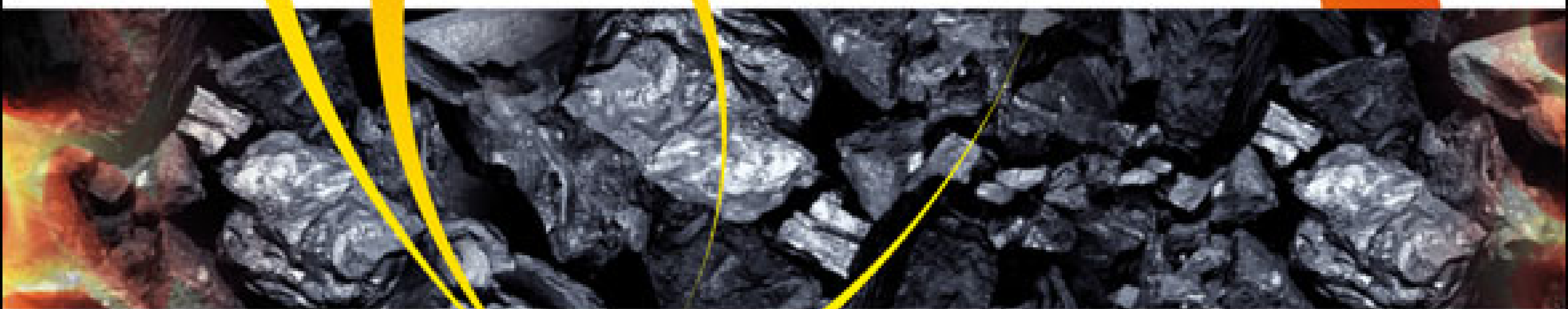
Hidili 恒鼎

Hidili Industry International Development Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code: 1393



2008

Annual Report

Contents

Corporate Information

DIRECTORS

EXECUTIVE DIRECTORS

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

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. Wang Zhiguo
Mr. Xian Yang

AUDITORS

Deloitte Touche Tohmatsu
Certified public accountants
35th Floor, One Pacific Place
88 Queensway
Hong Kong

COMPANY SECRETARY

Mr. Chan Bing Chung, *HKICPA, FCCA*

AUTHORIZED REPRESENTATIVES

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

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STOCK CODE

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PRINCIPAL BANKERS

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Chairman's Statement

To the respectful shareholders of Hidili Industry International Development Limited,

With the support of the shareholders and the concerted efforts of our staff, although facing the impacts of natural disasters of snow storms in the beginning of the year, the earthquake in Sichuan and the dramatic fluctuation of prices of coal and coke products during the year, Hidili Industry International Development Limited (the "Company") achieved encouraging results in 2008. On behalf of the board ("Board") of the directors (the "Directors") of the Company, I am pleased to present the 2008 Annual Report and the operating results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2008 to the shareholders as follows.

The Board does not recommend a payment of final dividend for the year ended 31 December 2008.

The audit committee of the Company has reviewed the Group's results for the year ended 31 December 2008.

PERFORMANCE OF THE COMPANY'S SHARES

As at 31 December 2008, the closing price of the Company's shares on the Stock Exchange of Hong Kong Limited ("Stock Exchange") was HK$2.44, decreasing by approximately 79.63% from the closing price as at 31 December 2007 (or approximately 78.86% on an ex-dividend basis), while Heng Seng Index dropped by approximately 48.27%, and other coal companies listed in Hong Kong dropped by approximately 69.81% on average for the same period.

Compared to the stock price of the Company ranging above HK$10 and once hitting HK$15.20 before August 2008, it nosedived to below HK$2 thereafter and bottomed at the record HK$0.80, finally staying at around HK$2.50. The significant volatility is attributable to the sluggish steel industry where we marketed and the price slump of coal and coke amid the global financial crisis and the investors worried about the Company's ability to react against the backdrop of the economy upheaval.

In the future, we will further enhance communications with our investors, and within the scope of disclosure requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), update our shareholders as comprehensive and as soon as possible on our development strategy and business growth.

THE COMPANY'S OPERATION

The Company achieved a revenue and a profit attributable to the equity holders of the Company of approximately RMB 2,488.4 million and RMB 1,003.4 million respectively for its operations for the year ended 31 December 2008, representing a growth of 138.7% and 75.9% respectively as compared with the previous year, and this was mainly attributable to the increase in both sales volume and average selling prices of products in the first three quarters of 2008 resulting from the optimistic estimation of booming demand in steel industry by the state-owned steel manufacturing companies.

The Company has produced approximately 2.8 million tonnes of raw coal, approximately 1.7 million tonnes of clean coal and approximately 0.7 million tonnes of coke in 2008, representing a steady increase over the production level in 2007 with the start-up operation in Guizhou province, in which approximately 1.8 million tonnes of raw coal, 0.9 million tonnes of clean coal and 0.5 million tonnes of coke were produced in Panzhihua region while approximately 1.0 million tonnes of raw coal, 0.8 million tonnes of clean coal and 0.2 million tonnes of coke were produced in Liupanshui, Guizhou Province.

To penetrate south-western domestic market and speed up the business operation in Guizhou region with a favourable coal market, the Company began to purchase raw coal for processing from the first half of 2008. The sales volume of clean coal and coke recorded for the whole year amounted to approximately 0.9 million tonnes and 0.7 million tonnes respectively, representing growths of approximately 46.7% and 32.5% respectively over the same period last year. Revenue for the year 2008 comprised of sales of clean coal, coke and by-products and other products of approximately RMB1,130.8 million, RMB1,212.5 million and RMB145.1 million respectively, representing approximately 45.4%, 48.7% and 5.9% to total revenue respectively. Average selling prices of clean coal and coke for the year amounted to RMB1,311.9 and RMB1,777.7 per tonne respectively. The average selling prices of clean coal and coke in the first quarter of 2009 tended to be relatively stable and maintained at around RMB1,000 and RMB1,200 per tonne respectively.

On customer development, the Company has successfully extended its customer coverage to large-scale steel enterprises in south-western China, putting an end to the previous high reliance on Panzhihua Steel Group. The Group's five largest customers for the year were 柳州鋼鐵股份有限公司 (Liuzhou Iron & Steel Company Limited*), 攀鋼集團成都鋼鐵有限責任公司 (Panzhihua Steel Group Chengdu Iron & Steel Company Limited*), 廣東韶關松山股份有限公司 (SGIS Songshan Company Limited*), 攀鋼集團 (Panzhihua Steel Group*) and 廣西貴港鋼鐵集團有限公司 (GuangXi GuiGang Iron & Steel Group Company Limited*), representing approximately 31.6%, 21.0%, 13.4%, 9.8% and 7.2% to total revenue respectively.

In terms of operation, we were dedicated to innovate our management on the basis of the Company's environment. We have effectively controlled our operating costs with our persistent perfection of our cost control system. During the year, the Company's coal mining cash cost amounted to RMB110 per tonne of raw coal production, representing an increase of 5.8% as compared to last year. The increase was mainly attributable to the rising purchase costs of raw materials costs and direct labour costs brought about by the macro economic growth. Besides, the coal mining cash cost was higher in Guizhou region as compared to Panzhihua region as the development of coal mines was still in progress during the year. The average production costs of clean coal and coke of the Company for the year amounted to RMB517 and RMB702 per tonne, representing an increase of 52.4% and 93.4% over 2007 respectively resulting from the purchase of raw coal from external suppliers with average cost of RMB670 per tonne of raw coal for further production in Guizhou region. The processing costs of clean coal and coke for the year were maintained at approximately RMB25 and RMB55 per tonne respectively. In the year 2009, upon the completion of the development of the coal mines in Guizhou region, raw coal production scale can be enlarged and better quality of coal seam can be exploited and accordingly, no purchase of raw coal from external suppliers will be necessary. The Company considered that both the coal mining cash cost and the average production costs of clean coal and coke can be lowered. In addition, with enlargement of the production capacity and the upgrade of efficiency, the sharing of the distribution expenses and administrative expenses to each tonne of raw coal produced can be decreased. Accordingly, it will lead to a reduction of the breakeven point for the year 2009.

In line with its strategic planning in Guizhou province to take over quality coal resources, the Company further acquired 6 coal mines in the region with a total reserve of approximately 205 million tonnes during the year, which were financed by the proceeds from its global offering.

The Company continued its prudent financial management policy to maintain a sound financial position. As at 31 December 2008, the Company recorded bank balance and cash of approximately RMB694.8 million, net current assets of RMB635.6 million, bank borrowings of approximately RMB160 million, debts-to-assets ratio of 19.4% and gearing ratio of 2.2% respectively. Bills and trade receivables amounted to approximately RMB686.2 million with debtors turnover rate of approximately 101 days, a slight increase of 5 days as compared to 96 days of last year.

Environmental protection and safety management have always been our top priority in our business development. In 2008, the fatality rate of the Company's raw coal production was zero per million tonnes, lower than the average fatality rate of 1.182 per million tonnes for coal production in China.

EXTRACT OF THE SIGNIFICANT EVENTS OF THE YEAR

In January 2008, the Group leased two coal washing plants and a coking plant in Guizhou province to process our raw coal produced. In the same month, the Group acquired a coal mine with coal reserves of approximately 5 million tonnes (in accordance with the estimation under the PRC coal reserves standard) in Guizhou province.

In March 2008, the Group completed the remittance of the IPO proceeds back to PRC.

In April 2008, the Group announced the annual results for the year 2007. Behre Dolbear, an independent technical adviser, reported the proved and probable coal reserves of 10 coal mines acquired by the Group in Guizhou province using the IPO proceeds (including 9 coal mines acquired during October to December 2007 and 1 coal mine acquired in January 2008) amounted to approximately 250 million tonnes (in accordance with JORC standard).

In May 2008, an earthquake occurred in Wenchuan. Fortunately, the Group's coal mines together with all production facilities have not been affected. The Group associated with all its staffs made a donation of approximately RMB7.4 million to the victims of the earthquake.

In June 2008, the Company's annual general meeting was held. A cash dividend of RMB8.4 cents per share to the shareholders as a final dividend for the year 2007 was approved.

During May and June 2008, the Group further acquired two coal mines in Guizhou province with an aggregate of coal reserves of approximately 80 million tonnes (in accordance with the estimation under the PRC coal reserves standard).

On 14 July 2008, the Group changed its operating model by entering into acquisition agreement to acquire two coal washing plants and a coking plant (originally leased by the Group in January 2008) with total consideration of RMB127.5 million. The acquisition was completed on 31 July 2008. Besides, the Group acquired a consecutive right on the same day. Two companies in Guizhou province will jointly provided railway logistic service for a guaranteed annual delivery volume of not less than 900,000 tonnes for the Group's clean coal and coke over a period of 30 years.

On 30 August 2008, an earthquake occurred in Panzhihua. Immediately, the production in all the Group's coal mines in Panzhihua was suspended for safety checking. The coal mines passed the safety checking and restarted production from 8 September 2008. Accordingly, the coal production for the month recorded a decrease.

In September 2008, as the steel demand led a continuing and rapid growth from the beginning of the year, it put the selling prices of the Group's coal products to the highest level. The average selling prices of the Group's principal products of clean coal and coke for the month amounted to RMB1,800 per tone and RMB2,100 per tone respectively.

On 28 November 2008, the Company's subsidiary 四川恒鼎實業有限公司 (Sichuan Hidili Industry Company Limited*) passed the international management system authentication of ISO14001 and OHSAS18001.

During October to December 2008, the Group further acquired three coal mines in Guizhou province with an aggregate of coal reserves of approximately 120 million tonnes (in accordance with the estimation of PRC coal reserves standard).

During November and December 2008, with the impact of the global financial crisis, demand for steel dramatically dropped. It struck the selling price of the Group's coal products. The average selling prices for the Group's principal product, clean coal and coke decreased to RMB960 per tonne and RMB1,100 per tonne respectively.

