the Group's trade receivables balance as at 31 December 2007 are debtors with a carrying amount of RMB537,000 (2006: RMB6,274,000) which are past due at the reporting date for which the Group has not recognised impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable.

Before accepting any new customer, the Group will assess credit worthiness of the customer. As the customers are mostly the renowned steel manufacturers, therefore based on the past history, the eventual collectibility of the receivables not past due is expected.

Bills receivables represent unconditional orders in writing issued by or negotiated with customers of the Group from completed sales orders which entitle the Group to collect a sum of money from banks.

Movement in impairment loss recognised

	2007 RMB'000	2006 RMB'000
Trade receivables		
Balance at beginning of the year	5,787	5,787
Impairment loss recognised on receivables	673	—
Amounts written off as uncollectible	(3,000)	—
Balance at end of the year	3,460	5,787

19. BILLS AND TRADE RECEIVABLES AND BILLS RECEIVABLES DISCOUNTED WITH RECOURSE *(continued)*

(b) Bills receivables discounted with recourse

The Group generally allows an average credit period ranging from 90–120 days to its customers. The bills receivables were discounted at an average rate of 5.32% and the condition would be expired upon matured. The aged analysis of bills receivables discounted with recourse is as follows:

	2007 RMB'000	2006 RMB'000
Aged:		
0–90 days	21,300	160,786
91–120 days	15,800	31,370
121–180 days	43,500	27,876
	80,600	220,032

20. OTHER RECEIVABLES AND PREPAYMENTS

	2007 RMB'000	2006 RMB'000
Advance to suppliers	34,525	10,191
Prepayment of mining expenses	13,794	13,741
Transportation charges paid on behalf of customers	14,247	13,637
Staff advances	5,146	4,138
Deposits paid	19,661	14,000
Receivable of balance of proceeds from global offering of shares of the Company	21,535	—
Others	13,552	8,544
	122,460	64,251

21. OTHER LOAN RECEIVABLES

The balances are unsecured, interest free and repayable on demand.

	2007 RMB'000	2006 RMB'000
Loan receivables from:		
— Entities (note i)	6,861	8,130
— Individuals (note ii)	2,592	8,274
	9,453	16,404
Less: Impairment loss recognised	(9,453)	(9,950)
	—	6,454

21. OTHER LOAN RECEIVABLES *(continued)*

Movement in impairment loss recognised

	2007 RMB'000	2006 RMB'000
Balance at beginning of the year	9,950	9,950
Amounts recovered during the year	(497)	—
Balance at end of the year	9,453	9,950

Notes:

(i) The balances represented the loans advanced to certain entities which are registered in the PRC. The balances were unsecured, interest free and repayable on demand except for the balance as at 31 December 2006 of approximately RMB500,000 which bore fixed interests ranging from 6% to 8% and fully repaid during the year.

(ii) The balances represented the loans advanced to certain individuals in the PRC. The balances were unsecured, interest free and repayable on demand except for the balance as at 31 December 2006 of approximately RMB2,000,000 which was secured by properties of the respective individuals and fully repaid during the year.

The directors of the Company are of the opinion that the above entities and individuals are independent of, and not related to, the Group.

The Group has fully provided impairment for all other loan receivables past due based on the past experience.

22. AMOUNTS DUE FROM (TO) RELATED PARTIES

(a) Amounts due from related parties

Name of related party

	2007 RMB'000	2006 RMB'000
Mr. Xian Yang (鮮揚) (notes i)	—	126
Mr. Wang Rong (note ii)	—	123
攀枝花市恒為製鈦有限公司 (Translated as Hengwei Zhitai Co., Ltd. "Hengwei Zhitai") (note iii)	—	1,808
	—	2,057

22. AMOUNTS DUE FROM (TO) RELATED PARTIES *(continued)*

(b) Amount due to a related party

Name of related party

	2007 RMB'000	2006 RMB'000
Mr. Xian Jilun (鮮繼倫) (note iv)	1,000	1,717

Notes:

(i) Mr. Xian Yang is a shareholder and a director of the Company. The maximum outstanding balances due from Mr. Xian Yang during the year is RMB126,000, which was fully collected.

