Hidili 恒鼎

Hidili Industry International Development Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1393

2009
Annual Report

Contents

Hidili 恒鼎
Hidili Industry International Development Limited

Corporate Information

DIRECTORS

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Chi Hing
Mr. Chen Limin
(Appointed on 1 October 2009)
Mr. Huang Rongsheng
Mr. Wang Zhiguo
(Resigned on 1 September 2009)

AUDIT COMMITTEE

Mr. Chan Chi Hing *(Chairman)*
Mr. Chen Limin *(Appointed on 1 October 2009)*
Mr. Huang Rongsheng
Mr. Wang Zhiguo *(Resigned on 1 September 2009)*

REMUNERATION COMMITTEE

Mr. Chan Chi Hing *(Chairman)*
Mr. Chen Limin *(Appointed on 1 October 2009)*
Mr. Huang Rongsheng
Mr. Wang Zhiguo *(Resigned on 1 September 2009)*
Mr. Xian Yang

AUDITORS

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

COMPANY SECRETARY

Ms. Chu Lai Kuen

AUTHORIZED REPRESENTATIVES

Mr. Xian Yang
Ms. Chu Lai Kuen

REGISTERED OFFICE

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

HEAD OFFICE

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Sichuan 617000
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Butterfield House
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Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
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LEGAL ADVISER

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STOCK CODE

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PRINCIPAL BANKERS

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Chengdu, Sichuan Province
PRC

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

Bank of Communications
Panzhihua Branch
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Panzhihua, Sichuan Province
PRC

Industrial and Commercial Bank of China (Asia) Limited
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Hong Kong

Chairman's Statement

To the respectful shareholders of Hidili Industry International Development Limited,

With the support of our shareholders and staff, Hidili Industry International Development Limited (the "Company") withstood the depression on coal market and finally achieved satisfactory operating results in 2009. On behalf of the board ("Board") of the directors (the "Directors") of the Company, I am pleased to present the 2009 Annual Report and the operating results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2009 to the shareholders as follows.

PERFORMANCE OF THE COMPANY'S SHARES

As at 31 December 2009, the closing price of the Company's shares on the Stock Exchange of Hong Kong Limited ("Stock Exchange") was HK$9.77, a rise of approximately 300.4% from the closing price of HK$2.44 as at 31 December 2008 as compared to a gain of approximately 52.0% in Heng Seng Index, which reflected recognition of and support to the Company from investors.

During the year, the Company voluntarily disclosed to investor community the detailed information on its coal mines and the business operation for the third quarter. In the future, we will further enhance communications with our investors, and within the scope of disclosure requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), update our shareholders as comprehensive and as soon as possible on our development strategy and business growth.

THE COMPANY'S OPERATION

The Company achieved a revenue and a profit attributable to the owners of the Company of approximately RMB1,495.4 million and approximately RMB403.5 million respectively for the year ended 31 December 2009, representing a decrease of approximately 39.9% and 59.8% respectively as compared with the previous year.

In early 2009, the Company's business operation was confronted with a wide array of challenges as the aftermath of the global financial crisis gradually spread to real economy. While facing profit margin squeeze due to depressed product price, the Company, as an upstream player, is susceptible to the sale pressure from downstream steel market in respect of its operation stability. In response, the Company adjusted its operation strategy by rescheduling the production at mines which have a long distance of transportation to processing plants and placing focus on the construction of production capacities of coal mines to speed up the construction progress on one hand and reduce transportation costs on the other.

The Company has produced approximately 2.8 million tonnes of raw coal, approximately 1.5 million tonnes of clean coal and approximately 0.7 million tonnes of coke in 2009. The output of raw coal and coke approximated that in 2008, while the output of clean coal decreased approximately 10.8% because the Company did not purchase external raw coal for processing, which in turn significantly reduced cost of raw materials by 54.5%.

In 2009, the Company's coal mining cash cost amounted to RMB136 per tonne of raw coal production, representing an increase of 23.6% as compared to 2008, which was mainly attributable to the increase in raw material cost and direct labour cost during the construction period. The average production costs of clean coal and coke of the Company for the year amounted to RMB356 and RMB499 per tonne, respectively representing a decrease of approximately 31.1% and 28.9% from 2008 respectively, which was mainly because the Company ceased to purchase raw coal from external sources for processing. The processing costs of clean coal and coke for the year maintained at approximately RMB50 and RMB55 per tonne respectively. The increase in the processing cost of clean coal was mainly because the production capacities of the newly-acquired coal washing plants in Guizhou and Yunnan provinces were not fully utilized. The Company believes that along with the completion of construction of mines in stages as scheduled, both the coal mining cash cost and the average processing costs of clean coal and coke will be reduced due to economies of scale. Besides, the distribution expenses and administrative expenses shared by each tonne of raw coal produced will decrease and further lower the total cost of clean coal and coke.

On customer development, the Company has successfully extended its customer coverage to large-scale steel enterprises in south-western China, putting an end to the previous high reliance on Panzhihua Steel Group. The Group's top five customers for the year were 攀鋼集團成都鋼鐵有限責任公司 (Panzhihua Steel Group Chengdu Iron & Steel Company Limited*), 柳州鋼鐵股份有限公司(Liuzhou Iron & Steel Company Limited*), 廣西貴港鋼鐵集團有限公司(GuangXi GuiGang Iron & Steel Group Company Limited*), 廣東韶關松山股份有限公司(SGIS Songshan Company Limited*) and 攀鋼集團 (Panzhihua Steel Group*), accounting for approximately 34.3%, 20.7%, 10.3%, 9.9% and 5.4% of our total revenue, respectively. The successfully development of the water transportation network in Fangchenggang during the year will facilitate the marketing of our products to steel plants located in the vicinity of the Yangtze River valley in the future.

The Company obtained various bank borrowings for the purpose of acquisition and construction of coal mines. As at 31 December 2009, the Company recorded net current liabilities amounting to approximately RMB1,089.2 million. In order to reduce working capital pressure, the Company issued convertible note of RMB1,707 million in January 2010. Part of the proceeds was used to repay short-term bank borrowings, and the remaining was used for construction of coal mines. Without taking into account the aforesaid factors, the Company maintained comparatively healthy cash flow from operating activities which amounted to approximately RMB582.4 million in 2009.

EXTRACT OF THE SIGNIFICANT EVENTS OF THE YEAR

Significant events of the Group for 2009 are as follows:

In April 2009, the Company announced annual results for 2008, distributing no final dividend.

In April 2009, the Company granted share options to the management and independent non-executive directors of the Company.

From April to June 2009, the Company further acquired 4 coal mines in Yunnan province with total reserve around 90 million tonnes (based on PRC coal reserves standard).

In June 2009, the Company completed the acquisition of coal washing plant in Fuyuan county Yunnan province.

In August 2009, the Company obtained RMB1 billion loan facilities from China Construction Bank with a term of 5 years.

In September 2009, Mr. Wang Zhiguo resigned as an independent non-executive director of the Company.

In September 2009, the Company and CITIC Trust Company Limited established a joint venture in order to acquire coal mines. Each party contributed RMB500 million with an aggregate amount of RMB1 billion to the joint venture. The Company held 51% equity interests in the joint venture.

In October 2009, Mr. Chen Limin was appointed as an independent non-executive director of the Company.

In December 2009, the Company entered into a memorandum of understanding to acquire equity interests in some coal washing plants and logistic companies in Yunnan province.

In December 2009, the Company entered into a framework agreement with Guangdong Province Shaoguan Steel Group Company Limited to provide clean coal for a term of 10 years.

From July to December 2009, the Company further acquired 4 coal mines in Yunnan province with total reserve around 100 million tonnes (based on PRC coal reserves standard).

OUTLOOK

With reference to the development in Panzhihua, Sichuan province and Pan county, Guizhou province, we have at a preliminary stage worked out a guideline to further our development by capturing the opportunity under the mining resource consolidation program launched by the PRC government, aiming to become the consolidator of small to medium coal mines in China. In line with macro economy environment and policy direction and without compromising the long-term stable growth, the Company will selectively acquire quality resources of coking coal in Yunnan and Guizhou provinces at relatively low cost. We has gradually complete the construction of 20 existing coal mines in Pan county as scheduled. During the year, the Company acquired additional 8 coal mines along the same ore belt in Fuyuan county, Yunnan province with total reserve of 190 million tonnes (based on PRC coal reserves standard). The Company's resources deployment in south-western China has taken shape. In the coming two years, our focus will be placed on coal mine construction, as well as nurturing and gathering managerial talents and establishing a scientifically-managed coal mining team. We believe that the Company is well positioned to achieve significant revenue and profit growth in the foreseeable future with the releasing of its capacity and demand growth on the back of industry recovery.

During the year, in light of its low gearing ratio and for the development and expansion of the Company, the Company conducted various financing activities to obtain funds for working capital and construction.

Looking forward into 2010, while fostering professional talents and improving operating efficiency of management team, the Company will focus on construction of coal mines in Guizhou and Yunnan provinces. Besides, the Company aspires to become the acquirer in the consolidation of small to medium coal mines.

By order of the Board
Chairman
Xian Yang

Panzhihua, the PRC
7 April 2010

* *for identification purpose only*

Management Discussion and Analysis

FINANCIAL HIGHLIGHTS

The Group's turnover amounted to approximately RMB1,495.4 million in 2009, representing a decrease of approximately RMB993.0 million or approximately 39.9% as compared to approximately RMB2,488.4 million in 2008.

The profit attributable to the owner of the Company for the year ended 31 December 2009 was approximately RMB403.5 million, representing a decrease of approximately RMB599.9 million or approximately 59.8% as compared to approximately RMB1,003.4 million in 2008.

The basic earnings per share attributable to ordinary equity holders of the Company amounted to approximately RMB19.6 cents in 2009.

FINANCIAL REVIEW

TURNOVER

During the year, turnover of the Group reached approximately RMB1,495.4 million, representing a decrease of approximately 39.9%, as compared with approximately RMB2,488.4 million in the year 2008. The decrease was primarily attributable to the decrease in sales volumes of clean coal and average selling prices of the principal products and by-products due to the decrease in demand of coal products by the steel manufacturers. The sales volume recorded for clean coal and coke during the year amounted to approximately 610,000 tonnes and 688,000 tonnes respectively as compared to approximately 862,000 tonnes and 682,000 tonnes respectively in 2008, representing a decrease in volume of approximately of 29.2% and an increase of 0.9% respectively. The average selling price of both clean coal and coke decreased significantly from RMB1,311.9 per tonne and RMB1,777.7 per tonne respectively in 2008 to RMB869.8 per tonne and RMB1,234.3 per tonne for the year, representing a decrease of approximately of 33.7% and 30.6% respectively.

The following table sets forth the Group's turnover contribution, sales volume and average selling price by products for the year, together with the comparative amounts for the year 2008:

	2009			2008		
	Turnover	**Sales volume**	**Average selling price**	Turnover	Sales volume	Average selling price
	RMB'000	***(thousand tonnes)***	***(RMB/ tonne)***	*RMB'000*	*(thousand tonnes)*	*(RMB/ tonne)*
Principal products						
Clean coal	**530,487**	**609.9**	**869.8**	1,130,830	862.0	1,311.9
Coke	**849,404**	**688.2**	**1,234.3**	1,212,540	682.1	1,777.7
Principal products total	**1,379,891**			2,343,370		
By-products						
High-ash thermal coal	**76,465**	**416.9**	**183.4**	80,685	467.2	172.7
Coal tar	**22,298**	**16.1**	**1,384.2**	29,884	16.5	1,807.2
By-products total	**98,763**			110,569		
Other products						
Raw coal	**7,570**	**18.2**	**416.7**	23,316	74.8	311.7
Benzene	**5,677**	**3.2**	**1,787.5**	9,886	3.2	3,128.1
Others	**3,495**			1,308		
Other products total	**16,742**			34,510		
Total turnover	**1,495,396**			2,488,449		

COST OF SALES

Cost of sales for the year was approximately RMB624.1 million, representing a decrease of approximately RMB318.3 million, or approximately 33.8%, as compared with approximately RMB942.4 million in 2008. During the year, as the Company did not rely on purchased raw coal from outside suppliers in Guizhou, it resulted in a large decrease in materials costs. However, following the commencement of production in new mines in Guizhou and Yunnan provinces, the material, fuel and power, staff costs and depreciation and amortization experienced an increase in overall production costs during the year.

The following table set forth the unit production costs of the principal products.

	2009 ***RMB per tonne***	2008 *RMB per tonne*
Coal mining		
Cash cost	**136**	110
Depreciation and amortisation	**23**	20
Total production cost	**159**	130
Purchased raw coal	**—**	670
Average cost of raw coal	**159**	235
Average cost of clean coal	**356**	517
Average cost of coke	**499**	702

Material, fuel and power costs for the year were approximately RMB302.3 million, representing a decrease of approximately RMB362.2 million, or approximately 54.5%, as compared with approximately RMB664.5 million in 2008.The decrease in material, fuel and power costs contributed to the decrease in purchase of raw coal of approximately RMB455.7 million in 2008 but increase of materials costs of approximately RMB93.5 million following the increased usage of materials during the development of mining structures in Guizhou and Yunnan provinces.

In the year 2009, the raw coal production volume of approximately 2.8 million tonnes maintained at the similar level as the volume recorded in 2008. In Sichuan province, the volume slightly dropped by approximately 282,000 tonnes due to the coal mine consolidation. In Guizhou and Yunnan provinces, the volumes increased by approximately 292,000 tonnes through the acquisition and development of coal mines.

The following table illustrates the production volume of the principal products in Sichuan, Guizhou and Yunnan provinces.

Principal products	**2009 Sichuan Production volume** *('000 tonnes)*	**2009 Guizhou and Yunnan Production volume** *('000 tonnes)*	**2009 Total Production volume** *('000 tonnes)*	2008 Sichuan Production volume *('000 tonnes)*	2008 Guizhou Production volume *('000 tonnes)*	2008 Total Production volume *('000 tonnes)*
Raw coal production	**1,505**	**1,303**	**2,808**	1,787	1,011	2,798
Raw coal purchased	**—**	**—**	**—**	—	680	680
Clean coal	**787**	**696**	**1,483**	868	794	1,662
Coke	**534**	**174**	**708**	502	167	669

Staff costs for the year were approximately RMB170.9 million, representing an increase of approximately RMB9.1 million, or approximately 5.6%, as compared with approximately RMB161.8 million in 2008. The increase was primarily attributable to the increase in number of mine workers.

Depreciation and amortization for the year were approximately RMB72.4 million, representing an increase of approximately RMB6.5 million, or approximately 9.9%, as compared with approximately RMB65.9 million in 2008. The increase was primarily attributable to the additional capital expenditure incurred in connection with the coal mines and the acquisition of coal washing and coking plants in Guizhou and Yunnan provinces during the year.

