福山國際能源集團有限公司

Fushan International Energy Group Limited

Stock Code: 639

Progressive & Preeminent

Annual Report 2009

LOCATIONS OF THE GROUP'S COKING COAL MINES

CORPORATE PROFILE

Fushan International Energy Group Limited
is one of the most sizable integrated coking coal corporations in **central-western China**.

Taking Shanxi Province as its major investment base,
it is principally engaged in
mining of coking coal and production and sales of raw and clean coking coal.

Contents

Corporate Information

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

EXECUTIVE COMMITTEE
Cao Zhong *(Chairman)*
Wong Lik Ping
So Kwok Hoo
Xue Kang
Chen Zhaoqiang
Liu Qingshan

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

NOMINATION COMMITTEE
Cao Zhong *(Chairman)*
Wong Lik Ping
Kee Wah Sze
Choi Wai Yin
Chan Pat Lam

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

COMPANY SECRETARY
Cheng Man Ching

AUDITORS
Grant Thornton
Certified Public Accountants

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

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS
6th Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

STOCK CODE
639

WEBSITE
www.fushan.com.hk

Directors' Biographies

Mr. Wang Qinghai, aged 51, senior engineer. Mr. Wang was appointed the Chairman of the Company in January 2010. He is also the chairman of each of Shougang Holding (Hong Kong) Limited ("Shougang Holding"), Shougang Concord International Enterprises Company Limited ("Shougang International") and Shougang Concord Grand (Group) Limited ("Shougang Grand"), each of Shougang Holding and Shougang International is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"). Mr. Wang is the general manager of Shougang Corporation, the ultimate holding company of Shougang Holding, and has extensive experience in management and operation.

An engagement letter has been entered into with Mr. Wang with a term commencing on 5 January 2010 and ending on 31 December 2012 subject to renewal. Under the engagement letter, Mr. Wang is entitled to a director's fee as may be determined by the board of directors of the Company (the "Board") from time to time pursuant to the authority given by the shareholders of the Company (the "Shareholders"). For the financial year ending 31 December 2010, the director's fee of Mr. Wang will be HK$300,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Wang. Such director's fee was determined with reference to Mr. Wang's experience and duties as well as the then prevailing market conditions.

Mr. Cao Zhong, aged 50, graduated from Zhejiang University, the People's Republic of China (the "PRC") and Graduate School, The Chinese Academy of Social Sciences with a bachelor degree in engineering and a master degree in economics. Mr. Cao was appointed the Chairman of the Company in March 2009 and was re-designated as a Vice-chairman and the Managing Director of the Company in January 2010. He is also the chairman of each of the Executive Committee and the Nomination Committee of the Company. Mr. Cao is the deputy chairman and general manager of Shougang Holding, the managing director of Shougang International and a director of Fine Power Group Limited ("Fine Power"), each of Shougang Holding, Shougang International and Fine Power is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Cao is the chairman of Shougang Concord Technology Holdings Limited ("Shougang Technology"), the vice chairman and managing director of Shougang Grand, the chairman of Global Digital Creations Holdings Limited ("GDC") which is a subsidiary of Shougang Grand, and the chairman of Shougang Concord Century Holdings Limited ("Shougang Century"). He is also a director of Mount Gibson Iron Limited ("Mount Gibson"), a company listed on the Australian Securities Exchange. Mr. Cao also acts as the assistant general manager of Shougang Corporation and the chairman of China Shougang International Trade and Engineering Corporation. He was an executive director of APAC Resources Limited ("APAC") from April 2007 to October 2009 and was concurrently the chairman of APAC since May 2007. Mr. Cao has extensive experience in corporate management and operation.

A service contract has been entered into between Mr. Cao and a wholly-owned subsidiary of the Company commencing on 1 January 2010. Under the service contract, Mr. Cao is entitled to a monthly salary of HK$350,000 and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2009, the salary and discretionary bonus for Mr. Cao are HK$2,275,000 and HK$8,000,000 respectively. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Cao's individual performance.

Mr. Wong Lik Ping, aged 49. Mr Wong was appointed the Chairman and an Executive Director of the Company in September 2001 and was re-designated as a Vice-chairman of the Company in March 2009. He is a member of each of the Executive Committee and the Nomination Committee of the Company. Mr. Wong is a substantial shareholder of the Company within the meaning of Part XV of the SFO. He is the chairman and an executive director of Theme International Holdings Limited ("Theme International"), a listed company in Hong Kong. Mr. Wong has over 18 years' experience in trading business and financial industry and has held directorship with various private companies. He has extensive experience and investments in a wide range of businesses including mine industry in the PRC.

Directors' Biographies

A service contract has been entered into between Mr. Wong and a wholly-owned subsidiary of the Company commencing on 1 January 2010. Under the service contract, Mr. Wong is entitled to a monthly salary of HK$350,000 and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2009, the salary and discretionary bonus for Mr. Wong are HK$3,900,000 and HK$8,000,000 respectively. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Wong's individual performance.

Mr. So Kwok Hoo, aged 56, holds bachelor degrees in applied science with major in chemical engineering and business administration in Canada. Mr. So was appointed an Executive Director of the Company in March 1998 and was re-designated as Deputy Managing Director in January 2010. He is a member of each of the Executive Committee and the Remuneration Committee of the Company. Mr. So is a non-executive director of APAC. He has over 20 years of experience in marketing of electrochemical and industrial products sales in Asia Pacific Region together with property investment experience in Hong Kong.

A service contract has been entered into between Mr. So and a wholly-owned subsidiary of the Company commencing on 1 January 2010. Under the service contract, Mr. So is entitled to a monthly salary of HK$250,000 and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2009, the salary and discretionary bonus for Mr. So are HK$2,860,000 and HK$2,640,000 respectively. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. So's individual performance.

Mr. Xue Kang, aged 46, holds a diploma of electrical and mechanical engineering from Shanxi Yangquan Coal Mine Vestibule School Electro-mechanics Specialist and a diploma of logistic management from Shanxi Coal-Mining Administrative College Logistic Management Specialist. Mr. Xue was appointed an Executive Director of the Company in January 2008 and was re-designated as Deputy Managing Director of the Company in January 2010. He is a member of the Executive Committee of the Company. Mr. Xue is also the general manager as well as a director of Jinshan Energy Group Limited, a non-wholly owned subsidiary of the Company in the PRC. Mr. Xue has over 20 years' experience in the field of mine industry in the PRC.

A service contract has been entered into between Mr. Xue and a wholly-owned subsidiary of the Company commencing on 1 January 2010. Under the service contract, Mr. Xue is entitled to a monthly salary of HK$200,000 and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2009, the salary and discretionary bonus for Mr. Xue are HK$335,432 and HK$2,000,000 respectively. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Xue's individual performance.

Mr. Chen Zhaoqiang, aged 42, graduated from Jiaozuo Mining Institute with a bachelor degree in mining engineering and obtained a master degree in management science from Huazhong University of Science & Technology. Mr. Chen was appointed as Deputy Managing Director of the Company in January 2010 and is a member of the Executive Committee of the Company and the PRC regional president of the Group. He was a director of APAC from July 2007 to October 2009. Mr. Chen had engaged in many important posts in coal mining industry, including in Pingdingshan Coal Co. Ltd., Henan Pingbao Coal Co. Ltd., and Henan Company for Coal Seam Gas Development & Application. He has extensive experience in coal mining industry including in the areas of production safety management for coal mining, purchase and logistics management, mineral resources development and coal trading.

A service contract has been entered into between Mr. Chen and a wholly-owned subsidiary of the Company commencing on 1 January 2010. Under the service contract, Mr. Chen is entitled to a monthly salary of HK$220,000 and discretionary bonus as may be determined by the Board from time to time. Such salary was determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Chen's individual performance.

Directors' Biographies

Mr. Liu Qingshan, aged 51, graduated from Shanxi University of Finance and Economics Department of Accounting and obtained a master of business administrative from Capital University of Economics and Business. Mr. Liu was appointed an Executive Director of the Company in November 2008 and was re-designated as Deputy Managing Director of the Company in January 2010. He is a member of the Executive Committee of the Company and the PRC regional chief financial controller of the Group. Before joining the Group, Mr. Liu worked as chief financial controller in Fortune Dragon Group Limited and in other sizable energy resources companies in the PRC. Mr. Liu has over 25 years' experience in the fields of accounting and finance in the mining industry in the PRC.

A service contract has been entered into between Mr. Liu and a wholly-owned subsidiary of the Company commencing on 1 January 2010. Under the service contract, Mr. Liu is entitled to a monthly salary of HK$200,000 and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2009, the salary and discretionary bonus for Mr. Liu are HK$523,571 and HK$2,000,000 respectively. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Liu's individual performance.

Mr. Chen Zhouping, aged 44, graduated from the School of Economics and Management, Beijing Tsinghua University and is a member of the Chinese Institute of Certified Public Accounts. Mr. Chen was appointed a Non-executive Director of the Company in January 2009. He is the deputy managing director of each of Shougang Holding and Shougang International, and a director of Fine Power, each of Shougang Holding, Shougang International and Fine Power is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Chen is also a non-executive director of Mount Gibson. He has extensive experience in steel industry, engineering design, human resources and management.

An engagement letter has been entered into with Mr. Chen for a term of three years commencing on 1 January 2010 subject to renewal. Under the engagement letter, Mr. Chen is entitled to a director's fee as may be determined by the Board from time to time pursuant to the authority given by the Shareholders. For the financial year ended 31 December 2009, the director's fee of Mr. Chen is HK$233,333.33. For the financial year ending 31 December 2010, the director's fee of Mr. Chen will be HK$300,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Chen. Such director's fees were determined with reference to Mr. Chen's experience and duties as well as the then prevailing market conditions.

Mr. Leung Shun Sang, Tony, aged 67, holds a master degree in business administration from New York State University and has over 30 years of experience in finance, investment and corporate management. Mr. Leung was appointed a Non-executive Director of the Company in March 2009 and is the chairman of the Remuneration Committee of the Company. Mr. Leung is a non-executive director of Shougang International, a substantial shareholder of the Company within the meaning of Part XV of the SFO. He is also a director of each of Shougang Grand, Shougang Technology, Shougang Century and GDC. Mr. Leung is the managing director of CEF Group.

An engagement letter has been entered into with Mr. Leung for a term of three years commencing on 1 January 2010 subject to renewal. Under the engagement letter, Mr. Leung is entitled to a director's fee as may be determined by the Board from time to time pursuant to the authority given by the Shareholders. For the financial year ended 31 December 2009, the director's fee of Mr. Leung is HK$198,181. For the financial year ending 31 December 2010, the director's fee of Mr. Leung will be HK$300,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Leung. Such director's fees were determined with reference to Mr. Leung's experience and duties as well as the then prevailing market conditions.

Directors' Biographies

Mr. Zhang Yaoping, aged 42, attended Party School of the Central Committee of C.P.C. in the PRC where he studied economic management. Mr. Zhang was appointed a Non-executive Director of the Company in January 2010. He was an officer of the board of directors' office of a coal mining company in Shanxi Province, the PRC and currently is the chairman of board of secretary as well as a member of the board of directors of such company. Mr. Zhang has extensive experience in the field of energy resources industries and steel trading in the PRC.

An engagement letter has been entered into with Mr. Zhang for a term of three years commencing on 1 January 2010 subject to renewal. Under the engagement letter, Mr. Zhang is entitled to a director's fee as may be determined by the Board from time to time pursuant to the authority given by the Shareholders. For the financial year ending 31 December 2010, the director's fee of Mr. Zhang will be HK$300,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Zhang. Such director's fee was determined with reference to Mr. Zhang's experience and duties as well as the then prevailing market conditions.

Mr. Kee Wah Sze, aged 62, holds a Master Degree in Chinese and Comparative Law of City University of Hong Kong and Master Degree in Law of the People's University of the PRC. Mr. Kee was appointed an Independent Non-executive Director of the Company in April 1997 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. Mr. Kee is also an executive director of Goldbond Group Holdings Limited, an independent non-executive director of Theme International, and was a director of Hengli Properties Development (Group) Limited from May 2001 to October 2007 respectively. All the aforesaid companies are listed companies in Hong Kong. Mr. Kee is a partner of Messrs. Michael Cheuk, Wong & Kee and has been a practicing solicitor in Hong Kong for over 20 years specialized in both the commercial and conveyancing fields. He is a Notary Public of Hong Kong and a China Appointed Attesting Officer.

An engagement letter has been entered into with Mr. Kee for a term of three years commencing on 1 January 2010 subject to renewal. Under the engagement letter, Mr. Kee is entitled to a director's fee as may be determined by the Board from time to time pursuant to the authority given by the Shareholders. For the financial year ended 31 December 2009, the director's fee of Mr. Kee is HK$180,000. For the financial year ending 31 December 2010, the director's fee of Mr. Kee will be HK$300,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Kee. The relevant director's fee was determined with reference to Mr. Kee's experience and duties as well as the then prevailing market conditions.

Mr. Choi Wai Yin, aged 51, holds a Master degree of Science in Finance from the City University of Hong Kong, a Bachelor Degree in Business Administration from the Chinese University of Hong Kong and a Bachelor Degree in law from the Peking University. Mr. Choi was appointed an Independent Non-executive Director of the Company in July 2004 and is the Chairman of the Audit Committee and a member of each of the Nomination Committee and the Remuneration Committee of the Company. Mr. Choi was a director of Incutech Investments Limited, a listed company in Hong Kong, from January 2002 to October 2007. He was also appointed an executive director of a company which is the investment manager of a Hong Kong listed company. Mr. Choi is an investment adviser registered under the SFO. Mr. Choi has over 25 years' experience in the fields of finance and fund management.

An engagement letter has been entered into with Mr. Choi for a term of three years commencing on 1 January 2010 subject to renewal. Under the engagement letter, Mr. Choi is entitled to a director's fee as may be determined by the Board from time to time pursuant to the authority given by the Shareholders. For the financial year ended 31 December 2009, the director's fee of Mr. Choi is HK$180,000. For the financial year ending 31 December 2010, the director's fee of Mr. Choi will be HK$300,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Choi. Such director's fees were determined with reference to Mr. Choi's experience and duties as well as the then prevailing market conditions.

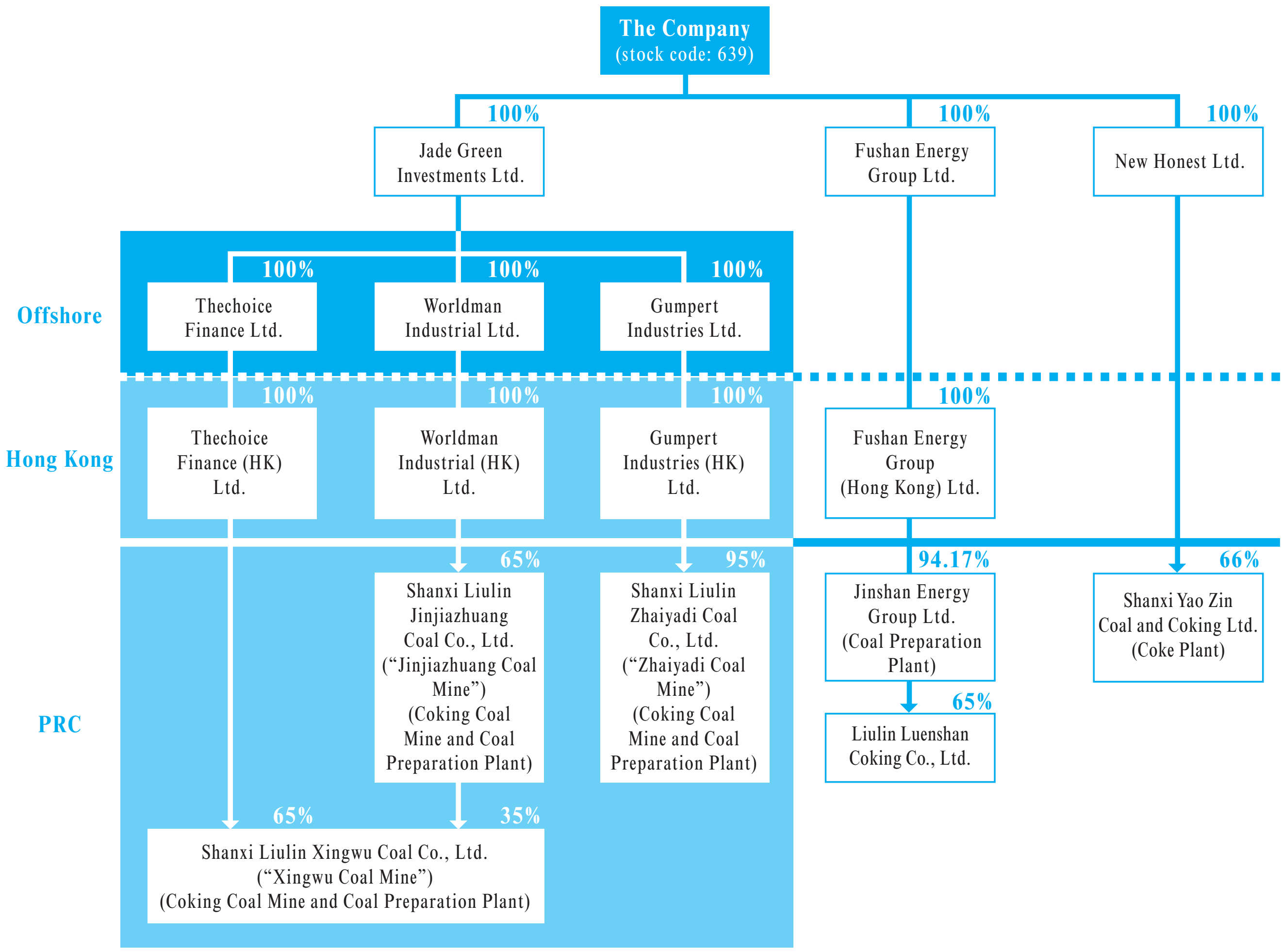
Directors' Biographies

Mr. Chan Pat Lam, aged 61. Mr. Chan was appointed an Independent Non-executive Director of the Company in December 2004 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. Mr. Chan is also an independent non-executive director of Theme International, a listed company in Hong Kong. Currently, he is the assistant to the Managing Director of a private company, which is engaged in acting as an international container shipping agency in the Western region of Pearl River Delta. He is also the business advisor of a commercial bank in Macau and a partner of another private company which is engaged in trading and wholesaling of grocery items. Mr. Chan has over 35 years' experience in the field of international banking industry in Hong Kong, Macau and California.

An engagement letter has been entered into with Mr. Chan for a term of three years commencing on 1 January 2010 subject to renewal. Under the engagement letter, Mr. Chan is entitled to a director's fee as may be determined by the Board from time to time pursuant to the authority given by the Shareholders. For the financial year ended 31 December 2009, the director's fee of Mr. Chan is HK$180,000. For the financial year ending 31 December 2010, the director's fee of Mr. Chan will be HK$300,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Chan. Such director's fees were determined with reference to Mr. Chan's experience and duties as well as the then prevailing market conditions.

Group Structure

The Group Structure with major subsidiaries as at 31 December 2009 is as follows:



Financial Highlights

- Record 2009 operating profit of HK$2,175 million (2008: HK$1,025 million) – sharp increase by HK$1,150 million or a year-on-year increase of 112%.
- Record 2009 net profit after tax of HK$1,442 million (2008: HK$707 million) – sharp increase by HK$735 million or a year-on-year increase of 104%.
- Record 2009 net profits attributable to owners of the Company ("Owners") of HK$1,126 million (2008: HK$568 million) – sharp increase by HK$558 million or a year-on-year increase of 98%.
- Non-cash share-based compensation expense of HK$110 million from granting of share options and one-off extraordinary non-cash item net transaction loss of HK$221 million arising from acquisition of available-for-sale financial assets incurred in 2009 which aggregate reduced both 2009 net profits after tax and net profit attributable to Owners by HK$331 million.
- 2009 Gross profit margin achieved at 68% (2008: 65%).
- 2009 EBITDA[1] of HK$2,609 million (2008: HK$1,186 million) – sharp increase by HK$1,423 million or a year-on-year increase of 120%.
- 2009 basic earnings per share was HK23.53 cents (2008: HK16.86 cents).
- 2009 interim dividend and proposed final dividend are HK10 cents per share and HK11 cents per share respectively.
- Net assets of HK$17,330 million as at 31 December 2009 (31 December 2008: HK$12,449 million) – sharp increase by HK$4,881 million or a year-on-year increase of 39%.
- Gearing ratio[2] was 5% as at 31 December 2009 (31 December 2008: 13%).

Note:

1. EBITDA is defined as operating profit plus depreciation and amortisation.
2. Gearing ratio is computed from total borrowings divided by total equity.

Financial Highlights

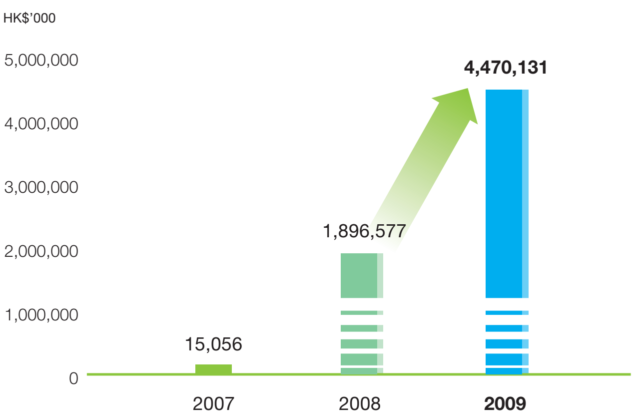
(HK$'000)	*For the year ended 2007*	*For the year ended 2008*	*For the year ended 2009*	*Percentage change*
Turnover	15,056	1,896,577	4,470,131	+136%
Gross Profit	1,850	1,236,932	3,028,898	+145%
Gross Profit Margin	12%	65%	68%	+5%
Operating profit/(loss)	(42,571)	1,024,688	2,174,519	+112%
EBITDA	(39,366)	1,186,235	2,609,016	+120%
Profit/(Loss) for the year	(86,091)	706,627	1,442,483	+104%
Profit/(Loss) attributable to Owners	(77,948)	567,649	1,126,274	+98%
Earnings/(Loss) per share (HK cents)	(3.42)	16.86	23.53	+40%

	As at 31 December 2007	*As at 31 December 2008*	*As at 31 December 2009*	*Percentage change*
Total assets	1,295,084	19,252,268	22,557,408	+17%
Total liabilities	503,074	6,803,271	5,227,644	-23%
Total equity	792,010	12,448,997	17,329,764	+39%
of which: Equity attributable to Owners	733,731	10,821,739	15,825,194	+46%
Net assets per share attributable to Owners (HK$)	0.30	2.37	2.95	+24%

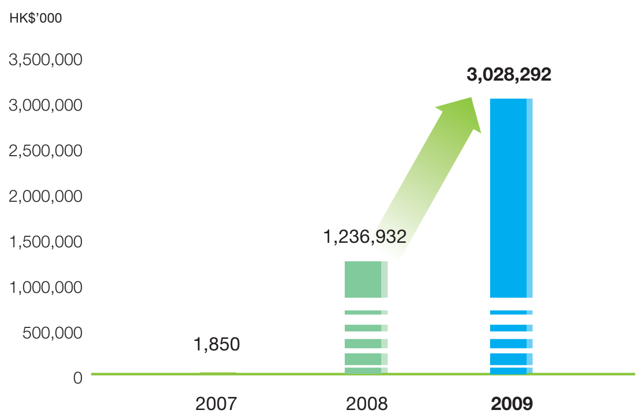
Financial Highlights

PROFIT & LOSS SUMMARY

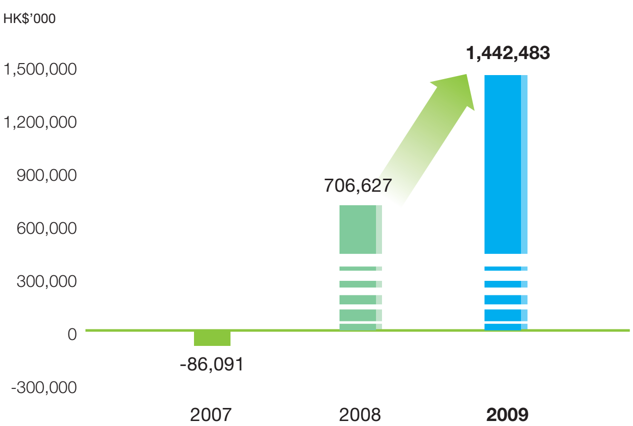
Turnover



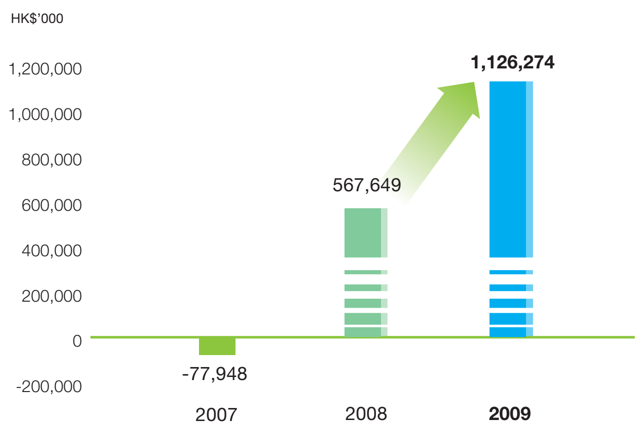
Gross Profit



Profit/(Loss) for the year

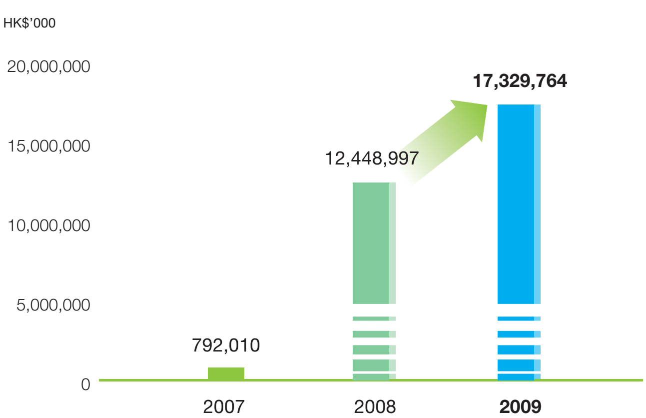


Profit/(Loss) Attributable to Owners

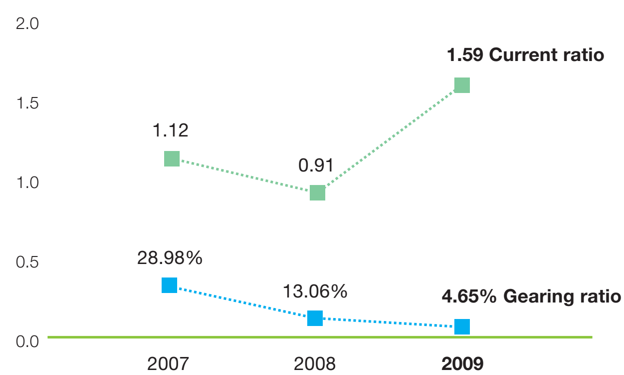


HEALTHY FINANCIAL POSITION

Net Assets



Gearing Ratio & Current Ratio



Milestone

Mar 2010	Fushan Energy was included as a constituent stock of FTSE Xinhua Index by Xinhua Finance Limited starting from March 2010.
Jan 2010	Fushan Energy entered into the letter of intent for the proposed acquisition of entired issued share capital of Willbroad Investments Limited ("Willbroad"). Willbroad proposes to complete the acquisition and reorganization of certain operating coal mines in Shanxi Province, the PRC which will have an aggregate reserve of not less than 442 million tonnes of coal and an annual approved production capacity of at least 6 million tonnes.
Dec 2009	Fushan Energy completed the acquisition of 154,166,874 shares in Mount Gibson Iron Limited and the entired issued share capital of Benefit Rich Limited whose sole assets are 956 million shares in APAC Resources Limited.
Sep 2009	Fushan Energy was added to MSCI Emerging Markets Index by Morgan Stanley Capital starting from September 2009.
Jul 2009	Fushan Energy placed 400 million new shares at HK$4.38 per share. The net proceeds were approximately HK$1,719 million and will be applied mainly for future acquisition in the PRC and overseas and capital expenditure of the Group.
Jun 2009	A new coal preparation plant, which is in the proximity of the Jinjiazhuang Coal Mine and has an annual processing capacity of 3 million, was formally put into operation.
Mar 2009	Fushan Energy was included as a constituent stock of Hang Seng Composite Index by Hang Seng Indexes Co. Ltd. starting from 9 March 2009.
Feb 2009	Shougang Concord International Enterprises Company Limited together with Shougang Holding (Hong Kong) Limited became the single largest shareholder of Fushan Energy.