OUTLOOK

The Company's business operation in 2009, in the aftermath of the global financial crisis spreading to real economy, is bound to face a wide array of challenges. As fully understood by us, while weak product prices are squeezing our profit margin, the sale pressure from downstream steel market will have an impact on our stable operation in the upstream industry chain. In 2009, we are committed to cutting down production cost on the bottom line, and on the top line, taking efforts in exploring new market. However, the management believes that China economy is to gradually pick up its momentum in the coming three years, with an expected recovery after 2010 and 2011.

The Company's resource landscape around Pan county in Liupanshui, Guizhou province has taken shape. In the coming two years, our focus will be placed on coal mine construction, as well as nurturing and gathering managerial talents and establishing a scientifically-managed coal mining team. We will gradually complete the construction of 20 existing coal mines in Pan county as scheduled, aiming at raw coal production at 2 million tonnes by 2009, 3.5 million tonnes by 2010, and 8 million tonnes under full capacity by the end of 2011. We believe that the Company is well positioned for revenue growth in the foreseeable future with the releasing of its capacity and demand growth on the back of industry recovery.

With reference to the development in Panzhihua, Sichuan province and Pan county, Guizhou province, we have worked out a guideline to further our development by capturing the opportunity under the mining resource consolidation program of small to medium coal mines imposed by the Chinese government, aiming to become the consolidator of small to medium coal mines in China. To benefit from macro economy and policy direction without compromising the long-term stable growth, the Company will selectively acquire quality resources of coking coal in Yunnan and Guizhou provinces at relatively low cost.

The economic depression also provides the Company opportunities to attain working capital and project funding at low financing cost for its expansion. Meanwhile, given its favourable low gearing ratio, the Company will seek financial leverage to obtain capital for acquiring coal mine resources on a prudent and rational basis, to catch the precious opportunity for merger and acquisition.

Looking into 2009, we will never be too optimistic to expand arbitrarily, nor too pessimistic to miss the boat. In light of its prudent and sound operating guideline, the Company will uphold its commitment to consolidation of quality coal mine resources in China as ever. We are confident and poised to go along with China's economy in the coming two years.

By order of the Board
Xian Yang
Chairman

Panzhihua, the PRC
31 March 2009

* *For identification purpose only*

FINANCIAL REVIEW

TURNOVER

During the year, turnover of the Group reached approximately RMB2,488.4 million, representing a sharp increase of approximately 138.7%, as compared with approximately RMB1,042.5 million in the year 2007. The increase was primarily attributable to the increase in sales volumes and average selling prices of the principal products and by-products resulting from the expansion of operation in Pan county, Guizhou province and the rapid growth in average selling prices of clean coal and coke throughout the first three quarters of 2008. The sales volume recorded for clean coal and coke during the year amounted to approximately 862,000 tonnes and 682,000 tonnes respectively as compared to approximately 588,000 tonnes and 515,000 tonnes respectively in 2007, representing an increase in volume of approximately of 46.6% and 32.4% respectively. The average selling price for the year 2008 of both clean coal and coke increase significantly from RMB650.9 per tonne and RMB1,010.9 per tonne respectively in 2007 to RMB1,311.9 per tonne and RMB1,777.7 per tonne respectively. Benefiting from the keen demand of coking coal products from State-owned steel manufacturing companies with optimistic estimation of booming demand in steel industry, the selling prices of clean coal and coke hit the highest level of RMB1,800 per tonne and RMB2,100 per tonne respectively in September 2008. However, with the sudden impact of the global financial crisis, the average selling prices of clean coal and coke dropped dramatically in the last quarter to RMB960 per tonne and RMB1,100 per tonne respectively. With the strong support in the first three quarters of 2008, the average selling prices of clean coal and coke for the year still led an increase of RMB661 per tonne, or 101.6%, and RMB766.8 per tonne, or 75.9%, respectively, as compared with the average selling prices in 2007.

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 2007:

	2008			2007		
	Turnover	**Sales volume**	**Average selling price**	Turnover	Sales volume	Average selling price
	RMB'000	**(thousand *tonnes)***	**(RMB/ *tonne)***	*RMB'000*	(thousand *tonnes)*	(RMB/ *tonne)*
Principal products						
Clean coal	**1,130,830**	**862.0**	**1,311.9**	382,402	587.5	650.9
Coke	**1,212,540**	**682.1**	**1,777.7**	520,245	514.6	1,010.9
Principal products total	**2,343,370**			902,647		
By-products						
High-ash thermal coal	**80,685**	**467.2**	**172.7**	29,544	272.1	108.6
Coal tar	**29,884**	**16.5**	**1,807.2**	17,335	12.8	1,354.1
Titanium slag	**—**	**—**	**—**	13,582	13.1	1,036.4
Other by-products	**—**	**—**	**—**	128	—	—
By-products total	**110,569**			60,589		
Other products						
Alloy pig iron	**—**	**—**	**—**	56,698	25.9	2,189.4
Raw coal	**23,316**	**74.8**	**311.7**	22,607	61.7	366.5
Benzene	**9,886**	**3.2**	**3,128.1**	—	—	—
Others	**1,308**	**—**	**—**	—	—	—
Other products total	**34,510**			79,305		
Total turnover	**2,488,449**			1,042,541		

COST OF SALES

Cost of sales for the year was approximately RMB942.4 million, representing an increase of approximately RMB578.3 million, or approximately 158.8%, as compared with approximately RMB364.1 million in 2007. 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.

The following table set forth the unit production costs of the respective segment.

	2008	2007
	RMB per tonne	*RMB per tonne*
Coal mining		
Cash cost	**110**	104
Depreciation and amortisation	**20**	16
Total production cost	**130**	120
Purchased raw coal	**670**	—
Average cost of raw coal	**235**	120
Average cost of clean coal	**517**	246
Average cost of coke	**702**	363

Material, fuel and power costs for the year were approximately RMB664.5 million, representing an increase of approximately RMB508.7 million, or approximately 326.5%, as compared with approximately RMB155.8 million in 2007. The significant increase was primarily due to (i) the enlarged production volumes of clean coal and coke in Pan county, Guizhou province and (ii) purchase of raw coal from external suppliers for further production in Guizhou province.

In the year 2008, the raw coal production volume in Panzhihua experienced a slight decrease of approximately 19.1% resulting from the coal mining consolidation and the earthquake in late August. Resulting from the expansion of the Group's operation through development and acquisitions in Guizhou province, the production volume of respective products led a significant increase in 2008.

The following table illustrates the production volume of the principal products in Panzhihua, Sichuan province and Pan county, Guizhou province.

Principal products	**2008 Panzhihua Production volume ('000 tonnes)**	**2008 Pan county Production volume ('000 tonnes)**	**2008 Total Production volume ('000 tonnes)**	2007 Panzhihua Production volume ('000 tonnes)	2007 Pan county Production volume ('000 tonnes)	2007 Total Production volume ('000 tonnes)
Raw coal production	**1,787**	**1011**	**2,798**	2,210	65	2,275
Raw coal purchased	**—**	**680**	**680**	—	—	—
Clean coal	**868**	**794**	**1,662**	1,192	—	1,192
Coke	**502**	**167**	**669**	514	—	514

To support the commencement of coal washing and coking operation since early January 2008 in Guizhou province, the Group purchased approximately 680,000 tonnes of raw coal from external suppliers amounting to RMB455.7 million. Accordingly, the purchased cost of the raw coal gave rise to a substantial increase in total production cost of clean coal and coke.

Staff costs for the year were approximately RMB161.8 million, representing an increase of approximately RMB38.7 million, or approximately 31.4%, as compared with approximately RMB123.1 million in 2007. The increase was primarily attributable to the increase in number of mine workers to 5,069 during the year resulting from the commencement of coal production in Guizhou province and the rising wages in line with the enlarged production volumes.

Depreciation and amortization for the year were approximately RMB65.9 million, representing an increase of approximately RMB14.6 million, or approximately 28.5%, as compared with approximately RMB51.3 million in 2007. The increase was primarily attributable to the additional capital expenditure incurred in connection with the coal mines and the acquisition of coal washing and coking plants in Guizhou province during the year.

GROSS PROFIT

As a result of the foregoing, the gross profit for the year was approximately RMB1,546.1 million, representing an increase of approximately RMB867.7 million or approximately 127.9%, as compared with approximately RMB678.4 million in 2007. The gross profit margin was approximately 62.1% as compared with approximately 65.1% in 2007.

OTHER INCOME

Other income for the year amounted to approximately RMB34.2 million, representing a decrease of approximately RMB248.9 million or approximately 87.9%, as compared with approximately RMB283.1 million in 2007. The decrease was mainly related to the interest income arising from subscription monies received in the initial global offering ("IPO") of the Company's shares in September 2007 of approximately RMB188.2 million and increase in other bank interest income arising from IPO money received (increasing the Group's average bank balances in 2007) and the government grant of RMB30 million in 2007.

DISTRIBUTION EXPENSES

Distribution expenses for the year were approximately RMB208.9 million, representing an increase of approximately RMB160 million or approximately 327.2%, as compared to approximately RMB48.9 million in 2007. The increase was primarily attributable to (i) the increase in transportation costs resulting from the increase in sales volumes of the Group's products, (ii) the increase in the government levies over clean coal and coke in Panzhihua and Pan county with the average charging rate increasing from RMB19 and 22 per tonne respectively in 2007 to RMB79 and RMB53 per tonne respectively for the year and (iii) the railway logistic charges incurred in Guizhou province.

ADMINISTRATIVE EXPENSES

Administrative expenses were approximately RMB233.5 million, representing an increase of approximately RMB23.3 million or approximately 11.1%, as compared with approximately RMB210.2 million in 2007. During the year, the saving of approximately RMB64 million from the one-time charges of IPO expenses of approximately RMB44.1 million in 2007 and an exchange loss of approximately RMB20 million resulting from the appreciation of RMB to Hong Kong dollars was fully used up by the increase in administrative expenses in Guizhou province and the legal and professional expenses.

NET LOSS ON DERIVATIVES AND HELD-FOR-TRADING INVESTMENTS

The amount represented the net impact of a loss on fair value change of outstanding derivative financial instruments of approximately RMB1.9 million, a gain on derivative financial instrument of approximately RMB10.1 million which matured during the year and the change in fair value of financial assets classified as held-for-trading investments of approximately RMB48.4 million. The derivative financial instrument entered into during the year by the Group principally related to foreign currency forward exchange contracts. The Group aimed at hedging against the appreciation of RMB. The held-for-trading investments represented the Group's investment in certain A shares.

FINANCE COSTS

Finance costs for the year amounted to approximately RMB32.4 million, representing a decrease of approximately RMB6.4 million or approximately 16.5%, as compared with approximately RMB38.8 million in 2007. The decrease in finance costs was mainly attributable to the settlement of the Group's borrowing from RMB1,333.9 million to RMB160 million during the year and the decrease of advances drawn on bills receivable discounted during the year.

INCOME TAX EXPENSE

Income tax expense during the year was approximately RMB62.9 million, representing an increase of approximately RMB40.4 million or approximately 179.6%, as compared with approximately RMB22.5 million in 2007. The amount of income tax expense represented EIT of approximately RMB29.1 million and deferred tax of approximately RMB33.8 million arising from the withholding tax upon distribution of profits earned by the PRC subsidiaries since 1 January 2008. For the current year EIT, the effective tax rate decreased to approximately 2.7% as compared with approximately 3.8% in 2007. Such decrease was mainly attributable to the overprovision of EIT in prior years of approximately RMB15.9 million.

PROFIT FOR THE YEAR

As a result of the foregoing, the profit attributable to equity holders of the Company for the year was approximately RMB1,003.4 million, representing an increase of approximately RMB433.1 million or approximately 75.9%, as compared with approximately RMB570.3 million in 2007. The net profit margin was 40.3% for the year as compared with approximately 54.7% in 2007.

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 and short-term bank borrowings. The expansion of operation in Guizhou province was mainly funded by the proceeds arising from the IPO in 2007.

The net current assets as at 31 December 2008 were approximately RMB635.6 million (2007: RMB2,332.3 million). As at 31 December 2008, the bank balances and cash of the Group amounted to approximately RMB694.8 million (2007: RMB2,560.8 million). The decrease was mainly attributable to the utilisation of funding for the capital investment through acquisitions and development in Guizhou province.