GROSS PROFIT

As a result of the foregoing, the gross profit for the year was approximately RMB871.3 million, representing a decrease of approximately RMB674.8 million or approximately 43.6%, as compared with approximately RMB1,546.1 million in 2008. The gross profit margin was approximately 58.3% as compared with approximately 62.1% in 2008.

OTHER INCOME

Other income for the year amounted to approximately RMB11.4 million, representing a decrease of approximately RMB19.0 million or approximately 62.5%, as compared with approximately RMB30.4 million in 2008. The decrease was mainly attributable to the decrease in interest income.

DISTRIBUTION EXPENSES

Distribution expenses for the year were approximately RMB153.8 million, representing a decrease of approximately RMB55.1 million or approximately 26.4%, as compared with approximately RMB208.9 million in 2008. The decrease was mainly resulted from the decrease in government levies in Guizhou province.

ADMINISTRATIVE EXPENSES

Administrative expenses were approximately RMB233.1 million, remaining at a similar level as compared with approximately RMB233.5 million in 2008. During the year, the Group recorded a significant decrease in net exchange loss of approximately RMB68.5 million as the exposure to foreign currencies fluctuation reduced after all the IPO proceeds were remitted to PRC in 2008. However, the costs relating to the staff option scheme recognised approximately RMB35.7 million and the administrative expenses increased in line with the enlarged operation of coal mines in Guizhou and Yunnan provinces.

NET GAIN (LOSS) ON DERIVATIVE AND HELD-FOR-TRADING INVESTMENTS

The amount represented (i) the fair value gain on the Group’s investment in certain A shares amounting to approximately RMB25.5 million and (ii) loss on fair value change of derivative financial instruments of approximately RMB6.5 million.

FINANCE COSTS

Finance costs for the year amounted to approximately RMB56.3 million, representing an increase of approximately RMB23.9 million or approximately 73.8%, as compared with approximately RMB32.4 million in 2008. During the year, the Group financed its acquisitions and development of coal mines in Guizhou and Yunnan provinces by bank borrowings and discounting bills receivables, hence increased the level of interest expenses.

INCOME TAX EXPENSES

Income tax expenses during the year were approximately RMB56.4 million, representing a decrease of approximately RMB6.5 million or approximately 10.3%, as compared with approximately RMB62.9 million in 2008. The amount of income tax expense represented PRC Enterprises Income Tax ("EIT") of approximately RMB45.1 million and deferred tax of approximately RMB11.3 million arising from the withholding tax upon distribution of profits earned by the PRC subsidiaries. For the current year EIT, the effective tax rate increased to approximately 9.8% as compared with approximately 2.7% in 2008.

PROFIT FOR THE YEAR

As a result of the foregoing, the profit attributable to owners of the Company for the year was approximately RMB403.5 million, representing a decrease of approximately RMB599.9 million or approximately 59.8%, as compared with approximately RMB1,003.4 million in 2008. The net profit margin was 27.0% for the year as compared with approximately 40.3% in 2008.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group continued to fund operations principally with internally generated cash flow and short-term bank borrowings. The expansion of operation in Guizhou and Yunnan provinces was mainly funded by the bank borrowings.

As at 31 December 2009, the Group's current liabilities exceeded its current assets by approximately RMB1,089.20 million (2008: net current assets of RMB635.6 million). The Directors are of the opinion that, taking into consideration of the internally generated funds of the Group, the current available banking facilities and the issue of convertible bonds with the principal amount of approximately RMB1,707 million on 19 January 2010, the Group has sufficient working capital for its present requirements for expansion of operation in Guizhou and Yunnan provinces. As at 31 December 2009, the bank balances and cash of the Group amounted to approximately RMB674.5 million (2008: RMB694.8 million).

As at 31 December 2009, the total bank and other borrowings of the Group were RMB2,962.1 million (2007: RMB160 million), in which approximately RMB2,467.1 million are repayable within one year, with effective weighted average interest rate ranging from fixed rates of 2.04% to 9%.

The gearing ratio (calculate as total bank and other borrowings divided by total assets) of the Group as at 31 December 2009 was 27.7% (2008: 2.2%).

PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2009, the Group pledged assets in an aggregate amount of approximately RMB1,918.2 million (2008: RMB274.2 million) to banks for credit facilities in the amount of RMB3,712.1 million (2008: RMB160 million) granted to the Group.

EMPLOYEES

As at 31 December 2009, the number of employees of the Group reached 11,176, showing a steady increase arising from the Group's development in its Guizhou operations. During the year, the staff costs (including Directors' remuneration in the form of salaries and other allowances) was amounted to approximately RMB250.2 million (2008: RMB219.5 million).

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

FINAL DIVIDEND

The Board now recommends the payment of a final cash dividend of RMB10 cents per share for the year ended 31 December 2009 to all shareholders of the Company whose names appear on the register of members of the Company on 13 August 2010.

RISK IN FOREIGN EXCHANGE

Since all of the Group's business activities are transacted in RMB, the Directors consider that the Group's risk in foreign exchange is insignificant. Accordingly, the Group was only exposed to exchange rate risk arising from the foreign currency bank balance of approximately USD8.7 million and HKD1.5 million respectively.

SIGNIFICANT INVESTMENT HELD

The Group had invested in certain A shares in the PRC which amounted to approximately RMB48.6 million as at 31 December 2009.

MATERIAL ACQUISITION AND DISPOSAL

(i) During the year, the Group entered into various sales and purchase agreements for the acquisition of 8 coal mines in Yunnan province at an aggregate consideration of RMB1,626.9 million.

(ii) On 4 December 2009, the Group entered into a memorandum of undertaking with a connected person for acquisition of equity interests in a coal washing plants and 2 logistic companies in Yunnan province with an aggregate consideration of RMB150 million. The acquisition has not yet been finalized.

CONTINGENT LIABILITIES

As at 31 December 2009, the Group did not have any material contingent liabilities.

CONNECTED TRANSACTION

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

(ii) During the year, transportation costs in an aggregate amount of approximately RMB25.5 million were paid to 盤縣盤實物流配送有限公司 (Panxian Panshi Logistic Distribution Company Limited*) ("Panxian Panshi") and 盤縣盤鷹物流配送有限公司 (Panxian Panying Logistic Distribution Company Limited*) ("Panxian Panying") for the provision of railway logistic services. 雲南凱捷實業有限公司 (Yunnan Kaijie Industry Company Limited*), the holder of 57% and 51% equity interest in Panxian Panshi and Panxian Panying respectively, is a substantial shareholder of each of 盤縣盤鑫焦化有限公司 (Panxian Panxin Coking Company Limited*) ("Panxin Coking") and 盤縣盤翼選煤有限公司 (Panxian Panyi Coal Washing Company Limited*) ("Panyi Coal Washing"). As Panxian Panshi and Panxian Panying occupy a monopolistic position of the local railway logistic service in Boguozhen, no relevant market price can be obtained. The pricing basis of the railway logistic service is determined with reference to the pricing offered to other customers by Panxian Panshi and Panxian Panying and the current pricing adopted under the agreement made between the former shareholders of Panxian Panshi, Panxian Panying, Panxin Coking and Panyi Coal Washing, an agreed price consisting of the reasonable cost incurred and a reasonable profit margin.

(iii) In September 2009, the Group entered into a capital contribution agreement with Citic Trust Company Limited ("Citic Trust") for the formation of a joint venture company in which Citic Trust agreed to inject RMB500 million as capital contribution for 49% equity interest in the joint venture company. It was further agreed that the 49% equity interest will be repurchased by the Group at a premium of 9% per annum after twelve months from the date on which the contribution was injected. Accordingly, for the purpose securing the payment of the repurchase consideration, the Group pledged the mining right of Xinda Coal Mine and the 51% equity interest of the joint venture company to Citic Trust. As at 31 December 2009, the amount of capital contribution injected by Citic Trust amounted to RMB250 million.

SUBSEQUENT EVENT

On 19 January 2010, the Company successfully issued the convertible bonds ("Bonds"), which are RMB denominated and U.S. dollar settled, with an aggregate principal amount of RMB1,707 million. The convertible bonds carry interest at 1.5% per annum and will be due in 2015. The net proceeds from the issue of the Bonds, after deduction of commission and administrative expenses will be use for repayment of the Company's existing short-term indebtedness, plus accrued and unpaid interest and any other amounts payable in connection with such prepayment, and for expanding the Company's network of mines, production plants and facilities in South West China through general acquisitions, and to fund capital expenditure and general working capital of the mines of the Company.

BUSINESS REVIEW

Since the 4th quarter of 2008, in the face of the shrinking market demand for steel, steelmakers had contracted capacity, which in turn reduced the demand for coal products. Steel market moderately recovered in the first half of 2009. The average sales of the Company's clean coal and coke had seen minor rebounds, with their average prices amounting to approximately RMB811.2 per tonne and RMB1,152.6 per tone respectively. In the second half of 2009, the market gradually picked up. The average unit prices of the Company's clean coal and coke amounted to approximately RMB915.2 per tonne and RMB1,308.1 per tonne respectively. The average unit prices of clean coal and coke were approximately RMB869.8 per tonne and RMB1,234.3 per tonne during 2009, representing a decrease of approximately 33.7% and 30.6% respectively over 2008.

During the year, capacity of the Company's coal mines in Guizhou was able to support our production, requiring no external purchase of raw coal, which substantially reduced production cost. During the year, (i) average cash cost of raw coal was approximately RMB136 per tonne; (ii) depreciation and amortization cost of raw coal was approximately RMB23 per tonne; (iii) production cost for clean coal was approximately RMB356 per tonne; and (iv) production cost for coke was approximately RMB499 per tonne. In 2009, the gross profit margin maintained at around 58.3%, representing a decrease of 3.8% from 62.1% in the previous year.

The lower price in coal market helped the Company to further acquire coal mines with lower cost to increase our coal reserve. During the year, the Company acquired 8 coal mines in Yunnan province, with an aggregate reserve of about 190 million tonnes (based on PRC coal reserves standard) and an average acquisition price of approximately RMB8.6 per tonne.

OUTLOOK

2009 was a tough and challenging year for our operation. The year began amid the financial storm which severely shadowed steel market. Supported by various economic stimulation policies from the government, steel producers are recovering after adjustments. We expect that the operation environment for the Company will turn around.

Presently, the Company is proceeding with the construction of mines and auxiliary facilities in Guizhou and Yunnan provinces as planned. It is expected that the infrastructure construction of 5 coal mines will be completed in 2010, following which the coal mines will enter the trial production stage with an annual designed capacity of approximately 2.25 million tonnes. Meanwhile, taking into account the additional capacity from the 8 coal mines acquired by the Company in Yunnan province in 2009, it is expected that the capacity of the Company's raw coal will increase significantly in 2010.

As regards the expansion of sales customers, apart from maintaining a friendly business relationship with a number of large state-owned steel enterprises, the Company also entered into a framework agreement with 廣東省韶關鋼鐵集團有限公司 (Guangdong Province Shaoguan Steel Group Company Limited*) in 2009 to provide not less than 600,000 tonnes of clean coal in 2010. As such, the Company believes that the expanded capacity of raw coal can be fully absorbed.

Moreover, the Company will continue to implement and promote cost control measures to improve production efficiency. The Company is currently constructing coal washing plants in Guizhou Province. Since the coal washing plant is ancillary to the Company's coal mines which are subject to capacity expansion, it is expected that the commencement of operation of the coal washing plants will gradually lower the Company's transportation costs.

The Company will finance the working and construction capital for development by seizing the low financing cost opportunity. The proceeds from the issuance of approximately RMB1,707 million worth of convertible bonds in January 2010 were mainly used for reducing short-term bank loans and for construction of coal mines. The Company will continue to prudently and rationally utilize the financial leverage to finance the capital needed for construction of mines. In line with the macro economy and policies, the Company will selectively acquire quality resources of coking coal in Yunnan and Guizhou provinces at relatively lower cost. We aim to become an integrator for China's small and mid scale coal mines.

On behalf of the Board, I would like to express our gratitude to our shareholders, our management and all our employees. We look forward to achieving impressive results in the coming financial period.

* *for identification purpose only*

EXECUTIVE DIRECTORS

MR. XIAN YANG (鮮揚)

Mr. Xian, aged 36, is an executive Director of the Company ("Director") and our founder, chairman and president. Mr. Xian graduated from The People's Police School of Sichuan (四川省人民警察學校) in 1994, studied law at Southwest University of Political Science and Law (西南政法大學) from 1994 to 1997 and is studying MBA courses at Sichuan University (四川大學). He worked in the police force and Customs Bureau of Panzhihua City prior to establishing our Group in May 2000. He was awarded a Grade Three Achievement (三等功) by the Ministry of Public Security for his distinguished service. He is responsible for the overall management and business development of the Company and its subsidiaries (collectively the "Group"). He also chairs our Group's investment management committee and production safety committee. Mr. Xian is a cousin of Mr. Xian Qingping and a brother of Mr. Xian Fan, both of whom are members of our senior management. Mr. Xian is also a director of Sanlian Investment Holding Limited, a company which holds approximately 53.3% of the issued share capital of the Company.

MR. SUN JIANKUN (孫建坤)

Mr. Sun, aged 46, is an executive Director and our chief operating officer. He is a senior engineer and graduated from East China University of Metallurgy (華東冶金學院) (now known as Anhui University of Technology (安徽工業大學)) in 1986 with a bachelor's degree in steel metallurgy. Mr. Sun is responsible for the management of day-to-day operations and development of our operations in Panzhihua. He is also the vice chairman of our production safety committee. Prior to joining us in December 2006, Mr. Sun worked at Panzhihua Steel Group since 1986 and accumulated broad experience in steel production, quality control and raw material procurement. He served as the vice general manager of Chengdu Steel Company, a subsidiary of Panzhihua Steel Group, from 2003 to 2006 and the vice general manager of Panzhihua New Steel & Vanadium Co., Ltd. (攀枝花新鋼釩股份有限公司), a Shenzhen Stock Exchange listed company, from 2002 to 2003.

MR. WANG RONG (王榮)

Mr. Wang, aged 37, is an executive Director and our vice president. He joined our Group in 2000. He is responsible for the management of day-to-day operations and development of our operations in Guizhou province.