Operating Mines

OPERATING MINES ACQUIRED IN JULY 2008

Xingwu Coal Mine

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

Jinjiazhuang Coal Mine

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

Zhaiyadi Coal Mine

- 16 km southwest of Liulin County and the mining right area extended over 13.9 sq. km and spans 5.5 km east to west and 5.0 km north to south
- Operation commenced in 1988
- Annual designed production capacity: 2.1 million tonnes
- A coal preparation plant adjacent to the mining site with designed processing capacity of 2.1 Mt per annum is currently under construction and is scheduled for completion in 4th quarter of 2010
- Production of semi-hard coking coal

Operating Mines

COAL CHARACTERISTICS

- ✓ Located within the Lishi-Liulin mining area of Hedong coalfield, one of China's key reserve areas for high-quality hard coking coal.
- ✓ Regarded as "panda coal" because of its scarcity and high economic value.
- ✓ The Group's coking coal is of particularly good quality due to its high calorific value and caking index but low ash and sulfur content, characteristics that are highly desirable for coke and steel making.

Coal Quality Characteristic	**Basic**	**Operating Mines**				
		Xingwu		**Jinjiazhuang**		**Zhaiyadi**
Seam		No. 4	No. 5	No. 3	No. 4	No. 09
Moisture (%)	Ad	0.9	0.3	0.6	0.7	0.7
Ash (%)	D	11.3	10.1	6.3	11.0	10.4
Sulfur Total (%)	D	0.36	0.85	0.32	0.47	1.65
Volatile Matter (%)	Daf	21.6	23.4	21.3	22.4	18.7
Fixed Carbon (%)	Ad	68.6	67.0	73.1	68.4	72.1
Calorific Value (Kcal./kg)	Gr.v.d	7,500	7,200	7,920	7,520	7,540
Caking Index (G)		86	75	49	77	72

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

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

Operating Mines

OPERATING DATA

Reserves and output

	Operating Mines			
	XINGWU	JINJIAZHUANG	ZHAIYADI	TOTAL
Reserves				
In-Place Reserves as at 31 December 2007 (Mt)	63.23	64.18	78.34	205.75
Recoverable Reserves as at 31 December 2007 (Mt) – Proven reserves	11.11	20.78	13.32	45.21
Recoverable Reserves as at 31 December 2007 (Mt) – Probable reserves	35.23	23.02	38.89	97.14
Total proven and probable reserves as at 31 December 2007 (Mt)	46.34	43.80	52.21	142.35
Less : Raw coking coal output in 2008 (Mt)	(1.47)	(1.46)	(2.43)	(5.36)
Raw coking coal output in 2009 (Mt)	(1.68)	(1.91)	(2.59)	(6.18)
As at 31 December 2009 (Mt)	**43.19**	**40.43**	**47.19**	**130.81**
Raw coking coal output				
Raw coking coal output in 2006 (Mt)	1.514	1.201	1.425	4.140
Raw coking coal output in 2007 (Mt)	1.639	1.508	1.936	5.083
Raw coking coal output for the 7 months ended 31 July 2008 (Mt)	0.777	0.818	1.295	2.890
Raw coking coal output for the 5 months ended 31 December 2008 (Mt)	0.695	0.639	1.133	2.467
Total raw coking coal output in 2008 (Mt)	1.472	1.457	2.428	5.357
Total raw coking coal output in 2009 (Mt)	**1.683**	**1.912**	**2.594**	**6,189**
Current raw coking coal production capacity (Mt per annum)	2.100	2.100	2.100	6.300
Current coal processing capacity (Mt per annum)	1.200	3.000	–	4.200
Clean coking coal output				
Clean coking coal output in 2006 (Mt)	0.560	–	–	0.560
Clean coking coal output in 2007 (Mt)	0.830	–	–	0.830
Clean coking coal output for the 7 months ended 31 July 2008 (Mt)	0.493	–	–	0.493
Clean coking coal output for the 5 months ended 31 December 2008 (Mt)	0.273	–	–	0.273
Total clean coking coal output in 2008 (Mt)	0.766	–	–	0.766
Total clean coking coal output in 2009 (Mt)	**0.717**	**0.276**	**–**	**0.993**

Operating Mines

OPERATING DATA *(continued)*

Historical realized selling price and costs

	AVERAGE OF THREE OPERATING MINES
Average realized selling price of raw coking coal per tonne (inclusive of VAT)	
For the year ended 31 December 2007	RMB355
For the 7 months ended 31 July 2008	RMB582
For the 5 months ended 31 December 2008	RMB785
For the year ended 31 December 2008	RMB670
For the year ended in 31 December 2009	**RMB644**
Average realized selling price of clean coking coal per tonne (inclusive of VAT)	
For the year ended 31 December 2007	RMB636
For the 7 months ended 31 July 2008	RMB984
For the 5 months ended 31 December 2008	RMB1,544
For the year ended 31 December 2008	RMB1,178
For the year ended 31 December 2009	**RMB1,401**
Raw coking coal production cost per tonne	
For the year ended 31 December 2007	RMB93
For the year ended 31 December 2008	**RMB136
For the year ended 31 December 2009	****RMB154**
Raw coking coal mine cash cost per tonne*	
For the year ended 31 December 2007	RMB61
For the year ended 31 December 2008	**RMB87
For the year ended 31 December 2009	****RMB95**

Sources: Data for the year ended 31 December 2007, for the period from 7 months ended 31 July 2008 and for the two years ended 31 December 2009 are extracted from the Technical Review Report prepared by John T. Boyd Company dated 25 June 2008, the unaudited management accounts of the operating mines for the 7 months ended 31 July 2008 prepared in accordance with the accounting principles generally accepted in the PRC ("PRCGAAP") and the unaudited management accounts of three operating mines for the two years ended 31 December 2009 prepared in accordance with the PRCGAAP respectively.

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

** *2008's figures have been restated to conform with the 2009 year's presentation*

Chairman's Statement

Dear honorable shareholders,

On behalf of the board of directors of Fushan International Energy Group Limited ("Fushan Energy" or the "Company"), I hereby present the annual results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009 (the "Year").

The Group achieved a breakthrough in its business development in 2009, as Shougang Holding (Hong Kong) Limited, a wholly-owned subsidiary of Shougang Corporation, being a premier steel enterprise in China, has became the Company's largest shareholder. With its great support and dedication of all our staff members, our operations experienced phenomenal growth. In 2009, the Group produced 6.2 million tonnes of raw coking coal and 1.0 million tonnes of clean coking coal, representing a year-on-year increase of 148% and 233% respectively. Our revenue soared by 136% to HK$4,470 million from 2008, while gross profit advanced by 145% to HK$3,029 million. These outstanding performances laid a solid foundation for the Group's sustainable growth. We have made relentless efforts to enhance the management of our three premier coking coal mines in Liulin County, Shanxi Province (Xingwu Coal Mine, Jinjiazhuang Coal Mine and Zhaiyadi Coal Mine) and engaged more resources to consolidate our production, environmental protection and safety facilities. As a result, our production was carried out in a safer, more environmentally friendly and efficient way.

After the acquisition of three premier coking coal mines in Shanxi Province, the Group has rapidly evolved into one of the largest integrated coal enterprises in central and western China. We currently possess a complete value chain which extends from coal resources, coal preparation plants to coke plants. Abundant coal resources enable us to realize greater economies of scale. This is the first annual result reflecting a full year of operations from these three coking coal mines.

During the Year, the Group's net profit increased by 104% to HK$1,442 million from the previous year and profit attributable to Owners of the Company increased by 98% to HK$1,126 million. Basic earnings per share were HK23.53 cents. The Company granted share options in August 2009 and hence incurred a non-cash share-base compensation expense of HK$110 million for the Year. Moreover, we acquired a 16.8% equity interest in APAC Resources Limited in December 2009 for a total contractual consideration of approximately HK$610 million. The Company settled the consideration by issuing its new shares at the price of HK$5.556 per share to the vendor. As the share price of the Company increased to HK$7.5 per share at the completion date, the Company recorded a non-cash transaction loss of HK$276 million in accordance with the relevant accounting standards. If both of the above non-cash expenses are excluded, the Group's net profit and profit attributable to Owners of the Company would be HK$1,828 million and HK$1,512 million, respectively.

In the light of the considerable profit that we have earned, the Group decided to give back to the society through donations to charities. Last year, under the request of the relevant Mainland government authority, the Group joined hands with other coal enterprises in Liulin County, Shanxi Province to commit ourselves for donation for the construction of modern schools and provision of educational facilities in the region which cover a total land area of 1,000 mu. The annual donation made by the Group between 2009 and 2011 is RMB110 million, a total donation of RMB330 million.

The board of directors recommended a final dividend of HK11 cents per share for the year. The proposed final dividend together with the interim dividend of HK10 cents per share will make a total of HK21 cents per share for the year.

Over the past year, the trading volume of the Company's shares climbed significantly. They were included in the MSCI Emerging Markets Index and the Hang Seng Composite Index in 2009 and also included in the Xinhua FTSE HK Index in March 2010. These reflected our operations and management were widely acclaimed by international investors.

Chairman's Statement

In the face of severe challenges, the Chinese economy maintained steady growth last year thanks to a series of stimulus packages introduced by the government. As the development of infrastructure projects was gathering momentum and domestic demand revived, industrial sectors such as construction and automobiles which were heavily relied on steel recovered swiftly. Since coking coal is a key raw material for steel-making, the recovery of these sectors pushed up demand for coking coal and provided a favourable environment for players in the industry. Meanwhile, the supply of coking coal remained tight because the number of coal mines in Shanxi Province, a major coal production base in China, fell sharply following the local government stepped up efforts to close down small-scale coal mines for consolidation in the province. This move lent a strong support for coking coal prices.

The Group vigorously expanded clean coking coal operations with an aim to strengthen long-term strategic cooperation with major steel manufacturers, thereby developing a better client mix to establish stable sales channels and laying a solid foundation for the rapid growth of the Group. A new coal preparation plant in Jinjiazhuang Coal Mine commenced production in June 2009. When two additional coal preparation plants come into operation this year or early next year, our total annual processing capacity of clean coking coal will jump to 11 million tonnes. We have forged long-term business relationships with various major domestic steel manufacturers, including Shougang Corporation, Hebei Iron and Steel Group, Inner Mongolia Baoton Steel Union Company Limited and Taiyuan Iron and Steel Group Company Limited.

We strive hard to increase our capacity and to complement our value chain through organic growth and acquisitions to significantly improve the Group's profitability. We are holding negotiation to acquire coal mines in Shanxi Province which are located near to our existing three mines and would add an annual capacity of over 6 million tonnes. This acquisition in Shanxi will help to us centralize management of our mines in the region and contribute to economies of scale. In addition, the Group has submitted an application for the mining right in a new coal mine area according to the relevant laws and rules, administrative procedures and existing regulations of the PRC. These facilities will greatly enhance our coal reserves and annual production capacity of raw coal. In December 2009, we bought an interest in Mount Gibson Iron Limited, the fourth largest iron ore exploration company in Australia, from our major shareholder, Shougang Concord International Enterprises Company Limited. The transaction allows us to extend our business to the iron ore exploration field. When all of the aforementioned transactions are concluded, the Group's business will grow remarkably with a significant increase in capacity and coal resources.

Looking ahead, management believes the outlook for the coking coal sector in 2010 is promising. There will be ardent demand for steel on the back of a revival in the global economy and brisk growth of domestic economy, thus boosting demand for coking coal. At the same time, most Shanxi coal mines with an annual capacity of less than 900,000 tonnes are expected to be closed down as the provincial government should consolidate coal enterprises' resources to ensure that operations are safer and more adaptable to market practice. Similar measures have been implemented in Henan Province. The Henan government aims at developing an industrial structure for local coal sector that is dominated by large-scale enterprises, entailing mergers and acquisitions of small-scale mines. And we expect other coal producing provinces will follow suit. Supply of coking coal in China will remain tight in the foreseeable future and its prices are thus expected to advance further.

The Chinese Government attaches great importance to infrastructure development and strives hard to stimulate domestic demand, so a number of industries with robust steel demand will continue to thrive. This is a positive factor for the coking coal sector. Last year China's automobile sales surpassed the U.S.A and topped the world for the first time. Underpinned by the "vehicles subsidy program for rural areas" and the "vehicles replacement program", the automobile sector will continue to shine this year. Meanwhile, according to the National Development and Reform Commission, domestic fixed asset investment is expected to grow by 20% this year. This means that many infrastructure projects will be rolled out and the domestic construction industry is set to boom. In addition, while the government steps up efforts in implementing "home appliances subsidy program for rural areas", demand for electronic appliances will rise further. All of these favourable factors sound a positive note for the coking coal industry and pave the way for strong growth of the sector.

Chairman's Statement

In the coming year, the Group will continue to use Liulin County in Shanxi Province as its production base and further enhance production efficiency and safety management. To capture the tremendous opportunities in the coking coal sector, we will endeavor to expand our market share and influence by actively and prudently exploring acquisition opportunities. We will cultivate deeper and broader cooperation with Shougang Corporation and other major steel manufacturers by strengthening the development of our clean coking coal operations. Their business will contribute a bigger share of our total revenue. At the same time, we will raise our capacity and improve the product mix through acquisitions and organic growth. These measures will help us consolidate our leading position in the coking coal industry in China and develop into an international diversified metallurgy resources supplier.

Meanwhile, the railway linking Yinchuan, Ningxia and Taiyuan will commence operation soon. On top of that, the Provincial Government of Shanxi is planning to invest over RMB150 billion to build railway lines of more than 2,000 km. It is expected that the railway lines within the province will be extended to 5,300 km next year. This will greatly improve the coal transportation capacity of Shanxi Province, therefore enabling the Group to expand its network of premier customer to other provinces and give a strong boost to its business development.

Last but not least, on behalf of all members of the board of directors, I would like to express my heartfelt gratitude to all shareholders, management team, staff members and business partners for their support and contributions to the Group throughout the years.

Wang Qinghai
Chairman

15 April 2010

Management Discussion and Analysis

INDUSTRY REVIEW

The global economy went through repaid changes in the year 2009. Affected by the decline in the China export sector, China domestic economic growth has slowed down in the first half of 2009. Nonetheless, since the Chinese Government has implemented a series of economy stimulus package, speeding up the development of infrastructure, vigorously enhancing domestic demand, China economy has picked up the momentum again with an annual Gross Domestic Production ("GDP") growth rate of 8.6%. Thanks to the rapid growth of the construction and automobile sector, the demand for steel has risen expeditiously and benefited the coking coal industry. On the other hand, China major coal production base, the Shanxi Province, has initiated the consolidation process of small-scale coal mines since April 2009. A lot of small-scale coal mines were shut down which resulted in the shortage of coking coal supply and lead to the coking coal price leaping upward.

BUSINESS REVIEW

Since the Group acquired three premier operating coking coal mines, namely Xingwu Coal Mine, Jinjiazhuang Coal Mine and Zhaiyadi Coal Mine, in the Shanxi Province, Liulin County in July 2008 (the "2008 Acquisition"), the Group becomes one of the largest hard coking coal producer in China. The Group has endeavored to focus in these three premier operating coking coal mines resulting in remarkable operating results. 2009 was the first financial year that reflects a full year of operation from the three coking coal mines while the financial year of 2008 reflected about 5 months operating results of the three coking coal mines. As a result, 2009 revenue and net profits jumped substantially to HK$4,470 million and HK$1,442 million. 2009 annual raw coking coal production has reached approximately 6.2 million tonnes from 2.5 million tonnes (5 months) in 2008, representing a year-on-year increase of 148%; annual clean coking coal production has reached approximately 1.0 million tonnes in 2009 from 0.3 million tonnes (5 months) in 2008, representing a year-on-year increase of 233%.

In the early of 2009, one of the China largest steel manufacturers, Shougang Holding (Hong Kong) Limited, a wholly-owned subsidiary of Shougang Corporation ("Shougang Group"), has became the largest shareholder of Fushan Energy and has forged a long term strategic alliance, providing a solid foundation for our future development and growth. The Group is actively expanding and deepening our network with various major mainland steel mills. The Shougang Group, Hebei Iron and Steel Group, Inner Mongolia Baotou Steel Union Company Limited and Taiyuan Iron and Steel Group Company Limited have all became our long term strategic partners, ensuring a stable demand for our coking coal production.

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Due to the fact that most major mainland steel mills primarily purchase clean coking coal rather than raw coking coal, the Group has been increasing our coal processing capacity vigorously in order to enhance our sales in the steel sector. A new coal preparation plant in Jinjiazhuang Coal Mine has commenced production since last June and another 2 new coal preparation plants will be able to join our production line in the later of this year or the early of next year, boasting our total coal processing capacity to 11 million tonnes per annum. By then, each of our three operating coking coal mines will has its own independent coal preparation plant, increasing the effectiveness in operation and benefiting from the integrated system and economic of scale.

In addition, the Group completed the acquisition of part of the shareholding of a listed company in Australia, Mount Gibson Iron Limited ("Mount Gibson"), the fourth largest hematite (high quality iron ore) exploration and mining company in Australia, in December 2009. This marked an expansion of the Group's product offering from coking coal to iron ore and its business in markets other than the PRC, which bring the Group one step closer to the goal of becoming an international diversified metallurgical resources supplier and facilitate further acquisitions of overseas resources projects in the future.

Financial Review

Benefiting from the significant increase in sales volume of raw coking coal from 1.9 million (5 months) in 2008 to 4.7 million (full year) in 2009 and of clean coking coal from 0.3 million (5 months) in 2008 to 1.0 million (full year) in 2009, the Group recorded a turnover of approximately HK$4,470 million for the year ended 31 December 2009, representing a significant increase of approximately HK$2,573 million over approximately HK$1,897 million in 2008 or representing a year-on-year increase of 136%. In addition, the Group recorded a substantial operating profits and net profit of approximately HK$2,175 million (2008: HK$1,025 million) and HK$1,442 million (2008: HK$707 million) for the year ended 31 December 2009 respectively. For the year ended 31 December 2009, the Group recorded net profit attributable to the owners of the Company ("Owners") of approximately HK$1,126 million (2008: HK$568 million) and basic earnings of HK23.53 cents per share (2008: HK16.86 cents per share). 2009 is the first financial year that reflects a full year of operation results from the three coking coal mines from the 2008 Acquisition while the financial year of 2008 reflected about 5 months operating results of the three coking coal mines.

Average realized selling price (inclusive of VAT) of raw coking coal was increased from RMB579 in January 2009 to RMB771 in December 2009, while the average realized selling price (inclusive of VAT) of clean coking coal was increased from RMB1,176 in January 2009 to RMB1,518 in December 2009. Average realized selling price (inclusive of VAT) of raw coking coal and clean coking coal were RMB644 (1 August to 31 December 2008: RMB785) and RMB1,401 (1 August to 31 December 2008: RMB1,544) for the year ended 31 December 2009 respectively. Revenue from sales of raw coking coal, clean coking coal and coke account for 66%, 29% and 5% (2008: 70%, 26% and 4%) of turnover in 2009.

In 2009, the Group incurred non-cash share-based compensation expense of HK$110 million from granting of share option and non-cash one-off extraordinary item net transaction loss of HK$221 million arising from acquisition of available-for-sale financial assets (details of which are set out on below "**Material Investments and Acquisitions**") which aggregate significant reduced both 2009 net profits and net profit attributable to the Owners by HK$331 million.

Cost of Sales

During the year, cost of sales was approximately HK$1,441 million, representing an increase of approximately HK$781 million or approximately 118%, as compared with approximately HK$660 million in 2008. The significant increase was due to the increase in turnover.

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Financial Review *(continued)*

Cost of Sales *(continued)*

Depreciation of property, plant and equipment for the year ended 31 December 2009 was approximately HK$172 million, representing an increase of approximately HK$109 million or approximately 173% as compared with approximately HK$63 million in 2008. The increase was mainly attributable to the significant additions of property, plant and equipment through the 2008 Acquisition amounting to approximately HK$1,323 million. During the year, additions of property, plant and equipment amounted to approximately HK$655 million was mainly due to the construction of three coal preparation plants.

Amortisation of mining rights for the year ended 31 December 2009 was approximately HK$261 million, which was solely attributable to the addition of carrying amount of mining rights of approximately HK$10,690 million from the 2008 Acquisition.

Gross Profit and Gross Profit Margin

As a result of the reasons above, gross profit for the year ended 31 December 2009 was approximately HK$3,029 million, representing a significant increase of approximately HK$1,792 million or approximately 145% as compared with approximately gross profit of HK$1,237 million in 2008. During the year, gross profit margin achieved at 68% compared with 65% in 2008.

The increase in gross profit margin by 3%, even though the average realized selling prices in 2009 were lower than that in 2008, was due to (i) the result of the effective cost control, (ii) reducing average unit cost as a result of the expansion of production volume of raw coking coal from approximately from 5.4 million tonnes (full year production volume) in 2008 to 6.2 million tonnes in 2009; and (iii) changes of accounting treatment on development fund for mine transition and environmental recovery guarantee fund amounting to approximately HK$69 million during the year not taken into account as expenses since 1 January 2009.

Other Operating Income

During the year, other operating income was approximately HK$45 million that maintained at the similar level of approximately HK$48 million in 2008.

Selling and Distribution Expenses

During the year, selling and distribution expenses were approximately HK$231 million which were increased by approximately HK$171 million from HK$60 million in 2008 or representing a year-on-year increase of 285%. The increase was mainly as a result of the increase in transportation costs arising from the increase in sales volume of clean coking coal from 0.3 million in 2008 to 1.0 million in 2009 or representing a year-on-year increase of 233%.

General and Administrative Expenses

During the year, administrative expenses were approximately HK$400 million, representing an increase of approximately HK$259 million or approximately 184% as compared with approximately HK$141 million in 2008. The increase was a result of the full year of operating results of the three premier coking coal mines in 2009 and non-cash share-based compensation expense approximately HK$110 million in relation to the grant of 281,050,000 share options to eligible participants in August 2009.

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Financial Review *(continued)*

Other Operating Expenses

During the year, other operating expenses were approximately HK$269 million, representing an increase of approximately HK$225 million or approximately 5.1 times as compared with approximately HK$44 million in 2008. The increase was a result of the full year of operating results of the three premier coking coal mines in 2009, having impairment of trade receivables of HK$32 million and charitable donation of HK$125 million made by the Group to the Liulin Provincial Government for the construction of modern schools and provision of education facilities in 2009.

Blueprint of school under construction

Finance Costs

During the year, finance costs were approximately HK$125 million, representing an increase of approximately HK$34 million or approximately 37% as compared with approximately HK$91 million in 2008. The increase in finance costs was due to the full year of interest expense from the borrowings of HK$1,110 million in 2008 which was solely for used to finance part of the consideration for the 2008 Acquisition. During the year, HK$17 million borrowing costs were capitalized in the construction in progress.

Net Transaction Loss Arising from Acquisition of Available-For-Sale Financial Assets

The Company suffered a one-off non-cash transaction gain of HK$54 million and a one-off non-cash transaction loss of HK$275 million arising from the acquisition of Mount Gibson shares under the First Agreement (as defined below under "**Increase in shareholding by Substantial Shareholders**") and from the acquisition of APAC shares under the Second Agreement (as defined below under "**Increase in shareholding by Substantial Shareholders**"), as a result of having net transaction loss of HK$221 million. Details of the net transaction loss are set out in the below under "**Material Investments and Acquisitions**".

Income Tax Expense

During the year, income tax expense was approximately HK$428 million, of which approximately HK$146 million representing the provision of withholding tax on the dividend declared from the three coking coal mines in accordance with the tax regulations in the PRC. The three coking coal mines are entitled to 50% relief on the income tax from 2008 to 2010, thus the income tax rate of the three coking coal mines is 12.5% from 2008 to 2010.

Owner's Attributable Profit

By reason of the foregoing, the profit attributable to the Owners in the year were approximately HK$1,126 million, representing an increase of approximately HK$558 million or 98% as compared with approximately HK$568 million in 2008.

Increase in shareholding by Substantial Shareholders

On 9 February 2009, Mr. Wong Lik Ping ("Mr. Wong"), a shareholder and executive director of the Company, and China Merit Limited, a company wholly-owned by Mr. Wong, entered into the share sale agreement ("Share Sale Agreement") with Excel Bond Investments Limited ("Excel Bond"), a wholly-owned subsidiary of Shougang Concord International Enterprises Company Limited ("Shougang International"), pursuant to which 12.05% of the Company's share capital at the completion date of the Share Sale Agreement was sold to Excel Bond.

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Increase in shareholding by Substantial Shareholders *(continued)*

On 22 September 2009, the Group entered into an agreement ("the First Agreement") with Sky Choice International Limited ("Sky Choice"), a wholly-owned subsidiary of Shougang International to purchase 154,166,874 shares of Mount Gibson. The consideration was satisfied in full by the allotment and issue of 213,918,497 new shares of the Company to the nominee of Sky Choice. On the same date, the Group entered into another agreement ("the Second Agreement") with Shougang Holding (Hong Kong) Limited ("Shougang Holding") to purchase the entire issued share capital of Benefit Rich Limited ("Benefit Rich"). The consideration was also satisfied in full by the allotment and issue of 109,089,993 new shares of the Company to the nominee of Shougang Holding. On 1 December 2009, being the completion date of the above two transactions, Shougang International together with Shougang Holding indirectly increased in its equity interest in Fushan Energy by approximately 6%.

As at 31 December 2009, Shougang International together with Shougang Holding indirectly held 26.51% equity interest in the Company, is the single largest shareholder of the Company.

Material Investments and Acquisitions

On 22 September 2009 ("Contract Date"), the Group entered into the First Agreement to purchase 154,166,874 shares of Mount Gibson and entered into the Second Agreement to purchase the entire issued share capital of Benefit Rich which sole assets are 956,000,000 shares of APAC Resources Limited ("APAC"), whose shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The contractual consideration for the First Agreement was approximately HK$1,189 million being the fair value equal to number of shares time average closing price per share of Mount Gibson of A$1.138 (HK$6.7745 equivalent) as quoted on the Australian Securities Exchange Limited for the last five consecutive trading days up to and including Contract Date and the contractual consideration for the Second Agreement was approximately HK$606 million being the fair value equal to number of shares time the average closing price per share of APAC of HK$0.634 as quoted on the Stock Exchange for the last five consecutive trading days up to and including Contract Date. The consideration for the First Agreement and the Second Agreement are both satisfied in full by the allotment and issue of 213,918,497 new shares and 109,089,993 new shares ("Consideration Shares") of the Company respectively at HK$5.556 being the average closing price per share of the Company as quoted on the Stock Exchange for the last five consecutive trading days up to and including Contract Date. Both agreements are completed on 1 December 2009. As the closing prices of the Company, Mount Gibson and APAC were HK$7.5, A$1.6 (HK$10.77 equivalent) and HK$0.57 on 1 December 2009 respectively, due to the settlement by Consideration Shares, the final consideration for the First Agreement and the Second Agreement are HK$1,604 million and HK$818 million respectively, being the fair values of the Consideration Shares as the date of the issue in accordance with the accounting policy. The difference between the fair values of Consideration Shares and the acquired available-for-sale financial assets is recognised as profit or loss in the consolidated statement of comprehensive income on the date of the completion. Accordingly, the Company suffered a transaction gain of HK$54 million, but transaction loss of HK$275 million arising from the acquisition of available-for-sale financial assets under the First and Second Agreement. As a result, HK$221 million net transaction loss was incurred in 2009.

Mount Gibson, a corporation incorporated under the laws of Australia, the shares of which are listed on The Australian Securities Exchange Limited. The principal business of Mount Gibson is mining of hematite (high quality iron ore) deposits at Koolan Island, Tallering Peak and exploration and development of hematite iron ore deposits in Western Australia including Koolan Island, Tallering Peak and Extension Hill. Mount Gibson is a pure hematite exploration and mining company which owns iron ore deposits and holds mining rights and is the fourth largest iron ore exploration and mining company in Australia.

Details of the above transactions are set out in the announcement of the Company dated 22 September 2009.

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Material Disposals

As the coke plant held by Taiyuan Xishan Risheng Coal and Coking Co., Limited ("Risheng") located in Gujiao, Shanxi Province is relatively distant from the three coking coal mines acquired in the 2008 Acquisition, the Group entered into a conditional sales and purchase agreement with a shareholder of the then minority shareholder of Risheng to sell, inter alia, its 70% equity interest at a consideration of approximately RMB110 million in 2008. The disposal was completed on 15 January 2009 and since then, Risheng ceased to be a subsidiary of the Company. A gain of approximately HK$29.59 million was recognised on this disposal during the year. Details of the transaction were set out in the announcement and the circular of the Company dated 23 April 2008 and 29 December 2008 respectively.