As at 31 December 2008, the total bank and other borrowings of the Group were RMB160 million (2007: RMB1,333.9 million), which are repayable within one year, with effective interest rates ranging from 6.83% to 8.217% per annum.

As at 31 December 2008, the Group's bank balances and cash, except amounts of approximately USD9.1 million and approximately HK$0.3 million, were held in RMB and all of its borrowings were held in RMB.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Group as at 31 December 2008 was 2.2% (2007: 18.9%)

PLEDGE OF ASSETS OF THE GROUP

Details of pledge of assets of the Group as at 31 December 2008 were set out in note 38 to the consolidated financial statements.

EMPLOYEES

As at 31 December 2008, the number of employees of the Group reached 9,006, 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) amounted to approximately RMB219.5 million (2007: RMB154.3 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 does not recommend the payment of a final dividend for the year ended 31 December 2008.

RISK IN FOREIGN EXCHANGE

Since all of the Group's business activities are transacted in RMB, the Directors consider that the Group's risk in foreign exchange is insignificant. Accordingly, the Group was only exposed to exchange rate risk arising from the foreign currency bank balance of approximately USD9.1 million.

SIGNIFICANT INVESTMENT HELD

The Group had invested in certain A shares in the PRC which amounted to approximately RMB23.1 million as at 31 December 2008.

The investment in A shares were stated at fair value. During the year, the Group recorded a loss on fair value of the investments which amounted to approximately RMB48.4 million. The Group will closely monitor the performance of the investment in A shares.

MATERIAL ACQUISITION AND DISPOSAL

(i) During the year, the Group entered into various sales and purchase agreements for the acquisition of 6 coal mines in Guizhou province at an aggregate consideration of approximately RMB1,829 million.

(ii) On 14 July 2008, the Group entered into agreements for acquisition of 70% equity interests in each of 盤縣盤鑫焦化有限公司 (Panxian Panxin Coking Company Limited*) ("Panxin Coking") and 盤縣盤翼選煤有限公司 (Panxian Panyi Coal Washing Company Limited*) ("Panyi Coal Washing") with an aggregate consideration of RMB127.5 million. The acquisition was completed on 31 July 2008.

(iii) On 14 July 2008, the Group entered into agreements for acquisition of 37% equity interests in each of 盤縣盤實物流配送有限公司 (Panxian Panshi Logistic Distribution Company Limited*) ("Panxian Panshi") and 盤縣盤鷹物流配送有限公司 (Panxian Panying Logistic Distribution Company Limited*) ("Panxian Panying") in order to obtain a consecutive right for the provision of railway logistic service jointly rendered by Panxian Panshi and Panxian Panying in Pan county, Guizhou province for a guaranteed delivery volume of not less than 900,000 tonnes per annum of the Group's clean coal and coke for a term of 30 years. The consideration for the consecutive right amounted to RMB114 million. The acquisition was completed on 31 July 2008.

CONTINGENT LIABILITIES

As at 31 December 2008, the Group did not have any material contingent liabilities.

CONNECTED TRANSACTION

(i) During the year, rental expenses amounting to RMB1.2 million were paid to Mr. Xian Jilun, father of Mr. Xian Yang, controlling shareholder of the Company and Director, for the leasing of the Company's head office located at 16th Floor 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.

(ii) During the year, transportation costs of approximately RMB9 million and RMB2 million were paid to Panxian Panshi and Panxian Panying respectively, for the provision of railway logistic services. 雲南凱捷實業有限公司 (Yunnan Kaijie Industry Company Limited*) ("Yunnan Kaijie"), the holder of 57% and 51% equity interest in Panxian Panshi and Panxian Panying respectively, is a substantial shareholder of each of Panxin Coking and Panyi Coal Washing. As Panxian Panshi and Panxian Panying occupy a monopolistic position of the local railway logistic service in Boguozhen, no relevant market price can be obtained. The pricing basis of the railway logistic service under the Framework Agreement is determined with reference to the pricing offered to other customers by Panxian Panshi and Panxian Panying and the current pricing adopted under the agreement made between the former shareholders of Panxian Panshi, Panxian Panying, Panxin Coking and Panyi Coal Washing, an agreed price consisting of the reasonable cost incurred and a reasonable profit margin.

OUTLOOK

SEEKING RAPID AND SUSTAINABLE GROWTH THROUGH ACQUISITIONS OF COAL RESOURCES

During the year, the Company has completed acquisition of 6 coal mines in Guizhou province. As at 31 December 2008, the Company has a total of approximately 567 million tonnes of coal reserve (in accordance with the estimation under the PRC coal reserves standard) from 20 coal mines acquired in Guizhou province. Adding up the 60 million tonnes of coal reserve in Panzhihua, the Group's total coal reserve reached 627 million tonnes.

The Company plans to speed up the development of the mining structure in the existing 20 coal mines in order to reach full capacity in the year 2011 and resulting in an annual production capacity of raw coal of approximately 8 million tonnes.

VERTICAL INTEGRATION OF PRODUCTION CAPACITY

During the year 2008, the Company maintained the core strategy to expand coal reserves through acquisition. The Company completed the acquisitions of two coal washing plants, a coking plant and 37% equity interests in two railway logistic service providers in Guizhou in order to ascertain vertical integration of production capacity. After the acquisitions, the Company had annual production capacity of clean coal and coke of 1,100,000 tonnes and 200,000 million tonnes respectively and a guaranteed delivery volume of 900,000 tonnes per annum of the Company's principal products. Accordingly, the production and sales of clean coal and coke in Guizhou experienced an outstanding increase.

DEVELOPMENT IN GUIZHOU PROVINCE

The Company believes that the macro austerity measures aiming at stimulating domestic demand, coupled with the 4 trillion economic stimulus packages of the State as well as the support plans for ten industries will ease and shorten the downturn in the steel industry, which is thereby poised to see a recovery in the PRC. Meanwhile, in early 2009, the State Council considered and basically approved the introduction of the support plans for the steel industry. The significant investment in construction will drive demand for industries such as steel materials. The Company considers that these measures can help stabilize the coking coal market.

Amidst a global economic recession, the Company will be able to seize opportunities to develop at low financing costs, expand its liquidity and funding for construction. On the other hand, considering its advantage of low gearing ratio and in order to grasp rare opportunities of acquisitions and mergers, the Company will make use of financial leverage in a prudent and reasonable manner to obtain funding for acquisition of coal mine resources. In the year 2009, the Company proposes to acquire coal mines in Guizhou province with additional coal reserves of 200 to 300 million tonnes.

In order to cater for the increasing raw coal output from the existing and future coal mines, the Company intends to further expand the coal washing and coking production capacity and the railway logistic distribution capacity in the coming two to three years. Considering the funding and effectiveness of the development of the production and distribution capacities, the Company will expose the cooperation with several state-owned steel manufacturers and railway logistic providers.

* *For identification purpose only*

EXECUTIVE DIRECTORS

Mr. XIAN Yang (鮮揚)

Mr. Xian, aged 35, 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 at 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 director of Sanlian Investment Holding Limited, a company which holds approximately 53.28% of the issued share capital of the Company.

Mr. SUN Jiankun (孫建坤)

Mr. Sun, aged 45, 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 36, 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 36, was a non-executive Director during the period between March 2007 and June 2008. Mr. Tsang resigned as non-executive Director on 18 June 2008. He joined the Board since March 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHAN Chi Hing (陳志興)

Mr. Chan, aged 45, is an independent non-executive Director. He joined the 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 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 company listed on the Main Board of the Stock Exchange.

Mr. WANG Zhiguo (王治國)

Mr. Wang, aged 69, is an independent non-executive Director. He joined the 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 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.

Mr. HUANG Rongsheng (黃容生)

Mr. Huang, aged 63, is an independent non-executive Director. He joined the 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 31, 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 34, 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 43, 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 38, 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.

Ms. CHU Lai Kuen (朱麗娟)

Ms. Chu, aged 40, is our chief financial officer. She is responsible for financial and accounting management of our Company. She is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Ms. Chu graduated from Hong Kong Polytechnic University with a bachelor's degree (Hons) in accountancy. Prior to joining the Company in October 2008, Ms. Chu has over 16 years of working experience in auditing and financial management.

Mr. Guo Li Hua (郭禮華)

Mr. Guo, aged 48, is our assistant to chief financial officer and compliance officer. He is responsible for financial reporting and compliance matters. He is a certified public accountant and a certified public valuer in the PRC. Mr. Guo graduated from Sichuan Normal College (四川師範學院). Prior to joining the Company in 2003, Mr. Guo has over 28 years of working experience in accounting and financial management.

COMPANY SECRETARY

Mr. CHAN Bing Chung (陳秉中)

Mr. Chan, aged 40, is the company secretary of our 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.

Directors' Report

The Directors present their annual report and the audited consolidated financial statement for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on pages 42 of this report.

The Directors do not recommend a payment of final dividend for the year ended 31 December 2008.

PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment of the Group for the year ended 31 December 2008 amounted to approximately RMB2,428 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 movements during the year in the share capital of the Company are set out in note 30 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

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 45 of this report.

As at 31 December 2008, the Company's reserves available for distribution to shareholders amounted to approximately RMB4.025 million.

PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2008 are set out in note 42 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on pages 95 and 96.

BORROWINGS

Details of the borrowings of the Group are set out in note 29 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2008, sales to the Group's five largest customers amounted to approximately RMB2,065.0 million, representing 83.0% of the total turnover of the Group. Sales to the single largest customer amounted to approximately RMB785.5 million, representing 31.6% of the total turnover of the Group.

For the year ended 31 December 2008, the amount of purchases made from the Group's five largest suppliers amounted to approximately RMB328.0 million, representing 38.0% of the total purchases of the Group. Purchase from the single largest supplier amounted to approximately RMB166.5 million, representing 19.3% of the total purchases of the Group.

For the year ended 31 December 2008, 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 of the Company during the year and up to the date of this report were as follows:

EXECUTIVE DIRECTORS

Mr. Xian Yang
Mr. Sun Jiankun
Mr. Wang Rong

NON-EXECUTIVE DIRECTOR

Mr. Tsang Kwong Yue Conrad (resigned on 18 June 2008)

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Biographical details of the above Directors are set out in the section headed "Profile of Directors and Senior Management" on pages 22 to 25 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. Each of the independent non-executive Directors has entered into a service agreement with the Company for an initial 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.

The remuneration of the Directors is principally determined by the balance of skill and experience appropriate to the Company's business.

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 2008, the Directors and chief executive of the Company had the following interests and /or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which are required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained 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 1)*	The Company	1,097,631,000	Interest of controlled corporation	53.3%
Mr. Xian	Sanlian Investment Holding Limited ("Sanlian Investment")	1,000	Beneficial owner	100%
Mr. Sun Jiankun ("Mr. Sun") *(Note 2)*	The Company	15,380,000	Interest of controlled corporation	0.8%
Mr. Sun	Able Accord Enterprises Limited ("Able Accord")	1	Beneficial owner	100%
Mr. Wang Rong ("Mr. Wang") *(Note 3)*	The Company	15,380,000	Interest of controlled corporation	0.8%
Mr. Wang	Pavlova Investment Limited ("Pavlova Investment")	1	Beneficial owner	100%

Notes:

1. The 1,097,631,000 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 1,097,631,000 shares held by Sanlian Investment by virtue of the SFO. Mr. Xian is also the sole director of Sanlian Investment.

2. The 15,380,000 shares of the Company are held by Able Accord, the entire issued share capital of which is held by Mr. Sun. Accordingly, Mr. Sun is deemed to be interested in 15,380,000 shares held by Able Accord by virtue of the SFO. Mr. Sun is also a director of Able Accord.