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR. CHAN CHI HING (陳志興)

Mr. Chan, aged 45, is an independent non-executive Director. He joined our board of Directors (the "Board") since June 2007. He is currently the chief operating officer of Far East Consortium International Limited (''FECIL''), a company listed on the main board of The Stock Exchange of Hong Kong Limited and a director of various subsidiaries of FECIL. Mr. Chan joined FECIL in 1990 as the chief accountant and served as the financial controller since 2002. From 1990 to 2003, he was in charge of FECIL's financial, treasury and accounting matters. Before joining FECIL, he was an audit manager with an international accounting firm for over 10 years. Mr. Chan has extensive experience in accounting and auditing of Hong Kong listed companies. Since May 2003, Mr. Chan has been an alternate director to Mr. Deacon Te Ken Chiu, director of Far East Hotels and Entertainment Limited, a Hong Kong listed company.

MR. WANG ZHIGUO (王治國)

Mr. Wang, aged 69, is an independent non-executive Director. He joined our Board in June 2007 and resigned on 1 September 2009. He is a senior engineer and a fellow of the World Academy of Productivity Science. Mr. Wang graduated from Northeast Forestry University (東北林業大學) in 1964. Prior to his retirement in 2004, he was vice chairman of All-China Federation of Industry and Commerce (中華全國工商業聯合會). Mr. Wang was a secretary at the secretariat of China Association for Science and Technology (中國科學技術協會) from 1985 to 1994 and served as the general manager of China National Scientific Instruments & Materials Corporation (中國科學器材公司) in the early 1980s. Mr. Wang has not held any directorship in other listed companies in the last three years. During the period between February 2005 and October 2006, Mr. Wang was a director of Zhongyin Guoji Wenhua Chanye Co., Ltd. (中音國際文化產業有限公司)(''Zhongyin Company''), a company established in China which was engaged in the business of copyright agency, development and sale of computer software and hardware and show agency. He was involved in the overall management of Zhongyin Company, particularly in the area of public relations. In July 2005, all equity holders of Zhongyin Company agreed to dissolve Zhongyin Company. Since the equity holders were unable to reach a consensus as to the distribution of the assets of Zhongyin Company, they did not proceed with the application for revocation of its business licence. Zhongyin Company was unable to apply for annual inspection in 2005 as only part of the voluntary dissolution process was completed. In the circumstances, the business licence of Zhongyin Company was revoked by the Administration for Industry and Commerce of Dongcheng District, Beijing in October 2006. Mr. Wang confirmed that there was no wrongful act on his part leading to the dissolution of Zhongyin Company or the revocation of the business licence of Zhongyin Company; that, as far as he is aware, no actual or potential claim has been or will be made against him as a result of or in connection with such dissolution or the revocation of the business licence of Zhongyin Company and that, as far as he is aware, there was no circumstance indicating that he would not be qualified to act as a director of a company under the PRC Company Law.

MR. CHEN LIMIN (陳利民)

Mr, Chen, aged 47, is an independent non-executive Director. He joined our Board on 1 October 2009. He graduated from South West University of Political Science and Law in 1985. Mr. Chen is currently the senior partner of Beijing Zhong Lun Law Firm and is responsible for the listing of companies, merger and acquisition and corporate restructuring. Mr. Chen holds no directorship in any public listed companies in the past three years.

MR. HUANG RONGSHENG (黃容生)

Mr. Huang, aged 63, is an independent non-executive Director. He joined our Board since June 2007. He graduated from Tsinghua University in 1970. He has over 30 years' experience in the steel industry. Prior to his retirement in December 2006, he worked at Central Iron & Steel Research Institute (鋼鐵研究總院) since 2003. He served as vice general manager and vice president of Panzhihua Steel (Group) Company from 1993 to 2003.

SENIOR MANAGEMENT

MR. XIAN FAN (鮮帆)

Mr. Xian, aged 32, is our chief marketing officer. Mr. Xian graduated from Sichuan University (四川大學) in 1999 with a bachelor's degree. Prior to joining us in March 2004, Mr. Xian worked at the Chengdu branch of a mobile company for over four years. From April 2005 to June 2005, he was assistant to the manager of our management department and since July 2005, he has been deputy manager of our management department. Mr. Xian has served as a visiting professor at the Electronic Information Faculty of Sichuan University since 2006. Mr. Xian Fan is a brother of Mr. Xian Yang, our founder, chairman, president and executive Director and a cousin of Mr. Xian Qingping, a member of our senior management.

MR. XIAN QINGPING (鮮清平)

Mr. Xian, aged 35, is our general manager of operations. He is responsible for the management of our operations and sales. Prior to joining us in 2000, he worked at Panzhihua Medicines Group (攀枝花市藥業集團) for over five years. Mr. Xian Qingping is a cousin of Mr. Xian Yang, our founder, chairman, president and executive Director and a cousin of Mr. Xian Fan, a member of our senior management.

MR. ZHUANG XIANWEI (莊顯偉)

Mr. Zhuang, aged 39, is our general manager of coal mines. He is responsible for the management of our mining operations in Panzhihua. He is also a mining engineer. Prior to joining our Group in March 2002, Mr. Zhuang worked for the production technology division at Panzhihua Coal Group for over 10 years.

MR. MA BANGWEI (馬幫偉)

Mr. Ma, aged 45, is our general manager of the coal business. He is responsible for the coke production project in Guizhou province, and the management of the coal washing plants in Yunan and Guizhou provinces. He is a senior management consultant and senior economist. Prior to joining the Group in 2006, he worked in Panzhihua Coal Group and has accumulated over 20 years of technical work experience.

MR. XU WENFA (徐文發)

Mr. Xu, aged 44, is our general manager of safe production and environmental protection. He is responsible for the management of safe production and environmental protection. He obtained the title of assistant engineer in smelting in 1991. Prior to joining the Group in 2007, Mr. Xu worked for Pan Steel Group over 20 years as scheduling manager in the production department. From 1998 to 2006, due to his excellence in work, he was awarded the title of Excellent Member of the Communist Party of China and parade guard by the Panzihua Steel Group.

MR. ZHAN JUNJUN (詹軍軍)

Mr. Zhan, aged 44, is our chief executive in human resources. He graduated from Sichuan University with a postgraduate degree in business management and obtained the title of Senior Economist. Prior to joining the Company in 2007, Mr. Zhan has accumulated extensive experience in management of human resources.

MS. CHU LAI KUEN (朱麗娟)

Ms. Chu, aged 41, is our chief financial officer and company secretary. She is responsible for financial and accounting management of our Company. She is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Ms. Chu graduated from Hong Kong Polytechnic University with a bachelor's degree (Hons) in accountancy. Ms. Chu joined us in October 2008 and has over 16 years of working experience in auditing and financial management.

MR. GUO LIHUA (郭禮華)

Mr. Guo, aged 49, is our compliance manager. He is responsible for the compliance matters. He is a certified public accountant and a certified public valuer in the PRC. Mr. Guo graduated from Sichuan Normal College (四川師範學院) . Mr. Guo joined us in 2003 and has over 28 years of working experience in accounting and financial management.

COMPANY SECRETARY

MR. XU HUI (徐輝)

Mr. Xu, aged 30, is our secretary to the Board and general manager of Board office. He graduated from Peking University with a bachelor's degree in mathematics and joined the Group in 2005.

The Directors present their annual report and the audited consolidated financial statement for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income on page 44 of this report.

The Directors propose the payment of a final dividend of RMB10 cents (equivalent to approximately HK$11.38 cents) per share for the year ended 31 December 2009 to the shareholders whose names appear on the register of members of the Company at the close of business on 13 August 2010. The total amount of such dividend is approximately RMB206 million (equivalent to approximately HK$234 million). The proposed distribution of dividends will be considered and approved by the shareholders of the Company at the annual general meeting of the Company. The exchange rate adopted for conversion is the mid-point exchange rate published by the People's Bank of China on 6 April 2010, being the business day prior to the declaration of dividends.

PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment of the Group for the year ended 31 December 2009 amounted to approximately RMB2,068 million. Details of the movements during the year in the Group's property, plant and equipment are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 31 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Details of the movements during the year in the reserves of the Group are set out in the consolidated statement of changes in equity on page 47 of this report.

As at 31 December 2009, the Company's reserves available for distribution to shareholders amounted to approximately RMB3,997 million (2008: approximately RMB4,025 million).

PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2009 are set out in note 45 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 112.

BORROWINGS

Details of the borrowings of the Group are set out in note 30 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2009, sales to the Group's five largest customers amounted to approximately RMB1,205.6 million, representing 80.6% of the total turnover of the Group. Sales to the single largest customer amounted to approximately RMB513.0 million, representing 34.3% of the total turnover of the Group.

For the year ended 31 December 2009, the amount of purchases made from the Group's five largest suppliers amounted to approximately RMB150.1 million, representing 19.4% of the total purchases of the Group. Purchases from the single largest supplier amounted to approximately RMB53.7 million, representing 6.9% of the total purchases of the Group.

For the year ended 31 December 2009, none of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's top five largest customers or suppliers.

DIRECTORS

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

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Chi Hing
Mr. Chen Limin (appointed on 1 October 2009)
Mr. Huang Rongsheng
Mr. Wang Zhiguo (resigned on 1 September 2009)

Biographical details of the above Directors are set out in the section headed "Profile of Directors and Senior Management" on pages 19 to 22 of this report.

In accordance with the provisions of the Company's articles of association (the "Articles of Association"), one third of the Directors will retire from directorship by rotation at each annual general meeting and, being eligible, shall offer themselves for re-election. In accordance with the provisions of the Articles of Association, Mr. Chen Limin will retire from his office at the forthcoming annual general meeting and, being eligible, shall offer himself for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for an initial fixed term of three years commencing on 1 September 2007. Each of the independent non-executive Directors (other than Mr. Chen Limin) has entered into a service agreement with the Company for an initial fixed term of two years commencing on 1 September 2007. Mr. Chen Limin has entered into a letter of appointment with the Company for a term of two years commencing on 1 October 2009.

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

REMUNERATION OF THE DIRECTORS

Details of the remuneration of the Directors are set out in note 13 to the consolidated financial statements.

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES

As at 31 December 2009, the Directors and chief executive of the Company had the following interests and/or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (the "SFO")) which are required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in the Listing Rules, to be notified to the Company and the Stock Exchange:

Name	Name of the entity	Number of issued ordinary shares held	Nature of interest	Approximate percentage of the issued share capital of the Company/ percentage of shareholding
Mr. Xian Yang ("Mr. Xian") *(Note 1)*	The Company	1,097,631,000	Interest of controlled corporation	53.3%
Mr. Xian	Sanlian Investment Holding Limited ("Sanlian Investment")	1,000	Beneficial owner	100%
Mr. Sun Jiankun ("Mr. Sun") *(Note 2)*	The Company	15,380,000	Interest of controlled corporation	0.8%
Mr. Sun	Able Accord Enterprises Limited ("Able Accord")	1,000	Beneficial owner	100%
Mr. Wang Rong ("Mr. Wang") *(Note 3)*	The Company	15,380,000	Interest of controlled corporation	0.8%
Mr. Wang	Pavlova Investment Limited ("Pavlova Investment")	1,000	Beneficial owner	100%

Notes:

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

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

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

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2009, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, the following persons, other than the Directors and chief executive of the Company, had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Number of issued ordinary shares held	Nature of interest	Approximate percentage of the issued share capital of the Company
Sanlian Investment *(Note 1)*	1,097,631,000	Beneficial owner	53.3%
Mr. Xian *(Note 1)*	1,097,631,000	Interest of controlled corporation	53.3%
Ms. Qiao Qian *(Note 2)*	1,097,631,000	Interest of spouse	53.3%
Templeton Asset Management Limited	148,853,000	Beneficial owner	7.2%
JPMorgan Chase & Co.	103,042,702	Beneficial owner	5.0%

Notes:

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

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

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

MANAGEMENT CONTRACTS

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

CONTRACTS OF SIGNIFICANCE

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

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

No contracts of significance between the Company or any of its subsidiary companies and a controlling shareholder of the Company or may compete with the business of the Group.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

SHARE OPTIONS

The Company has adopted a share option scheme on 25 August 2007 (the "Share Option Scheme"). On 30 April 2009, 43,200,000 share options have been granted by the Company under the Share Option Scheme. The detailed disclosures relating to the Share Option Scheme and valuation of the share options are set out in note 42 to the consolidated financial statements.

Movements of the Company's share options under the Share Option Scheme during the year were as follows:

	Number of share options								
Name or category of participant	At 1 January 2009	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2009	Date of grant	Exercise period	Exercise price	Weighted average closing price per share immediately before the date of grant
								HK$	*HK$*
Directors									
Mr. Chan Chi Hing	—	40,000	—	—	40,000	30 April 2009	1 May 2010 to 24 August 2017	3.15	3.15
	—	40,000	—	—	40,000	30 April 2009	1 May 2011 to 24 August 2017	3.15	3.15
	—	20,000	—	—	20,000	30 April 2009	1 May 2012 to 24 August 2017	3.15	3.15
	—	100,000	—	—	100,000				
Mr. Huang Rongsheng	—	40,000	—	—	40,000	30 April 2009	1 May 2010 to 24 August 2017	3.15	3.15
	—	40,000	—	—	40,000	30 April 2009	1 May 2011 to 24 August 2017	3.15	3.15
	—	20,000	—	—	20,000	30 April 2009	1 May 2012 to 24 August 2017	3.15	3.15
	—	100,000	—	—	100,000				

	Number of share options								
Name or category of participant	**At 1 January 2009**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**At 31 December 2009**	**Date of grant**	**Exercise period**	**Exercise price**	**Weighted average closing price per share immediately before the date of grant**
								HK$	*HK$*
Directors *(continued)*									
Mr. Wang Zhiguo (resigned on 1 September 2009)	—	40,000	—	(40,000)	—	30 April 2009	1 May 2010 to 24 August 2017	3.15	3.15
	—	40,000	—	(40,000)	—	30 April 2009	1 May 2011 to 24 August 2017	3.15	3.15
	—	20,000	—	(20,000)	—	30 April 2009	1 May 2012 to 24 August 2017	3.15	3.15
	—	100,000	—	(100,000)	—				
Sub-total	—	300,000	—	(100,000)	200,000				
Other employees in aggregate	—	17,128,000	—	—	17,128,000	30 April 2009	1 May 2010 to 24 August 2017	3.15	3.15
	—	17,128,000	—	—	17,128,000	30 April 2009	1 May 2011 to 24 August 2017	3.15	3.15
	—	8,564,000	—	—	8,564,000	30 April 2009	1 May 2012 to 24 August 2017	3.15	3.15
Sub-total	—	42,820,000	—	—	42,820,000				

Name or category of participant	At 1 January 2009	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2009	Date of grant	Exercise period	Exercise price	Weighted average closing price per share immediately before the date of grant
	Number of share options								
								HK$	*HK$*
Other participants in aggregate	—	32,000			32,000	30 April 2009	1 May 2010 to 24 August 2017	3.15	3.15
	—	32,000			32,000	30 April 2009	1 May 2011 to 24 August 2017	3.15	3.15
	—	16,000			16,000	30 April 2009	1 May 2012 to 24 August 2017	3.15	3.15
Sub-total	—	80,000	—	—	80,000				
Total	—	43,200,000	—	(100,000)	43,100,000				

CONNECTED TRANSACTION

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

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

2. During the year, transportation costs of approximately RMB20.9 million and RMB4.6 million were paid to Panxian Panshi and Panxian Panying respectively, for the provision of railway logistic services under the framework agreement dated 14 July 2008 (the "Framework Agreement"). 雲南凱捷實業有限公司(Yunnan kaijie Industry Company Limited*) ("Yunnan Kaijie"), the holder of 57% and 51% equity interest in Panxian Panshi and Panxian Panying respectively, is a substantial shareholder of each of Panxin Coking and Panyi Coal Washing. As Panxian Panshi and Panxian Panying occupy a monopolistic position of the local railway logistic service in Boguozhen, no relevant market price can be obtained. The pricing basis of the railway logistic service under the Framework Agreement is determined with reference to the pricing offered to other customers by Panxian Panshi and Panxian Panying and the current pricing adopted under the agreement made between the former shareholders of Panxian Panshi, Panxian Panying, Panxin Coking and Panyi Coal Washing, an agreed price consisting of the reasonable cost incurred and a reasonable profit margin.