On 6 October 2009, the Company and Mr. Wong entered into the disposal agreement ("Disposal Agreement") whereby the Company agreed to sell and Mr. Wong agreed to purchase the entire issued share capital of Jumbo Hall International Limited ("Jumbo Hall") and the shareholder's loan at a total cash consideration of HK$15.5 million which was determined after arm's length negotiation between the Company and Mr. Wong by reference to the market value of its sole asset of properties situated at 12th Floor, Kwan Chart Tower, 6 Tonnochy Road, Wanchai, Hong Kong as at 30 September 2009. Upon completion of the Disposal Agreement on 31 December 2009, Jumbo Hall ceased to be a subsidiary of the Company. A gain of approximately HK$8.67 million was recognised on this disposal during the year. Details of the transaction were set out in the announcement of the Company dated 7 October 2009.

Sales Agreements

Pursuant to the long-term strategic cooperation agreement entered into by the Company and Shougang Corporation in July 2008, Shougang Corporation will purchase premier clean coking coal according to the actual production capacity of the Group. Except for Shougang Group, the Group has also established long-term cooperation relationship with various major steel manufacturers in Mainland China, including Hebei Iron and Steel Group, Inner Mongolia Baotou Steel Union Company Limited and Taiyuan Iron and Steel Group Company Limited.

Safety Production and Environmental Protection

The Group has always been attaching great importance to production safety and environmental protection while achieving rapid growth in coal production. Thus, the Group made great efforts in promotion of standardized management in safety and quality and strengthened measures for environmental protection, aiming to build itself into a safety-oriented and environmentally-friendly enterprise. During the year, the coal mines of the Group operated smoothly and recorded no material safety incidents.

Charges on Assets

As at 31 December 2009, save for approximately HK$106 million bank deposits were used for securing bill facilities of approximately HK$103 million and the share pledged and undertaking provided by certain subsidiaries of the Group namely Jade Green Investments Limited, Thechoice Finance Limited, Worldman Industrial Limited, Gumpert Industries Limited, Thechoice Finance (HK) Limited, Worldman Industrial (HK) Limited and Gumpert Industries (HK) Limited to secure US$200 million bank loan granted to the Group, none of the Group's assets was charged or subject to any encumbrance.

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Contingent Liabilities

As at 31 December 2009, save for the guarantees given by a subsidiary in the PRC, namely Shanxi Liulin Xingwu Coal Co., Limited amounting to approximately RMB282 million (HK$320 million equivalent) with respect to the bank loans to its two long-term independent third customers and the guarantees given by the Company amounting to approximately RMB400 million (HK$454 million equivalent) with respect to bank facilities granted to certain subsidiaries of the Company, there were no guarantees given to any banks or financial institutions by the Group. As at 31 December 2009, there was no default in the repayment of the respective loans.

Gearing Ratio

As at 31 December 2009, gearing ratio of the Group, computed from the Group's interest bearing liabilities divided by the total equity, was approximately 5%. The borrowings were mainly used to finance term loan which was used to finance part of the payment of the consideration for the 2008 Acquisition as mentioned above.

Exposure to Fluctuations in Exchange Rates

As at 31 December 2009, other than assets and liabilities denominated in Renminbi and Australian Dollar, the Group had no material exposure to foreign exchange fluctuations.

Liquidity and Financial Resources

As at 31 December 2009, the Group's current ratio (current assets divided by current liabilities) was approximately 1.59 and the Group's cash and bank deposits amounted to approximately HK$2,210 million, of which approximately HK$106 million was deposited mainly to secure bill facilities of approximately HK$103 million.

Capital Structure

The Group considers total equity, bank loans and other borrowings as capital. As at 31 December 2009, the amount of capital was approximately HK$18,136 million.

As at 31 December 2009, the issued share capital of the Company was approximately HK$537 million. The Company issued 83 million shares with par value of HK$0.1 each at an exercise price of HK$1.5 per share upon the exercise of the granted options during the year. During the year, the Company also issued 400 million new shares at HK$4.38 per share for raising of new funds of HK$1,719 million and 323,008,490 consideration shares for the settlement of the consideration for the acquisition of 154,166,874 shares in Mount Gibson and the acquisition of the entire issued share capital of Benefit Rich. The above issue of shares increased the capital by HK$4,297 million during the year.

As at 31 December 2009, the total borrowings of HK$806 million denominated in USD and RMB. The USD borrowing amounted to approximately HK$751 million is charged interest at LIBOR plus 1.85% per annum and repayable by 13 installments during the period from September 2010 to September 2013 and the RMB borrowings amounted to HK$55 million are subject to fixed interest rates which are repayable from 1 to 3 years from 31 December 2009.

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Employees

The Group had 15 employees in Hong Kong and 6,509 employees in PRC at 31 December 2009 with remuneration package which are subject to be reviewed annually. The Group provides a mandatory provident fund scheme for its employees in Hong Kong and the state-sponsored retirement plan for its employees in PRC.

The Group has also adopted share option scheme since 20 June 2003. During the year, 281,050,000 share options were granted at an exercise price of HK$6.0 per share. Details of the grant of share options under the share option scheme during the year are set out in the announcement of the Company dated 19 August 2009.

DIVIDEND

The directors recommended a final dividend of HK11 cents per share (2008: Nil) for the financial year 2009. The proposed final dividend together with the interim dividend of HK10 cents per share (2008: Nil) will make a total dividend of HK21 cents per share (2008: Nil) for the year ended 31 December 2009.

The final dividend, subject to shareholders' approval at the Company's annual general meeting to be held on Tuesday, 8 June 2010, will be payable to shareholders whose names appear on the register of members of the Company on Tuesday, 8 June 2010. It is expected that the final dividend will be paid on or about Wednesday, 23 June 2010.

FUTURE PROSPECTS

Looking ahead in the year 2010, the world economy continues to recover and in addition, China will be able to maintain a relative high growth rate. China domestic industries that are heavily reliant on steel such as construction and automobile will continue to develop, driving the demand of steel and providing a favorable environment for the coking coal industry. On the supply side, management forecasts the China domestic coking coal supply will remain tight. Shanxi provincial government has emphasized that they will continue to support and drive the coal consolidation process, closing down small-scale coal mine to ensure that coal operations are safer and more adaptable to market practice, enhancing Shanxi's coal companies competitiveness in the sector. The consolidation of the mainland coal sector is a rational commercial and political decision, other provinces will gradually adopt a similar policy to achieve better economic of scale for its domestic coal enterprises. With the supply remain limited, coking coal price will stay strong.

In such a favorable environment, the Group will endeavor to enhance its competitiveness, continue to build up our business relationship with major steel mills in China. Apart from strengthening our relationship with current clients, we will forge new business alliance with other large-scale mainland steel manufacturers and further improve the Group's profitability. The Group has submitted an application for the mining right in a new coal mine area according to the relevant laws and rules, administrative procedures and existing regulations of the PRC. These facilities will greatly enhance our coal reserves and annual production capacity of raw coal. Simultaneously, we will continue to devote resources and seek to ramp up our production rate through organic growth and acquisition, hence, satisfying our enlarged client base. Two new coal preparation plants will be able to commence production in the later of this year or the early of new year improving the Group's coal processing capacity substantially to 11 million tonnes per annum, allowing us to expand our clean coking coal sales.

Apart from improving our productivity, we will continue to fulfill our corporate social responsibility. Devoting more resources to uplift our safety standard, keep accidental injuries to a bare minimum and promote environmental protection.

A new railway line between Lingxia Province's Yinchuan and Shanxi Province's Taiyuen will be completed in the near future and it will strengthen the Group's logistic ability, allowing us to develop a vastly larger and better client network, establishing a concrete foundation for the Group's continuous expansion and development.

Corporate Governance Report

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

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") during the financial year ended 31 December 2009.

BOARD OF DIRECTORS

Composition

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

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

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

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

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

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

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

Role and function

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

Corporate Governance Report

BOARD OF DIRECTORS *(continued)*

Board meetings

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

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

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

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

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

Attendance records

During the financial year ended 31 December 2009, the Directors have made active contribution to the affairs of the Group and nineteen Board meetings were held to consider, among other things, various projects contemplated by the Group and to review and approve the interim results and annual results of the Group.

Corporate Governance Report

BOARD OF DIRECTORS *(continued)*

Attendance records *(continued)*

Details of Directors' attendance records in 2009 were as follows:

	Meetings attended/Eligible to attend
Executive Directors	
Cao Zhong (appointed on 4 March 2009)	12/15
Wong Lik Ping	10/19
So Kwok Hoo	19/19
Xue Kang	3/19
Liu Qingshan	11/19
Huang Bin (resigned on 31 March 2009)	1/6
Non-executive Directors	
Chen Zhouping (appointed on 12 January 2009)	14/18
Leung Shun Sang, Tony (appointed on 4 March 2009)	15/15
Shi Jianping	2/19
Li King Luk (resigned on 4 March 2009)	0/4
Independent Non-executive Directors	
Kee Wah Sze	12/19
Choi Wai Yin	17/19
Chan Pat Lam	19/19

Access to information

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

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

Corporate Governance Report

BOARD OF DIRECTORS *(continued)*

Appointments and re-election of Directors

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

According to the Articles, any Director so appointed by the Board shall hold office, only until the next following general meeting and shall then be eligible for re-election but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at such meeting. Every Director (including Non-executive Director) is subject to retirement by rotation at least once every three years.

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

Independent Non-executive Directors

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

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

Directors’ and officers’ liability

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of Chairman and Chief Executive Officer are separate and are not performed by the same individual to reinforce their independence and accountability. Mr. Wong Lik Ping was the Chairman of the Company during the period from 1 January 2009 to 13 March 2009 and Mr. Cao was the Chairman of the Company during the period from 13 March 2009 to 5 January 2010. Mr. So Kwok Hoo was the Chief Executive Officer during the year. The Chairman provides leadership for the Board, overall strategic formulation and business development for the Group. The Chief Executive Officer was responsible for the Group’s day-to-day management generally.

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

Corporate Governance Report

BOARD COMMITTEES

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

Executive Committee

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

As at 31 December 2009, the members of the Executive Committee were as follows:

- Cao Zhong *(Chairman)*
- Wong Lik Ping
- So Kwok Hoo
- Xue Kang
- Chen Zhaoqiang
- Liu Qingshan
- Zhang Xinfeng
- Kang Jizhong

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

Audit Committee

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

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

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

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

Corporate Governance Report

BOARD COMMITTEES *(continued)*

Audit Committee *(continued)*

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

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

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

- reviewing the final results of the Group for the financial year ended 31 December 2008; and
- reviewing the interim results of the Group for the six months ended 30 June 2009.

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

Nomination Committee

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

The principal duties of the Nomination Committee include:

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

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

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

Corporate Governance Report

BOARD COMMITTEES *(continued)*

Nomination Committee *(continued)*

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

	Meeting attended/Eligible to attend
Cao Zhong *(Chairman)*	1/1
Wong Lik Ping	0/1
Kee Wah Sze	1/1
Choi Wai Yin	1/1
Chan Pat Lam	1/1

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

During the year, one meeting of the Nomination Committee was held for reviewing the structure of the Board.

Remuneration Committee

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

The principal duties of the Remuneration Committee include:

- making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management of the Group;

- reviewing and approving performance-based remuneration;

- determining the specific remuneration packages of all Executive Directors and senior management and making recommendation to the Board of the remuneration of Non-executive Directors;

- reviewing and approving the compensation payable to Executive Directors and senior management and the compensation arrangements relating to dismissal or removal of Directors for misconduct; and

- ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration.

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

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

Corporate Governance Report

BOARD COMMITTEES *(continued)*

Remuneration Committee *(continued)*

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

	Meetings attended/Eligible to attend
Leung Shun Sang, Tony *(Chairman)*	4/5
So Kwok Hoo	4/5
Kee Wah Sze	4/5
Choi Wai Yin	5/5
Chan Pat Lam	5/5

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

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

- reviewing the remuneration and terms of service contracts of the Executive Director of the Company;
- determining the bonuses of the Executive Directors of the Company for the year 2009; and
- making recommendations to the Board on the directors' fee of the Non-executive Directors of the Company for the year 2010.

INTERNAL CONTROL

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

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

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

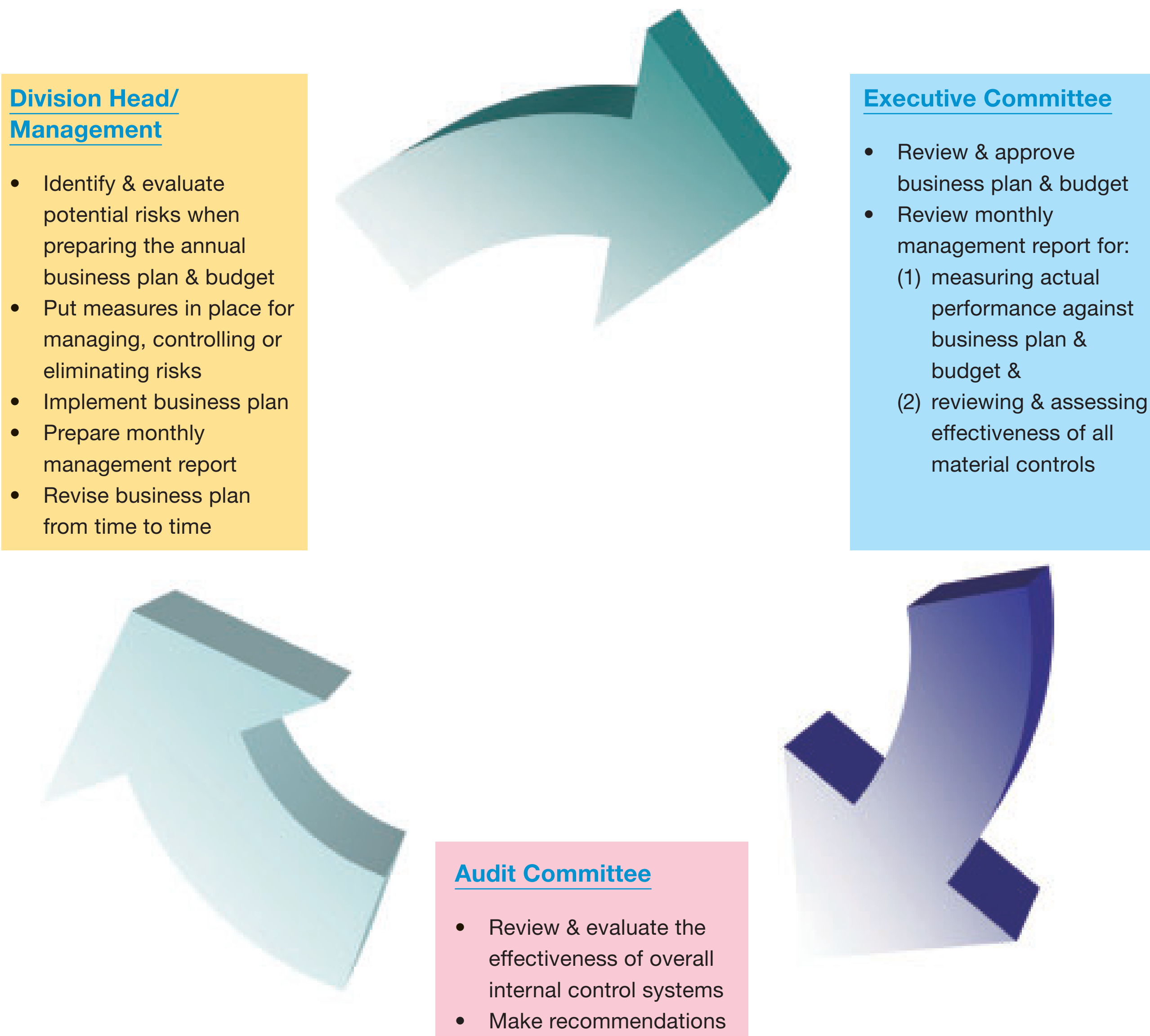
Business plan and budget are prepared by the division head of each principal business unit annually. In preparing the business plans and budgets, the management identifies and evaluates any potential risks. Measures will be put in place with an aim to ultimately manage, control or eliminate such risks.

INTERNAL CONTROL *(continued)*

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

The Audit Committee assists the Board to fulfill its oversight role over the Group's internal control function by reviewing and evaluating the effectiveness of the overall internal control systems.

Internal Control System



Corporate Governance Report

INTERNAL CONTROL *(continued)*

Internal Control System *(continued)*

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

In order to strengthen the internal control system of the Group, the Group has engaged a professional firm to carry out independent review on key internal control systems of the Group. The recommendations made by the professional firm have been adopted and implemented by the Group.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the year ended 31 December 2009.

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

AUDITORS' REMUNERATION

During the year, the remuneration paid to the Company's auditors, Grant Thornton, is set out as follows:

Services rendered	**Fee paid/payable** *HK$'000*
Statutory audit services	1,425
Non-statutory audit services:	
Review on interim financial report	250
	1,675

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

The statement of the auditors of the Company, Grant Thornton, about its reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditors' Report on pages 62 to 63 of this annual report.

Corporate Governance Report

COMMUNICATION WITH SHAREHOLDERS

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

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

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

Report of the Directors

The Directors herein present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries and associates are set out in notes 21 and 23 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2009 and the state of affairs of the Group at that date are set out in the financial statements on pages 64 to 147 of this annual report.

The Board of Directors of the Company recommended a final dividend of HK$0.11 per share for the year ended 31 December 2009 (2008: Nil) payable to shareholders whose names appear on the register of members of the Company on Tuesday, 8 June 2010. This dividend is subject to shareholders' approval at the Company's annual general meeting to be held on Tuesday, 8 June 2010. The register of members of the Company will be closed from Monday, 7 June 2010 to Tuesday, 8 June 2010 (both days inclusive), during which period no transfer of shares of the Company will be registered. The final dividend is expected to be paid on or about Wednesday, 23 June 2010.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on page 148 of this annual report.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2009 are set out in note 33 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the financial statements.

SHARE CAPITAL

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

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on pages 70 to 71 of this annual report and in note 41 to the financial statements, respectively.

Report of the Directors

DONATIONS

Charitable donations made by the Group during the year amounted to approximately HK$125,321,000.

DIRECTORS

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

Wang Qinghai	(appointed on 5 January 2010)
Cao Zhong	(appointed on 4 March 2009)
Wong Lik Ping	
So Kwok Hoo	
Xue Kang	
Chen Zhaoqiang	(appointed on 5 January 2010)
Liu Qingshan	
Chen Zhouping	(appointed on 12 January 2009)
Leung Shun Sang, Tony	(appointed on 4 March 2009)
Zhang Yaoping	(appointed on 1 January 2010)
Kee Wah Sze*	
Choi Wai Yin*	
Chan Pat Lam*	
Shi Jianping	(resigned on 1 January 2010)
Huang Bin	(resigned on 31 March 2009)
Li King Luk	(resigned on 4 March 2009)

* *Independent Non-executive Directors*

In accordance with articles 90 and 98 of the Company's articles of association, Messrs. Wang Qinghai, Wong Lik Ping, So Kwok Hoo, Chen Zhaoqiang, Liu Qingshan, Chen Zhouping and Zhang Yaoping will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' SERVICE CONTRACTS

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

MANAGEMENT CONTRACTS

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

Report of the Directors

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

The Directors of the Company who held office at 31 December 2009 had the following interests in the shares and underlying shares of the Company as at 31 December 2009 as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance (the "SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

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

		Number of shares/underlying shares in the Company			Total interests as to % of the issued share capital of the Company
Name of Director	**Capacity in which interests are held**	**Interests in shares**	**Interests in underlying shares***	**Total interests**	**as at 31.12.2009**
Cao Zhong	Beneficial owner	3,000,000	15,000,000	18,000,000	0.33%
Wong Lik Ping ("Mr. Wong")	Beneficial owner, interests of controlled corporation	588,171,900#	4,500,000	592,671,900	11.03%
So Kwok Hoo	Beneficial owner	4,000,000	3,500,000	7,500,000	0.13%
Xue Kang	Beneficial owner	6,000,000	3,000,000	9,000,000	0.16%
Liu Qingshan	Beneficial owner	–	6,000,000	6,000,000	0.11%
Chen Zhouping	Beneficial owner	–	6,000,000	6,000,000	0.11%
Leung Shun Sang, Tony	Beneficial owner	–	6,000,000	6,000,000	0.11%
Shi Jianping	Beneficial owner	2,454,000	4,500,000	6,954,000	0.12%
Kee Wah Sze	Beneficial owner	700,000	3,200,000	3,900,000	0.07%
Choi Wai Yin	Beneficial owner	550,000	3,200,000	3,750,000	0.06%
Chan Pat Lam	Beneficial owner	600,000	3,200,000	3,800,000	0.07%

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

\# *Mr. Wong indicated in his disclosure form dated 4 January 2010, as at 30 December 2009 (being the latest date up to 31 December 2009 whereby a relevant event under the SFO was reported occurred), the interest included 399,200,000 shares of the Company held by China Merit Limited which was wholly-owned by Mr. Wong. The interest held by China Merit Limited was disclosed under the section headed "Interests and Short Positions of Shareholders Discloseable Under the SFO" below.*

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

(b) Short positions in the shares of the Company

Name of Director	Capacity in which interests are held	Number of shares	Interests as to % of the issued share capital of the Company as at 31.12.2009
Mr. Wong	Interests of controlled corporation	209,500,000#	3.90%

\# *Mr. Wong indicated in his disclosure form dated 4 January 2010, as at 30 December 2009 (being the latest date up to 31 December 2009 whereby a relevant event under the SFO was reported occurred), the interest was held by China Merit Limited which was wholly-owned by Mr. Wong. The interest held by China Merit Limited was disclosed under the section headed "Interests and Short Positions of Shareholders Discloseable Under the SFO" below.*

Save as disclosed above, at 31 December 2009, none of the Company's Directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

Report of the Directors

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

Name of Director	Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of interest of the Director in the entity
Shi Jianping	通江能源公司#	Coking coal and clean coking coal production	Shareholder

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

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

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2009, according to the register kept by the Company under Section 336 of the SFO (the "Register"), the following companies and persons had interests or short positions in the shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO ("Notifiable Interest"):

(a) Long positions in the shares of the Company

Name of shareholder	Capacity in which interests are held	Number of shares	Interests as to % of the issued share capital of the Company as at 31.12.2009	*Note(s)*
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Interests of controlled corporations	1,423,962,490	26.51%	*1*
Shougang Concord International Enterprises Company Limited ("Shougang International")	Beneficial owner, Interests of controlled corporations	1,314,872,497	24.48%	*1*
Fine Power Group Limited ("Fine Power")	Beneficial owner	663,918,497	12.36%	*1*
Mr. Xing Libin ("Mr. Xing")	Beneficial owner, Interests of controlled corporation	427,940,536	7.96%	*2*
Firstwealth Holdings Limited ("Firstwealth")	Beneficial owner	423,440,536	7.88%	*2*
China Resources National Corporation	Interests of controlled corporation	420,000,000	7.82%	*3*
China Resources Co., Limited	Interests of controlled corporation	420,000,000	7.82%	*3*
CRC Bluesky Limited	Interests of controlled corporation	420,000,000	7.82%	*3*
China Resources (Holdings) Company Limited	Interests of controlled corporation	420,000,000	7.82%	*3*
CR Corporate Affairs Limited	Interests of controlled corporation	420,000,000	7.82%	*3*
華潤深國投信託有限公司	Other	420,000,000	7.82%	
China Merit Limited	Beneficial owner	399,200,000	7.43%	*4*

Report of the Directors

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

(b) Short positions in the shares of the Company

Name of shareholder	Capacity in which interests are held	Number of shares	Interests as to % of the issued share capital of the Company as at 31.12.2009	*Note(s)*
Mr. Xing	Interests of controlled corporation	420,000,000	7.82%	*2*
Firstwealth	Beneficial owner	420,000,000	7.82%	*2*
China Merit Limited	Beneficial owner	209,500,000	3.90%	*4*

Notes:

1. Pursuant to the disclosure forms dated 4 January 2010 filed by Shougang Holding and Shougang International, as at 30 December 2009 (being the latest date up to 31 December 2009 whereby a relevant event under the SFO was reported occurred), Shougang Holding held 100% interests in Fair Gain Investments Limited and 42.01% interests in Shougang International which in turn held 100% interests in each of Ultimate Capital Limited and Fine Power. Ultimate Capital Limited, Fine Power and Fair Gain Investments Limited owned 650,000,000, 663,918,497 and 109,089,993 shares of the Company respectively. Fine Power was recorded as having a Notifiable Interest in the Register and the records relating thereto was updated in accordance with the said disclosure forms filed by Shougang Holding and Shougang International.

2. Pursuant to the disclosure form dated 5 January 2010 filed by Mr. Xing, as at 28 December 2009 (being the latest date up to 31 December 2009 whereby a relevant event under the SFO was reported occurred), his long position interests included 423,440,536 shares of the Company held by Firstwealth and his short position interests were 420,000,000 shares of the Company held by Firstwealth. Firstwealth was wholly-owned by Mr. Xing.

3. Pursuant to the disclosure forms all dated 21 August 2009 filed by China Resources National Corporation, China Resources Co., Limited, CRC Bluesky Limited, China Resources (Holdings) Company Limited and CR Corporate Affairs Limited, as at 20 August 2009 (being the latest date up to 31 December 2009 whereby a relevant event under the SFO was reported occurred), China Resources National Corporation held 99.98% interests in China Resources Co., Limited which in turn held 100% interests in CRC Bluesky Limited. CRC Bluesky Limited held 100% interest in China Resources (Holdings) Company Limited which in turn held 100% interests in CR Corporate Affairs Limited. CR Corporate Affairs Limited owned 420,000,000 shares of the Company.

4. China Merit Limited was wholly owned by Mr. Wong, a director of the Company. Mr. Wong indicated in his disclosure form dated 4 January 2010, as at 30 December 2009 (being the latest date up to 31 December 2009 whereby a relevant event under the SFO was reported occurred), his interests included long position in 399,200,000 shares of the Company and short position in 209,500,000 shares of the Company, all of which were held by China Merit Limited. Such interests were disclosed as the interests of Mr. Wong under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above.

Save as disclosed above, at 31 December 2009, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

PUBLIC FLOAT

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

SHARE OPTION SCHEME

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

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

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

The total number of shares of the Company which may be issued upon exercise of all outstanding share options granted under the Scheme is 285,050,000 which represents approximately 5.3% of the issued share capital of the Company as at the date of this annual report. The maximum number of shares of the Company available for issue upon exercise of all share options which may be granted under the Scheme is 176,425,535, representing approximately 3.28% of the issued share capital of the Company as at the date of this annual report. The total number of shares of the Company issued and to be issued upon the exercise of share options granted under the Scheme (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, in excess of in aggregate 0.1% of the shares of the Company in issue (based on the date of offer) and an aggregate value of HK$5,000,000 (based on the closing price of the Company's shares at the date of each offer), within any 12-month period, are subject to shareholders' approval in advance in a general meeting. Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the Independent Non-executive Directors.

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

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

SHARE OPTION SCHEME *(continued)*

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

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

	Options to subscribe for shares of the Company						
Category or name of grantees	At the beginning of the year	Granted during the year[1]	Exercised during the year[2]	At the end of the year	Date of grant	Exercise period	Exercise price per share
Directors of the Company							
Cao Zhong	–	15,000,000	–	15,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Mr. Wong	2,000,000	–	(2,000,000)	–	26.04.2006	26.04.2008 – 25.04.2013	HK$1.50
	–	4,500,000	–	4,500,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
	2,000,000	4,500,000	(2,000,000)	4,500,000			
So Kwok Hoo	6,500,000	–	(6,500,000)	–	26.04.2006	26.04.2008 – 25.04.2013	HK$1.50
	–	3,500,000	–	3,500,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
	6,500,000	3,500,000	(6,500,000)	3,500,000			
Xue Kang	6,000,000	–	(6,000,000)	–	26.04.2006	26.04.2008 – 25.04.2013	HK$1.50
	–	3,000,000	–	3,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
	6,000,000	3,000,000	(6,000,000)	3,000,000			
Liu Qingshan	–	6,000,000	–	6,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Chen Zhouping	–	6,000,000	–	6,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Leung Shun Sang, Tony	–	6,000,000	–	6,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Shi Jianping[3]	–	4,500,000	–	4,500,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Kee Wah Sze	800,000	–	(800,000)	–	26.04.2006	26.04.2008 – 25.04.2013	HK$1.50
	–	3,200,000	–	3,200,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
	800,000	3,200,000	(800,000)	3,200,000			

Report of the Directors

SHARE OPTION SCHEME *(continued)*

Category or name of grantees	Options to subscribe for shares of the Company: At the beginning of the year	Granted during the year[1]	Exercised during the year[2]	At the end of the year	Date of grant	Exercise period	Exercise price per share
Directors of the Company *(continued)*							
Choi Wai Yin	800,000	–	(800,000)	–	26.04.2006	26.04.2008 – 25.04.2013	HK$1.50
	–	3,200,000	–	3,200,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
	800,000	3,200,000	(800,000)	3,200,000			
Chan Pat Lam	800,000	–	(800,000)	–	26.04.2006	26.04.2008 – 25.04.2013	HK$1.50
	–	3,200,000	–	3,200,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
	800,000	3,200,000	(800,000)	3,200,000			
	16,900,000	58,100,000	(16,900,000)	58,100,000			
Employees of the Group	68,500,000	–	(52,500,000)	16,000,000	26.04.2006	26.04.2008 – 25.04.2013	HK$1.50
	–	106,950,000	–	106,950,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
	68,500,000	106,950,000	(52,500,000)	122,950,000			
Other participants	13,600,000	–	(13,600,000)	–	26.04.2006	26.04.2008 – 25.04.2013	HK$1.50
	–	116,000,000	–	116,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
	13,600,000	116,000,000	(13,600,000)	116,000,000			
	99,000,000	281,050,000	(83,000,000)	297,050,000			

Notes:

1. (a) The closing price of the shares of the Company immediately before the date on which the share options were granted was HK$5.29 per share.