(ii) Mr. Wang Rong is a director of the Company. The maximum outstanding balances due from Mr. Wang Rong during the year is RMB123,000, which was fully collected.

(iii) Hengwei Zhitai is ultimately owned by Mr. Xian Fan, brother of Mr. Xian Yang. The balance was of trading in nature with age within one year at 31 December 2006, which was fully collected during the year.

(iv) Mr. Xian Jilun is the father of Mr. Xian Yang. Balance represents rental expenses payable to Mr. Xian Jilun by the Group. Balance was unsecured, interest free and repayable on demand.

23. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

The pledged bank deposits are used to secure the bills payable and bank borrowings which are payable within one year. Accordingly, the pledged bank deposits are classified as current assets. Bank balances and cash comprise cash held by the Group with the original maturity of three months or less.

The effective interest rate of the pledged bank deposits and bank balances during the year are 2.99% (2006: 1.81%).

24. TRADE PAYABLES AND ADVANCES DRAWN ON BILLS RECEIVABLES DISCOUNTED WITH RECOURSE

(a) Trade payables

The aged analysis of the Group's trade payables is as follows:

	2007 RMB'000	2006 RMB'000
Aged:		
0–90 days	42,987	15,332
91–180 days	897	1,492
181–365 days	361	1,567
Over 365 days	1,150	820
	45,395	19,211

The average credit period on purchases of goods is 90 days.

24. TRADE PAYABLES AND ADVANCES DRAWN ON BILLS RECEIVABLES DISCOUNTED WITH RECOURSE *(continued)*

(b) Advances drawn on bills receivables discounted with recourse

	2007	2006
Effective interest rate	5.32%	3.49%

25. OTHER PAYABLES AND ACCRUED EXPENSES

	2007 RMB'000	2006 RMB'000
Advance from customers	5,536	12,917
Accrued wages	8,732	6,379
Other tax payables	51,052	51,128
Accrued expenses	35,662	38,226
Welfare payables	16,434	12,040
Payables for acquisition of property, plant and equipment	335,518	67,958
Others	25,212	29,413
	478,146	218,061

26. DERIVATIVE FINANCIAL INSTRUMENTS

	2007 RMB'000	2006 RMB'000
Foreign currency forward contracts	47,981	—

Major terms of the foreign currency forward contracts are as follows:

Principal amount	Maturity	Exchange rate
US$367,300,000 aggregated in total	From 28 January 2008 to 22 February 2008	Sell US$/Buy RMB
US$460,000,000	7 January 2008	Sell RMB/Buy US$

The fair values are determined based on the market prices provided by professional valuer for equivalent instruments as at the balance sheet date.

27. BANK AND OTHER BORROWINGS

	2007 RMB'000	2006 RMB'000
Bank loans, secured	1,333,900	226,570
Other loans, secured	—	62,324
Other loans, unsecured	—	1,080
	1,333,900	289,974

The maturity profile of the above borrowings is as follows:

	2007 RMB'000	2006 RMB'000
On demand or within one year:		
Bank loans	1,333,900	226,570
Other loans	—	63,404
	1,333,900	289,974
Other loans from:		
Entity — secured (note i)	—	62,324
Individual — unsecured (note ii)	—	1,080
	—	63,404

Notes:

(i) The amount represents loan advanced from a financial institution and carries interest rate at 10% compound per annum and was repayable on 21 October 2007 or the date which is 14 business days after the date of listing of the Company's shares on the Stock Exchange, whichever is the earlier, pursuant to the loan agreement dated 5 September 2006 (the "Loan Agreement"). In addition, pursuant to two amending deeds entered into between Hidili Investment and the financial institution, the financial institution would waive its right to receive the interest, conditional upon listing of the shares of the Company on the Stock Exchange having commenced on or before 30 September 2007.