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

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

   The Board had received a letter from JP Union & Co., Certified Public Accountants, that confirmed that: (i) the payment of the transportation costs had been approved by the Board; (ii) the transaction had been entered into in accordance with the relevant agreement governing the transactions; and (iii) the transaction had not exceeded the cap disclosed in announcement dated 14 July 2008.

3. In September 2009, the Group entered into a capital contribution agreement with Citic Trust Company Limited ("Citic Trust") for the formation of a joint venture company in which Citic Trust agreed to inject RMB500 million as capital contribution for 49% equity interest. It was further agreed that the 49% equity interest will be repurchased by the Group with a premium of 9% per annum after twelve months from the date of the contribution injected. Accordingly, for the purpose of securing the payment of the repurchase consideration, the Group pledged the mining right of Xinda Coal Mine and the 51% equity interest of the joint venture company to Citic Trust. As at 31 December 2009, the amount of capital contribution injected by Citic Trust amounted to RMB250 million and was grouped under other borrowings due within one year in the consolidated financial statements.

SUBSEQUENT EVENT

On 19 January 2010, the Company issued the convertible bonds (the "Bonds"), which are RMB denominated and U.S. dollar settled, with an aggregate principal amount of RMB1,707 million. The convertible bonds carry interest at 1.5% per annum and will be due in 2015. The net proceeds from the issue of the Bonds, after deduction of commission and professional expenses, will be used for repayment of the Company's existing short-term indebtedness, plus accrued and unpaid interest and any other amounts payable in connection with such prepayment, and for expanding the Company's network of mines, production plants and facilities in South West China through general acquisitions, and to fund capital expenditure and general working capital of the mines of the Company.

AUDIT COMMITTEE

In compliance with Rule 3.21 of the Listing Rules and the Code on Corporate Governance Practice as set out in Appendix 14 to the Listing Rules ("Code"), the Company established an audit committee on 25 August 2007. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures.

The audit committee consisted of three independent non-executive Directors, namely, Mr. Chan Chi Hing (Chairman), Mr. Chen Limin (appointed on 1 October, 2009), Mr. Huang Rongsheng and Mr. Wang Zhiguo (resigned on 1 September, 2009).

The audit committee has reviewed, together with the management of the Company, the accounting principles, accounting standards and methods adopted by the Company, discussed the matters concerning internal control, auditing and financial reporting matters and has reviewed the consolidated financial statements of the Group for the year ended 31 December 2009.

PRE-EMPTIVE RIGHTS

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

MODEL CODE FOR SECURITIES TRANSATIONS BY DIRECTORS OF THE COMPANY

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the Directors. All Directors have confirmed their compliance with the required standards set out in the Model Code throughout the year ended 31 December 2009.

CORPORATE GOVERNANCE

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

Save as disclosed above, the Board is of the view that the Company has complied with the provisions of the Code during the year. No Director is aware of any information that reasonably reveals that there is any non-compliance with the Code by the Company during any time of the year.

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

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

SUFFICIENCY OF PUBLIC FLOAT

On the basis of publicly available information and to the best of the Directors' knowledge, information and belief, the Company has maintained sufficient public float throughout the year ended 31 December 2009.

AUDITORS

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

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from 16 to 20 August 2010, both days inclusive, during which period no transfer of shares will be registered.

In order to qualify for the proposed final dividend, all transfer instruments accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited at shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by shareholders of the Company for registration no later than 4:30 p.m. on 13 August 2010.

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

Panzhihua, the PRC
7 April 2010

* *for identification purpose only*

The Company is committed to maintain a high level of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the success of the Group and for safeguarding and maximizing interests of the shareholders of the Company (the "Shareholders"). The Company has complied with the provision of the Code during the year, except for the deviation from code provision A.2.1 under the Code.

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiry of all Directors, all Directors have confirmed their compliance with the required standards as set out in the Model Code throughout the year ended 31 December 2009.

BOARD OF DIRECTORS

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

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Chi Hing
Mr. Chen Limin (appointed on 1 October 2009)
Mr. Huang Rongsheng
Mr. Wang Zhiguo (resigned on 1 September 2009)

Since the resignation of Mr. Wang Zhiguo on 1 September 2009, no new independent non-executive director was appointed immediately to replace the vacancy. For the period from 1 September 2009 to 30 September 2009, the number of independent non-executive directors and the number of members of the audit committee of the Company fell below three and accordingly did not meet the minimum number requirement set out in Rule 3.10(1) and Rule 3.21 of the Listing Rules.

The brief biographical details of the Directors are set out in the section headed "Profile of Directors and Senior Management" on pages 19 to 22 of this report.

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

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

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

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

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

	Attendance of meetings
Executive Directors	
Mr. Xian Yang	12
Mr. Sun Jiankun	12
Mr. Wang Rong	12
Independent non-executive Directors	
Mr. Chan Chi Hing	12
Mr. Chen Limin (appointed on 1 October 2009)	2
Mr. Huang Rongsheng	12
Mr. Wang Zhiguo (resigned on 1 September 2009)	6

ROLE OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

APPOINTMENT AND RE-ELECTION OF THE DIRECTORS

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

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

REMUNERATION COMMITTEE

The remuneration committee (the "Remuneration Committee") was established on 25 August 2007 with written terms of reference in compliance with the Code. The Remuneration Committee consists of an executive Director, Mr. Xian Yang and all the independent non-executive Directors, namely, Mr. Chan Chi Hing, Mr. Huang Rongsheng and Mr. Chen Limin. Mr. Chen Limmin was appointed on 1 October 2009 to replace Mr. Wang Zhigou who resigned on 1 September 2009. Mr. Chan Chi Hing is the chairman of the Remuneration Committee. The role of the Remuneration Committee is to review and give recommendations to the Board regarding the remuneration package of the Directors and the senior management of the Company and other remuneration related matters.

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

The Company has adopted a share option scheme as an incentive to Directors and eligible employees. Details of the scheme is set out in note 42 to the consolidated financial statements.

During the year, three Remuneration Committee meetings were held to discuss and approve the annual salary review for 2009 for the Directors and the employees and the remuneration policy. Mr. Xian Yang and Mr. Chan Chi Hing attended all the meetings. Mr. Wang Zhiguo attended two meetings. Mr. Chen Limin attended none of the meetings.

NOMINATION COMMITTEE

The nomination committee ("Nomination Committee") consists of an executive Director, Mr. Xian Yang and all the independent non-executive Directors, namely, Mr. Chan Chi Hing, Mr. Huang Rongsheng and Mr. Chen Limin. Mr. Chen Limin was appointed on 1 October 2009 to replace Mr. Wang Zhigou who resigned on 1 September 2009. The Nomination Committee will consider the appointment of new Directors first by reviewing the profiles of the candidates and making recommendations to the Board. New Directors appointed by the Board during the year to fill a casual vacancy shall retire and submit themselves for re-election at the first general meeting immediately followed their appointment.

During the year, one Nomination Committee meeting was held to consider the appointment of Mr. Chen Limin as an independent non-executive Director. Mr. Xian Yang, Mr. Chan Chi Hing and Mr. Huang Rongsang attended the meeting.

AUDIT COMMITTEE

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

The Audit Committee consists of three independent non-executive Directors, namely, Mr. Chan Chi Hing (Chairman), Mr. Chen Limin and Mr. Huang Rongsheng. Mr. Chen Limin was appointed on 1 October, 2009 to replace Mr. Wang Zhiguo who resigned on 1 September 2009.

During the year, two meetings were held. Mr. Chan Chi Hing, Mr. Huang Rongsheng and Mr. Wang Zhiguo of the Audit Committee attended the meetings. The Audit Committee has reviewed together with the management the accounting principles, accounting standards and methods adopted by the Company, discussed the matters concerning internal control, auditing and financial reporting matters and has reviewed the consolidated financial statements of the Group for the year ended ended 31 December 2009.

AUDITORS' REMUNERATION

The external auditor of the Company is Deloitte Touche Tohmatsu. During the year ended 31 December 2009, the remuneration paid and payable to the auditors of the Company in respect of the audit services provided amounted to RMB2.85 million.

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

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENT

The Directors acknowledge their responsibility for preparing the consolidated financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Company deploys appropriate and sufficient resources to prepare audited account. Senior management is required to present and explain the financial reporting and matters that materially affect or may have material impact on the financial performance and operations of the Company to the Audit Committee and the Board and respond to the queries and concerns raised by the Audit Committee and the Board to their satisfaction. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance. The reporting responsibility of the external auditor of the Company on the consolidated financial statements of the Group are set out in the independent auditor's report on pages 42 to 43 of this report.

INTERNAL CONTROLS

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

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

Deloitte.
德勤

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

We have audited the consolidated financial statements of Hidili Industry International Development Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 44 to 111, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

AUDITOR'S RESPONSIBILITY *(Continued)*

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

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

OPINION

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
7 April 2010

Consolidated Statement of Comprehensive Income

For The Year Ended 31 December 2009

	NOTES	**2009** **RMB'000**	2008 RMB'000
Turnover	8	**1,495,396**	2,488,449
Cost of sales		**(624,126)**	(942,370)
Gross profit		**871,270**	1,546,079
Other income	9	**11,428**	30,395
Distribution expenses		**(153,849)**	(208,944)
Administrative expenses		**(233,142)**	(233,521)
Net gain (loss) on derivatives and held-for-trading investments		**19,003**	(36,423)
Finance costs	10	**(56,349)**	(32,398)
Profit before tax		**458,361**	1,065,188
Income tax expenses	12	**(56,382)**	(62,880)
Profit and total comprehensive income for the year	11	**401,979**	1,002,308
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**403,509**	1,003,350
Minority interests		**(1,530)**	(1,042)
		401,979	1,002,308
Earnings per share	15		
Basic *(RMB cents)*		**19.6**	48.7
Diluted *(RMB cents)*		**19.5**	N/A

	NOTES	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**7,968,805**	5,129,237
Prepaid lease payments	17	**31,062**	31,737
Deposits	18	**219,950**	—
Deposit paid for acquisition of land use rights		**25,274**	—
Deposit paid for acquisition of additional interests in a subsidiary		**36,000**	—
Intangible assets	19	**111,691**	119,591
Goodwill	36(b)	**11,065**	11,065
		8,403,847	5,291,630
CURRENT ASSETS			
Inventories	21	**144,704**	132,851
Bills and trade receivables	22(a)	**516,366**	686,158
Bills receivables discounted with recourse	22(b)	**241,019**	315,140
Other receivables and prepayments	23	**210,177**	103,136
Other loan receivables	24	**—**	—
Amounts due from related parties	25(a)	**83,755**	7,645
Held-for-trading investments	20	**48,641**	23,139
Pledged and restricted bank deposits	26	**577,883**	31,448
Bank balances and cash	26	**674,545**	694,820
		2,497,090	1,994,337
CURRENT LIABILITIES			
Bills and trade payables	27(a)	**131,875**	130,528
Advances drawn on bills receivables discounted with recourse	27(b)	**241,019**	315,140
Other payables and accrued expenses	28	**698,389**	697,878
Amount due to a related party	25(b)	**—**	2,200
Derivative financial instruments	29	**—**	1,873
Tax payables		**47,952**	51,086
Secured bank and other borrowings — due within one year	30	**2,467,084**	160,000
		3,586,319	1,358,705
NET CURRENT (LIABILITIES) ASSETS		**(1,089,229)**	635,632
		7,314,618	5,927,262

	NOTES	**2009** **RMB'000**	2008 RMB'000
CAPITAL AND RESERVES			
Share capital	31	**198,605**	198,605
Share premium and reserves	32	**6,079,391**	5,640,190
Equity attributable to owners of the Company		**6,277,996**	5,838,795
Minority interests		**145,087**	35,759
TOTAL EQUITY		**6,423,083**	5,874,554
NON-CURRENT LIABILITIES			
Provision for restoration and environmental costs	33	**9,329**	7,843
Deferred tax liabilities	35	**244,682**	44,865
Other long term payables	34	**142,524**	—
Secured bank and other borrowings — due after one year	30	**495,000**	—
		891,535	52,708
		7,314,618	5,927,262

The consolidated financial statements on pages 44 to 111 were approved and authorised for issue by the board of directors on 7 April 2010 and are signed on its behalf by:

Xian Yang
DIRECTOR

Sun Jiankun
DIRECTOR

Consolidated Statement of Changes in Equity

For The Year Ended 31 December 2009

	Attributable to owners of the Group									
	Share capital	Share premium	Special reserve	Statutory surplus reserve	Future development fund	Share options reserve	Retained profits	Total	Minority interests	Total
	RMB'000	*RMB'000*	*RMB'000* *(Note 32)*	*RMB'000* *(Note 32)*	*RMB'000* *(Note 32)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008	198,605	3,310,400	695,492	153,074	71,234	—	579,680	5,008,485	6,982	5,015,467
Profit and total comprehensive income for the year	—	—	—	—	—	—	1,003,350	1,003,350	(1,042)	1,002,308
Transfer	—	—	—	116,524	27,979	—	(144,503)	—	—	—
Capital contribution from minority shareholders of a subsidiary	—	—	—	—	—	—	—	—	300	300
Arising from acquisition of subsidiaries *(Note 36)*	—	—	—	—	—	—	—	—	29,519	29,519
Dividend *(Note 14)*	—	—	—	—	—	—	(173,040)	(173,040)	—	(173,040)
At 31 December 2008	198,605	3,310,400	695,492	269,598	99,213	—	1,265,487	5,838,795	35,759	5,874,554
Profit and total comprehensive income for the year	—	—	—	—	—	—	403,509	403,509	(1,530)	401,979
Transfer	—	—	—	46,371	52,798	—	(99,169)	—	—	—
Recognition of equity-settled share based payment expenses *(Note 42)*	—	—	—	—	—	35,692	—	35,692	—	35,692
Capital contribution from minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	55,355	55,355
Arising from acquisition of subsidiaries *(Note 36)*	—	—	—	—	—	—	—	—	67,503	67,503
An obligation to acquire the minority interest of a subsidiary	—	—	—	—	—	—	—	—	(12,000)	(12,000)
At 31 December 2009	198,605	3,310,400	695,492	315,969	152,011	35,692	1,569,827	6,277,996	145,087	6,423,083