   (b) The details of the value of the share options granted during the year are set out in note 42 to the financial statements.

2. The weighted average closing price of the shares of the Company immediately before the date on which the share options were exercised was approximately HK$5.893 per share.

3. Subsequent to the reporting date, Mr. Shi Jianping resigned as a Non-executive Director of the Company on 1 January 2010.

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

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

DISTRIBUTION RESERVES

At the reporting date, the Company had approximately HK$666,008,000 reserves available for distribution as calculated in accordance with the provisions of Section 79B of the Companies Ordinance, of which approximately HK$591,862,000 has been proposed as a final dividend for the year.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 36.6% of the total sales for the year and sales to the largest customer included therein amounted to 14.2%. Purchases from the Group's five largest suppliers accounted for 52.7% of the total purchases for the year and purchases from the largest supplier included therein amounted to 20.6%. A shareholder who owns more than 5% of the share capital of the Company has interests in the Group's largest supplier. Save as disclosed above, none of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's share capital) had any interest in the Group's five largest customers and suppliers.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected transactions

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

(a) Disposal of Jumbo Hall International Limited

On 6 October 2009, the Company and Mr. Wong entered into a disposal agreement pursuant to which the Company agreed to sell and Mr. Wong agreed to purchase the entire issued share capital and the sale loan of Jumbo Hall International Limited, the then wholly-owned subsidiary of the Company. The sole asset of Jumbo Hall International Limited was its interest in the properties comprising five office units situated at 12th Floor, Kwan Chart Tower, 6 Tonnochy Road, Wanchai, Hong Kong with a total gross floor area of approximately 4,693 square feet. The total cash consideration of HK$15,500,000 was determined after arm's length negotiation between the Group and Mr. Wong by reference to the value of the properties of HK$15,500,000 as at 30 September 2009 as valued by an independent property valuer.

As at the date of the disposal agreement, Mr. Wong was a director and a substantial shareholder of the Company. Mr. Wong was therefore a connected person of the Company under the Listing Rules. Accordingly, the transaction under the disposal agreement constituted a connected transaction for the Company and subject to the reporting and announcement requirements under the Listing Rules. The properties had been used by the Company as its registered office in Hong Kong. As the Company has relocated its registered office to another office premises, the disposal would enable the Group to realize the value of its interest in the properties and make use of the proceeds from the disposal for the Group's general working capital. Details of the transaction were disclosed in the announcement of the Company dated 7 October 2009 in accordance with Chapter 14A of the Listing Rules and the disposal was completed on 31 December 2009.

Report of the Directors

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Connected transactions *(continued)*

(b) Acquisition of shares of Mount Gibson Iron Limited

On 22 September 2009, the Company as purchaser, Sky Choice International Limited (a wholly-owned subsidiary of Shougang International), as vendor and Shougang International as guarantor entered into an agreement pursuant to which the Company agreed to purchase from Sky Choice International Limited 154,166,874 shares of Mount Gibson Iron Limited (a corporation incorporated in Australia with its shares listing on The Australian Securities Exchange), representing approximately 14.34% of the then issued share capital of Mount Gibson Iron Limited, at a consideration of HK$1,188,531,169, which was determined after arm's length negotiation with reference to the average closing price of Mount Gibson Iron Limited as quoted on the Australian Securities Exchange for the last five consecutive trading days up to and including the date of the agreement. The consideration was satisfied in full by the allotment and issue of 213,918,497 Shares of the Company to Fine Power Group Limited, the nominee of Sky Choice International Limited, at the issue price of HK$5.556.

At the date of the agreement, Shougang International was a substantial shareholder of the Company. Shougang International was therefore a connected person of the Company under the Listing Rules. Accordingly, the transaction under the agreement constituted a connected transaction for the Company. As the Company aimed to develop itself into an international diversified resources supplier, the transaction under the agreement served to diversify the product portfolio, and would expand the Company's geographic foothold outside of the PRC. Details of the transaction were disclosed in the announcement and the circular of the Company dated 22 September 2009 and 13 October 2009 respectively, in accordance with Chapter 14 and Chapter 14A of the Listing Rules. The agreement was confirmed, approved and ratified by the independent shareholders of the Company on 30 October 2009 and the transactions thereunder were completed on 1 December 2009.

(c) Loan Agreement with Mr. Xing

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

The making available of the loan is conditional upon:

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

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

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Connected transactions *(continued)*

(c) Loan Agreement with Mr. Xing *(continued)*

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

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

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

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

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

As at the date of this annual report, the conditions precedent of the loan agreement are yet to be fulfilled.

As at the date of the loan agreement, Mr. Xing was an associate of a substantial shareholder of each of certain subsidiaries of the Company and was therefore a connected person of the Company under the Listing Rules. Accordingly, the transaction under the loan agreement constituted a connected transaction for the Company. In order to better protect the interest of the Company in respect of the outstanding liabilities of Mr. Xing under the said sale and purchase agreement, it would be in the interest of the Company to enter into the loan agreement for fixing the terms of settlement. Details of the transaction were disclosed in the announcement of the Company dated 13 April 2010 in accordance with Chapter 14 and Chapter 14A of the Listing Rules.

Continuing connected transactions

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

(a) As stated in the announcement of the Company dated 31 December 2007 and in the circular of the Company dated 18 January 2008, a coal supply contract dated 24 December 2007 was entered into between Xingwu (a non-wholly owned subsidiary of the Company, which was a connected person of the Company by virtue of its being an associate of Mr. Xing who was a substantial shareholder of a subsidiary of the Company) as supplier and Shanxi Yao Zin Coal and Coking Company Limited ("Yao Zin", a non-wholly owned subsidiary of the Company) as purchaser in respect of the supply of coking coal by Xingwu to Yao Zin. The annual cap amounts (inclusive of VAT) for the transactions contemplated under the coal supply contract for the three financial years ending 31 December 2010 are RMB252,007,000, RMB362,889,000 and RMB391,921,000 respectively.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Continuing connected transactions *(continued)*

(b) As stated in the announcement of the Company dated 4 June 2008, a tenancy agreement dated 2 June 2008 was entered into between Xingwu, Jinjiazhuang and Zhaiyadi (collectively the “PRC Subsidiaries”) as tenants and Luensheng (a connected person of the Company by virtue of its being controlled by the spouse of Mr. Xing who was a substantial shareholder of a subsidiary of the Company) as landlord in respect of the lease of the property situated at Luensheng Office Tower, No. 38 Qing He West Road, Liulin County, Shanxi Province, the PRC. The annual rental payable under the tenancy agreement is RMB1,866,975 for each of the financial years ended 31 December 2008 and 2009 and RMB2,053,672.50 for the financial year ending 31 December 2010.

(c) As stated in the announcement of the Company dated 4 June 2008, a mutual coal supply contract dated 2 June 2008 was entered into between the PRC Subsidiaries. Mr. Xing was a substantial shareholder of a subsidiary of the Company and hence a connected person of the Company. Jinjiazhuang would become an associate of Mr. Xing and hence a connected person of the Company after completion of a sale and purchase agreement dated 9 May 2008, details of which were disclosed in the announcement of the Company dated 21 May 2008. Xingwu was an associate of Jinjiazhuang and was therefore also a connected person of the Company. The annual cap amounts (exclusive of VAT) for the coking coal transactions for each of the three financial years ending 31 December 2010 are as follows:

Supplier	Purchaser	From 18 July 2008 to 31 December 2008 *RMB*	For the financial year ended 31 December 2009 *RMB*	For the financial year ending 31 December 2010 *RMB*
Xingwu	Zhaiyadi	–	561,982,000	842,636,000
Jinjiazhuang	Zhaiyadi	–	280,991,000	360,118,000
Zhaiyadi	Xingwu	95,592,000	229,987,000	–
Zhaiyadi	Jinjiazhuang	–	854,442,000	757,463,000
		95,592,000	1,927,402,000	1,960,217,000

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Continuing connected transactions *(continued)*

(d) As stated in the announcement of the Company dated 4 November 2008, a revised supply contract dated 3 November 2008, which superseded the supply contract dated 2 June 2008, was entered into between the PRC Subsidiaries and Mr. Xing (a connected person of the Company by virtue of his being a substantial shareholder of a subsidiary of the Company) and his associates (collectively "Party A") in relation to the purchase of raw coking coal, accessories and small tools by the PRC Subsidiaries from Party A and the sale of raw coking coal and electricity by the PRC Subsidiaries to Party A. The annual cap amounts (exclusive of VAT) for the coking coal transactions for each of the three financial years ending 31 December 2010 are as follows:

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

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

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

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Continuing connected transactions *(continued)*

(d) *(continued)*

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

Supplier	**Purchaser**	**From 15 December 2008 to 31 December 2008** *RMB*	**For the financial year ended 31 December 2009** *RMB*	**For the financial year ending 31 December 2010** *RMB*
Party A	Xingwu	2,400,000	10,300,000	11,100,000
Party A	Jinjiazhuang	2,300,000	12,000,000	12,800,000
Party A	Zhaiyadi	2,400,000	11,300,000	13,400,000
		7,100,000	33,600,000	37,300,000

The annual cap amounts for the accessories and small tools transactions for the financial year ended 31 December 2009 and the financial year ending 31 December 2010 had been further revised by the second revised supply contract dated 6 October 2009, details of which are set out in item (n) below.

(e) As stated in the announcement of the Company dated 4 November 2008, a supply contract dated 3 November 2008 was entered into between the PRC Subsidiaries and Mr. Shi Jianping (a connected person of the Company by virtue of his being a director of the Company during the period from 1 November 2008 to 31 December 2009) and his associates (collectively "Party B") in relation to the supply of coking coal by the PRC Subsidiaries to Party B. The annual cap amounts (exclusive of VAT) for the transactions contemplated under the supply contract for each of the three financial years ending 31 December 2010 are as follows:

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

Details of the continuing connected transactions as mentioned in items (a) to (e) above were included in the Company's 2008 annual report in compliance with the Listing Rules.

Report of the Directors

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Continuing connected transactions *(continued)*

(f) On 10 May 2007, Zhaiyadi and Shanxi Panlong Construction Project Co., Ltd. ("Shanxi Panlong") entered into a construction contract, pursuant to which Shanxi Panlong agreed to carry out certain excavation of land related construction works for Zhaiyadi's coal preparation plant at the contract sum of RMB2,849,899 (subject to confirmation of the actual quality of work and adjustments arising from normal variation clauses upon completion of the construction under the contract), which was determined after arm's length negotiations and shall be payable in cash in accordance with the progress of the construction works.

Upon completion of the acquisitions of certain companies by the Group on 25 July 2008, details of which are set out in the announcements of the Company dated 21 May 2008 and 25 July 2008, Mr. Xing became a substantial shareholder of the Company. Shanxi Panlong was controlled by Mr. Xing's brother, an associate of Mr. Xing, and hence became a connected person of the Company upon completion of the aforesaid acquisitions. Accordingly, the transactions contemplated under the construction contract constituted continuing connected transactions for the Company and were subject to the reporting and announcement requirements under the Listing Rules. As at the date of this annual report, the construction under the contract has been completed. The entering into of the construction contract is essential to Zhaiyadi for producing the products of required quantity and quality. Details of the transaction were disclosed in the announcement of the Company dated 1 June 2009.

(g) On 25 June 2007, Jinjiazhuang and Shanxi Panlong entered into a construction contract pursuant to which Shanxi Panlong agreed to carry out certain retaining wall related construction works for Jinjiazhuang's coal preparation plant at the contract sum of RMB15,228,499 (subject to confirmation of the actual quality of work and adjustments arising from normal variation clauses upon completion of the construction under the contract), which was determined after arm's length negotiations and shall be payable in cash in accordance with the progress of the construction works.

Upon completion of the acquisitions of certain companies by the Group on 25 July 2008, details of which are set out in the announcements of the Company dated 21 May 2008 and 25 July 2008, Mr. Xing became a substantial shareholder of the Company. Shanxi Panlong was controlled by Mr. Xing's brother, an associate of Mr. Xing and hence became a connected person of the Company upon completion of the aforesaid acquisitions. Accordingly, the transactions contemplated under the construction contract constituted continuing connected transactions for the Company and were subject to the reporting and announcement requirements under the Listing Rules. As at the date of this annual report, the construction under the contract has been completed. The entering into of the construction contract is essential to Jinjiazhuang for producing the products of required quantity and quality. Details of the transaction were disclosed in the announcement of the Company dated 1 June 2009.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Continuing connected transactions *(continued)*

(h) On 20 March 2008, Zhaiyadi and Shanxi Panlong entered into a construction contract pursuant to which Shanxi Panlong agreed to carry out certain retaining wall related construction works for Zhaiyadi's coal preparation plant at the contract sum of RMB6,616,474 (subject to confirmation of the actual quality of work and adjustments arising from normal variation clauses upon completion of the construction under the contract), which was determined after arm's length negotiations and shall be payable in cash in accordance with the progress of the construction works.

Upon completion of the acquisitions of certain companies by the Group on 25 July 2008, details of which are set out in the announcements of the Company dated 21 May 2008 and 25 July 2008, Mr. Xing became a substantial shareholder of the Company. Shanxi Panlong is controlled by Mr. Xing's brother, an associate of Mr. Xing and hence became a connected person of the Company upon completion of the aforesaid acquisitions. Accordingly, the transactions contemplated under the construction contract constituted continuing connected transactions for the Company and were subject to the reporting and announcement requirements under the Listing Rules. As at the date of this annual report, the construction under the contract has been completed. The entering into of the construction contract is essential to Zhaiyadi for producing the products of required quantity and quality. Details of the transaction were disclosed in the announcement of the Company dated 1 June 2009.

(i) On 25 April 2008, Xingwu and Shanxi Panlong entered into a construction contract, pursuant to which Shanxi Panlong agreed to carry out certain road construction related works for Xingwu's mine at the contract sum of RMB3,076,793 (subject to confirmation of the actual quality of work and adjustments arising from normal variation clauses upon completion of the construction under the contract), which was determined after arm's length negotiations and shall be payable in cash in accordance with the progress of the construction works.

Upon completion of the acquisitions of certain companies by the Group on 25 July 2008, details of which are set out in the announcements of the Company dated 21 May 2008 and 25 July 2008, Mr. Xing became a substantial shareholder of the Company. Shanxi Panlong was controlled by Mr. Xing's brother, an associate of Mr. Xing and hence became a connected person of the Company upon completion of the aforesaid acquisitions. Accordingly, the transactions contemplated under the construction contract constituted continuing connected transactions for the Company and were subject to the reporting and announcement requirements under the Listing Rules. As at the date of this annual report, the construction under the contract has been completed. The entering into of the construction contract is essential to Xingwu for producing the products of required quantity and quality. Details of the transaction were disclosed in the announcement of the Company dated 1 June 2009.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Continuing connected transactions *(continued)*

(j) On 1 June 2009, the PRC Subsidiaries and Party A entered into a sale master agreement pursuant to which the PRC Subsidiaries agreed to sell certain equipment, accessories and small tools to Party A. The price for each of the sale transactions would be determined with reference to (i) in respect of the sale of equipment, the net book value of the equipment as at the date of transaction concerned; and (ii) in respect of the sale of accessories and small tools, in accordance with a comparable market price, or by agreement between the parties based on prices no less favorable to/from third parties or reasonably agreed between the parties at cost, if no comparable market price can be taken as a reference. Payments for the transactions shall be settled by way of bills or cash. The annual cap amounts (exclusive of VAT) for the transactions under the sale master agreement are RMB12,000,000 for the period from 1 June 2009 to 31 December 2009; RMB20,000,000 for the financial year ending 31 December 2010; and RMB 20,000,000 for the financial year ending 31 December 2011 respectively.

As at the date of the sale master agreement, Mr. Xing was a substantial shareholder of the Company and certain subsidiaries of the Company and hence Party A was a connected person of the Company. Accordingly, the transactions contemplated under the sale master agreement constituted continuing connected transactions for the Company and were subject to the reporting and announcement requirements under the Listing Rules. The sale transactions with Party A would enable the Group to strengthen its income base and enable the PRC Subsidiaries to dispose of equipment not required by them and thereby increase cashflow. Details of the transactions were disclosed in the announcement of the Company dated 1 June 2009.

(k) On 1 June 2009, the PRC Subsidiaries entered into a mutual sale master agreement in relation to the sale of certain equipment, accessories and small tools among themselves. The price for each of the mutual sale transactions would be determined with reference to (i) in respect of sale of equipment, the net book value of the equipment as at the date of transaction concerned; and (ii) in respect of sale of accessories and small tools, in accordance with a comparable market price, or by agreement between the parties based on prices no less favorable to/from third parties or reasonably agreed between the parties at cost, if no comparable market price can be taken as a reference. Payments for the transactions shall be settled by way of bills or cash. The annual cap amounts (exclusive of VAT) for the transactions under the mutual sale agreement are RMB12,000,000 for the period from 1 June 2009 to 31 December 2009; RMB20,000,000 for the financial year ending 31 December 2010; and RMB20,000,000 for the financial year ending 31 December 2011, respectively.

As at the date of the mutual sale master agreement, Mr. Xing was a substantial shareholder of the Company. Jinjiazhuang was an associate of Mr. Xing and hence a connected person of the Company. Xingwu was an associate of Jinjiazhuang and was therefore also a connected person of the Company. Accordingly, the transactions contemplated under the mutual sale master agreement constituted continuing connected transactions for the Company and were subject to the reporting and announcement requirements under the Listing Rules. The entering into of the mutual sale master agreement would ensure continuous supply of the necessary accessories and small tools required for their respective production of coking coal products, in the event that any of the PRC Subsidiaries is in urgent need of such accessories and small tools, so as to enhance the flexibility of the operations of the PRC Subsidiaries, and to make good use of the equipment not required by the other PRC subsidiaries. Details of the transactions were disclosed in the announcement of the Company dated 1 June 2009.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Continuing connected transactions *(continued)*

(l) On 1 June 2009, the PRC Subsidiaries as tenants and Luensheng as landlord entered into a tenancy agreement in relation to the lease of one floor of office premises situated at Luensheng Office Tower, No. 38 Qing He West Road, Liulin County, Shanxi Province, the PRC (the "Second Tenancy Agreement"). The annual rental payable under the Second Tenancy Agreement was RMB934,400 (exclusive of electricity, heat, water, and other charges) for the financial year ended 31 December 2009 and RMB1,026,836.25 for the financial year ending 31 December 2010. Pursuant to the Second Tenancy Agreement, rental payable by the PRC Subsidiaries to Luensheng would be made bi-annually in equal portions between the PRC Subsidiaries. The rental was determined after arm's length negotiation with reference to the terms of tenancy agreement dated 2 June 2008 (the "First Tenancy Agreement") entered into by the parties and the then prevailing market rental of the office premises.

As at the date of the Second Tenancy Agreement, Luensheng was a connected person of the Company by virtue of its being controlled by the spouse of Mr. Xing who was a substantial shareholder of the Company. Accordingly, the transactions contemplated under the Second Tenancy Agreement constituted continuing connected transactions for the Company under the Listing Rules. Having aggregated the annual amount for the First Tenancy Agreement and the Second Tenancy Agreement, the transactions contemplated under the First Tenancy Agreement and the Second Tenancy Agreement were subject to the reporting and announcement requirements under the Listing Rules. The PRC Subsidiaries had leased certain office premises which were in the same building of the premises and such office premises had been used by the PRC Subsidiaries as their office. It was beneficial to the PRC Subsidiaries to enter into the Second Tenancy Agreement as the PRC Subsidiaries need more office space for operation and therefore all operation could be centralized at the same location. Details of the transaction were disclosed in the announcement of the Company dated 1 June 2009.

(m) On 10 September 2009, the PRC Subsidiaries and Shanxi Panlong entered into a master construction contract in relation to provision of certain construction services by Shanxi Panlong to the PRC Subsidiaries. The cap amounts for the transactions under the agreement are RMB10,000,000 for the period from 10 September 2009 to 31 December 2009; RMB10,000,000 for the financial year ending 31 December 2010 and RMB10,000,000 for the financial year ending 31 December 2011, which were determined after arm's length negotiation with reference to the construction contracts as set out in items (f) to (i) above and shall be payable in cash in accordance with the progress of the construction works.

As at the date of the master construction contract, Shanxi Panlong was a connected person by virtue of its being controlled by Mr. Xing's brother, an associate of Mr. Xing who was a substantial shareholder of the Company. Accordingly, the transactions contemplated under the master construction contract constituted continuing connected transactions for the Company and were subject to the reporting and announcement requirements under the Listing Rules. It is essential that the mining areas for mining and coal preparation plants of the PRC Subsidiaries should have the infrastructure and auxiliary facilities as necessary for producing the products of required quantity and quality. As it was expected that on-going construction works would need to be carried out at the mining areas from time to time in the future, the entering into of the master construction contract would enable the PRC Subsidiaries to have greater degree of flexibility if and when transacting with Shanxi Panlong in the future. Details of the transaction were disclosed in the announcement of the Company dated 10 September 2009.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Continuing connected transactions *(continued)*

(n) On 6 October 2009, the PRC Subsidiaries and Party A entered into a second revised supply contract, pursuant to which the parties agreed to revise the annual cap amounts for the accessories and small tools transactions for each of the two financial years ending 31 December 2010 under the revised supply contract dated 3 November 2008 entered into between the parties, details of which are set out in item (d) above. Pursuant to the second revised supply contract, the revised annual cap amounts (exclusive of VAT) for each of the two financial years ending 31 December 2010 are as follows:

Supplier	**Purchaser**	**For the financial year ended 31 December 2009** *RMB*	**For the financial year ending 31 December 2010** *RMB*
Party A	PRC Subsidiaries	118,165,350	120,000,000

As at the date of the second revised supply contract, Mr. Xing was a substantial shareholder of the Company and certain subsidiaries of the Company and hence was a connected person of the Company. Accordingly, the transactions contemplated under the second revised supply contract constituted continuing connected transactions for the Company under the Listing Rules. The entering into of the second revised supply contract to increase the cap amounts in respect of the accessories and small tools transaction would provide more flexibility for the PRC Subsidiaries to purchase accessories and small tools from Party A which had a centralized sourcing department for the said equipment. Details of the transaction were disclosed in the announcement of the Company dated 7 October 2009 and the circular of the Company dated 28 October 2009 respectively. The second revised supply contract was confirmed, approved and ratified by the independent shareholders of the Company on 13 November 2009.

(o) On 6 October 2009, the PRC Subsidiaries entered into an intra-group advances contract among themselves, pursuant to which the PRC Subsidiaries agreed that each of the PRC Subsidiaries would make unsecured and interest-free advances to one another (excluding the provision of advances by Xingwu to Zhaiyadi and by Jinjiazhuang to Zhaiyadi). The aggregate daily balance for the intra-group advances transactions under the contract would not exceed RMB610,697,642 for the period from 13 November 2009 to 31 December 2009 and RMB400,000,000 for the financial year ending 31 December 2010.

As at the date of the intra-group advances contract, Jinjiazhuang was an associate of Mr. Xing who was a substantial shareholder of the Company, and hence a connected person of the Company. Xingwu was an associate of Jinjiazhuang and was therefore also a connected person of the Company. Accordingly, the transactions contemplated under the intra-group advances contract constituted continuing connected transactions for the Company under the Listing Rules. The purpose of the intra-group advances master contract was to ensure that each of the PRC Subsidiaries would continue to have sufficient funding required for its general working capital and liquidity requirement in the event that any of the PRC Subsidiaries is in urgent need of funding for its daily operation thereby enhancing the flexibility and liquidity of the operations of the PRC Subsidiaries. Details of the transactions were disclosed in the announcement of the Company dated 7 October 2009 and the circular of the Company dated 28 October 2009 respectively. The intra-group advances master contract was confirmed, approved and ratified by the independent shareholders of the Company dated 13 November 2009.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Continuing connected transactions *(continued)*

(p) As stated in the announcement of the Company dated 7 October 2009, a loan agreement would be entered into by each of Xingwu and Zhaiyadi as borrower and China Merchant Bank Company Limited, Shenzhen Branch (the "Bank") as lender, whereby the Bank would agree to grant a revolving loan facility of up to RMB400,000,000 and RMB200,000,000 to Xingwu and Zhaiyadi respectively for a period from the effective date of the loan agreement up to 2 years. On the date of the loan agreements, the Company entered into a guarantee in favor of the Bank to secure the payment obligations of each of Xingwu and Zhaiyadi. The aggregate maximum liability of the Company in respect of the guarantee shall be limited to RMB600,000,000, any interest accrued thereon, any payment to be paid by Xingwu and Zhaiyadi upon default of their repayment obligations, any costs and expenses for enforcing the guarantee and any loss and other relevant expenses incurred by the Bank upon default of the payment obligations by Xingwu and Zhaiyadi. The loan agreements and the guarantees were entered into by the parties on 11 December 2009.

As at the date of the announcement, Jinjiazhuang was a connected person of the Company by virtue of its being owned as to 35% by Shanxi Luensheng Energy Investment Limited, a company controlled by the spouse of Mr. Xing who was a substantial shareholder of the Company. As Xingwu was owned as to 35% by Jinjiazhuang and was therefore a connected person of the Company. Accordingly, the provision of the guarantee for Xingwu constituted continuing connected transactions for the Company under the Listing Rules. The guarantee would enable Xingwu and Zhaiyadi to obtain financing in the PRC for the purpose of part repayment of advances under the intra-group advance transactions due among the PRC Subsidiaries mutually and financing Xingwu's and Zhaiyadi's general working capital requirements with a view to reducing the intra-group advances in respect of the advances made to Xingwu and Zhaiyadi. Details of the transactions were disclosed in the announcement of the Company dated 7 October 2009 and the circular of the Company dated 28 October 2009 respectively. The provision of the guarantee by the Company to the Bank was confirmed and approved by the independent shareholders of the Company on 13 November 2009.

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

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

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

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

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

Report of the Directors

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Continuing connected transactions *(continued)*

As far as the transactions set out in note 47 to the financial statements under the heading of "Related Party Transactions – Group" are concerned, the transaction as set out in note (i) was connected transaction which was exempt from any disclosure and shareholders' approval requirements under the Listing Rules. The transaction set out in note (ii) was connected transaction which had been previously disclosed by way of announcement of the Company. The transaction set out in note (iii) was connected transaction which had been approved by the independent shareholders of the Company.

The transaction set out in note (iv) under the heading of "Related Party Transactions – Group" did not constitute connected transactions of the Company under the Listing Rules.

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

CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 28 to 38 of this annual report.

EVENTS AFTER THE REPORTING DATE

Details of significant events occurring after the reporting date are set out in note 51 to the financial statements.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Grant Thornton as auditors of the Company.

By Order of the Board
Cao Zhong
Vice-chairman and Managing Director

15 April 2010

Independent Auditors' Report

Grant Thornton
均富

Member of Grant Thornton International Ltd

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

We have audited the consolidated financial statements of Fushan International Energy Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 64 to 147, which comprise the consolidated and company statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and 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 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.

AUDITORS' RESPONSIBILITY

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the 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 financial statements.