At 31 December 2006, 5% issued shares in Sanlian Investment held by Mr. Xian Yang and 5% issued shares in Hidili Investment held by Sanlian Investment, respectively, were charged to the financial institution for securing the repayment under the Loan Agreement. In addition, 95% issued shares in Sanlian Investment held by Mr. Xian Yang and 95% issued shares in Hidili Investment held by Sanlian Investment were also charged to the financial institution for ensuring the obligation to carry out the group reorganisation as stipulated in the note purchase agreement in respect of the convertible note entered into between the financial institution and Hidili Investment. (Collectively referred as to the "Share Charge") The details of convertible note were set out in note 32. On 15 May 2007, Mr. Xian Yang, Sanlian Investment and the financial institution entered into a deed of release in relation to the Share Charge pursuant to which Mr. Xian Yang and Sanlian Investment were released from any further liability under the Share Charge and 100% of the above-mentioned shares charged were released from the Share Charge with effect from the date of the deed of release. This loan was subsequently fully repaid during the year.

(ii) Unsecured other loan from independent individual carried interest at a rate of 20% per annum and were fully paid during the year.

27. BANK AND OTHER BORROWINGS *(continued)*

All the bank loans are carried at fixed interest rate, the effective interest rates during the year were as follows:

	2007	2006
Bank loans	6.37%	6.12%
Other loans	N/A	1.70%

As at 31 December 2007, the secured bank loans of RMB48 million (2006:RMB60 million) was secured by the Group's 100% interests in Tiandaoqin, Yangfan and Yanjiang.

As at 31 December 2006, the secured bank loans of RMB40 million were secured by the Group's 90% interests in Hidili Coal.

Details of the assets pledged for the remaining bank and other borrowings are further set out in note 36.

As at 31 December 2006, bank borrowings of RMB60,000,000 was guaranteed by Mr. Xian Yang and bank borrowings of RMB40,000,000 was jointly guaranteed by Mr. Xian and Mr. Wang Rong. The above guarantees were released during the year.

28. SHARE CAPITAL

		Number of shares (in thousands)	Amount HK$'000	
Ordinary of HK$0.1 each				
Authorised:				
On incorporation and at 31 December 2006	(i)	3,900	390	
Increase in authorised share capital	(ii)	9,996,100	999,610	
At 31 December 2007		10,000,000	1,000,000	
Issue and fully paid:				
On incorporation and at 31 December 2006	(i)	—	—	—
Issue of shares for the Reorganisation	(iii)	12,500	1,250	1,212
Issue of shares by capitalisation of share premium account	(iv)	1,487,500	148,750	143,386
Issue of new shares upon initial public offering	(v)	500,000	50,000	48,221
Issue of shares upon exercise of over-allotment option	(vi)	60,000	6,000	5,786
At 31 December 2007		2,060,000	206,000	198,605

Notes:

(i) The Company was incorporated on 1 September 2006 with an authorised share capital of HK$390,000. At the time of incorporation, 1 share of HK$0.1 was issued at par to the subscriber to provide the initial capital to the Company.

(ii) Pursuant to the written resolutions of the sole member of the Company passed on 25 August 2007, the authorised share capital of the Company was increased from HK$390,000 to HK$1,000,000,000 by the creation of additional 9,996,100,000 shares.

28. SHARE CAPITAL *(continued)*

(iii) *On 25 August 2007, the Company entered into an agreement with the then shareholders of Hidili Investment pursuant to which, among other things, the Company acquired from them the entire issued share capital of Hidili Investment in consideration of which the Company allotted and issued 12,499,999 shares, credited as fully paid, to them on the same day. Accordingly, the Company became the holding company of the Group on 25 August 2007.*

(iv) *Pursuant to written resolutions of the board of directors of the Company passed on 19 September 2007, the Company allotted and issued 1,487,500,000 shares of HK$0.1 each by the capitalisation issue of 1,487,500,000 shares of HK$0.1 each in the share premium account of the Company. The shares allotted and issued rank pari passu with all shares then in issue.*

(v) *On 20 September 2007, the Company issued 500,000,000 new ordinary shares of HK$0.1 each for cash at HK$6.83 per share to the public for listing of those shares on the Stock Exchange.*

(vi) *On 28 September 2007, 60,000,000 new ordinary shares of HK$0.1 each issued by the Company and 30,000,000 ordinary shares of HK$0.1 each sold by Sanlian Investment (together referred as "Over-allotment Shares") to the public also at HK$6.83 per share.*

The share capital as at 31 December 2006 represented the issued paid in capital of Hidili Investment prior to the Reorganisation.