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2009

	NOTE	2009 RMB'000	2008 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**458,361**	1,065,188
Adjustments for:			
Amortisation of prepaid lease payments		**675**	677
Amortisation of intangible assets		**7,900**	2,609
Interest income		**(8,119)**	(27,526)
Depreciation and amortisation of property, plant and equipment		**90,964**	76,937
Share-based payment expenses		**35,692**	—
Finance costs		**56,349**	32,398
Loss on disposal of property, plant and equipment		**206**	794
Impairment loss recognised on financial assets		**785**	2,867
Provision for restoration and environmental costs		**1,486**	1,727
Operating cash flows before movements in working capital		**644,299**	1,155,671
Increase in inventories		**(8,995)**	(67,201)
Decrease (increase) in bills and trade receivables		**163,644**	(413,618)
(Increase) decrease in other receivables and prepayments		**(94,480)**	34,012
Increase in amounts due from related parties		**(76,110)**	(7,645)
Increase in bills and trade payables		**1,347**	85,133
Increase (decrease) in other payables and accrued expenses		**30,533**	(304,141)
(Decrease) increase in amount due to a related party		**(2,200)**	1,200
Net decrease in derivative financial instruments		**(1,873)**	(46,108)
Net increase in held-for-trading investments		**(25,502)**	(23,139)
Net cash generated from operations		**630,663**	414,164
Income taxes paid		**(48,261)**	(10,888)
NET CASH FROM OPERATING ACTIVITIES		**582,402**	403,276

	NOTE	2009 RMB'000	2008 RMB'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(1,942,550)**	(1,890,605)
(Increase) decrease in pledged and restricted bank deposits		**(546,435)**	1,217,234
Deposits paid for acquisition of assets and land use right		**(245,224)**	—
Deposit paid for acquisition of additional interests in a subsidiary		**(36,000)**	—
Interest received		**8,119**	27,526
Proceeds from disposal of property, plant and equipment		**4,147**	1,584
Decrease in other loan receivable		**5,610**	—
Acquisition of subsidiaries	36	**(593,741)**	(123,736)
Purchase of intangible assets		**—**	(122,200)
NET CASH USED IN INVESTING ACTIVITIES		**(3,346,074)**	(890,197)
FINANCING ACTIVITIES			
New bank and other borrowings raised		**4,047,084**	550,000
Capital contribution from minority shareholders		**13,095**	300
Repayment of bank borrowings		**(1,260,000)**	(1,723,900)
Interest paid		**(56,782)**	(32,398)
Dividend paid		**—**	(173,040)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**2,743,397**	(1,379,038)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(20,275)**	(1,865,959)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**694,820**	2,560,779
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash		**674,545**	694,820

1. GENERAL

Hidili Industry International Development Limited 恒鼎實業國際發展有限公司 (the "Company") was incorporated in the Cayman Islands under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 1 September 2006. Its shares are listed on the Stock Exchange of Hong Kong Limited. The address of the registered office and principal place of business of the Company is Room 3702, 37th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong. In the opinion of the directors, the Company's parent company and ultimate holding company is Sanlian Investment Holding Limited, a company incorporated in the British Virgin Islands. The Company acts as investment holding company and its subsidiaries are engaged in mining and sale of coke, raw coal and clean coal and provision of transportation services.

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing these consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that as of 31 December 2009, the Group's current liabilities exceeded its current assets by RMB1,089,229,000. The directors are of the opinion that, taking into consideration of the internally generated funds of the Group, the presently available banking facilities and the issue of convertible bonds with the principal amount of approximately RMB1,707 million on 19 January 2010 (details of which are set out in note 41), the Group has sufficient working capital for its present requirements for the next twelve months from the end of the reporting period. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised IFRSs") issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB.

International Accounting Standard ("IAS") 1 (Revised 2007)	Presentation of Financial Statements
IAS 23 (Revised 2007)	Borrowing Costs
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
International Financial Reporting Standard ("IFRS") 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2 (Amendment)	Vesting Conditions and Cancellations
IFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
IFRS 8	Operating Segments
IFRIC 9 and IAS 39 (Amendments)	Embedded Derivatives
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 18	Transfers of Assets from Customers
IFRSs (Amendments)	Improvements to IFRSs issued in 2008, except for the amendment to IFRS 5 that is effective for annual periods beginning or after 1 July 2009
IFRSs (Amendments)	Improvements to IFRSs issued in 2009 in relation to the amendment to paragraph 80 of IAS 39

Except as described below, the adoption of the new and revised IFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

ADOPTION OF NEW AND REVISED IFRSs AFFECTING PRESENTATION AND DISCLOSURE ONLY

IAS 1 (Revised 2007) Presentation of Financial Statements

IAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

ADOPTION OF NEW AND REVISED IFRSs AFFECTING PRESENTATION AND DISCLOSURE ONLY *(Continued)*

IFRS 8 Operating Segments

IFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segments (See Note 8), nor has the adoption of IFRS 8 changed the basis of measurement of segment profit or loss.

The Group early adopted amendment to IFRS 8 as part of the Improvements to IFRSs issued in 2009. The amendment clarifies that an entity shall report a measure of total assets for each reportable segment if such amount is regularly provided to the chief operating decision maker.

IMPROVING DISCLOSURES ABOUT FINANCIAL INSTRUMENTS (Amendments to IFRS 7 Financial Instruments: Disclosures)

The amendments to IFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

NEW AND REVISED IFRSs AFFECTING THE REPORTED RESULTS AND FINANCIAL POSITION

IAS 23 (Revised 2007) Borrowing Costs

In previous years, the Group expensed all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. IAS 23 (Revised 2007) removes the option previously available to expense all borrowing costs when incurred. The adoption of IAS 23 (Revised 2007) has resulted in the Group changing its accounting policy to capitalise all such borrowing costs as part of the cost of the qualifying asset. The Group has applied the revised accounting policy to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009 in accordance with the transitional provisions in IAS 23 (Revised 2007). As the revised accounting policy has been applied prospectively from 1 January 2009, this change in accounting policy has not resulted in restatement of amounts reported in respect of prior accounting periods.

In the current year, borrowing costs of RMB9,040,000 were capitalised as part of the cost of mining structures and mining rights. Profit for the year ended 31 December 2009 has therefore been increased by RMB9,040,000.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

NEW AND REVISED IFRSs AFFECTING THE REPORTED RESULTS AND FINANCIAL POSITION *(Continued)*

Standards, amendments or interpretations issued but are not yet effective

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

IFRSs (Amendments)	Amendment to IFRS 5 as part of Improvements to IFRSs 2008[1]
IFRSs (Amendments)	Improvements to IFRSs April 2009 except for amendment to HKFRS 8[2]
IAS 24 (Revised)	Related Party Disclosures[6]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
IAS 32 (Amendment)	Classification of Rights Issues[4]
IAS 39 (Amendment)	Eligible Hedged Items[1]
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[5]
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
IFRS 3 (Revised)	Business Combinations[1]
IFRS 9	Financial Instruments[7]
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
IFRIC 17	Distributions of Non-cash Assets to Owners[1]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009.

2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

3 Effective for annual periods beginning on or after 1 January 2010.

4 Effective for annual periods beginning on or after 1 February 2010.

5 Effective for annual periods beginning on or after 1 July 2010.

6 Effective for annual periods beginning on or after 1 January 2011.

7 Effective for annual periods beginning on or after 1 January 2013.

The application of IFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. IAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

IFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of the Group's financial assets.

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

BASIS OF CONSOLIDATION

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BASIS OF CONSOLIDATION *(Continued)*

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

BUSINESS COMBINATIONS

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

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

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

GOODWILL

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position as an intangible asset.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

REVENUE RECOGNITION

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

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

Interest income from a financial asset (excluding financial assets at fair value through profit or loss) is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress and the mining structures and mining rights, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

LEASING

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

PREPAID LEASE PAYMENTS

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

FOREIGN CURRENCIES

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale for which the commencement date for capitalisation is on or after 1 January 2009, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

RETIREMENT BENEFITS COSTS

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

TAXATION

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

TAXATION *(Continued)*

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

INTANGIBLE ASSETS

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

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

INVENTORIES

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

PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS

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

Financial assets

The Group's financial assets are classified as financial asset at fair value through profit or loss ("FVTPL") or loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

Financial assets at FVTPL

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

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

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

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasured recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

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

Impairment of financial assets

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

For the financial assets, objective evidence of impairment could include:

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

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

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

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

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

Financial liabilities and equity

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities and equity *(Continued)*

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Equity instruments

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

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. If the group retains substantially all the risks and rewards of ownership of a transferred asset, the group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

IMPAIRMENT LOSSES ON TANGIBLE AND INTANGIBLE ASSETS

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

Share options granted to employees after 1st April, 2005

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in share options reserve.

Share options granted to consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received. The fair values of the goods and services received are recognised as expenses, with a corresponding increase in equity (share option reserve), when the Group obtains the goods or services or when the counterparties render services, unless the goods or services qualify for recognition as assets.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 4, management makes various estimates and judgements (other than those involving estimates) based on past experience, expectations of the future and other information. The key source of estimation uncertainty that can significantly affect the amounts recognised in the consolidated financial statements is disclosed below.

DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

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

RESERVE ESTIMATES

As explained in note 4, mining rights are amortised using the units of production method based on the total proven reserves of the useful lives of the coal mines and mining structures are amortised using the units of production method based on the estimated production volume for which the structure was designed and over the total proven reserves of the coal mines.

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

PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

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

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

Impairment loss for trade receivables, other receivables and prepayments and other loan receivables of RMB785,000 (2008: RMB2,867,000) has been recognised during the year.

6. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which included bank borrowings disclosed in note 30, cash and cash equivalents and equity attributable to owners of the company, comprised share capital and reserves, as disclosed in notes 31 and 32, respectively.

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

7. FINANCIAL INSTRUMENTS

7A. CATEGORIES OF FINANCIAL INSTRUMENTS

	2009 *RMB'000*	2008 *RMB'000*
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	**2,113,006**	1,753,612
FVTPL		
Held-for-trading investments	**48,641**	23,139
Financial liabilities		
Amortised cost	**3,995,395**	1,154,016
FVTPL		
Derivative financial instruments	**—**	1,873

7. FINANCIAL INSTRUMENTS (Continued)

7B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Market risk

(i) Currency risk

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

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

	Liabilities		**Assets**	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
United States Dollars ("US$")	**887,084**	—	**72,345**	62,358
Hong Kong Dollars ("HK$")	**6,839**	—	**581**	284

In current year, the Group has not entered any derivative financial instruments to minimise the currency risk due to the fluctuated economic market. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The carrying amount of foreign exchange forward contract as at year end amounted to nil (2008: RMB1,873,000). In 2008, the foreign currency forward contract was classified as current liabilities, in which the Group was in the position of selling US$ with aggregate notional amount of US$49,400,000.

7. FINANCIAL INSTRUMENTS *(Continued)*

7B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis

Non-derivative financial instruments

The Group is mainly exposed to the fluctuation of HK$ and US$ against RMB.

The following table details the Group's sensitivity to a 5% (2008: 5%) increase and decrease in RMB against the relevant foreign currency. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes bank balances and bank borrowings denominated in US$ and HK$. A positive number below indicates an increase in post-tax profit where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	2009	2008
	RMB'000	*RMB'000*
Profit for the year		
— US$	**30,553**	(2,338)
— HK$	**235**	(11)

7. FINANCIAL INSTRUMENTS *(Continued)*

7B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Market risk *(Continued)*

(ii) Interest rate risk

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

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

Sensitivity analysis

No sensitivity analysis is prepared on the exposure to interest rate risk for bank balances and variable-rate bank borrowings as at 31 December 2008 as the effect on the Group's profit for both years would be insignificant.

(iii) Other price risk

The Group is exposed to equity price risk arising from held-for-trading investments. Management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on listed equity instruments listed in the PRC. In addition, the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyse below has been determined based on the exposure to equity price risks assuming all other variables were held constant, at the end of the reporting period.

If the prices of the respective equity investments had been 5% higher/lower, the Group's post-tax profit for the year ended 31 December 2009 would increase/decrease by RMB1,824,000 (2008: RMB868,000) as a result of the changes in fair value of held-for-trading investments.

7. FINANCIAL INSTRUMENTS (Continued)

7B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

As at 31 December 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

The Group's concentration of credit risk by geographical is mainly in the PRC, which accounted for all of the trade receivables as at 31 December 2009.

The Group is exposed to concentration of credit risk on trade receivables. At 31 December 2009, the five largest debtors accounted for approximately 91% (2008: 84%) of the Group's total trade receivables.

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

Liquidity risk

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

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2009, the Group has bank and other borrowings of approximately RMB2,962 million (2008: RMB160 million).

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

7. FINANCIAL INSTRUMENTS (Continued)

7B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk *(Continued)*

2009

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	Over 1 year	Total undis-counted cash flows	Carrying amount at 31.12.2009
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-derivative financial liabilities							
Bills and trade payables	—	26,604	27,141	78,130	—	131,875	131,875
Advances drawn on bills receivables discounted with recourse	1.89	107,678	87,686	46,364	—	241,728	241,019
Other payables	—	23,764	51,608	411,426	—	486,798	486,798
Other payable - consideration payable for mining right	5.31	—	—	40,314	150,092	190,406	173,619
Bank borrowings — Fixed-rate	5.69	—	929,219	1,706,407	523,166	3,158,792	2,962,084
		158,046	1,095,654	2,282,641	673,258	4,209,599	3,995,395

7. FINANCIAL INSTRUMENTS (Continued)

7B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk *(Continued)*

2008

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	Total undis-counted cash flows	Carrying amount at 31.12.2008
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-derivative financial liabilities						
Bills and trade payables	—	86,395	44,133	—	130,528	130,528
Advances drawn on bills receivables discounted with recourse	2.64	115,627	97,166	104,258	317,051	315,140
Other payables	—	15,012	17,454	513,682	546,148	546,148
Amount due to a related party	—	2,200	—	—	2,200	2,200
Bank borrowings						
— Fixed-rate	8.22	—	—	10,480	10,480	10,000
— Variable-rate	6.83	—	—	155,122	155,122	150,000
		219,234	158,753	783,542	1,161,529	1,154,016
Derivative financial liability — net settlement						
Foreign currency forward contract		—	1,873	—	1,873	1,873

7C. FAIR VALUE

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

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

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

- the fair value of derivative instruments is calculated using quoted prices or quoted prices from financial institutions for equivalent instruments.