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

Independent Auditors' Report *(continued)*

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

15 April 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	**2009 HK$'000**	2008 HK$'000
Revenue	*5*	**4,470,131**	1,896,577
Cost of sales		**(1,441,233)**	(659,645)
Gross profit		**3,028,898**	1,236,932
Other operating income	*7*	**44,776**	47,592
Selling and distribution expenses		**(230,551)**	(59,759)
General and administrative expenses		**(400,013)**	(140,873)
Other operating expenses		**(268,591)**	(43,899)
Impairment loss recognised on the re-measurement of assets of disposal group		**–**	(15,305)
Operating profit		**2,174,519**	1,024,688
Gain on disposals of subsidiaries	*8*	**38,264**	–
Finance costs	*9*	**(125,213)**	(91,337)
Change in fair value of derivative financial instruments		**4,370**	–
Net transaction loss arising from acquisition of available-for-sale financial assets	*24(a),(b)*	**(221,221)**	–
Share of losses of associates		**(386)**	(225)
Profit before income tax	*10*	**1,870,333**	933,126
Income tax expense	*11*	**(427,850)**	(226,499)
Profit for the year		**1,442,483**	706,627
Other comprehensive income			
Fair value loss on available-for-sale financial assets		**(100)**	–
Exchange differences on translation of financial statements of foreign operations		**1,353**	17,472
Total comprehensive income for the year		**1,443,736**	724,099
Profit attributable to:			
Owners of the Company	*12*	**1,126,274**	567,649
Minority interest		**316,209**	138,978
Profit for the year		**1,442,483**	706,627
Total comprehensive income attributable to:			
Owners of the Company		**1,126,788**	573,887
Minority interest		**316,948**	150,212
Total comprehensive income for the year		**1,443,736**	724,099
		HK (Cents)	HK (Cents)
Earnings per share for profit attributable to Owners of the Company	*14*		
– Basic		**23.53**	16.86
– Diluted		**23.04**	16.54

Consolidated Statement of Financial Position

As at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*17*	**2,535,879**	2,062,535
Prepaid lease payments	*18*	**56,273**	61,819
Mining rights	*19*	**10,289,882**	10,545,819
Goodwill	*20*	**2,080,050**	2,079,145
Interests in associates	*23*	**19,196**	19,573
Available-for-sale financial assets	*24*	**2,214,369**	8,403
Deposits, prepayments and other receivables	*25*	**323,004**	264,665
Amount due from a party	*28*	**937,150**	218,712
Deferred tax assets	*39*	**20,191**	–
		18,475,994	15,260,671
Current assets			
Inventories	*26*	**159,485**	187,465
Trade and bills receivables	*27*	**1,113,647**	999,408
Deposits, prepayments and other receivables		**196,022**	215,801
Amounts due from other parties	*28*	**376,044**	1,495,944
Financial assets at fair value through profit or loss		**25,967**	–
Pledged bank deposits	*29*	**105,771**	168,941
Cash and cash equivalents	*30*	**2,104,478**	760,163
Assets classified as held for sale	*8(a)*	**–**	163,875
		4,081,414	3,991,597
Current liabilities			
Liabilities directly associated with assets classified as held for sale	*8(a)*	**–**	29,238
Trade and bills payables	*31*	**328,732**	380,795
Other payables and accruals	*32*	**1,753,024**	1,819,680
Borrowings	*33*	**162,420**	1,590,917
Amount due to a director	*34*	**–**	20,000
Amounts due to other parties	*35*	**27,526**	51,137
Amounts due to related companies	*36*	**12,008**	12,316
Amounts due to minority equity holders of subsidiaries	*37*	**42,964**	97,203
Tax payables		**245,695**	399,966
		2,572,369	4,401,252
Net current assets/(liabilities)		**1,509,045**	(409,655)
Total assets less current liabilities		**19,985,039**	14,851,016

Consolidated Statement of Financial Position *(continued)*

As at 31 December 2009

	Notes	**2009 HK$'000**	2008 HK$'000
Non-current liabilities			
Borrowings	*33*	**643,665**	35,171
Other long term payables	*38*	**–**	238,550
Deferred tax liabilities	*39*	**2,011,610**	2,128,298
		2,655,275	2,402,019
Net assets		**17,329,764**	12,448,997
EQUITY			
Equity attributable to Owners of the Company			
Share capital	*40*	**537,056**	456,456
Reserves	*41*	**15,288,138**	10,365,283
		15,825,194	10,821,739
Minority interest		**1,504,570**	1,627,258
Total equity		**17,329,764**	12,448,997

Cao Zhong
Director

Wong Lik Ping
Director

Statement of Financial Position

As at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*17*	**3,339**	59
Interests in subsidiaries	*21*	**544,920**	–
Interests in associates	*23*	**–**	–
		548,259	59
Current assets			
Amounts due from subsidiaries	*22*	**14,578,192**	9,829,849
Deposits, prepayments and other receivables		**1,004**	48
Cash and cash equivalents	*30*	**1,920,793**	462,375
		16,499,989	10,292,272
Current liabilities			
Amounts due to subsidiaries	*34*	**364,037**	–
Other payables and accruals	*32*	**12,370**	9,307
Borrowings	*33*	**111,238**	–
		487,645	9,307
Net current assets		**16,012,344**	10,282,965
Total assets less current liabilities		**16,560,603**	10,283,024
Non-current liabilities			
Borrowings	*33*	**640,231**	–
Net assets		**15,920,372**	10,283,024
EQUITY			
Share capital	*40*	**537,056**	456,456
Reserves	*41*	**15,383,316**	9,826,568
Total equity		**15,920,372**	10,283,024

Cao Zhong
Director

Wong Lik Ping
Director

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Cash flows from operating activities			
Profit before income tax		1,870,333	933,126
Adjustments for:			
Amortisation of prepaid lease payments		1,505	907
Amortisation of mining rights		260,581	97,923
Depreciation of property, plant and equipment		172,411	62,717
Finance costs		125,213	91,337
Impairment loss recognised on the re-measurement of assets of disposal group		–	15,305
Share-based compensation		110,304	6,476
Provision for impairment on trade receivables		31,765	–
Provision for/(Write-back of) impairment on other receivables		4,530	(6,474)
Write-down of inventories to net realisable value		9,987	31,465
Share of losses of associates		386	225
Interest income		(9,858)	(6,162)
Gain on disposals of subsidiaries		(38,264)	–
Loss/(Gain) on disposals of property, plant and equipment		6,725	(1,230)
Net transaction loss arising from acquisition of available-for-sale financial assets		221,221	–
Change in fair value of derivative financial instruments		(4,370)	–
Exchange loss/(gain)		2,664	(7,142)
Operating profit before working capital changes		2,765,133	1,218,473
Decrease/(Increase) in inventories		18,076	(100,251)
Increase in trade and bills receivables	48	(379,284)	(154,961)
Decrease in deposits, prepayments and other receivables		15,269	106,811
Decrease in amounts due from other parties	48	346,207	583,448
Decrease in amounts due from minority equity holders of subsidiaries		–	510,235
(Decrease)/Increase in trade and bills payables		(52,231)	118,592
Decrease in other payables and accruals		(382,537)	(381,342)
(Decrease)/Increase in amount due to a director		(20,000)	20,000
Decrease in amounts due to other parties		(23,634)	(852,135)
Cash generated from operations		2,286,999	1,068,870
Income tax paid		(720,113)	(87,987)
Net cash generated from operating activities		1,566,886	980,883

Consolidated Statement of Cash Flows *(continued)*

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Cash flows from investing activities			
Payments to acquire subsidiaries	*43(a)*	–	(4,934,064)
Payments to acquire property, plant and equipment		(660,219)	(600,776)
Proceeds from disposals of property, plant and equipment		628	12,284
Proceeds from disposals of subsidiaries	*8*	140,356	–
Proceeds from loan novation agreements	*8(a)*	39,763	–
Payments to acquire available-for-sale financial assets		(4,720)	–
Payments to acquire financial assets at fair value through profit or loss		(21,597)	–
Interest received		9,858	6,162
Net cash used in investing activities		(495,931)	(5,516,394)
Cash flows from financing activities			
Net proceeds from issue of new shares upon placement		1,719,027	3,944,748
Net proceeds from exercise of share options		124,369	7,478
Proceeds from bank loans		1,100,754	1,482,663
Repayments of bank loans		(1,755,510)	(56,205)
Proceeds from other loans		3,408	106,501
Repayments of other loans		(99,588)	(424,163)
Repayments to related companies		–	(13,591)
Repayments to minority equity holders of subsidiaries		(59,995)	(15,776)
Decrease/(Increase) in pledged bank deposits		63,244	(115,107)
Finance costs paid		(168,469)	(95,184)
Dividends paid to shareholders		(497,025)	–
Dividends paid to minority shareholders		(149,469)	–
Net cash generated from financing activities		280,746	4,821,364
Net increase in cash and cash equivalents		1,351,701	285,853
Cash and cash equivalents at 1 January		760,163	460,538
Effect of foreign exchange rates changes		(7,386)	13,772
Cash and cash equivalents at 31 December	*30*	2,104,478	760,163

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Equity attributable to Owners of the Company									Minority interest	Total equity
	Share capital HK$'000	Share premium HK$'000	Statutory reserve HK$'000	Other reserves HK$'000	(Accumulated losses)/ Retained profits HK$'000	Share-based compensation reserve HK$'000	Security investment reserve HK$'000	Translation reserve HK$'000	Total HK$'000	HK$'000	HK$'000
At 1 January 2009	456,456	10,384,646	107,343	-	(183,861)	36,999	-	20,156	10,821,739	1,627,258	12,448,997
Disposals of a subsidiary *(Note 8(a))*	-	-	-	-	-	-	-	-	-	(437)	(437)
Share-based compensation	-	-	-	-	-	110,304	-	-	110,304	-	110,304
Placing of shares	40,000	1,679,027	-	-	-	-	-	-	1,719,027	-	1,719,027
Issue of consideration shares	32,300	2,390,263	-	-	-	-	-	-	2,422,563	-	2,422,563
Issue of new shares upon conversion of share options	8,300	147,512	-	-	-	(31,443)	-	-	124,369	-	124,369
2009 interim dividends declared	-	-	-	-	(499,596)	-	-	-	(499,596)	(439,199)	(938,795)
Transactions with Owners	80,600	4,216,802	-	-	(499,596)	78,861	-	-	3,876,667	(439,636)	3,437,031
Profit for the year	-	-	-	-	1,126,274	-	-	-	1,126,274	316,209	1,442,483
Other comprehensive income:											
– Fair value loss on available-for-sale financial assets	-	-	-	-	-	-	(100)	-	(100)	-	(100)
– Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	-	-	614	614	739	1,353
Total comprehensive income for the year	-	-	-	-	1,126,274	-	(100)	614	1,126,788	316,948	1,443,736
Appropriations to other reserves *(Note 41)*	-	-	-	138,351	(138,351)	-	-	-	-	-	-
Appropriations to other reserves for prior year as a result of the change in PRC regulations *(Note 41)*	-	-	-	9,347	(9,347)	-	-	-	-	-	-
Appropriations to statutory reserves *(Note 41)*	-	-	60,950	-	(60,950)	-	-	-	-	-	-
At 31 December 2009	537,056	14,601,448	168,293	147,698	234,169	115,860	(100)	20,770	15,825,194	1,504,570	17,329,764

Consolidated Statement of Changes in Equity *(continued)*

For the year ended 31 December 2009

	Equity attributable to Owners of the Company							Minority interest	Total equity
	Share capital	Share premium	Statutory reserve	Accumulated losses	Share-based compensation reserve	Translation reserve	Total		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2008	242,239	1,089,359	–	(644,167)	32,382	13,918	733,731	58,279	792,010
Increase in shareholding of a non-wholly owned subsidiary	–	–	–	–	–	–	–	8,189	8,189
Acquisition of subsidiaries *(Note 43)*	–	–	–	–	–	–	–	1,410,578	1,410,578
Share-based compensation	–	–	–	–	6,476	–	6,476	–	6,476
Issue of new shares upon conversion of convertible notes	1,717	43,289	–	–	–	–	45,006	–	45,006
Placing of shares	86,000	3,858,748	–	–	–	–	3,944,748	–	3,944,748
Issue of consideration shares	126,000	5,384,413	–	–	–	–	5,510,413	–	5,510,413
Issue of new shares upon conversion of share options	500	8,837	–	–	(1,859)	–	7,478	–	7,478
Transactions with Owners	214,217	9,295,287	–	–	4,617	–	9,514,121	1,418,767	10,932,888
Profit for the year	–	–	–	567,649	–	–	567,649	138,978	706,627
Other comprehensive income:									
– Exchange differences on translation of financial statements of foreign operations	–	–	–	–	–	6,238	6,238	11,234	17,472
Total comprehensive income for the year	–	–	–	567,649	–	6,238	573,887	150,212	724,099
Appropriations to statutory reserve *(Note 41)*	–	–	107,343	(107,343)	–	–	–	–	–
At 31 December 2008	456,456	10,384,646	107,343	(183,861)	36,999	20,156	10,821,739	1,627,258	12,448,997

Notes to the Financial Statements

For the year ended 31 December 2009

1. GENERAL INFORMATION

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

The principal activity of the Company is investment holdings. One of the Group's wholly-owned subsidiaries, Jade Green Investments Limited ("Jade Green") and Mr. Wong Lik Ping ("Mr. Wong"), one of the substantial shareholders, entered into a sale and purchase agreement (the "Agreement") with Mr. Xing Libin ("Mr. Xing"), the controlling shareholder of Fortune Dragon Group Limited ("Fortune Dragon") on 9 May 2008 for the acquisition of three companies, namely Thechoice Finance Limited ("Thechoice"), Worldman Industrial Limited ("Worldman") and Gumpert Industries Limited ("Gumpert"), all of which were incorporated in the British Virgin Islands (the "BVI") (collectively referred to as "Very Substantial Acquisition"). The transactions contemplated under the Agreement were completed on 25 July 2008. Since then, these companies became the subsidiaries of the Group. These companies are all engaged in coking coal mining and production and sales of raw and clean coking coal in the PRC through their non-wholly owned PRC subsidiaries, each of which has coalmines. These PRC subsidiaries are Shanxi Liulin Xingwu Coal Co., Limited ("Xingwu"), Shanxi Liulin Jinjiazhuang Coal Co., Limited ("Jinjiazhuang") and Shanxi Liulin Zhaiyadi Coal Co., Limited ("Zhaiyadi"). Details of the Very Substantial Acquisition were set out in the Company's circular dated 25 June 2008.

On 15 January 2009, one of the Group's subsidiaries, Jinshan Energy Group Limited ("Jinshan") completed the disposals of its 70% equity interest in Taiyuan Xishan Risheng Coal and Coking Co., Limited ("Risheng") to a subsidiary of the minority shareholder of Risheng (the "Disposal") for a cash consideration of Renminbi ("RMB") 110,000,000 (HK$124,971,000 equivalent). Furthermore, on 19 April 2008, Jinshan agreed to assume liabilities of HK$102,519,000 in Risheng's books due to various creditors and Mr. Wong agreed to assume the liabilities amounting to RMB35,000,000 (HK$39,763,000 equivalent) owed by Jinshan to two creditors for nil consideration.

Risheng is engaged in the production and sales of coke products in Shanxi, the PRC. Details of the Disposal were set out in the Company's circular dated 29 December 2008 and the Company's announcement (the "Announcement") dated 15 January 2009.

On 1 December 2009 ("Completion Date"), the Group completed the acquisition of 154,166,874 shares issued by Mount Gibson Iron Limited ("Mount Gibson"), which accounted for approximately 14.34% of the issued share capital of Mount Gibson, from a wholly-owned subsidiary of Shougang Concord International Enterprises Company Limited ("Shougang International") at a consideration of HK$1,604,389,000 (being the fair value of the First Consideration Shares on Completion Date). The consideration was satisfied in full by allotment and issue of 213,918,497 new shares of the Company (the "First Consideration Shares"). Mount Gibson was incorporated under the laws of Australia and its shares are listed on the Australian Securities Exchange Limited (the "Australian Securities Exchange"). The principal business of Mount Gibson is mining of hematite iron ore deposits at Koolan Island, Tallering Peak and exploration and development of hematite iron ore deposits in Western Australia. Mount Gibson is a pure hematite exploration and mining company which owns iron ore deposits and holds mining rights.

Notes to the Financial Statements

For the year ended 31 December 2009

1. GENERAL INFORMATION *(continued)*

On Completion Date, the Group also completed the acquisition of the entire issued share capital of Benefit Rich Limited ("Benefit Rich") from Shougang Holding (Hong Kong) Limited ("Shougang Holding") at a consideration of HK$818,175,000 (being the fair value of the Second Consideration Shares on Completion Date). The consideration was satisfied in full by allotment and issue of 109,089,993 new shares of the Company (the "Second Consideration Shares"). The sole asset held by Benefit Rich is its equity interest in 956,000,000 shares of APAC Resources Limited ("APAC"), which accounted for approximately 16.80% of the issued share capital of APAC. APAC's shares are listed on the Stock Exchange. Details of these two transactions are set out in the Company's announcement dated 22 September 2009.

On 31 December 2009, the Group disposed of the entire issued share capital of Jumbo Hall International Limited ("Jumbo Hall") at a cash consideration of HK$15,500,000. The sole asset of Jumbo Hall is its interest in the property which was used by the Company as its registered office in Hong Kong. Details of the above transaction are set out in the Company's announcement dated 7 October 2009.

The principal activities of the Group's subsidiaries comprise coking coal mining, the production and sales of coking coal products and side products. Details of the activities of the principal subsidiaries of the Company are set out in Note 21 to the financial statements. Other than the acquisition and the disposal transactions as described above in this note, there were no significant changes in the Group's operations during the year.

The financial statements for the year ended 31 December 2009 were approved for issue by the board of directors on 15 April 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements on pages 64 to 147 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretation ("Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the requirements of the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

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

Notes to the Financial Statements

For the year ended 31 December 2009

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

2.1 Basis of preparation *(continued)*

The financial statements have been prepared under historical cost convention except for certain financial instruments classified as available-for-sale financial assets (Note 24) and financial assets at fair value through profit or loss which are stated at fair values. The measurement bases are fully described in the accounting policies below.

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

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (see Note 2.3 below) made up to 31 December each year.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interest is presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Company. Profit or loss attributable to minority interest is presented separately in the consolidated statement of comprehensive income as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interest in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

Notes to the Financial Statements

For the year ended 31 December 2009

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

2.3 Subsidiaries

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

In consolidated financial statements, acquisition of subsidiaries (other than those under common control) is accounted for by applying the purchase method. This involves the estimation of fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, assets and liabilities of the subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

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

2.4 Associates

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2009

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

2.4 Associates *(continued)*

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

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

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

2.5 Goodwill

Set out below are the accounting policies on goodwill arising on acquisition of subsidiary. Accounting for goodwill arising on acquisition of associates is set out in Note 2.4.

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

Goodwill is stated at cost less any impairment losses. Goodwill is allocated to cash-generating units ("CGUs") and is tested annually for impairment (see Note 2.8).

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

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

Notes to the Financial Statements

For the year ended 31 December 2009

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

2.6 Property, plant and equipment

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

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

Buildings and plants	The shorter of the lease terms and 5%
Mining machinery and equipment	10%
Leasehold improvements	$33\ ^{1}/_{3}\%$
Office equipment	20%
Furniture and fixtures	20%
Motor vehicles	25%

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

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

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

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

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

2.7 Mining rights

Mining rights are stated at cost less accumulated amortisation and are amortised on the units of production method based on the total proven and probable reserves of the coal mine or contractual period from the date of commencement of commercial production which approximates the date from which they are available for use.

Notes to the Financial Statements

For the year ended 31 December 2009

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

2.8 Impairment of non-financial assets

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

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

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

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

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

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

Impairment loss recognised in an interim period in respect of goodwill is not reversed in a subsequent period.

2.9 Foreign currency translation

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

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

Notes to the Financial Statements

For the year ended 31 December 2009

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

2.9 Foreign currency translation *(continued)*

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

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

2.10 Revenue recognition

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

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

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

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

2.11 Borrowing costs

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

Notes to the Financial Statements

For the year ended 31 December 2009

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

2.12 Leases

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

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

Prepaid lease payments

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

Assets acquired under finance leases

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

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

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

Operating lease charges as the lessee

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

Notes to the Financial Statements

For the year ended 31 December 2009

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

2.13 Financial assets

The Group's accounting policies for financial assets other than investment in subsidiaries and associates are set out below. Financial assets are classified into financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include:

- Financial assets held for trading; and
- Financial assets designated upon initial recognition as at fair value through profit or loss

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

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

Notes to the Financial Statements

For the year ended 31 December 2009

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

2.13 Financial assets *(continued)*

Financial assets at fair value through profit or loss *(continued)*

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

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

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

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

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

Loans and receivables

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

Available-for-sale financial assets

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

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

Notes to the Financial Statements

For the year ended 31 December 2009

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

2.13 Financial assets *(continued)*

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

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

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

Impairment of financial assets

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2009

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

2.13 Financial assets *(continued)*

Impairment of financial assets *(continued)*

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

(i) Financial assets carried at amortised cost

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

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

(ii) Available-for-sale financial assets

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

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

Notes to the Financial Statements

For the year ended 31 December 2009

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

2.13 Financial assets *(continued)*

Impairment of financial assets *(continued)*

(iii) Financial assets carried at cost

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

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

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

2.14 Inventories

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

2.15 Accounting for income taxes

Income tax comprises current tax and deferred tax.

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

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

Notes to the Financial Statements

For the year ended 31 December 2009

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

2.15 Accounting for income taxes *(continued)*

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

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

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

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

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

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

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

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

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

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

  (i) the same taxable entity; or

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

2.16 Cash and cash equivalents

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

Notes to the Financial Statements

For the year ended 31 December 2009

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

2.17 Share capital

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

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

2.18 Employee benefit

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

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

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

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

Short-term employee benefits

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

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

Share-based employee compensation

The Group operates equity-settled share-based compensation plans for remuneration of its employees.

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

Notes to the Financial Statements

For the year ended 31 December 2009

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

2.18 Employee benefit *(continued)*

Share-based employee compensation *(continued)*

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

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

2.19 Financial liabilities

The Group's financial liabilities include borrowings, amounts due to related companies, minority equity holders of subsidiaries, a director and other parties, trade and bills payables, other payables, accruals and other long term payables.

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

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

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

Borrowings

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

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

Notes to the Financial Statements

For the year ended 31 December 2009

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

2.19 Financial liabilities *(continued)*

Finance lease liabilities

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

Other financial liabilities at amortised cost

Amounts due to related companies, minority equity holders of subsidiaries, a director and other parties, trade and bills payables, other payables, accruals and other long term payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

2.20 Provisions, contingent liabilities and contingent assets

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

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

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

2.21 Related parties

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

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2009

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

2.21 Related parties *(continued)*

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

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

2.22 Segment reporting

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

Coking coal mining:	Mining and exploration of coal resources and production of raw coking coal and clean coking coal in the PRC
Coke production:	Production of coke in the PRC

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2009

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

2.23 Financial guarantees issued

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

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

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

3. ADOPTION OF NEW AND AMENDED HKFRSs

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2009:

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or an associate
HKFRS 2 (Amendments)	Share-based payment – vesting conditions and cancellations
HKFRS 7 (Amendments)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
Various Annual improvements to HKFRSs 2008	

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

HKAS 1 (Revised 2007) Presentation of financial statements

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. It also gives rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income. HKAS 1 affects the presentation of owner changes in equity and introduces a "Statement of comprehensive income". Comparatives have been restated to conform with the revised standard. The Group has applied changes to its accounting policies on presentation of financial statements and segment reporting retrospectively. However, the changes to the comparatives had not affected the consolidated or company statements of financial position at 1 January 2008 and accordingly this statement is not presented.

Notes to the Financial Statements

For the year ended 31 December 2009

3. ADOPTION OF NEW AND AMENDED HKFRSs *(continued)*

HKAS 27 (Amendments) Cost of an investment in a subsidiary, jointly controlled entity or an associate

The amendment requires the investor to recognise dividends from subsidiary, jointly controlled entity or associate in profit or loss irrespective the distributions are out of the investee's pre-acquisition or post-acquisition reserves. In prior years, the Company recognised dividends out of pre-acquisition reserves as a recovery of its investment in the subsidiaries or associates (i.e. a reduction of the cost of investment). Only dividends out of post-acquisition reserves were recognised as income in profit or loss.

Under the new accounting policy, if the dividend distribution is excessive, the investment would be tested for impairment according to the Company's accounting policy on impairment of non-financial assets.

The new accounting policy has been applied prospectively as required by these amendments to HKAS 27 and therefore no comparatives have been restated.

HKFRS 7 (Amendments) Improving disclosures about financial instruments

The amendments require additional disclosures for financial instruments which are measured at fair value in the statement of financial position. These fair value measurements are categorised into a three-level fair value hierarchy, which reflects the extent of observable market data used in making the measurements. In addition, the maturity analysis for derivative financial liabilities is disclosed separately and should show remaining contractual maturities for those derivatives where this information is essential for an understanding of the timing of the cash flows. The Group has taken advantage of the transitional provisions in the amendments and not provided comparative information in respect of the new requirements.

HKFRS 8 Operating segments

The adoption of HKFRS 8 has not affected the identified and reportable operating segments for the Group. However, reported segment information is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns.

At the date of authorisation of these financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact of the Group's financial statements are not set out in these financial statements.

HKFRS 3 Business combinations (Revised 2008)

The standard is applicable in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard still requires the use of the purchase method (now renamed the acquisition method) but introduces material changes to the recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests (previously known as minority interest) in the acquiree. The new standard is expected to have a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009.

Notes to the Financial Statements

For the year ended 31 December 2009

3. ADOPTION OF NEW AND AMENDED HKFRSs *(continued)*

HKFRS 9 Financial instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The directors are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

HKAS 27 Consolidated and separate financial statements (Revised 2008)

The revised standard is effective for accounting periods beginning on or after 1 July 2009 and introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Group's interest in subsidiaries. Total comprehensive income must be attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The directors do not expect the standard to have a material effect on the Group's financial statements.

Annual improvements 2009

The HKICPA has issued Improvements to Hong Kong Financial Reporting Standards 2009. Most of the amendments become effective for annual periods beginning on or after 1 January 2010. The Group expects the amendment to HKAS 17 Leases to be relevant to the Group's accounting policies. Prior to the amendment, HKAS 17 generally required a lease of land to be classified as an operating lease. The amendment requires a lease of land to be classified as an operating or finance lease in accordance with the general principles in HKAS 17. The Group will need to reassess the classification of its unexpired leases of land at 1 January 2010 on the basis of information existing at the inception of those leases in accordance with the transitional provisions for the amendment. The amendment will apply retrospectively except where the necessary information is not available. In that situation, the leases will be assessed on the date when the amendment is adopted. The directors are currently assessing the possible impact of the amendment on the Group's results and financial position in the first year of application.

Notes to the Financial Statements

For the year ended 31 December 2009

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

4.1 Impairment of non-financial assets

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

4.2 Impairment of goodwill

The Group tests on an annual basis whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.5. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of judgement and estimates about future cash flow expected to arise from the CGUs, the timeframe for the cash flows forecast and the suitable discount rates in order to calculate the present value. In the process of estimating expected future cash flows, management makes assumptions about future revenues and profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause a material adjustment to the carrying amount of goodwill within the next financial year. Determining the appropriate discount rate involves estimating the appropriate adjustment for market risk and for asset specific risk factors. In addition, since the cash flow projections are extrapolated beyond 5 years and the license period of the mining rights held by the Group ranges from three to five years, management is of the opinion that the Group is able to renew the license of the mining rights from the relevant authority continuously and at minimal charges. Details of impairment assessment are set out in Note 20.