29. SHARE OPTION SCHEME

The Company's share option scheme ("the Scheme"), was adopted pursuant to a written resolution passed by all the shareholders of the Company on 25 August 2007 for the primary purpose of providing incentives to eligible participants or rewards for their contribution to the Group, and will expire on 24 August 2017. Under the Scheme, the Directors may grant options to following persons or entities to subscribe for shares in the Company:

(i) any employee or proposed employee (whether full-time or part-time and including any executive director), consultants or advisers of or to the Company, any of its subsidiaries or any entity ("Invested Entity") in which the Group holds an equity interest;

(ii) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;

(iii) any supplier of goods and services to any member of the Group or any Invested Entity;

(iv) any customer of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support provided to the Group or any Invested Entity; and

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group and any Invested Entity.

29. SHARE OPTION SCHEME *(continued)*

The total number of shares in respect of which option may be granted under the Scheme is not permitted to exceed 200,000,000, being 10% of the shares of the Company in issue on the date dealings in the shares first commence on the Stock Exchange and 9.7% of the shares of the Company in issue as at the date of this report. The Company may seek approval of its shareholders in general meeting to refresh the said 10% limit, however, such limit as refreshed must not exceed 10% of the Company's shares in issue as of the date of approval of the refreshed limit. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1 % of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors of the Company or any of their respective associates in the 12-month period up to and including the date of such grant in excess of 0.1% of the Company's shares in issue and having an aggregate value in excess of HK$5 million must be approved in advance by the Company's shareholders.

An option may be accepted within 28 days from the date of grant. A consideration of HK$1.00 is payable on acceptance of the offer of the grant of an option. Options may be exercised at any time from the date of grant of option to the 10th anniversary of the date of grant. The exercise price is determined by the Directors, and shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

The Directors may, at their absolute discretion, fix any minimum period for which an option must be held before it can be exercised, and the performance targets that must be achieved before the options can be exercised upon the grant of an option to a participant.

Up to 31 December 2007, no option had been granted under the Scheme.

30. RESERVES

(a) Statutory surplus reserve

According to the Articles of Association of the Company's subsidiaries incorporated/registered in the PRC, these companies are required to make an appropriation of 10% of their profit after taxation each year, as shown in the PRC statutory financial statements which are prepared in accordance with the relevant accounting rules and financial regulations applicable to limited companies registered in the PRC ("PRC GAAP"), to the statutory surplus reserve until the balance reaches 50% of the registered capital of the relevant subsidiaries. According to the provision of the Articles of Association, in normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of the production and operation of the relevant subsidiaries. The statutory reserve includes the remaining balance of statutory public welfare fund which has been transferred in 2006.

(b) Statutory public welfare fund

Pursuant to the PRC Company Law, the Company's subsidiaries incorporated/registered in the PRC shall make allocation from their profit after taxation, as shown in the PRC statutory financial statements which are prepared in accordance with the accounting principles generally accepted in the PRC GAAP, at the rate of 5% to 10% to the statutory public welfare fund on an annually basis. The statutory public welfare fund can only be utilised on capital items for employees' collective welfare. The statutory public welfare fund forms part of the shareholders' equity but is non-distributable other than in liquidation. Pursuant to a notice in respect of the Financial treatments under new Company Law 「關於《公司法》施行後有關企業財務處理問題的通知」issued by the Minister of Finance, there will be no accrual of statutory public welfare fund starting from 2006. The remaining balance of statutory public welfare fund has been transferred to the statutory surplus reserve in 2006.

30. RESERVES *(continued)*

(c) Future development fund

Pursuant to the relevant regulations in the PRC, the Company's subsidiaries incorporated/registered in the PRC are required to make a transfer to the future development fund based on RMB10.5 (2006: RMB10.5) per tonne of raw coal mined (net of usage) during the year. The fund can only be used for the future development of the coal mining business and is not available for distribution to shareholders. The Group currently has no authorised plan for the utilisation of the future development fund.