7. FINANCIAL INSTRUMENTS (Continued)

7C. FAIR VALUE (Continued)

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

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from 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).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31.12.2009			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets at FVTPL				
Held for trading investments	48,641	—	—	48,641

There were no transfers between Level 1 and Level 2 in the current year.

8. REVENUE AND SEGMENT INFORMATION

The Group has adopted IFRS 8 "Operating Segments" with effect from 1 January 2009. IFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (IAS 14, "Segment Reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of IFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with IAS 14. Nor has the adoption of IFRS 8 changed the basis of measurement of segment profit or loss.

8. REVENUE AND SEGMENT INFORMATION (Continued)

Information reported to the chief operating decision makers (i.e. the executive directors) for the purposes of resource allocation and performance assessment focuses on the Group's business operations.

The Group's operating segments under IFRS 8 are comprised of: (i) coal mining; (ii) coking; (iii) others.

Principal activities are as follows:

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

Segments revenues and results

The following is an analysis of the Group's revenue and results by reportable segment:

	For the year ended 31 December 2009				
	Coal mining	**Coking**	**Others**	**Inter-segment eliminations**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE					
External	**614,522**	**871,702**	**9,172**	**—**	**1,495,396**
Inter-segment	**636,382**	**—**	**—**	**(636,382)**	**—**
Total	**1,250,904**	**871,702**	**9,172**	**(636,382)**	**1,495,396**

Inter-segment transactions were carried out at a margin of 41%.

RESULTS					
Segment profit	**256,483**	**458,683**	**2,255**	**—**	**717,421**
Other income					**11,428**
Administrative expenses					**(233,142)**
Net gain on derivatives and held-for-trading investments					**19,003**
Finance costs					**(56,349)**
Profit before tax					**458,361**

8. REVENUE AND SEGMENT INFORMATION (Continued)

Segments revenues and results (Continued)

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

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

RESULTS					
Segment profit	627,715	708,425	995	—	1,337,135
Other income					30,395
Administrative expenses					(233,521)
Net loss on derivatives and held-for-trading investments					(36,423)
Finance costs					(32,398)
Profit before tax					1,065,188

Segment profit represents profit incurred by each segment without allocation of other income, administrative expenses, finance costs and net gain (loss) on derivatives and held-for-trading investments. This is the measure reported to the chief operating decision makers (i.e. the executive directors) for the purpose of resource allocation and assessment of segment performance.

SEGMENT ASSETS AND LIABILITIES

No segment assets and liabilities are presented as they are not regularly reviewed by the chief operating decision makers. (i.e. the executive directors)

8. REVENUE AND SEGMENT INFORMATION *(Continued)*

OTHER SEGMENT INFORMATION

	For the year ended 31 December 2009					
	Coal mining	**Coking**	**Others**	**Segment total**	**Adjustments**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(Note)*	*RMB'000*
Amounts included in the measure of segment profit or loss						
Impairment loss on financial assets	**785**	**—**	**—**	**785**	**—**	**785**
Depreciation and amortisation	**65,317**	**21,733**	**—**	**87,050**	**12,489**	**99,539**
Provision for restoration and environmental costs	**1,486**	**—**	**—**	**1,486**	**—**	**1,486**

	For the year ended 31 December 2008					
	Coal mining	**Coking**	**Others**	**Segment total**	**Adjustments**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(Note)*	*RMB'000*
Amounts included in the measure of segment profit or loss						
Impairment loss on financial assets	1,919	—	—	1,919	948	2,867
Depreciation and amortisation	52,065	14,317	3,502	69,884	10,339	80,223
Provision for restoration and environmental costs	1,727	—	—	1,727	—	1,727

Note: The reconciling item to adjust expenditures incurred for the corporate headquarters, which is not included in segment information.

GEOGRAPHICAL INFORMATION

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

8. REVENUE AND SEGMENT INFORMATION *(Continued)*

INFORMATION ABOUT MAJOR CUSTOMERS

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2009 **RMB'000**	2008 *RMB'000*
Customer A	**594,262**	766,202
Customer B	**309,986**	785,498
Customer C	**153,793**	—[1]
Customer D	**—[1]**	333,656

The revenue from the above customers are from coking and coal mining segment.

[1] The corresponding revenue did not contribute over 10% of the total sales of the Group.

9. OTHER INCOME

	2009 **RMB'000**	2008 *RMB'000*
Bank interest income	**8,119**	27,526
Dividend income from held-for-trading investments	**660**	—
Others	**2,649**	2,869
	11,428	30,395

10. FINANCE COSTS

	2009 **RMB'000**	2008 *RMB'000*
Interest expenses on borrowings wholly repayable within five years:		
— bank borrowings	**24,566**	31,488
— advances drawn on bills receivable discounted	**40,823**	910
	65,389	32,398
Less: Interest capitalised in mining structure and mining rights *(note 16)*	**(9,040)**	—
	56,349	32,398

11. PROFIT FOR THE YEAR

	2009 RMB'000	2008 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration *(Note 13)*	**1,346**	1,598
Other staff costs	**240,877**	216,969
Retirement benefits scheme contributions	**7,975**	888
Total staff costs	**250,198**	219,455
Impairment loss (reversal of impairment loss) recognised on		
— trade receivables	**6,148**	1,915
— other receivables and prepayments	**247**	952
— other loan receivables	**(5,610)**	—
Impairment loss recognised on financial assets	**785**	2,867
Auditors' remuneration	**2,850**	2,380
Amortisation of prepaid lease payments	**675**	677
Amortisation of intangible assets (of which the RMB3,800,000 (2008: RMB1,584,000) included in distribution expenses and RMB4,100,000 (2008: RMB1,025,000) included in cost of sales)	**7,900**	2,609
Provision for restoration and environmental costs *(Note 33)*	**1,486**	1,727
Depreciation and amortisation of property, plant and equipment	**90,964**	76,937
Loss on disposal of property, plant and equipment	**206**	794
Cost of inventories recognised as an expense	**624,126**	942,370
Net exchange loss (included in administrative expenses)	**853**	69,345

12. INCOME TAX EXPENSES

	2009 RMB'000	2008 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	**50,072**	44,970
Overprovision in prior years	**(4,945)**	(15,890)
	45,127	29,080
Deferred tax *(Note 35)*	**11,255**	33,800
	56,382	62,880

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

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

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

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

	2009 RMB'000	2008 RMB'000
Profit before tax	**458,361**	1,065,188
Tax at applicable tax rate of 25% (2008: 25%)	**114,590**	266,297
Tax effect of tax exemption	**(36,956)**	(271,088)
Tax effect of concessionary tax rate granted	**(51,650)**	—
Tax effect of income not taxable for tax purpose	**(2,588)**	(32,868)
Tax effect of expenses not deductible for tax purpose	**21,737**	76,403
Tax effect of undistributed profit of subsidiaries in the PRC	**12,268**	33,800
Tax effect of tax losses not recognised	**3,926**	6,226
Overprovision in prior years	**(4,945)**	(15,890)
Income tax expense for the year	**56,382**	62,880

12. INCOME TAX EXPENSES (Continued)

The provision for EIT is based on a statutory rate of 25% (2008: 25%) of the assessable profit of the group entities as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain PRC subsidiaries of the Company which are exempted from EIT in accordance with the approval from the respective tax bureau.

Pursuant to the "Application of preferential tax treatment for Foreign Investment Enterprise", Panzhihua City Hidili Coal Company Limited ("Hidili Coal"), Panzhihua City Tiandaoqin Industry & Trading Company Limited ("Tiandaoqin"), Panzhihua Yanjiang Industrial Company Limited ("Yanjiang"), Panzhihua City Tianchou Industry & Trading Company Limited ("Tianchou") and Panzhihua Yangfan Industry & Trading Company Limited ("Yangfan") were entitled to 2 years exemption from State EIT from 2007 to 2008 and a 50% deduction of State EIT from three years from 2009 to 2011. Therefore, the applicable tax rate of Hidili Coal and Tianchou for 2009 in 12.5% (2008: Nil).

For Tiandaoqin, Yangfan and Yanjiang, they were also entitled to the tax incentives in connection with the development of the western part of the PRC. The applicable tax rate for 2009 is 7.5% (2008: Nil).

Sichuan Hidili Industry Company Limited ("Sichuan Hidili") was also entitled to enjoy tax exemption in 2008 under the "Application of preferential tax treatment for Foreign Investment Enterprise" with 2 years exemption from State EIT from 2007 to 2008 and a 50% deduction of State EIT from three years from 2009 to 2011. For the year ended 31 December 2008, in accordance with the applicable tax rule, Sichuan Hidili did not enjoy the tax exemption as its trading turnover exceeded 50% of the total turnover. For the year ended 31 December 2009, Sichuan Hidili was entitled to the incentives in connection with the development of the western part of the PRC. The applicable tax rate for 2009 is 7.5% (2008: 25%).

Panzhihua City Sanlian Transportation Company Limited ("Sanlian Transportation") was entitled to the tax incentives in connection with the development of the western part of the PRC. According to the official approval issued by State Administration of Taxation of Sichuan Province, Sanlian Transportation is entitled to the policy of 2 year's exemption and 3 year's deduction from 2005 to 2009. The applicable tax rate for 2009 is 12.5% (2008: 12.5%).

According to the Taxpayer Exemption Application Form (納稅人減免稅申請審批表, "EIT Exemption Form") issued by the local tax bureau on 4 July 2007, Liupanshui Hidili Industry Company Limited ("Liupanshui Hidili") was entitled to a 2 years exemption from EIT from 2008 to 2009 and a 50% deduction of EIT for three years from 2010 to 2012. Liupanshui Hidili was incorporated on 31 August 2006 as a domestic enterprise and had applied for a transformation from domestic enterprise to sino-foreign enterprise since March 2007. The application of its transformation was approved by the PRC local authority in May 2007. Therefore, it was subject to tax exemption in 2009 and 2008.

The Tax Law of the PRC requires withholding tax upon distribution of profits earned by the PRC subsidiaries since 1 January 2008. Deferred tax of approximately RMB46,068,000 (2008: RMB33,800,000) has been provided for in the consolidated financial statements in respect of the temporary differences attributable to such profits.

13. DIRECTORS' EMOLUMENTS AND EMPLOYEE'S EMOLUMENTS

The emoluments paid or payable to each of the 7 (2008: 7) directors were as follows:

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

	2009	2008
	RMB'000	*RMB'000*
Directors:		
Fees	**600**	600
Basic salaries and allowances	**537**	960
Retirement benefit scheme contributions	**43**	38
Share-based payment expenses	**166**	—
	1,346	1,598

For the year ended 31 December 2009

	Executive directors				Independent non-executive director			
	Xian Yang	Wang Rong	Sun Jiankun	Chan Chi Hing	Wang Zhique	Chen Limin	Huang Rongsheng	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(note 1)*	*RMB'000* *(note 2)*	*RMB'000*	*RMB'000*
Directors' fee	—	—	—	200	150	50	200	600
Basic salaries and allowances	205	166	166	—	—	—	—	537
Retirement benefit scheme contribution	21	21	1	—	—	—	—	43
Share-based payment expense	—	—	—	83	—	—	83	166
	226	187	167	283	150	50	283	1,346

Notes:

1. Mr. Wang Zhique resigned as independent non-executive director on 1 September 2009.

2. Mr. Chen Limin was appointed as independent non-executive director on 1 October 2009.

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

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

For the year ended 31 December 2008

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

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

No directors waived any emoluments during each of the two years ended 31 December 2008 and 31 December 2009.

(B) FIVE HIGHEST EMPLOYEES' EMOLUMENTS

During the year, the five highest paid individuals included Nil (2008: four) directors of the Company, details of whose emoluments are included in the disclosures set out above. The emoluments of the remaining individual, which are individually within the band HK$1,000,001 to HK$1,500,000 (2008: below HKD1,000,000), were as follows:

	2009	2008
	RMB'000	*RMB'000*
Basic salaries and allowances	**664**	301
Retirement benefit scheme contributions	**104**	19
Share-based payment expenses	**5,424**	—
	6,192	320

14. DIVIDENDS

	2009	2008
	RMB'000	*RMB'000*
Dividends, paid recognised as distribution during 2008:		
Final for 2007, paid - RMB8.4 cents per share	**—**	173,040

No dividend was paid during 2009, dividend of RMB10 cents per share to all shareholders of the Company has been proposed by the Board in the Group's annual results announcement for the year ended 31 December 2009 dated on 7 April 2010 (2008: Nil).

15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2009	2008
	RMB'000	*RMB'000*
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**403,509**	1,003,350
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,060,000**	2,060,000
Effect of dilutive potential ordinary shares:		
Options	**12,092**	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,072,092**	2,060,000

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

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Mining structures and Mining rights	Machinery	Motor vehicles	Office and electronic equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST							
At 1 January 2008	215,249	2,045,401	202,963	38,436	5,947	257,828	2,765,824
Additions	26,820	1,992,221	90,924	13,434	5,942	299,005	2,428,346
Acquired on acquisition of subsidiaries	50,104	—	90,956	2,345	1,125	2,855	147,385
Transfer	32,236	137,647	7,643	—	292	(177,818)	—
Disposals	(653)	—	(667)	(945)	—	(737)	(3,002)
At 31 December 2008	323,756	4,175,269	391,819	53,270	13,306	381,133	5,338,553
Additions	13,113	1,396,458	117,076	15,697	4,731	521,390	2,068,465
Acquired on acquisition of subsidiaries	11,767	765,687	44,660	—	3,232	41,074	866,420
Transfer	27,978	8,109	228	—	—	(36,315)	—
Disposals	(2,001)	—	(170)	(2,485)	(71)	(1,534)	(6,261)
At 31 December 2009	374,613	6,345,523	553,613	66,482	21,198	905,748	8,267,177

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings	Mining structures and Mining rights	Machinery	Motor vehicles	Office and electronic equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
DEPRECIATION AND AMORTISATION							
At 1 January 2008	11,953	81,374	28,698	9,537	1,441	—	133,003
Provided for the year	8,468	40,311	18,618	7,974	1,566	—	76,937
Eliminated on disposals	(23)	—	(100)	(501)	—	—	(624)
At 31 December 2008	20,398	121,685	47,216	17,010	3,007	—	209,316
Provided for the year	10,020	38,915	30,275	9,795	1,959	—	90,964
Eliminated on disposals	(6)	—	(54)	(1,813)	(35)	—	(1,908)
At 31 December 2009	30,412	160,600	77,437	24,992	4,931	—	298,372
NET BOOK VALUES							
At 31 December 2009	344,201	6,184,923	476,176	41,490	16,267	905,748	7,968,805
At 31 December 2008	303,358	4,053,584	344,603	36,260	10,299	381,133	5,129,237

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

Buildings	Over the shorter of the terms of the relevant lease or 15 to 35 years
Machinery	5 to 15 years
Motor vehicles, office and electronic equipment	5 to 10 years

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

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

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

At 31 December 2009, the legal titles of the mining rights with carrying values of approximately RMB4,030,555,000 (2008: RMB2,363,748,000), have not been granted by the relevant government authorities and the relevant title transfers are still under application. In the opinion of the director, taking into account of the PRC lawyer's legal opinion, all the risks and rewards of ownership of mining rights have been transferred to the Group.