4.3 Impairment of loans and receivables

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

Notes to the Financial Statements

For the year ended 31 December 2009

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

4.4 Depreciation

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

4.5 Amortisation of mining rights

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

4.6 Net realisable value of inventories

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

4.7 Income taxes

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

4.8 Valuation of share options granted

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

Notes to the Financial Statements

For the year ended 31 December 2009

5. REVENUE/TURNOVER

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

	2009 HK$'000	2008 HK$'000
Sales of raw coking coal	**2,967,059**	1,315,771
Sales of clean coking coal	**1,293,617**	495,790
Sales of coke	**209,455**	85,016
	4,470,131	1,896,577

6. SEGMENT INFORMATION

The executive directors have identified the Group's two product lines as operating segments as further described in Note 2.22.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

	Coking coal mining		Coke production*		Consolidated	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Segment revenue:						
Sales to external results	**4,260,676**	1,811,561	**209,455**	85,016	**4,470,131**	1,896,577
Segment results	**2,445,187**	1,148,068	**(96,323)**	(93,872)	**2,348,864**	1,054,196
Unallocated corporate income and expenses					**(174,345)**	(29,508)
Operating profit					**2,174,519**	1,024,688
Gain on disposals of subsidiaries					**38,264**	–
Finance costs					**(125,213)**	(91,337)
Change in fair value of derivative financial instruments					**4,370**	–
Net transaction loss arising from acquisition of available-for-sale financial assets					**(221,221)**	–
Share of losses of associates					**(386)**	(225)
Profit before income tax					**1,870,333**	933,126
Income tax expense					**(427,850)**	(226,499)
Profit for the year					**1,442,483**	706,627

Notes to the Financial Statements

For the year ended 31 December 2009

6. SEGMENT INFORMATION *(continued)*

	Coking coal mining		Coke production *		Corporate		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**17,759,118**	18,093,924	**492,603**	668,572	**–**	–	**18,251,721**	18,762,496
Interests in associates					**19,196**	19,573	**19,196**	19,573
Deferred tax assets					**20,191**	–	**20,191**	–
Available-for-sale financial assets					**2,214,369**	–	**2,214,369**	–
Financial assets at fair value through profit or loss					**25,967**	–	**25,967**	–
Other corporate assets					**2,025,964**	470,199	**2,025,964**	470,199
Total assets							**22,557,408**	19,252,268
Segment liabilities	**1,873,943**	2,072,200	**277,919**	104,436	**–**	–	**2,151,862**	2,176,636
Deferred tax liabilities					**2,011,610**	2,128,298	**2,011,610**	2,128,298
Tax payables					**245,695**	399,966	**245,695**	399,966
Borrowings					**806,085**	1,626,088	**806,085**	1,626,088
Other corporate liabilities					**12,392**	472,283	**12,392**	472,283
Total liabilities							**5,227,644**	6,803,271
Other segment information								
Capital expenditure	**622,534**	12,427,081	**28,793**	235,005	**3,562**	–	**654,889**	12,662,086
Depreciation	**128,620**	40,601	**43,288**	21,869	**503**	247	**172,411**	62,717
Amortisation of mining rights	**260,581**	97,923	**–**	–	**–**	–	**260,581**	97,923
Amortisation of prepaid lease payments	**1,164**	568	**234**	232	**107**	107	**1,505**	907
Write-down of inventories to net realisable value	**–**	–	**9,987**	31,465	**–**	–	**9,987**	31,465
Provision for/(Write back of) impairment of trade and other receivables	**32,142**	(6,474)	**4,153**	–	**–**	–	**36,295**	(6,474)

* The Group commenced the production of coke in July 2008.

Notes to the Financial Statements

For the year ended 31 December 2009

6. SEGMENT INFORMATION *(continued)*

The Group's revenues from external customers and its non-current assets (other than financial instruments and deferred tax assets) are divided into the following geographical areas:

	Revenue from external customers		Non-current assets	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Principal markets				
PRC	**4,470,131**	1,896,577	**16,238,095**	15,245,054
Hong Kong	**–**	–	**3,339**	7,214
	4,470,131	1,896,577	**16,241,434**	15,252,268

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

During 2009, HK$633,588,000 or 14% of the Group's revenues are generated from a single customer under coking coal mining segment. At 31 December 2009, 20% of the Group's trade and bills receivables was due from this customer.

7. OTHER OPERATING INCOME

	2009	2008
	HK$'000	HK$'000
Gain on sales of scrapped products	**30,494**	15,645
Other bank interest income	**9,723**	6,088
Bank interest income on escrow accounts	**135**	74
Gain on sales of purchase coal	**1,539**	10,939
Gain on disposals of property, plant and equipment	**–**	1,230
Write-back of impairment on other receivables	**–**	6,474
Exchange gain	**–**	7,142
Others	**2,885**	–
	44,776	47,592

Notes to the Financial Statements

For the year ended 31 December 2009

8. GAIN ON DISPOSALS OF SUBSIDIARIES

(a) Disposal of Risheng

As described in Note 1 to the financial statements, one of the Group's subsidiaries, Jinshan, agreed the Disposal to a subsidiary of the minority shareholder of Risheng, for a cash consideration of RMB110,000,000 (HK$124,971,000 equivalent) on 19 April 2008. The Disposal was completed on 15 January 2009. Risheng is engaged in the production and sales of coke products in Shanxi, the PRC. Details of the Disposal were set out in the Company's circular dated 29 December 2008.

Furthermore, on 19 April 2008, Jinshan agreed to assume liabilities (as defined and described in the Announcement) of HK$102,519,000 in Risheng's books due to various creditors and Mr. Wong, the shareholder and director of the Company, agreed to assume liabilities amounting to RMB35,000,000 (approximately HK$39,763,000) owed by Jinshan to two creditors for nil consideration. Thus the Disposal led to a gain to Group of RMB26,049,000 (approximately HK$29,594,000). Net assets/(liabilities) of Risheng at the date of disposal were as follows:

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

Notes to the Financial Statements

For the year ended 31 December 2009

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

(a) Disposal of Risheng *(continued)*

Having had estimated the cost to sell to be approximately HK$500,000 and assessed the recoverable amounts of the relevant assets and liabilities, in the absence of Jinshan's subsequent undertakings of certain liabilities in Risheng's books due to various creditors and Mr. Wong's subsequent undertakings of certain liabilities on 19 April 2008, with reference to the sales proceeds, the directors considered that an impairment loss of HK$15,305,000 was likely to be incurred and thus the amount is recognised in profit or loss for the year ended 31 December 2008.

Risheng did not contribute any revenue to the Group but contributed net loss of approximately HK$5,804,000 in 2008. In view of the fact that Risheng does not represent a separate major line of business and its insignificant financial impact to the Group's result in 2008, the Disposal was not classified as discontinued operation and major assets and liabilities of Risheng were classified as assets held for sale and liabilities directly associated with assets classified held for sale respectively as at 31 December 2008.

(b) Disposal of Jumbo Hall

As also described in Note 1 to the financial statements, on 31 December 2009, the Group completed the disposal of entire issued share capital of Jumbo Hall at a total consideration of HK$15,500,000, resulting in a gain to the Group of HK$8,670,000. Details of the disposal were set out in the Company's announcement dated 7 October 2009. Net assets of Jumbo Hall at the date of disposal on 31 December 2009 was as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment *(Note 17)*	2,691
Prepaid lease payments *(Note 18)*	4,066
Deposits and other receivables	75
Other payables	(2)
	6,830
Gain on disposal of Jumbo Hall	8,670
Total consideration	15,500
Satisfied by:	
Cash consideration	15,500

Notes to the Financial Statements

For the year ended 31 December 2009

9. FINANCE COSTS

	2009 HK$'000	2008 HK$'000
Interest charged on:		
– bank borrowings repayable within five years	**110,320**	71,786
– other loans wholly repayable within five years	**2,732**	16,486
– amounts due to related companies wholly repayable within five years	**–**	358
– amounts due to minority equity holders of subsidiaries wholly repayable within five years	**1,796**	1,777
– convertible notes wholly repayable within five years	**–**	103
– early redemption of bills receivables	**27,069**	4,541
– finance charges on finance leases	**418**	133
	142,335	95,184
Less: interest capitalised in CIP * *(Note 17)*	**(17,122)**	(3,847)
Total finance costs	**125,213**	91,337

* Borrowing costs were capitalised at the rates ranging from 4% to 8% per annum for the year ended 31 December 2009 (2008: 6% to 7%).

Notes to the Financial Statements

For the year ended 31 December 2009

10. PROFIT BEFORE INCOME TAX

	2009 HK$'000	2008 HK$'000
Profit before income tax is arrived at after charging/(crediting):		
Auditors' remuneration		
– audit services	**1,425**	1,500
– other services	**250**	2,784
Less: capitalised as part of the investment cost in business acquisition	**–**	(2,222)
	1,675	2,062
Cost of inventories recognised as expenses	**1,441,233**	637,219
Amortisation of:		
– prepaid lease payments	**1,505**	907
– mining rights	**260,581**	97,923
Depreciation of property, plant and equipment		
– owned assets	**170,769**	62,076
– leased assets	**1,642**	641
Employee benefit expenses (including directors' emoluments and retirement benefits scheme contributions) *(Note 15)*	**422,100**	146,409
Net foreign exchange loss/(gain)	**2,664**	(7,142)
Operating lease charges in respect of land and buildings	**23,272**	8,400
Provision for impairment on trade receivables *(Note 27)*	**31,765**	–
Provision for/(Write back of) impairment on other receivables	**4,530**	(6,474)
Loss/(Gain) on disposals of property, plant and equipment	**6,725**	(1,230)
Write-down of inventories to net realisable value	**9,987**	31,465

11. INCOME TAX EXPENSE

	2009 HK$'000	2008 HK$'000
Current tax – PRC income tax		
– Current year	**565,161**	153,453
– Under-provision in respect of prior year	**505**	–
Deferred tax *(Note 39)*		
– Current year	**(137,816)**	73,046
	427,850	226,499

No provision for Hong Kong profits tax has been provided in the financial statements as the Group had no assessable profit arising in Hong Kong in 2008 and 2009.

Notes to the Financial Statements

For the year ended 31 December 2009

11. INCOME TAX EXPENSE *(continued)*

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

The Group was also subject to a withholding tax at the rate of 10% on the distributions of profits generated from the Group's major PRC subsidiaries with foreign investment as these subsidiaries were directly owned by the immediate holding companies incorporated in the BVI. Pursuant to the Group restructuring in November 2009, these major PRC subsidiaries with foreign investments are now directly owned by the Group's subsidiaries incorporated in Hong Kong, the withholding tax rate could be reduced to 5% on the distribution generated from these major PRC subsidiaries once it is approved by the PRC tax bureau.

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

	2009 **HK$'000**	2008 HK$'000
Profit before income tax	**1,870,333**	933,126
Tax calculated at the rates applicable to the tax jurisdiction concerned	**520,377**	249,938
Tax effect of tax exemption granted	**(313,556)**	(145,280)
Tax effect of non-deductible expenses	**69,002**	48,092
Tax effect of non-taxable income	**(9,743)**	(3,251)
Tax effect of temporary difference not recognised	**–**	(24)
Tax effect of unused tax losses not recognised	**14,989**	3,978
Effect of withholding tax at 10% on distributable profits of the Group's major PRC subsidiaries	**146,276**	73,046
Under-provision in respect of prior year	**505**	–
Income tax expense	**427,850**	226,499

12. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated profit for the year attributable to the Owners of the Company of HK$1,126,274,000 (2008: HK$567,649,000), a profit of HK$1,760,681,000 (2008: loss of HK$20,602,000) (Note 41) has been dealt with in the financial statements of the Company.

Notes to the Financial Statements

For the year ended 31 December 2009

13. DIVIDENDS

	2009 HK$'000	2008 HK$'000
Interim dividend of HK10 cents (2008: Nil) per ordinary share	**499,596**	–
Proposed final dividend of HK11 cents (2008: Nil) per ordinary share	**591,862**	–
	1,091,458	–

The final dividend of HK11 cents per ordinary share proposed after 31 December 2009 has not been recognised as a liability at 31 December 2009, but reflected as an appropriation of retained profits for the year ended 31 December 2009.

14. EARNINGS PER SHARE

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

	2009 HK$'000	2008 HK$'000
Profit attributable to Owners of the Company	**1,126,274**	567,649
Interest on convertible notes	**–**	103
Profit used to determine diluted earnings per share	**1,126,274**	567,752

	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**4,786,034**	3,367,451
Effect of dilutive potential ordinary shares:		
– Share options	**101,932**	60,385
– Convertible notes	**–**	5,174
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**4,887,966**	3,433,010

15. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2009 HK$'000	2008 HK$'000
Salaries, wages and allowances	**302,188**	132,358
Share-based compensation	**110,304**	6,476
Unutilised annual leaves	**108**	315
Retirement benefits scheme contributions	**9,500**	7,260
	422,100	146,409

Notes to the Financial Statements

For the year ended 31 December 2009

16. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

Directors' emoluments

	2009					2008				
	Fees	Salaries, bonuses, allowances and benefits in kind	Retirement benefits scheme contributions	Share-based compensation	Total	Fees	Salaries, bonuses, allowances and benefits in kind	Retirement benefits scheme contributions	Share-based compensation	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors										
Mr. Cao Zhong##	–	10,345	7	6,355	16,707	–	–	–	–	–
Mr. Wong Lik Ping	–	11,900	12	1,906	13,818	–	8,570	12	172	8,754
Mr. So Kwok Hoo	–	5,500	12	1,483	6,995	–	2,780	12	560	3,352
Mr. Xue Kang*	240	2,095	–	1,271	3,606	40	95	–	347	482
Mr. Liu Qingshan**	240	2,284	–	2,542	5,066	40	47	–	–	87
Mr. Huang Bin***	600	–	–	–	600	400	–	–	–	400
Non-executive directors										
Mr. Shi Jianping**	240	–	–	1,906	2,146	40	–	–	–	40
Mr. Li King Luk###	32	–	–	–	32	30	–	–	–	30
Mr. Chen Zhouping#	233	–	–	2,542	2,775	–	–	–	–	–
Mr. Leung Shun Sang, Tony##	198	–	–	2,542	2,740	–	–	–	–	–
Independent non-executive directors										
Mr. Kee Wah Sze	180	–	–	1,356	1,536	120	–	–	69	189
Mr. Choi Wai Yin	180	–	–	1,356	1,536	120	–	–	69	189
Mr. Chan Pat Lam	180	–	–	1,356	1,536	120	–	–	69	189
	2,323	32,124	31	24,615	59,093	910	11,492	24	1,286	13,712

* appointed on 21 January 2008
** appointed on 1 November 2008
*** appointed on 1 November 2008 and subsequently resigned on 31 March 2009
# appointed on 12 January 2009
appointed on 4 March 2009
resigned on 4 March 2009

For the year ended 31 December 2009, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office (2008: Nil).

For the year ended 31 December 2009, 58,100,000 share options were granted to the directors in respect of their services to the Group (2008: Nil).

During the year ended 31 December 2009, Mr. Cao Zhong waived his emolument from 4 March 2009 to 31 May 2009. Save as disclosed, there was no arrangement under which a director waived or agreed to waive any remuneration during the year (2008: Nil).

Notes to the Financial Statements

For the year ended 31 December 2009

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

The value of share options granted to the directors is measured according to the Group's accounting policy for share-based compensation set out in Note 2.18. Details of these benefits in kind including the principal terms and number of options granted are disclosed under the heading "Share Option Scheme" in the Directors' Report.

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included four (2008: three) directors whose emoluments are reflected in the analysis presented above. Emoluments payable to the remaining one (2008: two) individual(s) during the year are as follows:

	2009 HK$'000	2008 HK$'000
Basic salaries, bonuses, allowances and benefits in kind	**2,982**	2,705
Retirement benefits scheme contributions	**3**	24
Share-based compensation	**3,408**	434
	6,393	3,163

Emoluments payable to the remaining one (2008: two) individual(s) during the year are as follows:

Emolument bands	**2009 Number of individuals**	2008 Number of individuals
HK$1,000,000 – HK$1,500,000	**–**	1
HK$1,500,001 – HK$2,000,000	**–**	1
HK$6,000,001 – HK$6,500,000	**1**	–

During the year, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2008: Nil).

Notes to the Financial Statements

For the year ended 31 December 2009

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings and plants HK$'000	CIP HK$'000	Mining structures HK$'000	Mining machinery and equipment HK$'000	Leasehold improvements HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2008								
Cost	8,490	362,629	–	7,744	696	921	9,688	390,168
Accumulated depreciation	(2,444)	–	–	(1,951)	(696)	(553)	(8,175)	(13,819)
Net carrying amount	6,046	362,629	–	5,793	–	368	1,513	376,349
Year ended 31 December 2008								
Opening net carrying amount	6,046	362,629	–	5,793	–	368	1,513	376,349
Exchange retranslation	(206)	8,889	(842)	3,861	–	(13)	(73)	11,616
Acquisition of subsidiaries *(Note 43(a))*	322,220	209,939	327,799	427,494	–	18,076	17,699	1,323,227
Additions	–	503,769	–	92,327	–	5,437	3,090	604,623
Transfers	98,860	(563,526)	59,960	404,570	–	136	–	–
Disposals	–	–	–	(10,211)	–	–	(1,293)	(11,504)
Depreciation	(7,799)	–	(7,410)	(43,593)	–	(1,780)	(2,135)	(62,717)
Reclassified as assets held for sale	–	(177,411)	–	(1,633)	–	–	(15)	(179,059)
Closing net carrying amount	419,121	344,289	379,507	878,608	–	22,224	18,786	2,062,535
At 31 December 2008								
Cost	429,475	344,289	386,992	924,055	696	24,617	28,359	2,138,483
Accumulated depreciation	(10,354)	–	(7,485)	(45,447)	(696)	(2,393)	(9,573)	(75,948)
Net carrying amount	419,121	344,289	379,507	878,608	–	22,224	18,786	2,062,535
Year ended 31 December 2009								
Opening net carrying amount	**419,121**	**344,289**	**379,507**	**878,608**	**–**	**22,224**	**18,786**	**2,062,535**
Exchange retranslation	**183**	**155**	**167**	**387**	**–**	**10**	**8**	**910**
Disposal of subsidiaries *(Note 8(b))*	**(2,691)**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,691)**
Additions	**3**	**564,071**	**346**	**68,460**	**2,693**	**8,778**	**10,538**	**654,889**
Transfers	**226,550**	**(311,777)**	**15,993**	**68,946**	**–**	**288**	**–**	**–**
Disposals	**(84)**	**–**	**–**	**(6,770)**	**–**	**(481)**	**(18)**	**(7,353)**
Depreciation	**(26,446)**	**–**	**(30,298)**	**(104,342)**	**(128)**	**(5,718)**	**(5,479)**	**(172,411)**
Closing net carrying amount	**616,636**	**596,738**	**365,715**	**905,289**	**2,565**	**25,101**	**23,835**	**2,535,879**
At 31 December 2009								
Cost	**650,545**	**596,738**	**403,502**	**1,051,127**	**2,693**	**32,307**	**38,434**	**2,775,346**
Accumulated depreciation	**(33,909)**	**–**	**(37,787)**	**(145,838)**	**(128)**	**(7,206)**	**(14,599)**	**(239,467)**
Net carrying amount	**616,636**	**596,738**	**365,715**	**905,289**	**2,565**	**25,101**	**23,835**	**2,535,879**

Notes to the Financial Statements

For the year ended 31 December 2009

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

Group *(continued)*

During the year, the interest expense amounted to approximately HK$17,122,000 (2008: HK$3,847,000) (Note 9) was capitalised in CIP.

The net carrying amount of the Group's property, plant and equipment held under finance leases included in total amount of buildings as at 31 December 2009 amounted to approximately HK$10,887,000 (2008: HK$12,523,000). The Group's buildings are situated in the PRC and are held on leases of between 10 to 50 years.

At 31 December 2008, certain property, plant and equipment with a net carrying amount of approximately HK$610,605,000 were pledged for the banking facilities denominated in RMB977,556,000 (HK$1,110,112,000 equivalent) granted to the Group. The pledge was released upon the settlement of the banking facilities during the year (Note 33).

As at 31 December 2009, the Group is still in the process of obtaining the building ownership certificates for certain buildings with net carrying amount of HK$11,896,000 (RMB10,471,000 equivalent) (2008: HK$12,534,000). In the opinion of directors, the Group has obtained the rights to use the buildings.

Notes to the Financial Statements

For the year ended 31 December 2009

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

Company

	Leasehold improvements HK$'000	**Office equipment, furniture and fixtures** HK$'000	**Motor vehicles** HK$'000	**Total** HK$'000
At 1 January 2008				
Cost	696	416	–	1,112
Accumulated depreciation	(696)	(374)	–	(1,070)
Net carrying amount	–	42	–	42
Year ended 31 December 2008				
Opening net carrying amount	–	42	–	42
Additions	–	40	–	40
Depreciation	–	(23)	–	(23)
Closing net carrying amount	–	59	–	59
At 31 December 2008				
Cost	696	456	–	1,152
Accumulated depreciation	(696)	(397)	–	(1,093)
Net carrying amount	–	59	–	59
Year ended 31 December 2009				
Opening net carrying amount	**–**	**59**	**–**	**59**
Additions	**2,692**	**176**	**635**	**3,503**
Disposals	**–**	**(12)**	**–**	**(12)**
Depreciation	**(128)**	**(30)**	**(53)**	**(211)**
Closing net carrying amount	**2,564**	**193**	**582**	**3,339**
At 31 December 2009				
Cost	**2,692**	**233**	**635**	**3,560**
Accumulated depreciation	**(128)**	**(40)**	**(53)**	**(221)**
Net carrying amount	**2,564**	**193**	**582**	**3,339**

Notes to the Financial Statements

For the year ended 31 December 2009

18. PREPAID LEASE PAYMENTS – GROUP

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

	2009 HK$'000	2008 HK$'000
Opening net carrying amount	**61,819**	17,799
Exchange retranslation	**25**	430
Acquisition of subsidiaries *(Note 43(a))*	**–**	44,497
Disposal of subsidiaries *(Note 8(b))*	**(4,066)**	–
Annual charges of prepaid lease payments	**(1,505)**	(907)
Closing net carrying amount	**56,273**	61,819
In Hong Kong held on:		
– Lease of over 50 years	**–**	4,174
In the PRC held on:		
– Lease of between 10 to 50 years	**56,273**	57,645
	56,273	61,819

At 31 December 2008, certain prepaid lease payments in the PRC with a net carrying amount of HK$43,876,000 were pledged for the banking facilities denominated in RMB977,556,000 (HK$1,110,112,000 equivalent) granted to the Group. The pledge was released upon the settlement of the banking facilities during the year (Note 33).

19. MINING RIGHTS – GROUP

	2009 HK$'000	2008 HK$'000
Opening net carrying amount	**10,545,819**	–
Acquisition of subsidiaries *(Note 43(a))*	**–**	10,689,739
Exchange retranslation	**4,644**	(45,997)
Amortisation charge	**(260,581)**	(97,923)
Closing net carrying amount	**10,289,882**	10,545,819
Gross carrying amount	**10,649,389**	10,644,745
Accumulated amortisation	**(359,507)**	(98,926)
Net carrying amount	**10,289,882**	10,545,819

As at 31 December 2008, all mining rights were pledged for banking facilities denominated in RMB977,556,000 (HK$1,110,112,000 equivalent) granted to the Group. The pledge was released upon the settlement of the banking facilities during the year (Note 33). The estimated remaining useful lives of the mining rights range between 28 years to 42 years based on exploration reports prepared in accordance with the relevant PRC Standards.

Notes to the Financial Statements

For the year ended 31 December 2009

20. GOODWILL – GROUP

	2009 HK$'000	2008 HK$'000
Gross carrying amount at 1 January	**2,079,145**	17,713
Exchange retranslation	**905**	(8,686)
Acquisition of subsidiaries *(Note 43(a))*	**–**	2,063,939
Balance arising from additions in equity interest in subsidiaries	**–**	8,189
Gross carrying amount at 31 December	**2,080,050**	2,081,155
Less: Accumulated impairment loss	**–**	(2,010)
Net carrying amount at 31 December	**2,080,050**	2,079,145

Goodwill mainly related to the Very Substantial Acquisition (Note 1) completed in July 2008 and Jinshan (as a result of capital contribution to Jinshan made in 2008 (Note 21(a)) to increase the equity interest from 91.25% to 94.17%) and was allocated to the CGUs from which it is expected to benefit. The carrying amount of goodwill was allocated as follows:

	2009 HK$'000	2008 HK$'000
Xingwu	**794,170**	793,820
Jinjiazhuang	**739,425**	739,100
Zhaiyadi	**521,345**	521,115
Jinshan	**21,927**	21,927
Shanxi Yao Zin Coal and Coking Company Limited ("Shanxi Yao Zin")	**3,183**	3,183
Net carrying amount at 31 December	**2,080,050**	2,079,145

As described in Note 4.2, the recoverable amounts of goodwill totalling HK$2,080,050,000 from each of the above CGUs were determined on the basis of value-in-use calculations, which are based on certain key assumptions on discount rates, growth rates and expected changes in selling prices and direct costs. All value-in-use calculations use cash flow projections based on the financial budgets prepared by management covering a 5-year period, using a growth rate of approximately 2-5% (2008: 5%) and with a discount rate of 12.12% (2008: 13.39%) per annum.

The cash flows beyond the 5-year period are extrapolated using a steady percentage growth rate of 2% (2008: 2%). Cash flow projections during the budget period for each of the above units are based on the budgeted revenue and expected gross margins during the budget period and the same raw materials price inflation during the budget period. Expected cash inflows/outflows, which include budgeted sales, gross margin and raw material price inflation, have been determined based on past performance and management's expectations for the market development.

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

Notes to the Financial Statements

For the year ended 31 December 2009

21. INTERESTS IN SUBSIDIARIES – COMPANY

	2009 HK$'000	2008 HK$'000
Unlisted equity interest, at cost	**839,269**	22,256
Less: Provision for impairment	**(294,349)**	(22,256)
	544,920	–

Particulars of the subsidiaries at 31 December 2009 are as follows:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Effective interest held by the Group 2009	2008
Jinshan*	PRC, limited liability company	Investment holding, production and sales of coal products in the PRC	Registered capital of RMB600,000,000 *(Note a)*	**94%**	94%
Liulin Luenshan Coking Company Limited ("Luenshan")*	PRC, limited liability company	Production and sales of coal products in the PRC	Registered capital of RMB120,000,000	**61%**	61%
Fushan Energy Group Limited	BVI, limited liability company	Investment holding in the PRC	1 ordinary share of US$1	**100%**	100%
Fu Hui Jewellery & Goldsmith Company Limited	Hong Kong, limited liability company	Administration vehicle of the Group (Hong Kong)	2,000,000 ordinary shares of HK$1 each	**100%**	100%
Fu Hui Investments Limited	Hong Kong, limited liability company	Administration vehicle of the Group (Hong Kong)	100 ordinary shares of HK$1 each	**100%**	100%
New Honest Limited	BVI, limited liability company	Investment holding in the PRC	1 ordinary share of US$1	**100%**	100%
Shanxi Yao Zin	PRC, limited liability company	Production and sales of coke products in the PRC	Registered capital of RMB320,000,000 *(Note b)*	**66%**	66%
Maxease Limited ("Maxease")	BVI, limited liability company	Investment holding	1 ordinary share of US$1	**100%**	100%
Jade Green	BVI, limited liability company	Investment holding	1 ordinary share of US$1	**100%**	100%
Thechoice	BVI, limited liability company	Investment holding	1 ordinary share of US$1	**100%**	100%

Notes to the Financial Statements

For the year ended 31 December 2009

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

Name	Place of incorporation and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Effective interest held by the Group 2009	Effective interest held by the Group 2008
Worldman	BVI, limited liability company	Investment holding	1 ordinary share of US$1	**100%**	100%
Gumpert	BVI, limited liability company	Investment holding	1 ordinary share of US$1	**100%**	100%
Xingwu	PRC, limited liability company	Production and sale of coal in the PRC	RMB250,000,000	**88%**	88%
Jinjiazhuang	PRC, limited liability company	Production and sale of coal in the PRC	RMB374,000,000	**65%**	65%
Zhaiyadi	PRC, limited liability company	Production and sale of coal in the PRC	RMB800,000,000	**95%**	95%
Thechoice Finance (HK) Limited ("ThechoiceHK")	Hong Kong, limited liability company	Investment holding	1 ordinary share of HK$1	**100%**	–
Worldman Industrial (HK) Limited ("WorldmanHK")	Hong Kong, limited liability company	Investment holding	1 ordinary share of HK$1	**100%**	–
Gumpert Industries (HK) Limited ("GumpertHK")	Hong Kong, limited liability company	Investment holding	1 ordinary share of HK$1	**100%**	–
Fushan Energy Group (Hong Kong) Limited	Hong Kong, limited liability company	Investment holding	1 ordinary share of HK$1	**100%**	–
Benefit Rich Limited	Samoa, limited liability company	Investment holding	1 ordinary share of US$1	**100%**	–
True Plus Limited	BVI, limited liability company	Investment holding	1 ordinary share of US$1	**100%**	–
Shanxi Jinxinglong Energy Co., Ltd ^	PRC, limited liability company	Investment on coal projects	Registered capital of RMB50,000,000	**100%**	–
Shanxi Jinsheng Energy Co., Ltd ^	PRC, limited liability company	Investment on coal projects	Registered capital of RMB50,000,000	**100%**	–
Full Bright International Limited	New York, USA, limited liability company	Dormant	US$183,750	**100%**	100%

Notes to the Financial Statements

For the year ended 31 December 2009

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

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

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

Note a: In August 2008, the Group and minority equity holders of Jinshan reached an agreement to increase Jinshan's registered capital from RMB400,000,000 to RMB600,000,000. The increase portion of RMB200,000,000 was all contributed by the Group. As a result, as at 31 December 2008, the Group's equity interest in Jinshan increased from 91.25% to 94.17%. In July 2008, RMB88,030,000 was contributed by the Group. As at 31 December 2009, Jinshan's registered capital has fully-paid up.