(d) Special reserve

The special reserve represents the aggregate amount of the capital of the subsidiaries which were acquired by the Company upon the Reorganisation less the consideration payable to the then shareholders and the amount contributed by a shareholder prior to the Reorganisation for waive of the balance due to him.

31. PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

	RMB'000
At 1 January 2006	1,543
Provision	2,439
At 31 December 2006	3,982
Provision	2,134
At 31 December 2007	6,116

Mining activities may result in land subsidence and damage to the environment of the mining areas. Pursuant to the relevant PRC regulations, the Group is required to restore the mining areas back to certain acceptable conditions.

The provision for the restoration and environmental clean up costs has been determined by management based on their past experience with reference to the coal produced each year to the coal reserve and the unit restoration costs governed by relevant regulations and best estimate of future expenditure by discounting the expected expenditures to their net present value at market rate. The amounts provided in relation to restoration and environmental clean up costs are reviewed at least annually based upon the facts and circumstances available at the time and the provisions are updated accordingly.

32. CONVERTIBLE NOTE

On 16 August 2006, Hidili Investment entered into a note purchase agreement with an investor (the "Noteholder"). Pursuant to the note purchase agreement, on 5 September 2006, Hidili Investment issued the convertible note for the principal amount of US$42,000,000 (equivalent to RMB327,201,000 at the time of issuance) to the Noteholder (the "Convertible Note"). The Convertible Note carried interest at a rate of 5.8% per annum from 1 January 2007 and an amount corresponding with certain proportion of final dividend declared by Hidili Investment, if any, for the year ended 31 December 2006. Hidili Investment did not declare any final dividend for the year ended 31 December 2006.

The term of conversion based on the Convertible Note are as follows:

The Convertible Note will mature on the first day after the fifth anniversary of 7 September 2006 or any other date as mutually agreed by parties in writing (the "Maturity Date").

If the listing of the shares of the Company on the Stock Exchange with a market capitalisation of not less than US$450 million (calculated by multiplying the aggregate number of issued and outstanding shares immediately after the completion of the listing of the shares of the Company on the Stock Exchange by the offer price) ("Qualified IPO") is completed on or before the Maturity Date, the interest shall be calculated at 5.8% per annum compounded annually.

If a listing of the shares of the Company on the Stock Exchange which is not a Qualified IPO occurs prior to the Maturity Date and the Noteholder, by exercising its sole discretion, decides not to exercise the Conversion Right (as defined below), the interest shall be calculated at 5.8% per annum compounded annually and a premium that is equivalent to the difference between the interest payment calculated at an interest rate of 8% per annum (compounded annually) and that calculated at an interest rate of 5.8% per annum (compounded annually) for the period commencing on 7 September 2006 up to and excluding the Maturity Date, reduced by any other payment received by the Noteholder under the Convertible Note (if any) prior to the Maturity Date.

The Noteholder shall have the right to convert ("Conversion Right") the whole of (but not part of) the outstanding principal amount of the Convertible Note into the ordinary shares of par value of US$0.0001 each in the capital of Hidili Investment ("Hidili Share(s)") at any time up to the Maturity Date.

The conversion will be calculated as follow:

Price per Hidili Share to be converted = US$42 million ÷ Number of Hidili Share to be issued
(subject to adjustment)

Number of Hidili Share to be issued will be adjusted with reference to the amount of the net profit after tax and extraordinary item of Hidili Investment for the year ended 31 December 2006 (the "2006 Adjusted Net Profit"). The Noteholder is able to convert the Convertible Note into the number of Hidili Share from the range of 16.67% to 25% of the enlarged share capital of Hidili Investment. In addition, the Group needs to pay the compensation to the Noteholder if the 2006 Adjusted Net Profit is less than RMB336 million.

With reference to the 2006 Adjusted Net Profit, a total of 2,500,000 Hidili Shares shall be allotted and issued upon the conversion in full of the Convertible Note which represented 20% of the enlarged share capital of Hidili Investment.