Included in mining structures and mining rights is interest capitalised of RMB9,040,000 (2008: Nil).

17. PREPAID LEASE PAYMENTS

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

	2009 ***RMB'000***	2008 *RMB'000*
Current assets included in other receivables and prepayments	**675**	677
Non-current asset	**31,062**	31,737
	31,737	32,414

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

18. DEPOSITS

As at 31 December 2009, the deposit of RMB99,950,000 (2008: Nil) was paid for acquisition of mines in the PRC. Up to the date of this report, the Group is still negotiating with the mine owners to agree the final amount of consideration.

In addition, as at 31 December 2009, the Group entered into a memorandum of understanding with an independent third party and a deposit of RMB120,000,000 (2008: Nil) was paid for acquisition of the transportation rights and 20% equity interests in a company engaged in clean coal washing. Up to the date of this report, the Group is still negotiating with the independent third party to agree the final amount of consideration.

19. INTANGIBLE ASSETS

	Transportation rights *RMB'000* *(Note a)*	Exploration right *RMB'000* *(Note b)*	Total *RMB'000*
COST			
At 1 January 2008	—	—	—
Additions	114,000	8,200	122,200
At 31 December 2008 and 31 December 2009	114,000	8,200	122,200
AMORTISATION			
At 1 January 2008	—	—	—
Charge for the year	1,584	1,025	2,609
At 31 December 2009	1,584	1,025	2,609
Charge for the year	3,800	4,100	7,900
At 31 December 2009	5,384	5,125	10,509
CARRYING VALUES			
At 31 December 2009	108,616	3,075	111,691
At 31 December 2008	112,416	7,175	119,591

Notes:

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

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

20. HELD-FOR-TRADING INVESTMENTS

	2009 RMB'000	2008 RMB'000
Held-for-trading investments include:		
Listed securities		
— Equity securities listed in the PRC, at market value	**48,641**	23,139

21. INVENTORIES

	2009 RMB'000	2008 RMB'000
Coke	**26,939**	11,354
Coal products	**43,137**	63,983
Alloy pig iron	**10,784**	11,614
Auxiliary materials and spare parts	**63,844**	45,900
	144,704	132,851

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

(A) BILLS AND TRADE RECEIVABLES

	2009 RMB'000	2008 RMB'000
Trade receivables	**397,047**	261,758
Less: allowance for doubtful debts	**(8,838)**	(2,690)
	388,209	259,068
Bills receivables	**128,157**	427,090
	516,366	686,158

22. BILLS AND TRADE RECEIVABLES AND BILLS RECEIVABLES DISCOUNTED WITH RECOURSE *(Continued)*

(A) BILLS AND TRADE RECEIVABLES *(Continued)*

The Group generally allows an average credit period ranging from 90-120 days to its trade customers and the average credit period for bills receivables is ranging from 90-180 days. The aged analysis of trade receivables and bills receivables, net of allowances presented based on the invoice date at the end of the reporting period, is as follows:

	2009	2008
	RMB'000	*RMB'000*
Aged:		
0 - 90 days	**482,559**	605,236
91 - 120 days	**14,560**	56,255
121 - 180 days	**14,337**	16,415
181 - 365 days	**4,910**	8,252
	516,366	686,158

Before accepting any new customer, the Group will assess credit worthiness by customer. As the customers are mostly the renowned steel manufacturer, therefore based on the past history, the eventual collectibility of the receivables not neither past due nor impaired is expected.

Included in the Group's bills and trade receivables balance as at 31 December 2009 are debtors aged over 120 days with a carrying amount of RMB19,247,000 (2008: RMB24,667,000) which are past due at the reporting date for which the Group has not recognised impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable as there are continuing settlement. The Group does not hold any collateral over these balances.

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

Movement in allowance for doubtful debts

	2009	2008
	RMB'000	*RMB'000*
Trade receivables		
Balance at beginning of the year	**2,690**	3,460
Impairment loss recognised on receivables	**6,148**	1,915
Amounts written off as uncollectible	**—**	(2,685)
Balance at end of the year	**8,838**	2,690

22. BILLS AND TRADE RECEIVABLES AND BILLS RECEIVABLES DISCOUNTED WITH RECOURSE *(Continued)*

(B) BILLS RECEIVABLES DISCOUNTED WITH FULL RECOURSE

The Group generally allows an average credit period ranging from 90 - 180 days to its customers. The aged analysis of bills receivables discounted with full recourse are as follows:

	2009 RMB'000	2008 RMB'000
Aged:		
0–90 days	**162,749**	315,140
91–120 days	**78,270**	—
	241,019	315,140

23. OTHER RECEIVABLES AND PREPAYMENTS

	2009 RMB'000	2008 RMB'000
Advance to suppliers	**50,133**	32,669
Prepayment of mining expenses	**18,502**	12,201
Prepayments	**25,970**	4,594
Transportation charges paid on behalf of customers	**21,438**	17,169
Staff advances	**15,570**	2,844
Deposits paid	**19,438**	18,401
Others	**59,126**	15,258
	210,177	103,136

24. OTHER LOAN RECEIVABLE

	2009 RMB'000	2008 RMB'000
Loan receivables from:		
— Entities *(note i)*	**—**	5,560
— Individuals *(note ii)*	**—**	550
	—	6,110
Less: Impairment loss recognised	**—**	(6,110)
	—	—

24. OTHER LOAN RECEIVABLE *(Continued)*

Movement in impairment loss recognised

	2009 **RMB'000**	2008 RMB'000
Balance as at beginning of the year	**6,110**	9,453
Amounts written off as uncollectible	**(500)**	(3,343)
Amounts recovered during the year	**(5,610)**	—
Balance at end of the year	**—**	6,110

Notes:

(i) The balances represented the loans advanced to certain entities which were registered in the PRC. The balances were unsecured, interest free and repayable on demand.

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

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

During the year ended 31 December 2009, the above balances were recovered and the provision were reversed accordingly.

25. AMOUNTS DUE FROM (TO) RELATED PARTIES

(A) AMOUNTS DUE FROM RELATED PARTIES

Name of related parties	**2009** **RMB'000**	2008 RMB'000
Panxian Panshi *(note i)*	**68,559**	5,054
Panxian Panying *(note ii)*	**14,929**	1,447
攀枝花市恒為製鈦有限公司 (「恒為製鈦」) Translated as Hengwei Zhitai Company Limited ("Hengwei Zhitai") *(note iii)*	**267**	1,144
	83,755	7,645

25. AMOUNTS DUE FROM (TO) RELATED PARTIES *(Continued)*

(B) AMOUNT DUE TO RELATED PARTY

Name of related party	2009 RMB'000	2008 RMB'000
Mr. Xian Jilun (鮮繼倫) *(notes iv)*	—	2,200

Notes:

(i) Panxian Panshi is an investee company in which the Group owned its 37% equity interest as explained in Note 19(a) but does not have any significant influence. The balance was of trading in nature with age within one year at 31 December 2009 and 2008.

(ii) Panxian Panying is an investee company in which the Group owned its 37% equity interest as explained in Note 19(a) but does not have any significant influence. The balance was of trading in nature with age within one year at 31 December 2009 and 2008.

(iii) Hengwei Zhitai is ultimately owned by Mr. Xian Fan, brother of Mr. Xian Yang who is a shareholder and a director of the Company. The balance was of trading in nature with age within one year at 31 December 2009 and 2008.

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

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

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

The pledged bank deposits of RMB520,108,000 (2008: RMB5,883,000) are used to secure the bills payable and bank borrowings which are repayable within one year. The restricted bank deposits of RMB57,775,000 (2008: RMB25,565,000) are short-term in nature and the amount is held in a bank under the requirement of the relevant government authority of the PRC. Accordingly, the pledged bank deposits are classified as current assets. Bank balances and cash comprise cash held by the Group with the original maturity of three months or less.

The average effective interest rate of the pledged and restricted bank deposits and bank balances during the year are 0.66% (2008: 1.95%) per annum.

The Group's bank balances and cash that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2009 RMB'000	2008 RMB'000
US$	**72,345**	62,358
HK$	**581**	284

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

(A) BILLS AND TRADE PAYABLES

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

	2009	2008
	RMB'000	*RMB'000*
Aged:		
0–90 days	**116,640**	116,833
91–180 days	**13,499**	9,415
181–365 days	**1,736**	3,014
Over 365 days	**—**	1,266
	131,875	130,528

The average credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

(B) ADVANCES DRAWN ON BILLS RECEIVABLES DISCOUNTED WITH FULL RECOURSE

	2009	2008
Effective interest rate	**1.89%**	2.64%

28. OTHER PAYABLES AND ACCRUED EXPENSES

	2009	2008
	RMB'000	*RMB'000*
Advance from customers	**18,653**	4,764
Accrued wages	**33,587**	23,745
Other tax payables	**66,723**	84,684
Accrued expenses	**51,112**	26,431
Interest payable	**8,607**	344
Welfare payables	**10,421**	12,106
Payables for acquisition of property, plant and equipment	**414,737**	513,741
Other long term payables — due within one year *(Note 34)*	**31,095**	—
Obligation to acquire minority interest of a subsidiary *(Note)*	**12,000**	—
Others	**51,454**	32,063
	698,389	697,878

Note: The amount represented an obligation to acquire the minority interest at a consideration amounting to RMB12,000,000 in relation to a forward contract to further acquire the remaining equity interest of 3% of a subsidiary, Fuyuan County Xiangda Coal Mine Company Limited ("Fuyuan Xiangda"). In January 2010, the Group has acquired the remaining equity interest of 3% of that subsidiary.

29. DERIVATIVE FINANCIAL INSTRUMENTS

	2009	2008
	RMB'000	*RMB'000*
Foreign currency forward contracts	**—**	1,873

Major terms of the foreign currency contracts are as follows:

2008

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

The fair values are determined based on the market prices provided by professional valuer for equivalent instruments as at the end of the reporting period.

30. SECURED BANK AND OTHER BORROWINGS

	2009	2008
	RMB'000	*RMB'000*
Bank loans	**2,712,084**	160,000
Other loans	**250,000**	—
	2,962,084	160,000

The secured bank and other borrowings are repayable as follows:

	2009	2008
	RMB'000	*RMB'000*
Bank and other borrowings		
Within one year	**2,467,084**	160,000
More than one year, but not exceeding two years	**255,000**	—
More than two years, but not exceeding three years	**240,000**	—
Total bank and other borrowings	**2,962,084**	160,000
Less: Amount due within one year shown under current liabilities	**(2,467,084)**	(160,000)
Amount due after one year	**495,000**	—

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

	2009	2008
	RMB'000	*RMB'000*
Within one year	**2,467,084**	10,000
More than one year, but not exceeding two years	**255,000**	—
More than two years, but not exceeding three years	**240,000**	—
	2,962,084	10,000

30. BANK AND OTHER BORROWINGS (Continued)

The ranges of effective interest rates (which are also equal to contractual interest rates) on the Group's borrowings are as follows:

	2009	2008
Effective interest rates:		
Fixed-rate borrowings	**2.04% to 9%**	8.22%
Floating-rate borrowings	**—**	6.83%

The Group's borrowings that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	US Dollars *RMB'000*
As at 31 December 2009	887,084
As at 31 December 2008	—

During the year, the Group obtained new loans in an aggregate amount of RMB4,047 million (2008: RMB550 million). These loans carry interest at prevailing market rates and are repayable over a period of one to three years. The proceeds were used to finance the acquisition of property, plant and equipment, repayment of existing debts and for general working capital purpose of the Group.

As at 31 December 2009, long-term secured bank loans of RMB400 million, short-term secured bank loans of RMB100 million and short-term secured other loans of RMB250 million were secured by the Group's 100% interests in Shenzhen Hengxin Dingli Commercial Trading Company Limited ("Shenzhen Hengxin").

As at 31 December 2008, short-term secured bank loans of RMB90 million were secured by the Group's 100% interests in Tiandaoqin, Yangfan and Yanjiang.

Details of the assets pledged for the secured bank and other borrowings are further set out in note 40.

31. SHARE CAPITAL

	Number of shares (in thousand)	Amount HK$'000	Equivalent to RMB'000
Ordinary of HK$0.1 each			
Authorised:			
At 1 January 2008, 31 December 2008 and 31 December 2009	10,000,000	1,000,000	
Issued and fully paid:			
At 1 January 2008, 31 December 2008 and 31 December 2009	2,060,000	206,000	198,605

32. RESERVES

(A) STATUTORY SURPLUS RESERVE

According to the Articles of Association of the Company's subsidiaries incorporated/registered in the PRC, these companies are required to make an appropriation of 10% of their profit after taxation each year, as shown in the PRC statutory financial statements which are prepared in accordance with the accounting principles generally accepted in the PRC, to the statutory surplus reserve until the balance reaches 50% of the registered capital of the relevant subsidiaries. According to the provision of the Articles of Association, in normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of the production and operation of the relevant subsidiaries.

(B) FUTURE DEVELOPMENT FUND

Pursuant to the relevant regulations in the PRC, the Company's subsidiaries incorporated/registered in the PRC are required to make a transfer to future development fund based on a fixed amount per tonne of raw coal mined (net of usage). The fund can only be used for the future development of the coal mining business and is not available for distribution to shareholders.