3. The 15,380,000 shares of the Company are held by Pavlova Investment, the entire issued share capital of which is held by Mr. Wang. Accordingly, Mr. Wang is deemed to be interested in 15,380,000 shares held by Pavlova Investment by virtue of the SFO. Mr. Sun is also a director of Pavlova Investment.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2008, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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 2008, the following persons, other than the Directors and chief executive of the Company, had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

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	1,097,631,000	Beneficial owner	53.3%
Mr. Xian *(Note 1)*	The Company	1,097,631,000	Interest of controlled corporation	53.3%

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
Ms. Qiao Qian *(Note 2)*	The Company	1,097,631,000	Interest of spouse	53.3%
Mr. Yu Zhengyong *(Note 3 and 4)*	盤縣次凹子工貿有限公司 (Panxian Ciaozi Industry and Trading Company Limited*) ("Ciaozi")	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%
雲南凱捷實業有限公司 (Yunnan Kaijie Industry Company Limited*) ("Yunnan Kaijie")	盤縣盤翼選煤有限公司 (Panxian Panyi Coal Washing Company Limited*) ("Panyi Coal Washing")	RMB4,500,000	Beneficial owner	30%
Yunnan Kaijie	盤縣盤鑫焦化有限公司 (Panxian Panxin Coking Company Limited*) ("Panxin Coking")	RMB21,000,000	Beneficial owner	30%

Notes:

1. The entire issued share capital of Sanlian Investment is owned by Mr. Xian. Mr. Xian is deemed to be interested in 1,097,631,000 shares of the Company held by Sanlian Investment by virtue of the SFO. Mr. Xian is the sole director of Sanlian Investment.

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 his interest disclosed above.

4. Up to 31 December 2008, Mr. Yu Zhengyong has paid up the registered capital of Ciaozi to the extent of RMB400,000.

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 as recorded in the register required to be 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 may compete with the business of the Group.

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

1. 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 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.

2. During the year, transportation costs of approximately RMB9 million and 2 million were paid to 盤縣盤實物流配送有限公司 (Panxian Panshi Logistic Distribution Company Limited*) ("Panxian Panshi") and 盤縣盤鷹物流配送有限公司 (Panxian Panying Logistic Distribution Company Limited*) ("Panxian Panying") respectively, for the provision of railway logistic services under the framework agreement dated 14 July 2008 (the "Framework Agreement"). Yunnan Kaijie, the holder of 57% and 51% equity interest in Panxian Panshi and Panxian Panying respectively, is a substantial shareholder of each of Panxin Coking and Panyi Coal Washing. As Panxian Panshi and Panxian Panying occupy a monopolistic position of the local railway logistic service in Boguozhen, no relevant market price can be obtained. The pricing basis of the railway logistic service under the Framework Agreement is determined with reference to the pricing offered to other customers by Panxian Panshi and Panxian Panying and the current pricing adopted under the agreement made between the former shareholders of Panxian Panshi, Panxian Panying, Panxin Coking and Panyi Coal Washing, an agreed price consisting of the reasonable cost incurred and a reasonable profit margin.

   The payment of transportation costs constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules. For detailed information on the above transaction, please refer to the circular published by the Company on 22 August 2008.

   The Board had approved and the independent non-executive Directors had reviewed the continuing connected transactions and they confirmed that the transactions were entered into: (i) in the ordinary and usual course of the Group's business; (ii) on normal commercial terms; and (iii) in accordance with the terms of the respective agreements governing such transactions on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

   The Board had received letter from Chan, Yim, Cheng & Co., a certified public accountants, that confirmed that: (i) the payment of the transportation costs had been approved by the board; (ii) the transaction had been entered into in accordance with the relevant agreement governing the transactions; and (iii) the transaction had not exceeded the cap disclosed in previous announcement.

AUDIT COMMITTEE

In compliance with Rule 3.21 of the Listing Rules and the Code on Corporate Governance Practice as set out in Appendix 14 to the Listing Rules ("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 consisted 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 2008.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the applicable 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 as set out in Appendix 10 to the Listing Rules as its own code 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 2008.

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.

Save as disclosed above, the Board is of the view that the Company has complied with the provisions of the Code during the year. 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 year.

SHARE OPTIONS

The Company has adopted a share option scheme on 25 August 2007 (the "Share Option Scheme"). During the year, 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 throughout the year ended 31 December 2008.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board of
Hidili Industry International Development Limited
Xian Yang
Chairman

Panzhihua, the PRC
31 March 2009

* *For identification purpose only*

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 maximizing Shareholders' interests. The Company has complied with the provision of the Code during the year, except for the deviation from code provision A.2.1 under the Code.

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 10 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 year ended 31 December 2008.

BOARD OF DIRECTORS

The Board currently consists of six Directors, three of whom are independent non-executive Directors who are expressly identified in all corporate communications that disclose the names of the 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)*
Mr. Sun Jiankun
Mr. Wang Rong

NON-EXECUTIVE DIRECTOR

Mr. Tsang Kwong Yue Conrad (resigned on 18 June 2008)

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

The brief biographical details of the Directors are set out in the section headed "Profile of Directors and Senior Management" on pages 22 to 25 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 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.

Five board meetings were held during the year. Details of the attendance of Directors are set out below:

	Attendance of meetings
Executive Directors	
Mr. Xian Yang	5
Mr. Sun Jiankun	5
Mr. Wang Rong	4
Non-executive Director	
Mr. Tsang Kwong Yue Conrad (resigned on 18 June 2008)	2
Independent non-executive Directors	
Mr. Chan Chi Hing	5
Mr. Wang Zhiguo	5
Mr. Huang Rongsheng	5

ROLE OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Xian Yang is both the Chairman of the Board and Chief Executives 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.

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 skill and experience appropriate to the Company's business.

REMUNERATION COMMITTEE

The remuneration committee (the "Remuneration Committee") was established 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 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.

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 contribution on a discretionary basis.

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 39 to the consolidated financial statements.

During the year, one remuneration committee meeting was held to discuss and review the annual salary review for 2008 for the Directors and the employees and the remuneration policy. All the members attended the meeting.

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 year, two meetings were held. All the members of the Audit Committee attended the meetings. 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 six months period ended 30 June 2008 and for the year ended 31 December 2008.

AUDITOR'S REMUNERATION

The external auditor of the Company is Deloitte Touche Tohmatsu. During the year ended 31 December 2008, the remuneration paid and payable to the auditors of the Company in respect of the audit services and non-audit services provided amounted to RMB2.38 million and RMB1.2 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 2008.

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 AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENT

The Directors acknowledge their responsibility for preparing the consolidated 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 41 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 during the year, and the Board confirms that the provision C.2.1 of the Code has been complied with.

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 as the "Group") set out on pages 42 to 94, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statements, the consolidated statements 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, in accordance with our agreed terms of engagement, 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 2008 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
31 March 2009

Consolidated Income Statement

For the year ended 31 December 2008

	NOTES	2008 RMB'000	2007 RMB'000
Turnover	7	**2,488,449**	1,042,541
Cost of sales		**(942,370)**	(364,134)
Gross profit		**1,546,079**	678,407
Other income	8	**34,164**	283,109
Distribution expenses		**(208,944)**	(48,878)
Administrative expenses		**(233,521)**	(210,225)
Fair value adjustment on convertible note	34	**—**	(65,602)
Net loss on derivatives and held-for-trading investments		**(40,192)**	(6,155)
Finance costs	9	**(32,398)**	(38,808)
Profit before tax	10	**1,065,188**	591,848
Income tax expense	11	**(62,880)**	(22,527)
Profit for the year		**1,002,308**	569,321
Attributable to:			
Equity holders of the Company		**1,003,350**	570,289
Minority interests		**(1,042)**	(968)
		1,002,308	569,321
Dividends	13	**173,040**	—
Earnings per share, basic *(RMB cents)*	14	**48.7**	37.1

Consolidated Balance Sheet

As at 31 December 2008

	NOTES	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**5,129,237**	2,632,821
Prepaid lease payments	16	**31,737**	32,414
Deposits for acquisition of coal mines	17	**—**	24,000
Intangible assets	18	**119,591**	—
Goodwill	35(b)	**11,065**	—
		5,291,630	2,689,235
CURRENT ASSETS			
Inventories	20	**132,851**	65,288
Bills and trade receivables	21(a)	**686,158**	274,455
Bills receivables discounted with recourse	21(b)	**315,140**	80,600
Other receivables and prepayments	22	**103,136**	122,460
Other loan receivables	23	**—**	—
Amounts due from related parties	24(a)	**7,645**	—
Held-for-trading investments	19	**23,139**	—
Pledged and restricted bank deposits	25	**31,448**	1,248,682
Bank balances and cash	25	**694,820**	2,560,779
		1,994,337	4,352,264
CURRENT LIABILITIES			
Bills and trade payables	26(a)	**130,528**	45,395
Advances drawn on bills receivables discounted with recourse	26(b)	**315,140**	80,600
Other payables and accrued expenses	27	**697,878**	478,146
Amount due to a related party	24(b)	**2,200**	1,000
Derivative financial instruments	28	**1,873**	47,981
Tax payables		**51,086**	32,894
Bank borrowings	29	**160,000**	1,333,900
		1,358,705	2,019,916
NET CURRENT ASSETS		**635,632**	2,332,348
		5,927,262	5,021,583

	NOTES	2008 RMB'000	2007 RMB'000
CAPITAL AND RESERVES			
Share capital	30	**198,605**	198,605
Share premium and reserves	31	**5,640,190**	4,809,880
Equity attributable to equity holders of the Company		**5,838,795**	5,008,485
Minority interests		**35,759**	6,982
TOTAL EQUITY		**5,874,554**	5,015,467
NON-CURRENT LIABILITIES			
Provision for restoration and environmental costs	32	**7,843**	6,116
Deferred tax liabilities	33	**44,865**	—
		52,708	6,116
		5,927,262	5,021,583

The consolidated financial statements on pages 42 to 94 were approved and authorised for issue by the board of directors on 31 March 2009 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 2008

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note 31)	Statutory surplus reserve RMB'000 (Note 31)	Future development fund RMB'000 (Note 31)	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2007	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 initial public offering	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 a subsidiary	—	—	—	—	—	—	—	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
Profit for the year, representing total recognised income for the year	—	—	—	—	—	1,003,350	1,003,350	(1,042)	1,002,308
Transfer	—	—	—	116,524	27,979	(144,503)	—	—	—
Capital contribution by minority shareholders of a subsidiary	—	—	—	—	—	—	—	300	300
Arising from acquisition of subsidiaries *(Note 35)*	—	—	—	—	—	—	—	29,519	29,519
Dividend *(Note 13)*	—	—	—	—	—	(173,040)	(173,040)	—	(173,040)
At 31 December 2008	198,605	3,310,400	695,492	269,598	99,213	1,265,487	5,838,795	35,759	5,874,554

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	NOTE	2008 RMB'000	2007 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**1,065,188**	591,848
Adjustments for:			
Amortisation of prepaid lease payments		**677**	380
Amortisation of intangible assets		**2,609**	—
Interest income		**(27,526)**	(248,051)
Depreciation of property, plant and equipment		**76,937**	56,074
Fair value adjustment on convertible note		**—**	65,602
Finance costs		**32,398**	38,808
Loss (gain) on disposal of property, plant and equipment		**794**	(1,667)
Impairment loss recognised on financial assets		**2,867**	5,144
Provision for restoration and environmental costs		**1,727**	2,134
Operating cash flows before movements in working capital		**1,155,671**	510,272
Increase in inventories		**(67,201)**	(34,177)
Increase in bills and trade receivables		**(413,618)**	(42,294)
Decrease (increase) in other receivables and prepayments		**34,012**	(41,100)
(Increase) decrease in amounts due from related parties		**(7,645)**	2,057
Increase in bills and trade payables		**85,133**	26,184
Decrease in other payables and accrued expenses		**(304,141)**	(7,475)
Increase in amount due to a related party		**1,200**	—
Net (decrease) increase in derivative financial instruments		**(46,108)**	47,981
Net increase in held-for-trading investments		**(23,139)**	—
Net cash generated from operations		**414,164**	461,448
Income taxes paid		**(10,888)**	(18,908)
NET CASH FROM OPERATING ACTIVITIES		**403,276**	442,540

	NOTE	2008 RMB'000	2007 RMB'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(1,890,605)**	(1,624,982)
Purchase of intangible assets		**(122,200)**	—
Acquisition of subsidiaries	35	**(123,736)**	—
Decrease (increase) in pledged and restricted bank deposits		**1,217,234**	(1,180,105)
Additions of prepaid lease payments		**—**	(27,076)
Interest received		**27,526**	248,051
Proceeds from disposal of property, plant and equipment		**1,584**	20,269
Decrease in other loan receivables		**—**	6,951
Deposits paid for acquisition of coal mines		**—**	(24,000)
NET CASH USED IN INVESTING ACTIVITIES		**(890,197)**	(2,580,892)
FINANCING ACTIVITIES			
New bank borrowings raised		**550,000**	1,385,900
Capital contribution from minority shareholders		**300**	7,950
Proceeds received from issue of shares		**—**	3,667,136
Repayment of bank borrowings		**(1,723,900)**	(341,974)
Interest paid on bank borrowings		**(32,398)**	(38,808)
Dividend paid		**(173,040)**	—
Expenses on issue of shares		**—**	(180,878)
Repayment to a related party		**—**	(717)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(1,379,038)**	4,498,609
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(1,865,959)**	2,360,257
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**2,560,779**	200,522
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH		**694,820**	2,560,779

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 parent company and ultimate holding company is Sanlian Investment Holding Limited, 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 company and its subsidiaries are engaged in mining and sale of coke, raw coal 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 "Our reorganisation" set out in page 128 of 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.