32. CONVERTIBLE NOTE *(continued)*

In addition, there shall be mandatory conversion of the Convertible Note in the event of (a) a Qualified IPO; or (b) a merger, sale, consolidation or reorganisation of any member of the Group with, to or into, one or more corporations or any other entity(ies) (other than a merger, sale, consolidation or reorganisation involving only members of the Group) (a "Corporate Transaction") or a series of related Corporate Transactions in which the relevant member of the Group or its shareholders immediately prior to such Corporate Transactions will not, as a result of or subsequent to the Corporate Transactions, hold a majority of the voting power of the surviving or resulting entity, or a sale of substantially all of the assets or business of the Group at a total equity value of no less than US$450 million and involving payment to the Group or its shareholders only in cash in a freely convertible currency ("Qualified Trade Sale"). In the case of a Qualified IPO, subject to all applicable laws and regulatory requirements, mandatorial conversion shall take place immediately upon the Company having passed the formal hearing by the listing committee of the Stock Exchange. However, there is no obligation for the Noteholder to mandatory convert the Convertible Note if there is a listing of the shares of the Company on any stock exchange but where such listing does not meet the Qualified IPO criteria. In the case of a Qualified Trade Sale, mandatory conversion shall take place simultaneously with the completion of such Qualified Trade Sale.

The Convertible Note with embedded derivatives were fair valued by the then sole director with reference to a valuation report issued by Sallmanns (Far East) Limited, independent and recognised international business valuer, on 31 December 2006. The change in fair value of the Convertible Note with embedded derivatives of approximately RMB292,628,000 was recognised in the consolidated income statement for the year ended 31 December 2006.

The assumptions adopted for the valuation of the Convertible Note are as follow:

(1) The estimation of risk free rate has made reference to the yield of Exchange Fund Notes with same duration as the Convertible Note;

(2) The estimation of volatility for the underlying share price has considered the historical price movements of those companies engaged in relatively similar industry;

(3) The dividend yield on the share of the Company is approximately 0% per annum; and

(4) The discount for lack of marketability for lock up periods and unsuccessfully listing is approximately 21%.

The fair value of the Convertible Note was calculated using the Binomial model. The input into the model were as follow:

	25 May 2007	31 December 2006
Expected value of the shares on valuation date	US$41.23	US$34.07
Exercise price	US$16.8	US$16.8
Expected volatility	37%	36%
Expected life	5 years	5 years
Risk-free rate	4.8%	4.7%
Expected dividend yield	0%	0%

32. CONVERTIBLE NOTE *(continued)*

On 23 May 2007, Hidili Investment and the Noteholder entered into two amending deeds in relation to the Convertible Note pursuant to which the Noteholder agreed that, among other things, conditional upon trading of the Shares on the Stock Exchange having commenced on or before 15 August 2007 (the "Long Stop Date"), it would waive its right to receive any interest under the Convertible Note. In addition, in the event that an initial public offering on the Stock Exchange does not take place on or before the Long Stop Date or such later date as agreed by Hidili Investment and the Noteholder, the Noteholder has the right to require Hidili Investment to procure the Company to repurchase the shares held by the Noteholder in the Company to the extent permitted by the relevant law and issue and deliver a convertible note containing the same terms as the Convertible Note to the Noteholder within five days after the Long Stop Date.

On 25 May 2007, the Noteholder exercised the Conversion Right and served a conversion notice on Hidili Investment. Hidili Investment allotted and issued 2,500,000 shares to the Noteholder on 1 June 2007 pursuant to the Convertible Note. The conversion price per share in Hidili Investment was US$16.80 (equivalent to approximately RMB128.5).

The change in fair value of the Convertible Note with embedded derivatives of approximately RMB65,602,000 during the period from 1 January 2007 to the date of conversion has been recognised in the consolidated income statement for the year.

33. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2006, Mr. Xian Yang, waived a loan to the Group amounting to RMB3,849,000.

34. OPERATING LEASE COMMITMENTS

Minimum lease payments paid under operating leases during the year:

	2007 RMB'000	2006 RMB'000
Premises	4,759	4,876

At the balance sheet date, the Group had outstanding commitments payable under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2007 RMB'000	2006 RMB'000
Within one year	34,248	3,874
Between two and five years	4,702	8,054
Over five years	733	1,600
	39,683	13,528

Operating lease payment represents rentals payable by the Group for its warehouses and office premises. Lease terms are ranged from one to ten years with fixed rental.