Note b: As at 31 December 2009, the registered capital not yet contributed by other minority equity holders amounted to RMB89,200,000 (2008: RMB89,200,000). The Group has paid up in full its proportional registered capital since 2008. Shanxi Yao Zin commenced operations in 2008.

The financial statements of the principal subsidiaries have been audited by Grant Thornton, Hong Kong, for statutory purpose and/or the purpose of the consolidation of the Company.

The entire equity interests in Jade Green, Thechoice, Worldman, Gumpert, ThechoiceHK, WorldmanHK, GumpertHK with a carrying amount of HK$9,290,090,000 were pledged for the banking facilities of US$200,000,000 granted to the Group as at 31 December 2009 (Note 33).

As at 31 December 2008, the entire equity interests in Jade Green, Thechoice, Worldman, Gumpert, Xingwu, Jinjiazhuang and Zhayadi, including the rights to receive all dividends or other distributions and all other rights and benefits, with a carrying amount of HK$9,286,001,000 were pledged for the banking facilities of RMB977,556,000 (HK$1,110,112,000 equivalent) granted to the Group. The pledge was released upon the settlement of the banking facilities during the year (Note 33).

22. AMOUNTS DUE FROM SUBSIDIARIES – COMPANY

	2009 **HK$'000**	2008 HK$'000
Amounts due from subsidiaries	**14,613,990**	9,844,760
Loans to subsidiaries	**69,086**	135,743
Less: Provision for impairment	**(104,884)**	(150,654)
	14,578,192	9,829,849

Amounts due from subsidiaries as at 31 December 2009 are unsecured, interest-free and repayable on demand.

Loans to subsidiaries are unsecured, interest bearing at 7.5% (2008: 7.5%) per annum and are repayable on demand (2008: repayable in April 2009). Included in the balance is interest receivable of HK$9,086,000 (2008: HK$14,303,000) which is repayable together with the principal debts.

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

Notes to the Financial Statements

For the year ended 31 December 2009

23. INTERESTS IN ASSOCIATES

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Acquisition of subsidiaries *(Note 43(a))*	**19,884**	19,884	**4**	4
Exchange retranslation	**(797)**	(806)	**–**	–
Share of net assets	**109**	495	**–**	–
Amounts due from associates	**3,739**	3,739	**3,739**	3,739
	22,935	23,312	**3,743**	3,743
Less: Provision for impairment	**(3,739)**	(3,739)	**(3,743)**	(3,743)
	19,196	19,573	**–**	–

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

Particulars of the associates at 31 December 2009 are as follows:

Name	Place of incorporation	Principal activities and place of operations	Particulars of registered capital/ issued share capital	Group's/Company's effective interest 2009	Group's/Company's effective interest 2008
Luliang Jin Yu Cangchu Company Limited# 呂梁晋煜倉儲有限公司	PRC	Provision of coal storage services in PRC	RMB42,000,000	**35%**	35%
Real Wide Limited	Hong Kong	In the progress of voluntary liquidation	100 ordinary shares of HK$1 each	**45%**	45%

The English translation is unofficial and for identification purpose only. This associate was acquired as a result of the Very Substantial Acquisition (Note 1) in 2008.

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

	2009	2008
	HK$'000	HK$'000
Assets	**50,704**	54,040
Liabilities	**2,848**	5,106
Revenue	**1,932**	5,077
(Loss)/Profit	**(1,099)**	484

Notes to the Financial Statements

For the year ended 31 December 2009

24. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2009 HK$'000	2008 HK$'000
Equity securities, at fair value		
– listed in Australia *(Note (a))*	**1,761,422**	–
– listed in Hong Kong *(Note (b))*	**444,540**	–
	2,205,962	–
Unlisted security fund investment, at cost *(Note 43(a))*	**454**	454
Unlisted equity interest, at cost *(Note (c))*	**7,953**	7,949
	2,214,369	8,403

Notes:

(a) This represents an investment in listed securities issued by a company listed on the Australian Securities Exchange, Mount Gibson. As described in Note 1 to the financial statements, in September 2009, the Group reached an agreement with Sky Choice International Limited ("Sky Choice"), a wholly-owned subsidiary of Shougang International such that the Group, through one of its subsidiaries purchased from Sky Choice, 154,166,874 ordinary shares of Mount Gibson, accounting for approximately 14.34% of the issued share capital of Mount Gibson as at the date of completion, at a consideration of HK$1,604,389,000. The transaction was completed on 1 December 2009 and the consideration was satisfied in full by allotment and issue of 213,918,497 new shares of the Company at HK$7.5 per share. Detailed information about the operations of Mount Gibson is set out in the Company's announcement dated 22 September 2009.

On the Completion Date at 1 December 2009, the fair value of the investment in Mount Gibson was HK$1,661,142,000 which represents the closing price as at that day in the Australian Securities Exchange. As the fair value of the share considerations was HK$1,604,389,000, a gain of HK$54,393,000 (net of transaction cost of HK$2,360,000) was recognised in the profit or loss.

As at 31 December 2009, the fair value of the investment in Mount Gibson was HK$1,761,422,000 which represented the closing price as at that day in the Australian Securities Exchange. As the carrying value of the investment in Mount Gibson as at 1 December 2009 is HK$1,661,142,000, a gain of HK$100,280,000 was recognised in the security investment reserve.

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

On the Completion Date at 1 December 2009, the fair value of the investment in APAC was HK$544,920,000 which represents the closing price as at that day in the Stock Exchange. As the fair value of the share considerations was HK$818,175,000, a loss of HK$275,614,000 (net of transaction cost of HK$2,359,000) was recognised in the profit or loss.

As at 31 December 2009, the fair value of the investment in APAC was HK$444,540,000 which represented the closing price as at that day in the Stock Exchange. As the carrying value of the investment in APAC was HK$544,920,000, a fair value loss of HK$100,380,000 was recognised in the security investment reserve as at 31 December 2009.

Notes to the Financial Statements

For the year ended 31 December 2009

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

Notes: (continued)

(c) This represents a 7% (2008: 7%) equity investment in an unlisted company incorporated in the PRC. The investee company has not yet commenced its business at 31 December 2009 and will be engaged in transportation business. The unlisted equity interest with a carrying amount of HK$7,953,000 (2008: HK$7,949,000) is measured at cost less impairment losses as there are no quoted market prices in active market and the range of reasonable fair value estimates is so significant that the director are of the opinion that its fair value cannot be measured reliably. The Group plans to hold this equity interest for the foreseeable future. In the opinion of directors, no impairment is considered necessary.

The fair value of the Group's investments in listed and unlisted equity securities has been measured as described in Note 49(vi).

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

	2009	2008
	HK$'000	HK$'000
Deposits for a potential mining project	**160,053**	159,982
Prepayments for construction and installation of property, plant and equipment	**111,245**	54,246
Prepayments for land-use rights	**51,706**	50,437
	323,004	264,665

26. INVENTORIES – GROUP

	2009	2008
	HK$'000	HK$'000
Spare parts and consumables	**111,592**	112,096
Raw coking coal	**9,207**	32,088
Coke	**38,686**	43,281
	159,485	187,465

As at 31 December 2009, inventories stated at net realisable value amounted to HK$38,686,000 (2008: HK$43,281,000).

Notes to the Financial Statements

For the year ended 31 December 2009

27. TRADE AND BILLS RECEIVABLES – GROUP

	2009 HK$'000	2008 HK$'000
Trade receivables	**557,439**	830,394
Less: Provision for impairment	**(44,859)**	(13,089)
	512,580	817,305
Bills receivables	**601,067**	182,103
	1,113,647	999,408

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

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

Included in bills receivables was a balance of RMB10,500,000 (HK$11,929,000 equivalent) represented the advance drawn from banks discounted with recourse (Note 31).

As at 31 December 2008, included in trade receivables was a balance of RMB72,000,000 (HK$81,763,000 equivalent) pledged for a bank loan amounting to RMB70,000,000 (HK$79,492,000 equivalent) (Note 33). As at 31 December 2009, no trade receivables are pledged as a security to the banking facilities granted to the Group.

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

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly. As at 31 December 2009, ageing analysis of net trade and bills receivables, based on the invoice dates, is as follows:

	2009 HK$'000	2008 HK$'000
0 – 90 days	**832,505**	442,728
91 – 180 days	**122,023**	289,269
181 – 365 days	**91,086**	68,585
Over 365 days	**68,033**	198,826
	1,113,647	999,408

Notes to the Financial Statements

For the year ended 31 December 2009

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

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

	2009 HK$'000	2008 HK$'000
Balance at the beginning of the year	**13,089**	13,089
Exchange retranslation	**5**	–
Impairment loss recognised *(Note 10)*	**31,765**	–
	44,859	13,089

As at 31 December 2009, ageing analysis of trade and bills receivables that are not impaired is as follows:

	2009 HK$'000	2008 HK$'000
Neither past due nor impaired	**929,983**	442,728
1 – 90 days past due	**30,397**	289,269
91 – 180 days past due	**43,367**	8,238
181 – 365 days past due	**60,323**	157,093
Over 365 days past due	**49,577**	102,080
	183,664	556,680
	1,113,647	999,408

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

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

As at 31 December 2008, included in the balances categorised over 180 days past due are long outstanding balances due from certain customers amounting to approximately HK$233,720,000 (RMB205,721,000 equivalent) (the "Debts").

Notes to the Financial Statements

For the year ended 31 December 2009

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

On 4 August 2009, a undertaking letter ("the August 2009 Pledge") was entered into amongst the Company, Jade Green, Mr. Xing and other companies under the control of Ms. Li Feng Xiao ("Mrs. Xing"), namely Shanxi Luensheng Energy Limited, a minority shareholder holding 5% equity interests in Zhaiyadi, and Shanxi Luensheng Energy Investment Limited, a minority shareholder holding 35% equity interests in Jinjiazhuang (collectively referred to as the "Luensheng Companies"), such that profit of Jinjiazhuang and Zhaiyadi available for distribution to the Luensheng Companies amounted to HK$289,730,000 (RMB255,021,000 equivalents) and partial amount was used to settle the Debts amounting to approximately HK$233,720,000 (RMB205,721,000 equivalents). Up to 31 December 2009, the Debts have been fully recovered.

28. AMOUNT(S) DUE FROM A PARTY/OTHER PARTIES

	2009 HK$'000	2008 HK$'000
Mr. Xing *(Note)*	**937,150**	982,161
Liulin Xian Yongsheng Xuanmeichang ("Yongsheng Xuanmeichang") #	**215,939**	250,659
Shanxi Fortune Dragon Coalification Company Limited #	**149,119**	378,327
Ivliang Fengfei Jingwei Intertexture Company Limited #	**3,435**	–
Shanxi Tongjiang Energy Group Company Limited #	**2,292**	2,267
Shanxi Liulin Guojiashan Meiye Company Limited #	**2,013**	773
Liulin Xian Shiweigou Meiye Company Limited #	**1,489**	2,144
Mr. Xing Yanbin	**870**	–
Liulin Xian Nahagou Meiye Company Limited #	**233**	7,688
Liulin Xian Baicaoer Jiansing Xuanmei Company Limited #	**229**	86,780
Fortune Dragon Group Limited #	**170**	–
Shanxi Panlong Gongcheng Jixie Company Limited ("Panlong Gongcheng") #	**137**	–
Ms. Xing Xiaorui	**118**	–
Liulin Xian Wangjiagou Meikuang #	**–**	1,794
Liulin Xian Chenjiawan Xiang Baicaoer Meikuang #	**–**	1,044
Liulin Xian Longmenta Meikuang #	**–**	1,019
	1,313,194	1,714,656
Less: Amount due from Mr. Xing included under non-current assets	**(937,150)**	(218,712)
Amount included under current assets	**376,044**	1,495,944

The unofficial English translation is for identification purpose only.

Notes to the Financial Statements

For the year ended 31 December 2009

28. AMOUNT(S) DUE FROM A PARTY/OTHER PARTIES *(continued)*

Note:

According to the payment notices dated 17 September 2008 issued by the Land Resource Bureau of Liulin County, Shanxi Province, the PRC, an aggregate sum of HK$796,985,000 (RMB701,818,000 equivalent) in respect of the coal mining rights was levied on Xingwu, Jinjiazhuang and Zhaiyadi. As at 31 December 2008, partial payments of HK$22,712,000 (RMB20,000,000) (the "Prepaid Sum") was paid by the Group and another sum of HK$22,712,000 (RMB20,000,000 equivalent) was paid in February 2009. Upon several negotiations with the relevant local government authorities, on 16 March 2009, the levied amount was finalised and revised to HK$982,161,000 (RMB864,883,000 equivalent) (the "Levied Sum"), of which, after deducting the Prepaid Sum, HK$740,737,000 (RMB652,288,000 equivalent) should be paid in 2009 and the remaining amount of HK$218,712,000 (RMB192,595,000 equivalent) should be paid after 2009. The Levied Sum has been provided for and included under "other payables and accruals" (Note 32).

In accordance with the August 2009 pledge, the Luensheng Companies agreed to pledge their sharing profits in Zhaiyadi and Jinjiazhuang since 1 January 2009 to settle the receivable balances due from a number of other parties amounting to approximately HK$538,346,000 (RMB474,679,000 equivalent) (the "Other Debts"), balance included in amounts due from other parties in Xingwu, Jinjiazhuang and Zhaiyadi until both the Debts and the Other Debts have been fully recovered by the Group on or before 31 January 2010. In December 2009, Other Debts settled by dividend payable to Luensheng Companies was RMB49,300,000 (HK$56,010,000 equivalents). The outstanding balance on Other Debts as at 31 December 2009 amounting to approximately HK$215,939,000 (RMB190,071,000 equivalents).

On 13 April, 2010, Jade Green and Mr. Xing entered into a loan agreement (the "Loan Agreement") pursuant to which Jade Green had conditionally agreed to make available a loan of HK$937,367,261 (RMB824,883,190) (the "New Loan") to Mr. Xing for offsetting all outstanding liabilities of Mr. Xing under the Agreement. The New Loan shall be repaid in three installments whereby (i) 50% of the New Loan shall be repaid on the date falling after the 12th month of the first business day after the fulfilment of the last condition precedent of the Loan Agreement ("Drawdown Date"), (ii) 25% of the New Loan shall be repaid on the date falling after the 18th month of the Drawdown Date; and (iii) 25% of the New Loan shall be repaid on the date falling after the 24th month of the Drawdown Date. Interest of the New Loan is LIBOR plus 2.5% per annum. Pursuant to the Loan Agreement, Mr. Xing will procure the Luensheng Companies to pledge its 35% interests in Luenshan, its dividend rights in respect of 35% shareholding in Jinjiazhuang and its dividend rights in respect of 5% shareholding in Zhaiyadi to Jade Green or its designated company. The Loan Agreement is subject to independent shareholders' approval under the Listing Rules. Details of the transaction are set out in the announcement of the Company dated 13 April 2010.

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

Notes to the Financial Statements

For the year ended 31 December 2009

29. PLEDGED BANK DEPOSITS – GROUP

As at 31 December 2009, all pledged bank deposits of HK$105,771,000 were denominated in RMB and were pledged for bills payables of RMB90,300,000 (HK$102,590,000) (Note 31).

As at 31 December 2008, RMB3,000,000 (HK$3,407,000 equivalent) were pledged for the banking facilities denominated in RMB977,556,000 (HK$1,110,112,000 equivalent) (Note 33). The pledged balance was released in September 2009 upon repayment of the bank borrowings. The remaining balance of RMB145,768,000 (HK$165,534,000 equivalent) were pledged for bills payable of RMB161,560,000 (HK$183,468,000 equivalent) (Note 31).

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

30. CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and on hand	**659,307**	537,074	**484,135**	239,286
Short-term bank deposits	**1,445,171**	223,089	**1,436,658**	223,089
	2,104,478	760,163	**1,920,793**	462,375

Cash at banks generates interest at the floating rates based on the daily bank deposit rates. Short-term bank deposits were made for varying periods of one week to one month depending on the immediate cash requirements of the Group and earned interest at the respective short-term time deposit rates ranging from 0.015% to 1.71% (2008: 0.015% to 3%) per annum.

As at 31 December 2009, included in cash and cash equivalents of the Group were HK$331,400,000 (2008: HK$139,025,000) of cash and bank balances denominated in United States Dollars ("US$") placed with the banks in Hong Kong and HK$174,019,000 (2008: HK$97,424,000) of cash and bank balances denominated in RMB placed with the banks in the PRC respectively.

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

Notes to the Financial Statements

For the year ended 31 December 2009

31. TRADE AND BILLS PAYABLES – GROUP

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

	2009 HK$'000	2008 HK$'000
0 – 90 days	**214,758**	278,580
91 – 180 days	**26,805**	76,586
181 – 365 days	**25,435**	12,041
Over 365 days	**61,734**	13,588
	328,732	380,795

As at 31 December 2009, bills payables of RMB90,300,000 (HK$102,590,000 equivalent) (2008: RMB161,560,000 (HK$183,468,000 equivalent)) were secured by pledged bank deposits of RMB93,100,000 (HK$105,771,000 equivalent) (2008: RMB145,768,000 (HK$165,534,000 equivalent)) (Note 29). Included in bills payables was a balance of RMB10,500,000 (HK$11,929,000 equivalent) represented the advance drawn on bills receivables discounted with recourse (Note 27).

32. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Advances from customers	**747,717**	85,349	**–**	–
Accruals	**259,974**	335,185	**9,022**	7,677
Levied Sum *(Note 28)*	**218,808**	959,450	**–**	–
Other payables	**526,525**	678,246	**3,348**	1,630
Total other payables and accruals	**1,753,024**	2,058,230	**12,370**	9,307
Less: Amounts grouped under non-current liabilities				
– Levied Sum *(Note 28)*	**–**	(218,712)	**–**	–
– Other long term payables *(Note 38)*	**–**	(19,838)	**–**	–
	–	(238,550)	**–**	–
Balances due within one year as current liabilities	**1,753,024**	1,819,680	**12,370**	9,307

As at 31 December 2009, other payables and accruals include payables in relation to construction of property, plant and equipment and other tax levies amounting to HK$243,745,000 (2008: HK$120,172,000) and HK$188,061,000 (2008: HK$240,049,000) respectively.

Notes to the Financial Statements

For the year ended 31 December 2009

33. BORROWINGS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current				
Bank loans – secured *(Note (a))*	**111,238**	1,472,370	**111,238**	–
Other loans *(Note (b))*	**50,233**	112,867	**–**	–
Finance lease payables *(Note (c))*	**949**	5,680	**–**	–
	162,420	1,590,917	**111,238**	–
Non-current				
Bank loans – secured *(Note (a))*	**640,231**	3,407	**640,231**	–
Other loans *(Note (b))*	**–**	26,485	**–**	–
Finance lease payables *(Note (c))*	**3,434**	5,279	**–**	–
	643,665	35,171	**640,231**	–
Total borrowings	**806,085**	1,626,088	**751,469**	–

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

The Group's and the Company's interest-bearing bank borrowings and other loans were denominated in the following foreign currency:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
US$	**751,469**	–	**751,469**	–
RMB	**50,233**	1,299,556	**–**	–

Notes:

(a) Bank loans – secured

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**111,238**	1,472,370	**111,238**	–
In the second year	**228,647**	3,407	**228,647**	–
In the third to fifth year	**411,584**	–	**411,584**	–
	640,231	3,407	**640,231**	–
	751,469	1,475,777	**751,469**	–

Notes to the Financial Statements

For the year ended 31 December 2009

33. BORROWINGS *(continued)*

Notes: (continued)

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

In September 2009, the Company obtained new secured banking facilities of US$200,000,000 (the "New Bank Borrowings") for a terms of 3 to 4 years. The New Bank Borrowings were used to repay the bank borrowings of the Group as at 31 December 2008. Interest rate on the New Bank Borrowings is LIBOR plus 1.85% per annum. The New Bank Borrowings are secured by the undertaking by Shougang Holding, guarantees, share pledged and undertaking provided by Jade Green, Thechoice, Worldman, Gumpert, ThechoiceHK, WorldmanHK and GumpertHK, the negative share pledge of Xingwu, Jinjianzhang and Zhaiyadi directly or indirectly owned by Thechoice, Worldman and Gumpert respectively. The New Bank Borrowings is also subject to certain financial covenants as set out follows:

(i) Total net worth of the Group, including minority interest, shall be not less than HK$10 billion;

(ii) The ratio of consolidated net borrowings to total net worth shall not exceed 35%;

(iii) The ratio of consolidated operating profit before interest, tax, depreciation, amortisation and impairment charges (EBITDA) to interest expenses shall not be less than 400%;

(iv) Dividend declared shall not be more than 50% of net profit attributable to the owners subsequent to the year ended 31 December 2009; and

(v) Bank borrowings, both short term and long term, in Xingwu, Jinjiazhuang and Zhaiyadi in aggregate shall not be more than RMB600 million.

As at 31 December 2009, the Company has drawn US$100,000,000 from the New Banking Facilities.

As at 31 December 2008, bank borrowings denominated in RMB977,556,000 (HK$1,110,112,000 equivalent) were secured by pledged bank deposits of RMB3,000,000 (HK$3,407,000 equivalent) (Note 29), the entire interests in the PRC subsidiaries, including the rights to receive all dividends or other distributions and all other rights and benefits (Note 21), and the Group's mining rights (Note 19), prepaid lease payments (Note 18) and certain property, plant and equipment (Note 17). These securities were released upon settlement during the year.

As at December 2008, remaining bank borrowings of RMB319,000,000 (HK$362,256,000 equivalent) were guaranteed by Mr. Xing, Mrs. Xing, certain minority equity holders and/or independent third parties, of which RMB70,000,000 (HK$79,492,000 equivalent) were secured by a trade receivable balance amounting to RMB72,000,000 (HK$81,763,000 equivalent) (Note 27). These guarantees and securities were all released upon settlement during the year.

(b) Other loans

	Group	
	2009	2008
	HK$'000	HK$'000
Within one year	**50,233**	112,867
In the second year	**–**	26,485
	50,233	139,352

At 31 December 2009, other loans, obtained from third parties, are unsecured and interest bearing at fixed rates ranging from 0% to 18% (2008: 0% to 18%) per annum. All these other loans are denominated in RMB.

Notes to the Financial Statements

For the year ended 31 December 2009

33. BORROWINGS *(continued)*

Notes: (continued)

(c) Finance lease payables

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

	2009 HK$'000	2008 HK$'000
Total minimum lease payments:		
Due within one year	**1,529**	6,099
Due in the second to fifth year inclusive	**4,714**	7,068
	6,243	13,167
Future finance charges on finance leases	**(1,860)**	(2,208)
Presents value of finance lease liabilities	**4,383**	10,959
Present value of finance lease liabilities is as follows:		
Due within one year	**949**	5,680
Due in the second to fifth years	**3,434**	5,279
	4,383	10,959
Less: Due within one year included under current portion of borrowings	**(949)**	(5,680)
Non-current portion included under non-current liabilities	**3,434**	5,279

34. AMOUNTS DUE TO A DIRECTOR AND SUBSIDIARIES- GROUP AND COMPANY

The amounts due are unsecured, interest free and repayable on demand.

Notes to the Financial Statements

For the year ended 31 December 2009

35. AMOUNTS DUE TO OTHER PARTIES – GROUP

	2009 HK$'000	2008 HK$'000
Shanxi Tongjiang Energy Group Company Limited #	12,175	–
Luliang Fengfei Jingwei Intertexture Company Limited #	7,532	–
Shanxi Luensheng Energy Limited #	2,654	18,887
Shanxi Panlong Gongcheng Jixie Company Limited ("Panlong Gongcheng") #	1,900	3,352
Shanxi Shengtelong Material Trading Co., Ltd #	1,793	–
Liulin Xian Liansheng Duozhong Jingying Company Limited #	986	6,575
Mr. Li XingXing	252	–
Ms. Xing Xiaorui	214	–
Mr Xing	20	–
Mrs. Xing	–	18,526
Mr. Xing Yanbin	–	2,555
Liulin Xian Zhuangshangzhen Nangou Meikuang #	–	776
Shanxi Liulin Xiasitou Meiye Company Limited #	–	235
Liulin Xiari Shiweigou Meiye Company Limited #	–	85
Shanxi Liulin Shizigou Meiye Company Limited #	–	78
Liulin Xian Hejiashe Meikuang #	–	68
	27,526	51,137

The English translation is unofficial and for identification purpose only.

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

36. AMOUNTS DUE TO RELATED COMPANIES – GROUP

As at 31 December 2009, a balance of HK$10,883,000 (2008: HK$11,180,000) denominated in RMB was due to a company in which a director of the Company is also a substantial equity holder. The balance is unsecured, interest bearing at 7% per annum (2008: interest bearing at 7% per annum) and repayable on demand.

As at 31 December 2009, the remaining balance of HK$1,125,000 (2008: HK$1,136,000) denominated in RMB due to another related company, in which a director of a subsidiary of the Company has interests, is unsecured, interest bearing at 9 to 10% (2008: 15%) per annum and is repayable on 20 November 2010 (2008: 20 November 2009).

37. AMOUNTS DUE TO MINORITY EQUITY HOLDERS OF SUBSIDIARIES – GROUP

All balances due as at 31 December 2009 and 31 December 2008 were denominated in RMB. Of which, RMB1,168,000 (HK$1,327,000 equivalent) (2008: RMB52,900,000 (HK$60,073,000 equivalent)) is unsecured, interest free and repayable on demand and the remaining balance of RMB36,649,000 (HK$41,637,000 equivalent) (2008: RMB32,696,000 (HK$37,130,000 equivalent)) is unsecured, interest bearing at 6% to 7% (2008: 6% to 7%) per annum and repayable in one year.

Notes to the Financial Statements

For the year ended 31 December 2009

38. OTHER LONG TERM PAYABLES – GROUP

The balance as at 31 December 2008 represented interest payables of HK$19,838,000 (Note 32) in relation to a loan from an independent third party which was included in other loans and the Levied Sum of HK$218,712,000 (Note 32) which is payable after 2009. These outstanding balances are classified under current liabilities as at 31 December 2009.

39. DEFERRED TAX ASSETS AND LIABILITIES – GROUP

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

	Tax deductible expense HK$'000
At 1 January 2009	**–**
Credited to profit or loss *(Note 11)*	**20,191**
At 31 December 2009	**20,191**

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

	Withholding tax HK$'000 *(Note a)*	**Fair value adjustments of property, plant and equipment and mining rights** HK$'000	**Mining funds** HK$'000 *(Note b)*	**Total** HK$'000
Acquisition of subsidiaries *(Note 43(a))*	–	2,063,939	–	2,063,939
Exchange retranslation	–	(8,687)	–	(8,687)
Charged to profit or loss *(Note 11)*	73,046	–	–	73,046
At 31 December 2008	73,046	2,055,252	–	2,128,298
At 1 January 2009	**73,046**	**2,055,252**	**–**	**2,128,298**
Exchange retranslation	**32**	**905**	**–**	**937**
(Credited)/Charged to profit or loss *(Note 11)*	**(73,078)**	**(64,583)**	**20,036**	**(117,625)**
At 31 December 2009	**–**	**1,991,574**	**20,036**	**2,011,610**

Notes to the Financial Statements

For the year ended 31 December 2009

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

Notes:

(a) As at 31 December 2008, deferred tax liabilities were recognised for withholding tax that would be payable on the unremitted earnings that are subject to withholding tax arising from the Group's subsidiaries acquired in 2008 as a consequence of the Very Substantial Acquisition as described in Note 1 to the financial statements. In the opinion of the directors, it is probable that these subsidiaries will distribute such earnings derived since the Very Substantial Acquisition in the foreseeable future. The temporary difference associated with the investments in these subsidiaries for which deferred tax liabilities are recognised amounted to HK$73,046,000. As at 31 December 2009, dividend has been declared for the period from January to November 2009, the Group determined no deferred withholding tax liabilities shall be recognised in respect of the profits of the PRC subsidiaries for the period from 1 December to 31 December 2009 since the Group has no plan to distribute such profits in the foreseeable future.