(C) SPECIAL RESERVE

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

33. PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

	RMB'000
At 1 January 2008	6,116
Provision for the year	1,727
At 31 December 2008	7,843
Provision for the year	1,486
At 31 December 2009	9,329

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

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

34. OTHER LONG TERM PAYABLES

	2009	2008
	RMB'000	*RMB'000*
Other long term payables comprise of:		
Consideration payable for mining right *(Note)*	**173,619**	—
Less: Amount due within one year shown under current liabilities (included in other payables and accrued expenses)	**(31,095)**	—
	142,524	—

Note:

Pursuant to the mining right agreement entered into between the Group and the relevant government authority of the PRC, the consideration payable for the mining right in respect of the mining site located at Guizhou Province carried interest at prevailing market rates and is repayable in instalments over two to ten years. The effective interest rate is 5.31%.

35. DEFERRED TAX LIABILITIES

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

	Withholding tax on undistributed profits of PRC subsidiaries *RMB'000*	**Fair value adjustment on property, plant and equipment at acquisition** *RMB'000*	**Total** *RMB'000*
At 1 January 2008	—	—	—
Arising from acquisition of subsidiaries *(Note 36)*	—	11,065	11,065
Charge to profit or loss	33,800	—	33,800
At 31 December 2008	33,800	11,065	44,865
Arising from acquisition of subsidiaries *(Note 36)*	—	188,562	188,562
Charge (credit) to profit or loss	12,268	(1,013)	11,255
At 31 December 2009	46,068	198,614	244,682

Under the New Law of PRC, withholding tax is imposed on dividend declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. At 31 December 2009, deferred tax has been provided in respect of temporary differences attributable to such retained profits.

At the end of the reporting period, the Group has unused tax losses of approximately RMB45,258,000 (2008: RMB29,550,000) available for offset against future profits. No deferred tax assets has been recognised in respect of such losses due to the unpredictability of future profit streams. All these tax losses will expire during 2012 to 2014.

36. ACQUISITION OF SUBSIDIARIES AND GOODWILL

(A) ACQUISITION OF SUBSIDIARIES - 2009

During the year ended 31 December 2009, the Group acquired 100%, 97% and 80% equity interest in Fuyuan County Maosheng Coal Preparation Company Limited ("Fuyuan Maosheng"), Fuyuan County Xiangda Coal Mine Company Limited ("Fuyuan Xiangda") and Fuyuan County Yuyuan Coal Industry Company Limited ("Fuyuan Yuyuan"), at consideration of RMB6,200,000, RMB376,000,000 and RMB215,500,000, respectively. Fuyuan Maosheng is engaged in clean coal washing and Fuyuan Xiangda and Fuyuan Yuyuan are engaged in coal mining. The acquisitions have been accounted for using the purchase method.

The aggregate net assets acquired by the Group are as follows:

	Acquiree's carrying before combination *RMB'000*	Fair value adjustments *RMB'000*	Fair value *RMB'000*
Net assets acquired:			
Property, plant and equipment	112,173	754,247	866,420
Inventories	2,858	—	2,858
Other receivables	12,808	—	12,808
Bank balances and cash	3,959	—	3,959
Other payables	(17,280)	—	(17,280)
Bank borrowings	(15,000)	—	(15,000)
Deferred tax liability	—	(188,562)	(188,562)
	99,518	565,685	665,203
Minority interests			(67,503)
			597,700
Satisfied by:			
Cash			597,700
Net cash outflow arising on acquisition:			
Cash consideration paid			(597,700)
Bank balances and cash acquired			3,959
			(593,741)

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

(A) ACQUISITION OF SUBSIDIARIES - 2009 *(Continued)*

Fuyuan Maosheng, Fuyuan Xiangda and Fuyuan Yuyuan did not contribute to the Group's profit for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2009, total group revenue for the period would have been RMB1,542 million and profit for the period would have been RMB393 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2009, nor is it intended to be a projection of future results.

(B) ACQUISITION OF SUBSIDIARIES AND GOODWILL - 2008

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

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

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

(B) ACQUISITION OF SUBSIDIARIES AND GOODWILL - 2008 *(Continued)*

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

	Acquiree's carrying before combination *RMB'000*	Fair value adjustments *RMB'000*	Fair value *RMB'000*
Net assets acquired:			
Property, plant and equipment	103,125	44,260	147,385
Inventories	362	—	362
Other receivables and prepayments	15,640	—	15,640
Bank balances and cash	3,764	—	3,764
Other payables	(10,132)	—	(10,132)
Deferred tax liability	—	(11,065)	(11,065)
	112,759	33,195	145,954
Minority interests			(29,519)
Goodwill *(Note 36(B))*			11,065
			127,500
Total consideration satisfied by:			
Cash			127,500
Net cash outflow arising on acquisition:			
Cash consideration paid			(127,500)
Bank balances and cash acquired			3,764
			(123,736)

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

(B) ACQUISITION OF SUBSIDIARIES AND GOODWILL - 2008 *(Continued)*

Panyi Coal Washing and Panxin Coking incurred losses of approximately RMB657,000 for the period between the date of acquisition and 31 December 2008.

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

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

Goodwill	*RMB'000*
COST	
At 1 January 2008	—
Arising on acquisition of subsidiaries	11,065
At 31 December 2008 and 31 December 2009	11,065

For the purposes of impairment testing, the carrying amount of goodwill has been allocated to cash generating units ("CGUs") included in coking segment and coal mining segment. The recoverable amount of these units have been determined based on a value in use calculation which is based on financial budgets approved by management covering a period of 5 years and discount rate of 15%. Cash flows beyond the period of 5 years are extrapolated using a zero growth rate. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development.

During the year ended 31 December 2009, management of the Group determined that there is no impairment in these CGUs containing goodwill as the recoverable amount is higher than its carrying amount.

37. MAJOR NON-CASH TRANSACTIONS

During the year, capital contribution of RMB42,260,000 from minority shareholders of subsidiaries comprised property, plant and equipment.

38. OPERATING LEASE

THE GROUP AS LESSEE

Minimum lease payments paid under operating leases during the year:

	2009	2008
	RMB'000	*RMB'000*
Premises	**19,216**	17,287

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

	2009	2008
	RMB'000	*RMB'000*
Within one year	**3,039**	3,055
Between two and five years	**5,591**	3,839
Over five years	**1,178**	550
	9,808	7,444

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

39. CAPITAL COMMITMENTS

	2009	2008
	RMB'000	*RMB'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**256,956**	37,337

40. PLEDGE OF ASSETS

Other than as disclosed in note 30, at the end of respective reporting period, the Group pledged the following assets to banks for credit facilities granted to the Group:

	2009	2008
	RMB'000	*RMB'000*
Property, plant and equipment	**1,379,254**	212,179
Bank deposits	**520,108**	5,883
Bills receivable	**12,870**	50,000
Prepaid lease payments	**5,989**	6,125
	1,918,221	274,187

41. EVENT AFTER REPORTING PERIOD

On 19 January 2010, the Company successfully issued the convertible bonds, which are RMB denominated and U.S. dollar settled, with an aggregate principal amount of RMB1,707 million. The convertible bonds carry interest at 1.5% and will be due in 2015. Details of which are set out in the Company's announcement dated 19 January 2010.

42. SHARE OPTION SCHEME

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

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

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

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

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

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

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

42. SHARE OPTION SCHEME *(Continued)*

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

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

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

At 31 December 2009, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 43,100,000 (2008: Nil), representing 2.09% (2008: Nil) of the shares of the Company in issue at that date. The directors and employees should be remained in office or employed by the Group for the options to be vested.

42. SHARE OPTION SCHEME *(Continued)*

The following table discloses movements in such holdings during the year:

Details of the options held by the directors included in the above table are as follows:

Directors

Date of grant	Exercisable period	Exercise price *HK$*	Outstanding at 1.1.2009	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2009
30.4.2009	30.4.2010 - 24.8.2017	3.15	—	120,000	—	(40,000)	80,000
30.4.2009	30.4.2011 - 24.8.2017	3.15	—	120,000	—	(40,000)	80,000
30.4.2009	30.4.2012 - 24.8.2017	3.15	—	60,000	—	(20,000)	40,000
			—	300,000	—	(100,000)	200,000

Employees

Date of grant	Exercisable period	Exercise price *HK$*	Outstanding at 1.1.2009	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2009
30.4.2009	30.4.2010 - 24.8.2017	3.15	—	17,128,000	—	—	17,128,000
30.4.2009	30.4.2011 - 24.8.2017	3.15	—	17,128,000	—	—	17,128,000
30.4.2009	30.4.2012 - 24.8.2017	3.15	—	8,564,000	—	—	8,564,000
			—	42,820,000	—	—	42,820,000

42. SHARE OPTION SCHEME *(Continued)*

Consultant

Date of grant	Exercisable period	Exercise price	Outstanding at 1.1.2009	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2009
		HK$					
30.4.2009	30.4.2010 - 24.8.2017	3.15	—	32,000	—	—	32,000
30.4.2009	30.4.2011 - 24.8.2017	3.15	—	32,000	—	—	32,000
30.4.2009	30.4.2012 - 24.8.2017	3.15	—	16,000	—	—	16,000
			—	80,000	—	—	80,000

During the year ended 31 December 2009, 43,200,000 options were granted on 30 April 2009. The estimated fair values of the options granted on 30 April 2009 with vesting date on 30 April 2010, 30 April 2011 and 30 April 2012 are HK$35,482,000 (equivalent to approximately RMB31,245,000), HK$37,600,000 (equivalent to approximately RMB33,111,000) and HK$19,414,000 (equivalent to approximately RMB17,096,000) respectively.

The fair value was calculated using Binominal Option Pricing Model (the "Model"). The inputs into the Model were as follows:

	30 April 2009	30 April 2009	30 April 2009
Vesting date	30 April 2010	30 April 2011	30 April 2012
Grant date share price	HK$3.15	HK$3.15	HK$3.15
Exercise price	HK$3.15	HK$3.15	HK$3.15
Expected life	8.32 years	8.32 years	8.32 years
Expected volatility	110.57%	110.57%	110.57%
Risk-free interest rate	2.004%	2.004%	2.004%

42. SHARE OPTION SCHEME *(Continued)*

Expected volatility was determined by using the historical volatility of the Company's share price over the previous one year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

Share options issued to consultant in exchange for services are measured at the fair value of services received.

The Company has used the Model to value the share options granted during the year. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any charge in the variables so adopted may materially affect the estimation of the fair value of an option.

The Group recognised the total expense of RMB35,692,000 for the year ended 31 December 2009 in relation to the share options granted by the Company in which approximately RMB35,460,000 was related to options granted to the Group's employees, RMB166,000 was related to options granted to directors and RMB66,000 was related to options granted by the Company to the consultant.

During the year ended 31 December 2008, no share options have been granted, exercised, cancelled or lapsed under the Scheme.

43. RELATED PARTY TRANSACTIONS

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

Name of Company	**Relationship**	**Nature of transactions**	**2009** ***RMB'000***	2008 *RMB'000*
Panxian Panshi	An investee company	Transportation costs payable by the Group	**20,875**	8,113
Panxian Panying	An investee company	Transportation costs payable by the Group	**4,616**	1,435
Hengwei Zhitai	A company ultimately owned by Mr. Xian Fan, brother of Mr. Xian Yang	Technical support income receivable by the Group	**770**	1,310
Mr. Xian Jilun	Father of Mr. Xian Yang	Rental payable by the Group	**1,200**	1,200

43. RELATED PARTY TRANSACTIONS (Continued)

As at 31 December 2009, the director, Mr. Xian Yang guaranteed the bank borrowings of approximately RMB1,617 million (2008: Nil).

As at 31 December 2009, short-term secured bank loans of US$130 million (equivalent to RMB887 million) was secured by Mr. Xian Yang's interests in the Company.

Other than the emolument paid to the directors of the Company, who are also considered as the key management of the Group as set out in note 13, the Group did not have any other significant compensation to key management personnel.

44. RETIREMENT BENEFITS SCHEME

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

As at 31 December 2009 and 2008, the Group had no significant obligation apart from the contribution as stated above.

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries as at 31 December 2009 and 2008 are as follows:

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Hidili Investment	BVI	US$1,250	100%	—	Investment holding
Sichuan Hidili	The PRC	RMB398,166,800	—	100%	Manufacture and sale of clean coal
Tiandaoqin	The PRC	RMB10,000,000	—	100%	Sale of coal and coal products
Yanjiang	The PRC	RMB5,000,000	—	100%	Coal mining and development

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

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
Hidili Coal	The PRC	RMB600,000,000	—	100%	Coal mining, manufacture and sale of coke and clean coal
Yangfan	The PRC	RMB10,000,000	—	100%	Sale of coal and coal products
Sanlian Transportation	The PRC	RMB6,800,000	—	100%	Provision of transportation services
Liupanshui Hidili	The PRC	RMB200,000,000	—	100%	Mine holding and development
Panxian Ciaozi Industry & Trading Company Limited	The PRC	Paid-up capital: RMB2,000,000 Registered capital: RMB5,000,000	—	70%	Mine holding and development
Panxin Coking	The PRC	RMB70,000,000	—	70%	Manufacture of coke
Panyi Coal Washing	The PRC	RMB15,000,000	—	70%	Clean coal washing
Panxian Xinyuan Industry and Trade Company Limited	The PRC	RMB5,000,000	—	100%	Coal mining and sale of coal

The above companies are limited liabilities companies.

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

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

Financial Summary

For The Year Ended 31 December 2009

	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**1,495,396**	2,488,449	1,042,541	814,832	568,694
Profit attributable to owners of the Company	**403,509**	1,003,350	570,289	89,677	221,720

	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	**8,403,847**	5,291,630	2,689,235	821,215	538,592
Current assets	**2,497,090**	1,994,337	4,352,264	825,838	607,513
Current liabilities	**(3,586,319)**	(1,358,705)	(2,019,916)	(778,270)	(708,224)
Non-current liabilities	**(891,535)**	(52,708)	(6,116)	(623,811)	(7,443)
Total equity	**6,423,083**	5,874,554	5,015,467	244,972	430,438
Minority interests	**(145,087)**	(35,759)	(6,982)	—	—
Equity attributable to owners of the Company	**6,277,996**	5,838,795	5,008,485	244,972	430,438

SEGMENT ANALYSIS

	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover					
Coal mining	**614,522**	1,234,831	434,553	427,218	191,153
Coking	**871,702**	1,242,423	537,580	383,607	376,825
Others	**9,172**	11,195	70,408	4,007	716
Segment results					
Coal mining	**256,483**	627,715	256,142	238,578	93,845
Coking	**458,683**	708,425	341,361	203,750	201,055
Others	**2,255**	995	33,693	1,906	397




Hidili Industry International Development Limited