35. CAPITAL COMMITMENTS

	2007 RMB'000	2006 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	48,565	88,320

During the year ended 31 December 2007, the Group entered into a memorandum of undertaking with a coal mine owner to acquire a coal mine in Guizhou, the PRC at a consideration of not more than RMB50 million. Up to 31 December 2007, the Group had paid RMB24 million as the deposit.

36. PLEDGE OF ASSETS

Other than as disclosed in note 27, at the balance sheet date, the Group pledged the following assets to banks for credit facilities granted to the Group:

	2007 RMB'000	2006 RMB'000
Property, plant and equipment	430,536	153,205
Bank deposits	1,248,682	68,577
Prepaid lease payment	6,259	6,395
	1,685,477	228,177

37. RELATED PARTY DISCLOSURES

During the year, the Group had the following transactions with related parties:

Name of related party	Relationship	Nature of transactions	2007 RMB'000	2006 RMB'000
Hengwei Zhitai	A company ultimately owned by Mr. Xian Fan, brother of Mr. Xian Yang	Sale of goods by the Group	—	1,209
Mr. Xian Jilun	Father of Mr. Xian Yang	Rental payable by the Group	1,200	950

In addition, during the year ended 31 December 2006, Mr. Xian Yang waived an amount of RMB3,849,000 due from the Group and the amount was credited against the special reserve.

As at 31 December 2006, bank borrowings of RMB60,000,000 was guaranteed by Mr. Xian Yang and bank borrowings of RMB40,000,000 was jointly guaranteed by Mr. Xian and Mr. Wang Rong. The guarantees were released during the year ended 31 December 2007.

37. RELATED PARTY DISCLOSURES *(continued)*

Other than the emoluments paid to the directors of the Company, who are also considered as the key management of the Group as set out in note 12, the Group did not have any other significant compensation to key management personnel.

38. RETIREMENT BENEFITS SCHEME

The Group participates in a defined contribution retirement scheme organised by the relevant local government authorities in the PRC. Eligible employees of the Group being participated in the retirement scheme are entitled to retirement benefits from the scheme. The local government authority is responsible for the pension liabilities to these retired employees. The Group is required to make monthly contributions to the retirement scheme up to the time of retirement of the eligible employees, at 20% of the local standard basic salaries.

As at 31 December 2007 and 2006, the Group had no significant obligation apart from the contributions as stated above.

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries as at 31 December 2007 are as follows:

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Hidili Investment	BVI	US$1,250	100%	—	Investment holding
Sichuan Hidili	The PRC	RMB50,000,000	—	100%	Manufacture and sale of clean coal
Tiandaoqin	The PRC	RMB10,000,000	—	100%	Sale of coal and coal products
Yanjiang	The PRC	RMB5,000,000	—	100%	Coal mining and development
Hidili Coal	The PRC	RMB121,000,000	—	100%	Coal mining, manufacture and sale of coke and clean coal
Yangfan	The PRC	RMB10,000,000	—	100%	Sale of coal and coal products
Sanlian Transportation	The PRC	RMB6,800,000	—	100%	Provision of transportation services
Liupanshui Hidili Industry Company Limited	The PRC	RMB50,000,000	—	100%	Mine holding and development
Panxian Ciaozi Industry & Trading Company Limited	The PRC	Paid-up capital: RMB2,000,000 Registered capital: RMB5,000,000	—	70%	Mine holding and development

The above companies are limited liabilities companies.