The Group resulting from the Reorganisation is regarded as a continuing entity for the year ended 31 December 2007. Accordingly, for the purpose of this report, the consolidated financial statements of the Group for the year ended 31 December 2007 have been prepared as if the current group structure had been in existence throughout the year ended 31 December 2007, whichever is the shorter period.

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 the current year, the Group has applied the following standards, amendments 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 or have become effective.

IAS 39 & IFRS 7 (Amendments)	Reclassification of Financial Assets
IFRIC - Int 11	IFRS 2: Group and Treasury Share Transactions
IFRIC - Int 12	Service Concession Arrangements
IFRIC - Int 14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new IFRSs had no material effect on how the results and financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior year adjustment has been required.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSS") *(Continued)*

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

IFRSs (Amendments)	Improvements to IFRSs[1]
IAS 1 (Revised)	Presentation of Financial Statements[2]
IAS 23 (Revised)	Borrowing Costs[2]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
IAS 39 (Amendment)	Eligible Hedged Items[3]
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
IFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
IFRS 3 (Revised)	Business Combinations[3]
IFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
IFRS 8	Operating Segments[2]
IFRIC 9 & IAS 39 (Amendments)	Embedded Derivatives[4]
IFRIC - Int 13	Customer Loyalty Programmes[5]
IFRIC - Int 15	Agreements for the Construction of Real Estate[2]
IFRIC - Int 16	Hedges of a Net Investment in a Foreign Operation[6]
IFRIC - Int 17	Distributions of Non-cash Assets to Owners[3]
IFRIC - Int 18	Transfer of Assets from Customers[7]

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to IFRS 5, effective for annual periods beginning on or after 1 July 2009

[2] Effective for annual periods beginning on or after 1 January 2009

[3] Effective for annual periods beginning on or after 1 July 2009

[4] Effective for annual periods ending on or after 30 June 2009

[5] Effective for annual periods beginning on or after 1 July 2008

[6] Effective for annual periods beginning on or after 1 October 2008

[7] Effective for transfers on or after 1 July 2009

The application 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. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact effect on the results and the 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.

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.

MERGER ACCOUNTING FOR BUSINESS COMBINATION INVOLVING ENTITIES UNDER COMMON CONTROL

The consolidated financial statements for the year ended 31 December 2007 incorporated 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 were consolidated using the existing book values from the controlling parties' perspective. No amount was 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 for the year ended 31 December 2007 included 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BUSINESS COMBINATIONS

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the consolidated income statement.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

GOODWILL ARISING ON ACQUISITIONS ON OR AFTER 1 JANUARY 2005

Goodwill arising on an acquisition of a business for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

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 is recognised when the 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 useful lives 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 mines.

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.

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 PAYMENTS

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 exchanges 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.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the consolidated income statement 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

TAXATION *(Continued)*

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 consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

INTANGIBLE ASSETS

Intangible assets acquired separately and with finite useful lives, including transportation rights and exploration right, are carried at costs less accumulated amortisation and any accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below). Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

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.

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 the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets

The Group's financial assets are classified as financial asset at fair value through profit or loss ("FVTPL") or 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 and 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.

Financial assets at FVTPL

Financial assets at FVTPL comprise financial assets held-for-trading.

A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in the consolidated income statement in the period in which they arise.

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, amounts due from related parties, other loan receivables, 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

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of financial assets, the estimated future cash flows of the financial assets have been affected.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

For the financial assets, 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.

For certain categories of loans and receivables, such as bills and trade receivables, other receivables and other loan 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 to 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 the consolidated income statement 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 financial asset with the exception of trade receivables, other receivables and other 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 the consolidated income statement. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement.

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 the consolidated income statement 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities and equity *(Continued)*

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.

Financial liabilities

Financial liabilities of the Group including bills and trade payables, advances drawn on bills receivables discounted with recourse, other payables, amount due to a related party and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

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 the consolidated income statement immediately.

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 is recognised in the consolidated income statement.

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 the consolidated income statement.

IMPAIRMENT LOSSES ON TANGIBLE AND INTANGIBLE ASSETS

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

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 life of the property, plant and equipment. If the expectation differs from the original estimate, such difference will impact the depreciation and the amortisation charged in the year in which such estimate is changed.

RESERVE ESTIMATES

As explained in Note 3, mining rights are amortised using the units of production method based on the total proven reserves of the useful lives of the coal mines and mining structures are amortised 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 mines.

Engineering estimates of the Group's mineral reserves involved subjective judgements by mineral engineers in developing such information. There is Chinese system, which is the national standard set by the PRC Government, regarding the engineering criteria that have to be met before estimated mineral reserves can be designated as "proved". Proved reserve estimates are updated on a regular basis and have taken into account a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation and amortisation rates. If the expectation differs from the original reserve estimate, such difference will impact the depreciation and amortisation charged in the year in which such estimate is changed.

PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

Provision for restoration and environmental costs are 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.

ESTIMATED IMPAIRMENT OF TRADE RECEIVABLES, OTHER RECEIVABLES AND OTHER LOAN RECEIVABLES

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Impairment loss for trade receivables, other receivables and other loan receivables of RMB2,867,000 (2007: RMB5,144,000) has been recognised during the year.

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 optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from that of prior year.

The capital structure of the Group consists of net debt, which included bank borrowings disclosed in note 29, and equity attributable to equity holders of the parent, comprised share capital, reserves, as disclosed in notes 30 and 31, 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

	2008	2007
	RMB'000	*RMB'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,753,453**	4,292,843
Held-for-trading investments	**23,139**	—
Financial liabilities		
Amortised cost	**1,279,375**	1,903,379
Derivative financial instruments	**1,873**	47,981

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, amounts due from related parties, other loan receivables, held-for-trading investments, pledged bank deposits, bank balances, bills and trade payables, advances drawn on bills receivables discounted with recourse, other payables, amounts due to related parties and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), 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.

6. FINANCIAL INSTRUMENTS (Continued)

6b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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.

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

	Liabilities		Assets	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
United States Dollars ("US$")	**—**	—	**62,358**	343
Hong Kong Dollars ("HK$")	**—**	5,975	**284**	2,473,833
Australian Dollars ("AU$")	**—**	—	**—**	366,404

The Group has entered into foreign currency forward contracts to minimise the currency risk. Other than using the foreign currency forward contracts, the Group does not have other foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The carrying amount of foreign exchange forward contract as at year end amounted to RMB1,873,000 (2007: RMB47,981,000) classified as current liabilities, in which the Group was in the position of selling US$ with aggregate notional amount of US$49,400,000 (2007: selling/ buying US$ with aggregate amount of US$367,300,000/US$460,000,000).

Sensitivity analysis

Non-derivative financial instruments

The Group is mainly exposed to the fluctuation of HK$, AU$ and US$ 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 US$, HK$ and AU$. 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.

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis *(Continued)*

	2008	2007
	RMB'000	*RMB'000*
Profit for the year		
— US$	**(3,118)**	(17)
— HK$	**(14)**	(123,393)
— AU$	**—**	(18,320)

Derivative financial instruments

The Group's derivative financial instruments exposed the Group to market bid forward foreign exchange rates.

The Group's sensitivity is to a 5% increase/decrease in market bid forward exchange rate of RMB against US$. The sensitivity analysis includes only outstanding foreign exchange forward contracts at the year end for a 5% change in market bid forward foreign exchange rates.

If RMB strengthens/weakens against US$, profit for the year ended 31 December 2008 would increase/decrease by RMB94,000 (2007: increase/decrease by RMB2,399,000).

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year and exposure does not reflect the exposure during the year.

(ii) Interest rate risk

The Group is exposed to fair value and cash flow interest rate risk mainly related to fixed rate bank borrowings and variable interest rate bank balances. 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.

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Market risk *(Continued)*

(ii) Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for bank balances 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 2008 would increase/decrease by RMB3,314,000 (2007: RMB12,797,000). This is mainly attributable to the Group's exposure to interest rates on its bank balances.

Credit risk

As at 31 December 2008, 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 Group consider that the Group's credit risk is significantly reduced.

The Group is exposed to some concentration of credit risk. At 31 December 2008, the five largest debtors accounted for approximately 84% (2007: 60%) of the Group's total trade receivables.

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

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

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 2008, the Group has short-term bank loan borrowings of approximately RMB160 million (2007: RMB1,334 million).

The following table details the Group's remaining contractual maturity for its 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.

2008

	Weighted average effective interest rate %	Less than 1 month *RMB'000*	1-3 months *RMB'000*	3 months to 1 year *RMB'000*	Total undis-counted cash flows *RMB'000*	Carrying amount at 31.12.2008 *RMB'000*
Non-derivative financial liabilities						
Bills and trade payables	—	86,395	44,133	—	130,528	130,528
Advances drawn on bills receivables discounted with recourse	2.64	115,627	97,166	104,258	317,051	315,140
Other payables	—	73,082	84,684	513,741	671,507	671,507
Amount due to a related party	—	2,200	—	—	2,200	2,200
Bank borrowings						
— Fixed-rate	8.22	—	—	10,480	10,480	10,000
— Variable-rate	6.83	—	—	155,122	155,122	150,000
		277,304	225,983	783,601	1,286,888	1,279,375
Derivative financial liability — net settlement						
Foreign currency forward contract		—	1,873	—	1,873	1,873

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

2007

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	Total undis-counted cash flows	Carrying amount at 31.12.2007
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-derivative financial liabilities						
Bills and trade payables	—	6,264	39,131	—	45,395	45,395
Advances drawn on bills receivables discounted with recourse	5.32	42,594	38,438	—	81,032	80,600
Other payables	—	442,484	—	—	442,484	442,484
Amount due to a related party	—	1,000	—	—	1,000	1,000
Bank borrowings						
— Fixed-rate	6.37	581,539	536,536	232,470	1,350,545	1,333,900
		1,073,881	614,105	232,470	1,920,456	1,903,379
Derivative financial liability — net settlement						
Foreign currency forward contract		42,701	5,280	—	47,981	47,981

6c. FAIR VALUE

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

- the fair value of financial assets and 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. REVENUE AND SEGMENT INFORMATION

The Group is engaged in manufacture and sales 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 the 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 are as follows:

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

Consolidated income statement

	For the year ended 31 December 2008				
	Coal mining *RMB'000*	Coking *RMB'000*	Others *RMB'000*	Inter-segment eliminations *RMB'000*	Consolidated *RMB'000*
GROSS REVENUE					
External	1,234,831	1,242,423	11,195	—	2,488,449
Inter-segment	739,451	—	—	(739,451)	—
Total	1,974,282	1,242,423	11,195	(739,451)	2,488,449

Inter-segment transactions were carried out at a margin of 37%.