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

As at 31 December 2009, deferred tax assets mainly related to certain subsidiaries incorporated in Hong Kong and PRC have not been recognised (2008: Nil) in relation to the deductible temporary differences and unused tax losses as it is uncertain whether future taxable profit is available against which the deductible temporary differences and tax losses can be utilised. Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deductible temporary differences	**1,753**	5,039	**–**	–
Tax losses	**226,833**	223,657	**197,209**	184,278
	228,586	228,696	**197,209**	184,278

The Group has tax losses of approximately HK$4,443,000 (2008: HK$4,396,000) which shall expire in three to four years and tax losses of approximately HK$222,390,000 (2008: HK$219,261,000) which are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Notes to the Financial Statements

For the year ended 31 December 2009

40. SHARE CAPITAL

	Number of shares		Group and Company	
	2009	2008	**2009**	2008
	'000	'000	**HK$'000**	HK$'000
Authorised:				
Ordinary shares of HK$0.10 each				
At 31 December	**10,000,000**	5,000,000	**1,000,000**	500,000
Issued and fully paid:				
Ordinary shares of HK$0.10 each				
At 1 January	**4,564,555**	2,422,388	**456,456**	242,239
Issue of new shares upon conversion of the notes in 2008 *(Note (a))*	**–**	17,167	**–**	1,717
Placing of shares *(Note (b), (c))*	**400,000**	860,000	**40,000**	86,000
Issue of shares consideration *(Note (d), (e))*	**323,008**	1,260,000	**32,300**	126,000
Issue of new shares upon conversion of share options	**83,000**	5,000	**8,300**	500
At 31 December	**5,370,563**	4,564,555	**537,056**	456,456

Notes:

(a) The zero coupon convertible notes with the principal amount of HK$300,000,000 were issued on 20 April 2007 (the "Notes") and were convertible into the shares of the Company at the conversion price (HK$2.33 per share) within certain periods and conditions. In 2007, the Notes with the principal amount of HK$260,000,000 had been converted into shares of the Company. In 2008, the Notes with the remaining principal amount of HK$40,000,000 were all converted into 17,167,000 shares of the Company at the Conversion Price.

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

(c) The Company and the placing agent entered into a placing agreement on 15 June 2008 pursuant to which the placing agent agreed to procure the placees for a maximum of 450,000,000 new shares, at a price of HK$4.60 per share. On the same date, the placing agent agreed to place to Fine Power Group Limited, a wholly-owned subsidiary of Shougang Holding, under the guarantee of Shougang Holding. Further on 20 June 2008, the Company entered into another placing agreement with the placing agent to procure placees for 410,000,000 shares at the price of HK$4.8 per share. In relation to these two share placing events, net proceeds of approximately HK$3,800,000,000 were received and are mainly used to settle the partial cash consideration for the Very Substantial Acquisition as detailed in Note 1 and 43 to the financial statements. Details of the transactions were set out in the Company's announcements dated 21 May 2008, 17 June 2008 and 20 June 2008 respectively.

Notes to the Financial Statements

For the year ended 31 December 2009

40. SHARE CAPITAL *(continued)*

Notes: (continued)

(d) On 1 December 2009, the Company issued 323,008,490 ordinary shares of HK$0.10 each at the fair value of HK$7.50 per share to pay the consideration for the acquisitions of 154,166,874 shares in Mount Gibson and the acquisition of the entire issued share capital of Benefit Rich. Details of these acquisitions have been set out in Note 24(a) and (b) to the financial statements.

(e) On 25 July 2008, the issued share capital of the Company was increased by the issue of 1,260,000,000 ordinary shares of HK$0.10 each at the weighted average price of HK$4.37 per share. The issuance of new shares is used as share consideration for the Very Substantial Acquisition as detailed in Notes 1 and 43 to the financial statements.

41. RESERVES

Group

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

Share premium

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

Statutory reserve

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

Other reserves

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

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

Notes to the Financial Statements

For the year ended 31 December 2009

41. RESERVES *(continued)*

Company

	Share premium HK$'000	(Accumulated losses)/ Retained profits HK$'000	Share-based compensation reserve HK$'000	Total HK$'000
At 1 January 2008	1,089,359	(574,475)	32,382	547,266
Share-based compensation	–	–	6,476	6,476
Issue of new shares upon conversion of the Notes	43,289	–	–	43,289
Placing of shares	3,858,748	–	–	3,858,748
Issue of consideration shares	5,384,413	–	–	5,384,413
Issue of new shares upon share option	8,837	–	(1,859)	6,978
Loss for the year	–	(20,602)	–	(20,602)
At 31 December 2008 and 1 January 2009	**10,384,646**	**(595,077)**	**36,999**	**9,826,568**
Share-based compensation	**–**	**–**	**110,304**	**110,304**
Placing of shares	**1,679,027**	**–**	**–**	**1,679,027**
Issue of consideration shares	**2,390,263**	**–**	**–**	**2,390,263**
Issue of new shares upon share option	**147,512**	**–**	**(31,443)**	**116,069**
Profit for the year	**–**	**1,760,681**	**–**	**1,760,681**
2009 interim dividend declared	**–**	**(499,596)**	**–**	**(499,596)**
At 31 December 2009	**14,601,448**	**666,008**	**115,860**	**15,383,316**

42. SHARE OPTION SCHEME

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

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

Notes to the Financial Statements

For the year ended 31 December 2009

42. SHARE OPTION SCHEME *(continued)*

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

The total number of shares available for issue under the Scheme as at 31 December 2009 was 16,000,000 (2008: 99,000,000) which represents 0.3% (2008: 2.2%) of the Company's issued shares at 31 December 2009.
All share-based compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options other than by issuing the Company's ordinary shares.

All share options granted are accounted for under HKFRS 2. Share options and weighted average exercise price for the years ended 31 December 2009 and 2008 are as follows:

	2009		2008	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
	'000	**HK$**	'000	HK$
Outstanding at 1 January	**99,000**	**1.50**	104,000	1.50
Grant of share options	**281,050**	**6.00**	–	–
Exercised	**(83,000)**	**1.50**	(5,000)	1.50
Outstanding at 31 December	**297,050**	**5.76**	99,000	1.50
Exercisable at 31 December	**16,000**	**1.50**	99,000	1.50

Weighted average share price for share options exercised during the year at the date of exercise was HK$5.82 (2008: HK$3.59).

The options outstanding at 31 December 2009 had exercise prices of HK$1.50 and HK$6.0 (2008: HK$1.50) respectively and a weighted average remaining contractual life of 6.5 years (2008: 4.3 years).

On 19 August 2009, the Company granted 281,050,000 (2008: Nil) options to certain of its directors, employees and other eligible participants with exercise price of HK$6.00 per share. The closing share price at date of grant on 19 August 2009 was HK$5.22.

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

Notes to the Financial Statements

For the year ended 31 December 2009

42. SHARE OPTION SCHEME *(continued)*

The fair value of the options granted in 2009, measured at the date of grant on 19 August 2009, totalled approximately HK$596,460,000. As the options vest after two years from the date of grant on 19 August 2009, the amount is recognised as a share-based compensation in profit or loss over 2 years from 19 August 2009 to 18 August 2011. An amount of HK$110,304,000 has been charged as share compensation expense in profit or loss during the year (2008: HK$6,476,000). The corresponding amount has been credited share option reserve. No liabilities were recognised due to share-based payment transactions.

43. BUSINESS COMBINATIONS

(a) Very Substantial Acquisition in 2008

On 25 July 2008, the Group completed the Very Substantial Acquisition for a total consideration of HK$8,343,038,000. Details of net assets acquired and goodwill as at the date of acquisition are as follows:

	2008 HK$'000
Purchase consideration	
– Cash paid	4,860,000
– Fair value of share consideration	5,510,413
– Direct cost relating to the Very Substantial Acquisition	73,552
– Purchases of shareholders' loans	(1,134,614)
– Special dividend	20,000
Total purchase consideration	9,329,351
Less: Adjustment to purchase consideration *(Note)*	(986,313)
Adjustment purchase consideration	8,343,038
Fair value of assets acquired – as shown below	(6,279,099)
Goodwill *(Note 20)*	2,063,939

Note:

The amount represents total balance to be reimbursed by Mr. Xing to the Group in connection with additional payments levied by the local government authorities on the coal mining rights. Details of which are set out in Note 28 to the financial statements.

Goodwill is attributable to the high profitability expected to arise after the Very Substantial Acquisition. In the opinion of directors, the fair value of the shares consideration should be determined based on the published share price on the acquisition date with a discount for the restriction arising from six to twelve months lock-up arrangement.

The fair values of the identifiable assets and liabilities arising from the Very Substantial Acquisition as at the date of acquisition and the corresponding carrying amounts immediately prior to the Very Substantial Acquisition were as follows:

Notes to the Financial Statements

For the year ended 31 December 2009

43. BUSINESS COMBINATIONS *(continued)*

(a) Very Substantial Acquisition in 2008 *(continued)*

	Fair value HK$'000	Acquirees' carrying amount HK$'000
Cash and cash equivalents	19,488	19,488
Property, plant an equipment *(Note 17)*	1,323,227	1,231,963
Prepaid lease payments *(Note 18)*	44,497	44,497
Mining right *(Note 19)*	10,689,739	2,525,244
Interests in associates *(Note 23)*	19,884	19,884
Inventories	118,679	118,679
Available-for-sale financial assets *(Note 24)*	454	454
Trade and bills receivables	517,390	517,390
Deposits, prepayments and other receivables	177,417	177,417
Amounts due from other parties	1,311,791	1,311,791
Amounts due from minority equity holders of subsidiaries	510,235	510,235
Amounts due from fellow subsidiaries	313,351	313,351
Pledged bank deposits	53,834	53,834
Trade and bills payables	(261,163)	(261,163)
Other payables and accruals	(1,703,193)	(1,703,193)
Amounts due to other parties	(903,272)	(903,272)
Amount due to ultimate holding company	(625,641)	(625,641)
Amount due to an associate	(24,649)	(24,649)
Amounts due to fellow subsidiaries	(402,752)	(402,752)
Borrowings	(353,176)	(353,176)
Long terms payables	(232,760)	(232,760)
Tax payables	(334,729)	(334,729)
Deferred tax liabilities *(Note 39)*	(2,063,939)	–
Loan from ultimate holding company	(505,035)	(505,035)
Net assets	7,689,677	1,497,857
Minority interest	(1,410,578)	
Net assets acquired	6,279,099	

Purchase consideration settled in cash	4,860,000
Direct costs relating to the Very Substantial Acquisition	73,552
Special dividend	20,000
Cash and cash equivalents in subsidiaries acquired	(19,488)
Net cash outflows	4,934,064

Notes to the Financial Statements

For the year ended 31 December 2009

43. BUSINESS COMBINATIONS *(continued)*

(a) Very Substantial Acquisition in 2008 *(continued)*

Since the Very Substantial Acquisition, the acquired subsidiaries contributed revenues of approximately HK$1,806,265,000 and net profit of approximately HK$847,122,000 to the Group for the year ended 31 December 2008.

Had the business combination taken place on 1 January 2008, revenue and net profit of the Group for the year ended 31 December 2008 would have been approximately HK$3,502,527,000 and HK$1,577,872,000 respectively. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the operations of the Group that actually would have been achieved had the Very Substantial Acquisition been completed on 1 January 2008 nor are they intended to be a projection of future results.

(b) Acquisition of Benefit Rich

As described in Notes 1 and 24 to the financial statements, on 1 December 2009, the Group completed the acquisition of entire issued capital of Benefit Rich from Shougang Holding at a consideration of HK$818,175,000. Benefit Rich solely held 956,000,000 shares of APAC, which accounted for approximately 16.80% of the issued capital of APAC. The shares of APAC are listed on the Stock Exchange and the consideration was satisfied in full by allotment and issue of approximately 109,089,993 new shares of the Company. Benefit Rich did not contributed any turnover and profit to the Group for the period from 2 December 2009 to 31 December 2009. Had the acquisition occurred on 1 January 2009, there is no impact on the Group's turnover but a loss for the year would have been approximately of HK$18,000. Details of net asset acquired at the date of acquisition is as follows:

	Fair value HK$'000	**Acquiree's carrying amount** HK$'000
Available-for-sale financial assets *(Note 24(b))*	818,175	544,920
Net identifiable assets	818,175	544,920
Satisfied by:		
Purchase consideration settled in consideration shares		818,175

Notes to the Financial Statements

For the year ended 31 December 2009

44. COMMITMENTS

(a) Operating lease commitments

Group

At 31 December 2009, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings payable by the Group are as follows:

	2009		2008	
	Land and buildings HK$000	**Other assets HK$000**	Land and buildings HK$000	Other assets HK$000
Within one year	**10,684**	**–**	6,233	1,136
In the second to fifth years	**25,520**	**–**	18,783	–
After five years	**131,302**	**–**	92,564	–
	167,506	**–**	117,580	1,136

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

Company

The Company did not have any significant operating lease commitments as at 31 December 2009 and 2008.

(b) Capital commitments

Group

	2009 HK$'000	2008 HK$'000
Contracted but not provided for:		
– Acquisition of property, plant and equipment	**357,541**	445,302
– Exploration and design fees for a potential mining project	**8,498**	8,494
	366,039	453,796

Company

The Company did not have any capital commitments as at 31 December 2009 and 2008.

Notes to the Financial Statements

For the year ended 31 December 2009

44. COMMITMENTS *(continued)*

(c) Other commitments

Group

In accordance with a notice issued by the Liulin County Government of Shanxi Province (Liufa [2008] No.31), certain mining companies in Liulin County, including Xingwu, Jinjiazhuang and Zhaiyadi, are obliged to pay subsidies for the construction of modern schools in Liulin County and provision of educational facilities from 2009 to 2011. Such subsidies is recognised in profit or loss in the corresponding year. Management expects that two payments of RMB110,000,000 (approximately HK$124,971,000) each are payable in 2010 and 2011.

45. FINANCIAL GUARANTEE CONTRACTS – GROUP

As at 31 December 2009, Xingwu executed guarantees with respect to the bank loans and other loans, denominated in RMB282,000,000 (2008: RMB872,000,000), granted to two independent third parties. As at 31 December 2008, Zhaiyadi executed guarantees with respect to the bank loans denominated in RMB100,000,000, granted to one independent party. Under the above guarantees, Xingwu and Zhaiyadi are liable to pay the banks and lenders if the banks and lenders are unable to recover the loans from these third parties. At 31 December 2009, no provision for the Group's obligation under the guarantee contracts has been made as the directors consider that it is not probable that the repayment of the loans will be in default.

As at 31 December 2009, the Company has executed guarantees amounting to RMB400,000,000 (HK$454,440,000 equivalent) with respect to bank facilities granted to certain subsidiaries of the Company. Under the guarantees, the Company would be liable to pay the bank if the bank is unable to recover the loan. At 31 December 2009, no provision for the Company's obligation under the guarantee contract has been made as the directors considered that it was not probable that the repayment of the loan would be in default.

46. CONNECTED PARTIES TRANSACTIONS – GROUP

During the years ended 31 December 2009 and 2008, the Group entered into certain connected parties transactions and continuing connected parties transactions as defined in Chapter 14A of the Listing Rules. Details are set out in pages 49 to 61 of the Directors' Report.

47. RELATED PARTY TRANSACTIONS – GROUP

Except as disclosed elsewhere in the financial statements, the following transactions for the years ended 31 December 2009 and 2008 were carried out with related parties:

(i) During the year, the Group paid management fees of HK$120,000 (2008: Nil) to Shougang International, which is one of major shareholders of the Company and paid rental expenses of HK$450,000 (2008: Nil) to a wholly-owned subsidiary of Shougang Holding, which is the controlling shareholder of Shougang International.

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

(iii) The Group purchased 154,166,874 shares of Mount Gibson from Sky Choice, a wholly owned subsidiary of Shougang International at a consideration of HK$1,604,389,000 in 2009 (Note 24(a)).

Notes to the Financial Statements

For the year ended 31 December 2009

47. RELATED PARTY TRANSACTIONS – GROUP *(continued)*

(iv) The Group acquired the entire issued share capital of Benefit Rich from Shougang Holding at a consideration of HK$818,175,000 in 2009 (Notes 24(b) and 43(b)).

(v) The compensation payable to key management personnel during the year have been disclosed in Note 16 to the financial statements.

48. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Major non-cash transactions

Pursuant to resolutions passed on 31 December 2009, dividends of RMB31,438,000 (HK$35,717,000 equivalents) and RMB223,583,000 (HK$254,013,000 equivalents) attributable to minority holders in Jinjiazhuang and Zhaiyadi for the period from January to November 2009 were used to settle the partial amounts due from other parties of RMB49,300,000 (HK$56,010,000 equivalents) (Note 28) and trade receivables of RMB205,721,000 (HK$233,720,000 equivalents) (Note 27) which was undertaken by Mr. Xing.

49. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

(i) Foreign currency risk

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

Notes to the Financial Statements

For the year ended 31 December 2009

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

(i) Foreign currency risk *(continued)*

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

	Group				Company			
	2009		2008		**2009**		2008	
	Expressed in HK$'000		Expressed in HK$'000		**Expressed in HK$'000**		Expressed in HK$'000	
	AUD	**US$**	AUD	US$	**AUD**	**US$**	AUD	US$
Available-for-sales financial assets	**1,761,422**	**–**	–	–	**–**	**–**	–	–
Financial assets at fair value through profit or loss	**25,967**	**–**	–	–	**–**	**–**	–	–
Cash and bank balances	**–**	**331,400**	–	139,025	**–**	**322,887**	–	–
Bank loan	**–**	**(751,469)**	–	–	**–**	**(751,469)**	–	–
Overall net exposure	**1,787,389**	**(420,069)**	–	139,025	**–**	**(428,582)**	–	–

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

	Group						Company					
	2009			2008			**2009**			2008		
	Increase/ (Decrease) in foreign exchange rates	**Effect on profit for the year HK$'000**	**Equity HK$'000**	Increase/ (Decrease) in foreign exchange rates	Effect on profit for the year HK$'000	Effect on Equity HK$'000	**Increase/ (Decrease) in foreign exchange rates**	**Effect on profit/loss for the year HK$'000**	**Equity HK$'000**	Increase/ (Decrease) in foreign exchange rates	Effect on profit/loss for the year HK$'000	Effect on equity HK$'000
AUD	**+5%**	**1,298**	**88,071**	+5%	–	–	**+5%**	**–**	**–**	+5%	–	–
	–5%	**(1,298)**	**(88,071)**	–5%	–	–	**–5%**	**–**	**–**	–5%	–	–

Notes to the Financial Statements

For the year ended 31 December 2009

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

(ii) Credit risk

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

The carrying amounts of trade and bills receivables, deposits, other receivables, pledged bank deposits and cash and cash equivalents included in the statement of financial position represent the Group's maximum exposure to credit risk in relation to financial assets. Of which, financial assets carrying significant credit risk exposures are the Overdue Debts amounting to nil (2008: HK$233,720,000) (Note 27) and amount due from a party amounting to HK$937,150,000 (2008: HK$982,161,000) (Note 28), management is of the opinion that reasonable actions and mitigations have been carried out to minimise the exposure to credit risk and details of such mitigations are set out in respective notes to the financial statements. In this regards, the directors consider that the Group's credit risk is sufficiently managed.

All pledged bank deposits and cash and cash equivalents are placed with major banks located in Hong Kong and the PRC respectively.

(iii) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in the market interest rates. As at 31 December 2009, the Group's major exposure to interest rate risk relates primarily to the New Bank Borrowings and cash and cash equivalents. The Group's remaining borrowings are charged at fixed interest rates. The interest rates and terms of repayment of pledged bank deposits, cash and cash equivalents, borrowings, amount due from a party, amounts due from/(to) other parties/a director/related companies/minority equity holders of subsidiaries, are disclosed in Notes 29, 30, 33, 28, 34, 35, 36 and 37 respectively.

As at 31 December 2008, interest on the Group's loans was charged at the fixed interest rates. Other than pledged bank deposits and cash and cash equivalents, the Group did not have exposure to the floating interest rate where there were unexpected adverse interest rate movements. The Group's exposure to market risk for changes in interest rates relates primarily to cash and cash equivalents.

The following table illustrates the sensitivity of profit after income tax for the year and retained profits to a change in interest rates of +25 basis points and -25 basis points (2008: +25 basis points and -25 basis points) with effect from the beginning of the year. The calculations for 2009 are based on the New Bank Borrowings and cash and cash equivalents at 31 December 2009 while that in 2008 were based on the Group's cash and cash equivalents at 31 December 2008. All other variables are held constant.

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

(iii) Interest rate risk *(continued)*

	2009 **HK$'000**	2008 HK$'000
If interest rates were 25 basis point (2008: 25 basis point) higher		
Net profit for the year increase by	**2,005**	1,335
If interest rates were 25 basis point (2008: 25 basis point) lower		
Net profit for the year decrease by	**(2,005)**	(1,335)

(iv) Price risk

Price risk relates to the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than changes in interest rates and foreign exchange rates). The Group is exposed to other price risk arising from its listed equity investments classified as available-for-sale financial assets and purchased call options classified as financial assets at fair value through profit or loss. Details about the financial assets at available-for-sale financial assets are set out in Note 24. The board of directors manages this exposure by maintaining a portfolio of investments with different risk and return profiles and will consider hedging the risk exposure should the need arise.

For the listed equity securities, an average volatility of 33.03% and 20.48% has been observed in the Heng Seng Index in Hong Kong and All Ordinary Index in Australia in 2009 respectively (2008: 51.31% and 33.23%). If the quoted stock price for these securities had increased or decreased by that amount, the Group's security investment reserve under equity would have been increased or decreased by approximately HK$507,518,000 (2008: Nil).

For the purchased call options, an average volatility of 75.82% of quoted stock price for Mount Gibson in 2009. If the quoted stock price had increased or decreased by that amount, the Group's profit or loss for the year and retained earnings would have been increased or decreased by approximately HK$19,687,000 (2008: Nil).

(v) Liquidity risk

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2009

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

(v) Liquidity risk *(continued)*

Group

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

	Carrying amount HK$'000	**Total contractual undiscounted cash flow HK$'000**	**Within one year or on demand HK$'000**	**More than one year but not exceeding four years HK$'000**
As at 31 December 2009				
Trade and bills payables	**328,732**	**328,732**	**328,732**	**–**
Other payables and accruals	**1,753,024**	**1,753,024**	**1,753,024**	**–**
Borrowings	**806,085**	**870,319**	**186,045**	**684,274**
Amounts due to other parties	**27,526**	**27,526**	**27,526**	**–**
Amounts due to related companies	**12,008**	**12,008**	**12,008**	**–**
Amounts due to minority equity holders of subsidiaries	**42,964**	**42,964**	**42,964**	**–**
	2,970,339	**3,034,573**	**2,350,299**	**684,274**

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but not exceeding two years HK$'000
As at 31 December 2008				
Trade and bills payables	380,795	380,795	380,795	–
Other payables and accruals	2,058,230	2,058,230	1,819,680	238,550
Borrowings	1,626,088	1,719,415	1,683,751	35,664
Amounts due to other parties	51,137	51,137	51,137	–
Amount due to a director	20,000	20,000	20,000	–
Amounts due to related companies	12,316	13,096	13,096	–
Amounts due to minority equity holders of subsidiaries	97,203	97,203	97,203	–
	4,245,769	4,339,876	4,065,662	274,214

Notes to the Financial Statements

For the year ended 31 December 2009

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

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

The Group adopted the amendments to HKFRS 7 *Improving Disclosures about Financial Instruments* effective from 1 January 2009. These amendments introduce a three-level hierarchy for fair value measurement disclosures and additional disclosures about the relative reliability of fair value measurements. The Group has take advantage of the transitional provisions in the amendments to HKFRS 7 and accordingly, no comparatives for the hierarchy for fair value measurement have been presented.

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

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

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

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

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

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

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

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

(a) Listed securities

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

(b) Purchased call options

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

Notes to the Financial Statements

For the year ended 31 December 2009

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

(vii) Summary of financial assets and liabilities by category

The carrying amounts of the Group's financial assets and liabilities as recognised at the reporting dates may also be categorised as follows. See Notes 2.13 and 2.19 for explanations about how the category of instruments affects their subsequent measurement.

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Non-current assets				
Loan and receivables:				
– Amount due from a party	**937,150**	218,712	**–**	–
Available-for-sale financial assets	**2,214,369**	8,403	**–**	–
	3,151,519	227,115	**–**	–
Current assets				
Loan and receivables:				
– Trade and bills receivables	**1,113,647**	999,408	**–**	–
– Other receivables	**114,545**	22,252	**–**	–
– Amounts due from subsidiaries	**–**	–	**14,578,192**	9,829,849
– Amounts due from other parties	**376,044**	1,495,944	**–**	–
Financial assets at fair value through profit or loss	**25,967**	–	**–**	–
Pledged bank deposits	**105,771**	168,941	**–**	–
Cash and cash equivalents	**2,104,478**	760,163	**1,920,793**	462,375
	3,840,452	3,446,708	**16,498,985**	10,292,224
	6,991,971	3,673,823	**16,498,985**	10,292,224

Notes to the Financial Statements

For the year ended 31 December 2009

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

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

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current liabilities				
Financial liabilities at amortised cost:				
– Trade and bills payables	**328,732**	380,795	**–**	–
– Other payables and accruals	**1,753,024**	1,819,680	**12,370**	9,307
– Borrowings	**162,420**	1,590,917	**111,238**	–
– Amount due to a director	**–**	20,000	**–**	–
– Amounts due to other parties	**27,526**	51,137	**–**	–
– Amounts due to related companies	**12,008**	12,316	**–**	–
– Amounts due to minority equity holders of subsidiaries	**42,964**	97,203	**–**	–
– Amounts due to subsidiaries	**–**	–	**364,037**	–
	2,326,674	3,972,048	**487,645**	9,307
Non-current liabilities				
Financial liabilities at amortised cost:				
– Borrowings	**643,665**	35,171	**640,231**	–
– Other long term payables	**–**	238,550	**–**	–
	643,665	273,721	**640,231**	–
	2,970,339	4,245,769	**1,127,876**	9,307

Notes to the Financial Statements

For the year ended 31 December 2009

50. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

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

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

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

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

51. EVENTS AFTER THE REPORTING DATE

(a) In December 2009, two RMB200,000,000 loan agreements (the "Loans") were entered between Xingwu and China Merchants Bank Co., Ltd. ("CMB") and Zhaiyadi and CMB respectively. Subsequent to the reporting date, RMB400,000,000 had been drawn from CMB. The term of each of the loans is 2 years and the loans are used as the working capital of certain PRC subsidiaries. The Loans are secured by the guarantees of the Company.

(b) On 6 February 2010, one of the subsidiary of the Group entered into a sale and purchase agreement for the purchase of staff quarters which is located at No. 6 Building, Baoning District, Liulin County at approximately RMB101,000,000. Up to the date of this annual report, RMB45,000,000 was paid by the Group as purchase deposit.

(c) Subsequent to the reporting date and up to the date of this annual report, 10,000,000 new shares were issued at exercise price of HK$1.5 per share upon the exercise of granted share options by option holders which resulted in raising a net proceed of approximately HK$15,000,000.

(d) Pursuant to a proposed acquisition of the entire equity interest in Chonghou Energy Resources Limited set out in the Company's announcement dated 22 October 2009, HK$100,000,000 was paid to vendor, Assets Rich International Limited, during the year. Subsequent to the reporting date, as not all the conditions precedent could be fulfilled, the Group has given notice to the vendor of not proceeding the proposed acquisition and the full deposit of HK$100,000,000 was refunded on 1 April 2010.

(e) Pursuant to the Loan Agreement entered on 13 April 2010, Jade Green had conditionally agreed to make available a loan of HK$937,367,261 (RMB824,883,190) to Mr. Xing for offsetting all outstanding liabilities of Mr. Xing under the Agreement. The Loan Agreement is subject to independent shareholders' approval under the Listing Rules. Details of the transaction are set out in the announcement of the Company dated 13 April 2010.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and minority interest of the Group for the last five financial years as extracted from the respective published audited financial statements is set out below. Certain comparative amounts have been restated due to the adoption of the new or revised standards and interpretations of Hong Kong Financial Reporting Standards effective from 1 January 2005. This summary does not form part of the audited financial statements.

	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**4,470,131**	1,896,577	15,056	10,535	10,232
Profit/(loss) attributable to Owners of the Company	**1,126,274**	567,649	(77,948)	(30,988)	(14,020)
Assets and liabilities					
Total assets	**22,557,408**	19,252,268	1,295,084	517,104	383,799
Total liabilities	**(5,227,644)**	(6,803,271)	(503,074)	(417,524)	(256,338)
Net assets	**17,329,764**	12,448,997	792,010	99,580	127,461
Minority interest	**(1,504,570)**	(1,627,258)	(58,279)	(42,034)	(54,276)
Equity attributable to Owners of the Company	**15,825,194**	10,821,739	733,731	57,546	73,185