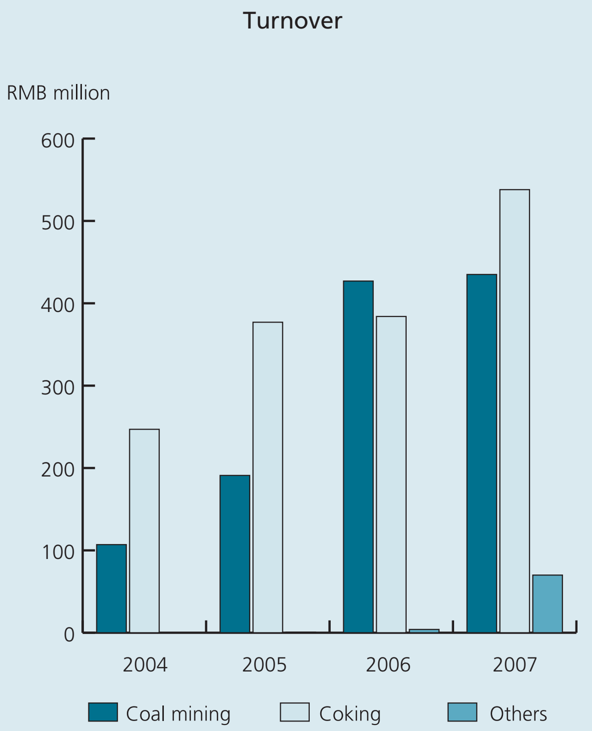
The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

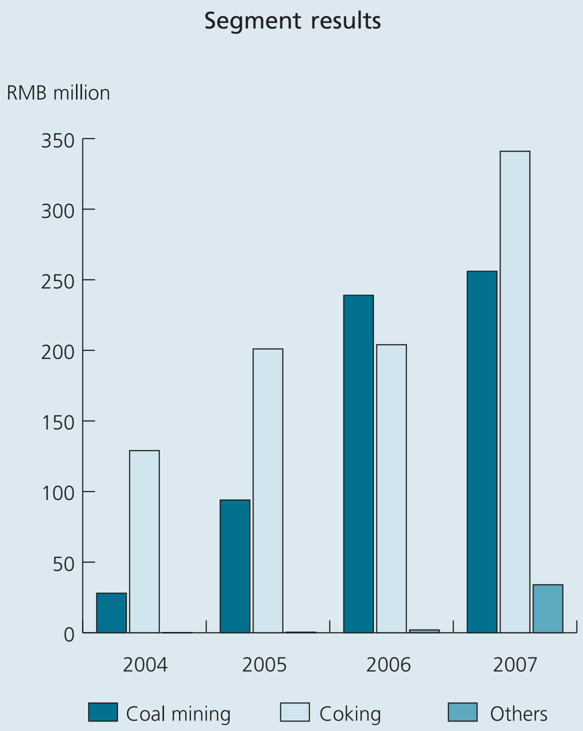
None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

Financial Summary

	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000
Turnover	1,042,541	814,832	568,694	353,419
Profit attributable to equity holders of the Company	570,289	89,677	221,720	120,289

Segment analysis





	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000
Turnover				
Coal mining	434,553	427,218	191,153	106,613
Coking	537,580	383,607	376,825	246,619
Others	70,408	4,007	716	187
Segment results				
Coal mining	256,142	238,578	93,845	27,911
Coking	341,361	203,750	201,055	129,469
Others	33,693	1,906	397	45

	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000
Non-current assets	**2,689,235**	821,215	538,592	332,726
Current assets	**4,352,264**	825,838	607,513	321,397
Current liabilities	**(2,019,916)**	(778,270)	(708,224)	(403,626)
Non-current liabilities	**(6,116)**	(623,811)	(7,443)	(847)
Total equity	**5,015,467**	244,972	430,438	249,650
Minority interests	**(6,982)**	—	—	—
Equity attributable to equity holders of the parent	**5,008,485**	244,972	430,438	249,650

Notes:

1. *The financial information for each of the three years ended 31 December 2006 has been prepared upon the Reorganisation as if the group structure, at the time when the Company's shares were listed on the Stock Exchange, had been in existence throughout the years concerned. The results for the three years ended 31 December 2006, and the assets and liabilities as at 31 December 2004, 2005 and 2006 have been extracted from the Company's prospectus dated 10 September 2007.*

2. *The results for the year ended 31 December 2007, and the assets and liabilities as at 31 December 2007 have been extracted from the audited consolidated income statement and audited consolidated balance sheet as set out on pages 32, 33 and 34, respectively, of the annual report.*

Hidili Industry International Development Limited
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