	Coal mining *RMB'000*	Coking *RMB'000*	Others *RMB'000*	Inter-segment eliminations *RMB'000*	Consolidated *RMB'000*
RESULT					
Segment results	627,715	708,425	995	—	1,337,135
Unallocated corporate expenses					(233,521)
Unallocated corporate income					34,164
Net loss on derivatives and held-for-trading investments					(40,192)
Finance costs					(32,398)
Profit before tax					1,065,188
Income tax expense					(62,880)
Profit for the year					1,002,308

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

BUSINESS SEGMENTS *(Continued)*

Consolidated balance sheet

	At 31 December 2008			
	Coal mining *RMB'000*	Coking *RMB'000*	Others *RMB'000*	Consolidated *RMB'000*
ASSETS				
Segment assets	5,349,916	700,680	310,530	6,361,126
Unallocated corporate assets				924,841
				7,285,967
LIABILITIES				
Segment liabilities	803,454	236,540	14,731	1,054,725
Unallocated corporate liabilities				356,688
				1,411,413

Other information

	For the year ended 31 December 2008				
	Coal mining *RMB'000*	Coking *RMB'000*	Others *RMB'000*	Unallocated *RMB'000*	Consolidated *RMB'000*
Capital additions	2,448,828	75,644	22,729	28,530	2,575,731
Impairment loss on financial assets	1,919	—	—	948	2,867
Amortisation of prepaid lease payments	—	—	—	677	677
Depreciation and amortisation	52,065	14,317	3,502	9,662	79,546
Provision for restoration and environmental costs	1,727	—	—	—	1,727

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

BUSINESS SEGMENTS *(Continued)*

Consolidated income statement

	For the year ended 31 December 2007				
	Coal mining	Coking	Others	Inter-segment eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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.

	Coal mining	Coking	Others	Inter-segment eliminations	Consolidated
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 derivatives and held-for-trading investments					(6,155)
Finance costs					(38,808)
Profit before tax					591,848
Income tax expense					(22,527)
Profit for the year					569,321

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

BUSINESS SEGMENTS *(Continued)*

Consolidated balance sheet

	At 31 December 2007			
	Coal mining	Coking	Others	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*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

Other information

	For the year ended 31 December 2007				
	Coal mining	Coking	Others	Unallocated	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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 payments	—	—	—	380	380
Depreciation and amortisation	37,637	8,753	4,204	5,480	56,074
Provision for restoration and environmental costs	2,134	—	—	—	2,134

8. OTHER INCOME

	2008	2007
	RMB'000	*RMB'000*
Bank interest income - other	**27,526**	59,894
Gain on disposal of held-for-trading investments	**3,769**	1,888
Bank interest income arising from subscription monies received in global offering	**—**	188,157
Government grant *(Note)*	**—**	30,000
Gain on disposal of property, plant and equipment	**—**	1,667
Others	**2,869**	1,503
	34,164	283,109

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 ended 31 December 2007, a subsidy of 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 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

	2008	2007
	RMB'000	*RMB'000*
Interest expenses on borrowing wholly repayable within five years:		
— bank borrowings	**31,488**	25,423
— advances drawn on bills receivable discounted	**910**	13,385
	32,398	38,808

10. PROFIT BEFORE TAX

	2008 **RMB'000**	2007 *RMB'000*
Profit before tax has been arrived at after charging (crediting):		
Directors' remuneration *(Note 12)*	**1,598**	1,431
Other staff costs	**216,969**	144,371
Retirement benefits scheme contributions	**888**	8,460
Total staff costs	**219,455**	154,262
Impairment loss (reversal of impairment loss) recognised on		
— trade receivables	**1,915**	673
— other receivables and prepayments	**952**	4,968
— other loan receivables	**—**	(497)
Impairment loss recognised on financial assets	**2,867**	5,144
Auditors' remuneration	**2,380**	1,800
Amortisation of prepaid lease payments	**677**	380
Amortisation of intangible assets (of which the RMB1,584,000 (2007: Nil) including in distribution expenses and RMB1,025,000 (2007: Nil) including in cost of sales)	**2,609**	—
Provision for restoration and environmental costs *(Note 32)*	**1,727**	2,134
Depreciation and amortisation of property, plant and equipment	**76,937**	56,074
Loss on disposal of property, plant and equipment	**794**	—
Cost of inventories recognised in the consolidated income statement	**927,510**	346,254
Transportation costs of coal and coke	**14,860**	17,880
Gain on disposal of property, plant and equipment	**—**	(1,667)
Exchange loss (including in administrative expenses)	**69,345**	89,340
Expenses relating to listing of shares (included in administrative expenses)	**—**	44,114

11. INCOME TAX EXPENSES

	2008 **RMB'000**	2007 *RMB'000*
Current tax:		
PRC Enterprise Income Tax ("EIT")	**44,970**	22,527
Overprovision in prior years	**(15,890)**	—
	29,080	22,527
Deferred tax *(Note 33)*	**33,800**	—
	62,880	22,527

11. INCOME TAX EXPENSES *(Continued)*

On 16 March 2007, the PRC promulgated the Law of the EIT (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 Regulation of the New Law. The New Law and Implementation Regulations changed the tax rate from 33% to 25% for the Group’s subsidiaries from 1 January 2008 onwards.

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

No provision for Hong Kong Profits Tax has been made as the Group’s income neither arises in, nor is derived from Hong Kong.

The charge for the year, which represents the provision for the EIT, can be reconciled to the profit before taxation in the consolidated income statement as follows:

	2008	2007
	RMB’000	*RMB’000*
Profit before tax	**1,065,188**	591,848
Tax at applicable tax rate of 25% (2007: 33%)	**266,297**	195,310
Tax effect of tax exemption granted	**(271,088)**	(178,021)
Tax effect of income not taxable for tax purpose	**(32,868)**	(79,501)
Tax effect of expenses not deductible for tax purpose	**76,403**	61,851
Tax effect of undistributed profit of subsidiaries in the PRC	**33,800**	—
Tax effect of tax loss not recognised	**6,226**	1,266
Overprovision in prior years	**(15,890)**	—
Tax effect of fair value adjustment on the convertible note not deductible for tax purpose	**—**	21,649
Utilisation of tax losses previously not recognised	**—**	(27)
Income tax expense for the year	**62,880**	22,527

The provision for EIT is based on a statutory rate of 25% (2007: 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 of the Company which are exempted from or EIT in accordance with the approval from the respective tax bureau.

Pursuant to the “Application of preferential tax treatment for Foreign Investment Enterprise”, Hidili Coal, Panzhihua City Tiandaoqin Industry & Trading Company Limited (“Tiandaoqin”), Panzhihua Yanjiang Industrial Company Limited (“Yanjiang”), Panzhihua City Tianchou Industry & Trading Company Limited (“Tianchou”) and Panzhihua Yangfan Industry & Trading Company Limited (“Yangfan”) were entitled to 2 years exemption from State EIT from 2007 to 2008 and a 50% deduction of State EIT from three years from 2009 to 2011. Therefore, all of them were subject to tax exemption in the current year (2007: 3% local EIT with exemption of 30% state EIT).

Sichuan Hidili Industry Company Limited (“Sichuan Hidili”) was also entitled to enjoy tax exemption in 2007 under the “Application of preferential tax treatment for Foreign Investment Enterprise” with 2 years exemption from State EIT from 2007 to 2008 and a 50% deduction of State EIT from three years from 2009 to 2011. For the year ended 31 December 2008, in accordance with the applicable tax rule, Sichuan Hidili did not enjoy the tax exemption as its trading turnover exceeded 50% of the total turnover.

11. INCOME TAX EXPENSES *(Continued)*

Panzhihua City Sanlian Transportation Company Limited ("Sanlian Transportation") was 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 2008 is 12.5% (2007: 16.5%).

According to the Taxpayer Exemption Application Form (納税人減免税申請審批表, "EIT Exemption Form") issued by the local tax bureau on 4 July 2007, Liupanshui Hidili Industry Company Limited ("Liupanshui Hidili") was entitled to a 2 years exemption from EIT from 2008 to 2009 and a 50% deduction of EIT for three years from 2010 to 2012. Liupanshui Hidili was incorporated on 31 August 2006 as a domestic enterprise and had applied for a transformation from domestic enterprise to sino-foreign enterprise since March 2007. However, the application of its transformation was approved by the PRC local authority in May 2007. In the opinion of the directors, taking into consideration of the EIT Exemption Form obtained, Liupanshui Hidili should be able to enjoy the tax exemption although the enactment of the New Law was on 16 March 2007.

The Tax Law of the PRC requires withholding tax upon distribution of profits earned by the PRC subsidiaries since 1 January 2008. Deferred tax of approximately RMB33,800,000 has been provided for in the consolidated financial statements in respect of the temporary differences attributable to such profits.

12. DIRECTORS' EMOLUMENTS AND EMPLOYEE'S EMOLUMENTS

The emoluments paid or payable to each of the 6 (2007: 7) directors were as follows:

(a) DETAILS OF DIRECTORS' REMUNERATION PAID BY THE GROUP TO THE DIRECTORS OF THE COMPANY IS AS FOLLOWS:

	2008	2007
	RMB'000	*RMB'000*
Directors:		
Fees	**600**	600
Basic salaries and allowances	**960**	825
Retirement benefit scheme contributions	**38**	6
Bonus	**—**	—
	1,598	1,431

For the year ended 31 December 2008

	Executive directors			Non-executive director	Non-executive independent directors			
	Xian Yang	Wang Rong	Sun Jiankun	Tsang Kwong Yue Conrad *	Chan Chi Hing	Wang Zhique	Huang Rong sheng	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Directors' fee	—	—	—	—	200	200	200	600
Basic salaries and allowances	240	540	180	—	—	—	—	960
Retirement benefit scheme contribution	19	19	—	—	—	—	—	38
Bonus	—	—	—	—	—	—	—	—
	259	559	180	—	200	200	200	1,598

* Mr. Tsang Kwong Yue, Conrad resigned as non-executive director on 18 June 2008.

12. DIRECTORS' EMOLUMENTS AND EMPLOYEE'S EMOLUMENTS *(Continued)*

(a) DETAILS OF DIRECTORS' REMUNERATION PAID BY THE GROUP TO THE DIRECTORS OF THE COMPANY IS AS FOLLOWS: *(Continued)*

For the year ended 31 December 2007

	Executive directors				Non-executive director	Non-executive independent directors			
	Xian Yang	Wang Rong	Tu Xiaoyu	Sun Jiankun	Tsang Kwong Yue Conrad *	Chan Chi Hing	Wang Zhique	Huang Rong sheng	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Directors' fee	—	—	—	—	—	200	200	200	600
Basic salaries and allowances	240	270	135	180	—	—	—	—	825
Retirement benefit scheme contribution	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 during the year ended 31 December 2007.

No directors waived any emoluments during each of the two years ended 31 December 2008.

(b) FIVE HIGHEST EMPLOYEES' EMOLUMENTS

During the year, the five highest paid individuals included four (2007: three) directors of the Company, details of whose emoluments are included in the disclosures set out above. The emoluments of the remaining individual, which are individually below HKD1,000,000, were as follows:

	2008	2007
	RMB'000	*RMB'000*
Basic salaries and allowances	**301**	860
Retirement benefit scheme contributions	**19**	2
Bonus	**—**	—
	320	862

13. DIVIDENDS

	2008	2007
	RMB'000	*RMB'000*
Dividends, paid recognised as distribution during the year:		
Final for 2007, paid - RMB8.4 cents per share (2007: Nil)	**173,040**	—

The directors do not recommend the payment of a final dividend for the year ended 31 December 2008 (2007: RMB8.4 cents per share).

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 2008 and on the number of 2,060,000,000 shares (2007: weighted average number of 1,538,356,164 shares).

No diluted earnings per share has been presented for the year ended 31 December 2008 as there were no potential dilutive shares in issue.

No diluted earnings per share has been presented for the year ended 31 December 2007 as the inclusion of the effect of potential ordinary shares would increase the earning per share for that year.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Mining structures and Mining rights	Machinery	Motor vehicles	Office and electronic equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST							
At 1 January 2007	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
Additions	26,820	1,992,221	90,924	13,434	5,942	299,005	2,428,346
Acquired on acquisition of subsidiaries	50,104	—	90,956	2,345	1,125	2,855	147,385
Transfer	32,236	137,647	7,643	—	292	(177,818)	—
Disposals	(653)	—	(667)	(945)	—	(737)	(3,002)
At 31 December 2008	323,756	4,175,269	391,819	53,270	13,306	381,133	5,338,553
DEPRECIATION AND AMORTISATION							
At 1 January 2007	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
Provided for the year	8,468	40,311	18,618	7,974	1,566	—	76,937
Eliminated on disposals	(23)	—	(100)	(501)	—	—	(624)
At 31 December 2008	20,398	121,685	47,216	17,010	3,007	—	209,316
NET BOOK VALUES							
At 31 December 2008	303,358	4,053,584	344,603	36,260	10,299	381,133	5,129,237
At 31 December 2007	203,296	1,964,027	174,265	28,899	4,506	257,828	2,632,821

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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 and over the total proven reserves of the coal mine.

At 31 December 2008, the legal titles of the mining rights with carrying values of approximately RMB2,363,748,000 (2007: RMB1,149,760,000), have not been granted by the relevant government authorities and the relevant title transfers are still under application. In the opinion of the director, taking into account of the PRC's legal opinion, all the risks and rewards of ownership of mining rights have been transferred to the Group.

16. PREPAID LEASE PAYMENTS

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

	2008	2007
	RMB'000	*RMB'000*
Current assets included in other receivables and prepayments	**677**	677
Non-current asset	**31,737**	32,414
	32,414	33,091

The prepayments for land use rights which relate 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 represented deposits paid for acquisition of a coal mine in Guizhou, the PRC. This acquisition was completed in 2008.

18. INTANGIBLE ASSETS

	Transportation rights *RMB'000* *(Note a)*	Exploration right *RMB'000* *(Note b)*	Total *RMB'000*
COST			
At 1 January 2008	—	—	—
Additions	114,000	8,200	122,200
At 31 December 2008	114,000	8,200	122,200
AMORTISATION			
At 1 January 2008	—	—	—
Charge for the year	1,584	1,025	2,609
At 31 December 2008	1,584	1,025	2,609
CARRYING VALUES			
At 31 December 2008	112,416	7,175	119,591
At 31 December 2007	—	—	—

Notes:

a. In July 2008, the Group acquired 37% interest in Panxian Panshi Logistic Distribution Company Limited ("Panxian Panshi") and Panxian Panying Logistic Distribution Company Limited ("Panxian Panying") at an aggregate consideration of RMB114,000,000. Both Panxian Panshi and Panxian Panying are mainly engaged in the provision of railway logistic services. According to the shareholders' agreement, the Group does not have any voting right in the shareholders' meetings nor the power to participate in the financial and operating policy decisions of each of Panxin Panshi and Panxian Panying. Also, the Group is not entitled to share any assets, liabilities, income and expenses of Panxin Panshi and Panxian Panying. In return, the Group obtained the consecutive right for the provision of railway logistic service by Panxin Panshi and Panxian Panying in Guizhou with a guaranteed delivery volume of not less than 900,000 tonnes per annum for a term of 30 years from July 2008 onwards. Accordingly, the consideration of RMB114,000,000 paid for acquisition of 37% interest in Panxin Panshi and Panxian Panying is accounted for as consideration for acquisitions of both an available-for-sale investment and an intangible asset which has a finite useful life of 30 years and is amortised on a straight-line basis over 30 years. As the fair value of the available-for-sale investment is determined to be negligible, the whole amount of the consideration is attributed to the cost of the intangible asset.

b. In October 2008, the Group paid RMB8,200,000 to acquire an exploration right for a coal mine in Guizhou for 2 years. The right is amortised on a straight-line basis over 2 years.

19. HELD-FOR-TRADING INVESTMENTS

	2008 *RMB'000*	2007 *RMB'000*
Held-for-trading investments include:		
Listed securities		
— Equity securities listed in the PRC, at market value	**23,139**	—

20. INVENTORIES

	2008 *RMB'000*	2007 *RMB'000*
Coke	**11,354**	5,981
Coal products	**63,983**	38,623
Alloy pig iron	**11,614**	7,251
Auxiliary materials and spare parts	**45,900**	13,433
	132,851	65,288

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

(a) BILLS AND TRADE RECEIVABLES

	2008 *RMB'000*	2007 *RMB'000*
Trade receivables	**261,758**	123,034
Impairment loss recognised	**(2,690)**	(3,460)
	259,068	119,574
Bills receivables	**427,090**	154,881
	686,158	274,455

21. 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 and the average credit period for bills receivables is ranging from 90-180 days. The aged analysis of trade receivables and bills receivables, net of allowances, is as follows:

	2008	2007
	RMB'000	*RMB'000*
Aged:		
0 - 90 days	**605,236**	273,055
91 - 120 days	**56,255**	863
121 - 180 days	**16,415**	386
181 - 365 days	**8,252**	151
	686,158	274,455

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

Included in the Group's trade receivables balance as at 31 December 2008 are debtors aged over 120 days with a carrying amount of RMB24,667,000 (2007: RMB537,000) 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 as there are continuing settlement. The Group does not hold any collateral over these balances.

The Group has provided fully for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable.

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

	2008	2007
	RMB'000	*RMB'000*
Trade receivables		
Balance at beginning of the year	**3,460**	5,787
Impairment loss recognised on receivables	**1,915**	673
Amounts written off as uncollectible	**(2,685)**	(3,000)
Balance at end of the year	**2,690**	3,460

21. 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 aged analysis of bills receivables discounted with full recourse are as follows:

	2008	2007
	RMB'000	*RMB'000*
Aged:		
0 - 90 days	**315,140**	21,300
91 - 120 days	**—**	15,800
121 - 180 days	**—**	43,500
	315,140	80,600

22. OTHER RECEIVABLES AND PREPAYMENTS

	2008	2007
	RMB'000	*RMB'000*
Advance to suppliers	**32,669**	34,525
Prepayment of mining expenses	**12,201**	13,794
Transportation charges paid on behalf of customers	**17,169**	14,247
Staff advances	**2,844**	5,146
Deposits paid	**18,401**	19,661
Receivable of balance of proceeds from global offering of the shares of the Company	**—**	21,535
Others	**19,852**	13,552
	103,136	122,460

23. OTHER LOAN RECEIVABLES

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

	2008 ***RMB'000***	2007 *RMB'000*
Loan receivables from:		
— Entities *(note i)*	**5,560**	6,861
— Individuals *(note ii)*	**550**	2,592
	6,110	9,453
Less: Impairment loss recognised	**(6,110)**	(9,453)
	—	—

MOVEMENT IN IMPAIRMENT LOSS RECOGNISED

	2008 ***RMB'000***	2007 *RMB'000*
Balance as at beginning of the year	**9,453**	9,950
Amounts written off as uncollectible	**(3,343)**	—
Amounts recovered during the year	**—**	(497)
Balance at end of the year	**6,110**	9,453

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.

(ii) The balances represented the loans advanced to certain individuals in the PRC. The balances were unsecured, interest free and repayable on demand.

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 provided fully for all other loan receivables past due based on the past experience.

24. AMOUNTS DUE FROM (TO) RELATED PARTIES

(a) AMOUNTS DUE FROM RELATED PARTIES

Name of related parties	2008 RMB'000	2007 RMB'000
Panxian Panshi *(note i)*	5,054	—
Panxian Panying *(note ii)*	1,447	—
攀枝花市恒為製鈦有限公司 ("恒為製鈦") Translated as Hengwei Zhitai Company Limited ("Hengwei Zhitai") *(note iii)*	1,144	—
	7,645	—

(b) AMOUNT DUE TO RELATED PARTY

Name of related party	2008 RMB'000	2007 RMB'000
Mr. Xian Jilun (鮮繼倫) *(notes iv)*	2,200	1,000

Notes:

(i) Panxian Panshi is an investee company in which the Group owned its 37% equity interest as explained in Note 18(a) but does not have any significant influence. The balance was of trading in nature with age within one year at 31 December 2008.

(ii) Panxian Panying is an investee company in which the Group owned its 37% equity interest as explained in Note 18(a) but does not have any significant influence. The balance was of trading in nature with age within one year at 31 December 2008.

(iii) Hengwei Zhitai is ultimately owned by Mr. Xian Fan, brother of Mr. Xian Yang who is a shareholder and a director of the Company. The balance was of trading in nature with age within one year at 31 December 2008.

(iv) Mr. Xian Jilun is the father of Mr. Xian Yang. Balance represents rental expenses paid by Mr. Xian Jilun on behalf of the Group.

All above balances are unsecured, interest free and repayable on demand.

25. PLEDGED AND RESTRICTED BANK DEPOSITS AND BANK BALANCES AND CASH

The pledged bank deposits of RMB5,883,000 (2007: RMB1,248,682,000) are used to secure the bills payable and bank borrowings which are repayable within one year. Accordingly, 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 average effective interest rate of the pledged and restricted bank deposits and bank balances during the year are 1.95% (2007: 2.99%) per annum.

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

(a) BILLS AND TRADE PAYABLES

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

	2008	2007
	RMB'000	*RMB'000*
Aged:		
0 - 90 days	**116,833**	42,987
91 - 180 days	**9,415**	897
181 - 365 days	**3,014**	361
Over 365 days	**1,266**	1,150
	130,528	45,395

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

(b) ADVANCES DRAWN ON BILLS RECEIVABLES DISCOUNTED WITH RECOURSE

	2008	2007
Effective interest rate	**2.64%**	5.32%

27. OTHER PAYABLES AND ACCRUED EXPENSES

	2008	2007
	RMB'000	*RMB'000*
Advance from customers	**4,764**	5,536
Accrued wages	**23,745**	8,732
Other tax payables	**84,684**	51,052
Accrued expenses	**26,431**	35,662
Welfare payables	**12,106**	16,434
Payables for acquisition of property, plant and equipment	**513,741**	335,518
Others	**32,407**	25,212
	697,878	478,146

28. DERIVATIVE FINANCIAL INSTRUMENTS

	2008	2007
	RMB'000	*RMB'000*
Foreign currency forward contracts	**1,873**	47,981

Major terms of the foreign currency contracts are as follows:

2008

Principal amount	**Maturity**	**Exchange rate**
US$49,400,000 aggregated in total	From 28 November 2008 to 27 February 2009	Sell US$/Buy RMB at 6.846

2007

Principal amount	**Maturity**	**Exchange rate**
US$367,300,000 aggregated in total	From 28 January 2008 to 22 February 2008	Sell US$/Buy RMB at 7.221 to 7.280
US$460,000,000	7 January 2008	Sell RMB/Buy US$ at 7.397

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

29. BANK BORROWINGS

	2008	2007
	RMB'000	*RMB'000*
Bank loans, secured and repayable within one year	**160,000**	1,333,900

The exposure of the Group's fixed-rate bank borrowings and the contractual maturity dates are as follows:

	2008	2007
	RMB'000	*RMB'000*
Fixed-rate bank borrowings repayable within one year	**10,000**	1,333,900

The effective interest rates during the year were as follows:

	2008	2007
Effective interest rate:		
Fixed-rate bank loans	**8.22%**	6.37%
Variable-rate bank loans	**6.83%**	—

As at 31 December 2008, secured bank loans of RMB90 million (2007: RMB48 million) were secured by the Group's 100% interests in Tiandaoqin, Yangfan and Yanjiang.

Details of the assets pledged for the bank borrowings are further set out in note 38.

30. SHARE CAPITAL

		Number of shares *(in thousand)*	Amount *HK$'000*	Equivalent to *RMB'000*
Ordinary share of HK$0.1 each				
Authorised:				
At 1 January 2007	(i)	3,900	390	
Increase in authorised share capital	(ii)	9,996,100	999,610	
At 31 December 2007 and 31 December 2008		10,000,000	1,000,000	
Issued and fully paid:				
At 1 January 2007	(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 and 31 December 2008		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.

(iii) On 25 August 2007, the Company entered into an agreement with the then shareholders of Hidili Investment Holding Limited, a wholly-owned subsidiary of the Company after the listing of the Company's shares on the Main Board of The Stock Exchange (the "Listing") and the holding company of subsidiaries prior to the group reorganisation (the "Reorganisation") 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 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.

31. 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 accounting principles generally accepted in the PRC, 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.

(b) 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 future development fund based on a fixed amount per tonne of raw coal mined (net of usage). The fund can only be used for the future development of the coal mining business and is not available for distribution to shareholders. The director represented that the Group currently has no authorised plan for the utilisation of the future development fund.

(c) SPECIAL RESERVE

The special reserve represents the aggregate amount of the capital of the subsidiaries which were acquired by the Company upon the group reorganisation in 2007 less the consideration payable to the then shareholders and the amount contributed by a shareholder for waive of the balance due to him.

32. PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

	RMB'000
At 1 January 2007	3,982
Provision for the year	2,134
At 31 December 2007	6,116
Provision for the year	1,727
At 31 December 2008	7,843

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.

32. PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS *(Continued)*

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 respective regulation 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.

33. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities provided by the Group and movements thereon during the current and prior reporting periods:

	Withholding tax on undistributed profits of PRC subsidiaries *RMB'000*	**Fair value adjustment on property, plant and equipment at acquisition** *RMB'000*	**Total** *RMB'000*
At 1 January 2008 and 2007	—	—	—
Arising from acquisition of subsidiaries *(Note 35)*	—	11,065	11,065
Charge to consolidated income statement	33,800	—	33,800
At 31 December 2008	33,800	11,065	44,865

Under the New Law of PRC, withholding tax is imposed on dividend declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. At 31 December 2008, deferred tax has been provided in respect of temporary differences attributable to such retained profits.

At the balance sheet date, the Group has unused tax losses of approximately RMB29,550,000 (2007: RMB4,645,000) available for offset against future profits. No deferred tax assets has been recognised in respect of such losses due to the unpredictability of future profit streams. All these tax losses may be carried forward for five years after the loss-making year.

34. CHANGE IN FAIR VALUE OF CONVERTIBLE NOTE

Prior to the a Listing, a convertible note ("Convertible Note") with principal amount of US$42,000,000 (equivalent to RMB327,201,000 at the time of issuance) was issued by Hidili Investment prior to the Reorganisation in preparation of the Listing to an investor (the "Noteholder"). The Convertible Note with embedded derivatives was accounted for as financial liabilities at fair value through profit or loss.

On 25 May 2007, the Noteholder exercised the conversion right attached to the Convertible Note for 2,500,000 shares of Hidili Investment. These 2,500,000 shares of Hidili Investment were subsequently exchanged for the issued shares of the Company after the Listing.

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 had been recognised in the consolidated income statement for the year ended 31 December 2007.

35. ACQUISITION OF SUBSIDIARIES AND GOODWILL

(a) ACQUISITION OF SUBSIDIARIES

In July 2008, the Group acquired 70% interests in Panxian Panyi Coal Washing Company Limited ("Panyi Coal Washing") and Panxian Panxin Coking Company Limited ("Panxin Coking") at an aggregate consideration of RMB127,500,000. Panyi Coal Washing is engaged in the clean coal washing and Panxin Coking is engaged in manufacturing of coke.

According to the shareholders' agreement, the Group is entitled to 100% of the assets, liabilities, income and expenses of Panyi Coal Washing and Panxin Coking whilst the 30% minority shareholder is entitled to receive payments of RMB12 per ton of clean coal and coke produced and sold by Panyi Coal Washing and Panxin Coking, respectively for 30 years since the acquisition date. This future payment of RMB12 per ton is regarded as royalty payment for the right to carry out coking and coal cleaning activities in Guizhou province and is recognised as an expense as incurred in the consolidated income statement. This minority shareholder is also entitled to receive the amount of the 30% share capital and pre-acquisition reserves of Panyi Coal Washing and Panxin Coking upon dissolution of Panyi Coal Washing and Panxin Coking. This acquisition has been accounted for using the purchase method.

35. ACQUISITION OF SUBSIDIARIES AND GOODWILL *(Continued)*

(a) ACQUISITION OF SUBSIDIARIES *(Continued)*

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:			
Property, plant and equipment	103,125	44,260	147,385
Inventories	362	—	362
Other receivables and prepayments	15,640	—	15,640
Bank balances and cash	3,764	—	3,764
Other payables	(10,132)	—	(10,132)
Deferred tax liability	—	(11,065)	(11,065)
	112,759	33,195	145,954
Minority interests			(29,519)
Goodwill *(Note 35(b))*			11,065
			127,500
Total consideration satisfied by:			
Cash			127,500

	Acquiree's carrying amount before combination *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Net cash outflow arising on acquisition:			
Cash consideration paid			(127,500)
Bank balances and cash acquired			3,764
			(123,736)

35. ACQUISITION OF SUBSIDIARIES AND GOODWILL *(Continued)*

(a) ACQUISITION OF SUBSIDIARIES *(Continued)*

Panyi Coal Washing and Panxin Coking incurred losses of approximately RMB657,000 for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2008, total group revenue for the year would have been RMB2,551 million and profit for the year would have been RMB1,002 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

The goodwill arising on the acquisition is attributable to the anticipated profitability of the coking business in the new markets and the anticipated future operating synergies from the combination.

(b) GOODWILL

	2008 *RMB'000*
COST	
At 1 January 2008	—
Arising on acquisition of subsidiaries	11,065
At 31 December 2008	11,065

As explained in Note 4, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, the carrying amount of goodwill has been allocated to the coking segment and coal mining segment as cash generating units ("CGUs"). The recoverable amount of these units have been determined based on a value in use calculation which is based on financial budgets approved by management.

During the year ended 31 December 2008, management of the Group determined that there is no impairment in these CGUs containing goodwill.

36. OPERATING LEASE

THE GROUP AS LESSEE

Minimum lease payments paid under operating leases during the year:

	2008 ***RMB'000***	2007 *RMB'000*
Premises	**17,287**	4,759

36. OPERATING LEASE *(Continued)*

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2008	2007
	RMB'000	*RMB'000*
Within one year	**3,055**	34,248
Between two and five years	**3,839**	4,702
Over five years	**550**	733
	7,444	39,683

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.

37. CAPITAL COMMITMENTS

	2008	2007
	RMB'000	*RMB'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**37,337**	48,565

As at 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 not more than RMB50 million. The Group had paid an amount of RMB24 million as deposit as at 31 December 2007.

38. PLEDGE OF ASSETS

Other than as disclosed in note 29, at the respective balance sheet dates, the Group pledged the following assets to banks for credit facilities granted to the Group:

	2008	2007
	RMB'000	*RMB'000*
Property, plant and equipment	**212,179**	430,536
Bank deposits	**5,883**	1,248,682
Bills receivable	**50,000**	—
Prepaid lease payments	**6,125**	6,259
	274,187	1,685,477

39. 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.

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 2008, no option had been granted under the Scheme.

40. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

Name of Company	Relationship	Nature of transactions	2008 *RMB'000*	2007 *RMB'000*
Panxian Panshi	An investee company	Transportation costs payable by the Group	8,113	—
Panxian Panying	An investee company	Transportation costs payable by the Group	1,435	—
Hengwei Zhitai	A company ultimately owned by Mr. Xian Fan, brother of Mr. Xian Yang	Technical support income receivable by the Group	1,310	—
Mr. Xian Jilun	Father of Mr. Xian Yang	Rental payable by the Group	1,200	1,200

Other than the emolument 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.

41. RETIREMENT BENEFITS SCHEME

The Group participates in a defined contribution retirement scheme organised by the relevant local government authority in the PRC. Eligible employees of the Group to participate 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 2008 and 2007, the Group had no significant obligation apart from the contribution as stated above.

42. 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

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
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	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
Panxin Coking*	The PRC	RMB70,000,000	—	70%	Manufacture of coke
Panyi Coal Washing*	The PRC	RMB15,000,000	—	70%	Clean coal washing
Panxian Hidili Xinyuan Industry & Trade Company Limited*	The PRC	RMB2,000,000	—	100%	Coal mining and sale of coal

* Newly acquired / established during the year ended 31 December 2008.

The above companies are limited liabilities companies.

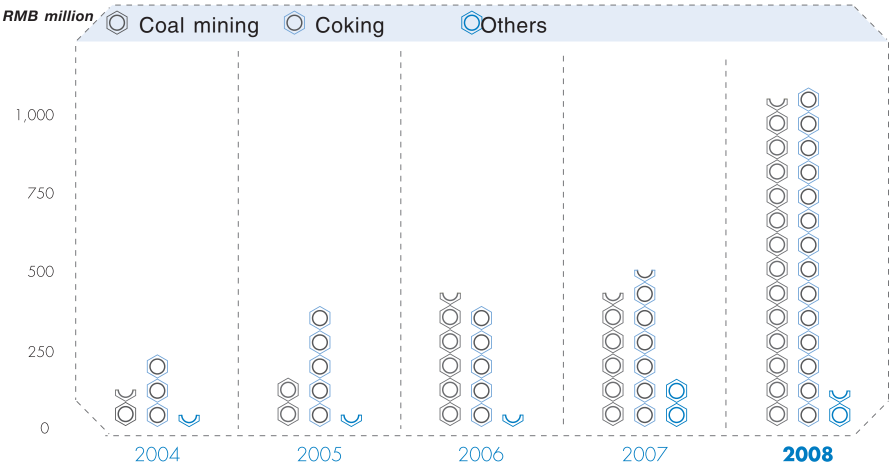
The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

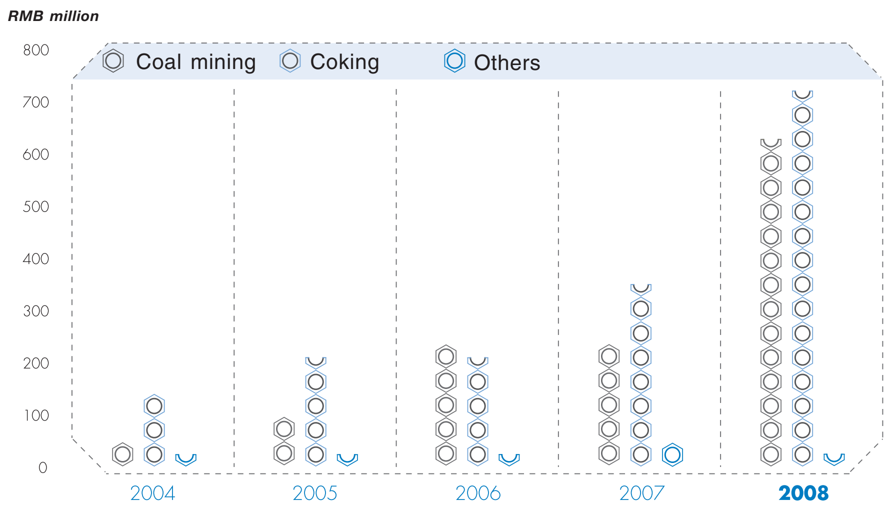
	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000
Turnover	**2,488,449**	1,042,541	814,832	568,694	353,419
Profit attributable to equity holders of the Company	**1,003,350**	570,289	89,677	221,720	120,289

Segment analysis

Turnover



Segment results



SEGMENT ANALYSIS

	2008	2007	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover					
Coal mining	**1,234,831**	434,553	427,218	191,153	106,613
Coking	**1,242,423**	537,580	383,607	376,825	246,619
Others	**11,195**	70,408	4,007	716	187
Segment results					
Coal mining	**627,715**	256,142	238,578	93,845	27,911
Coking	**708,425**	341,361	203,750	201,055	129,469
Others	**995**	33,693	1,906	397	45

	2008	2007	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	**5,291,630**	2,689,235	821,215	538,592	332,726
Current assets	**1,994,337**	4,352,264	825,838	607,513	321,397
Current liabilities	**(1,358,705)**	(2,019,916)	(778,270)	(708,224)	(403,626)
Non-current liabilities	**(52,708)**	(6,116)	(623,811)	(7,443)	(847)
Total equity	**5,874,554**	5,015,467	244,972	430,438	249,650
Minority interests	**(35,759)**	(6,982)	—	—	—
Equity attributable to equity holders of the Company	**5,838,795**	5,008,485	244,972	430,438	249,650

Notes:

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.