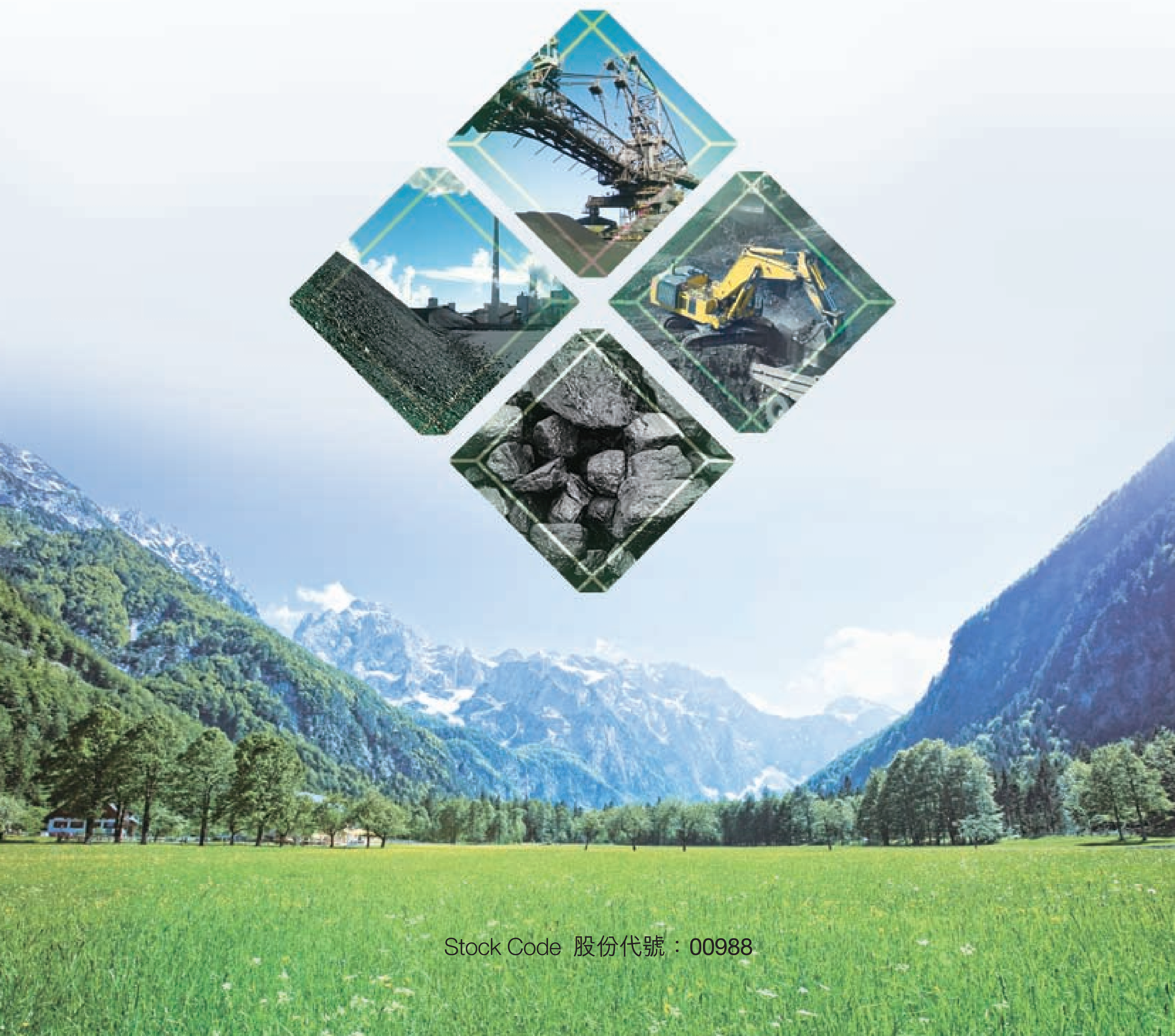
LOUDONG GENERAL NICE RESOURCES (CHINA) HOLDINGS LIMITED
樓東俊安資源(中國)控股有限公司

(Incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)

2010
ANNUAL REPORT 年報



Stock Code 股份代號：00988

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Corporate Information

EXECUTIVE DIRECTORS

Cai Sui Xin *(Chairman)*
Zhao Cheng Shu *(Deputy Chairman)*
Lau Yu *(Chief Executive Officer)*
Ng Tze For
Li Xiao Juan

INDEPENDENT NON-EXECUTIVE DIRECTORS

Li Xiao Long
Choy So Yuk, *JP*
Kwok Man To Paul
Gao Wen Ping

AUDIT COMMITTEE AND REMUNERATION COMMITTEE

Li Xiao Long
Choy So Yuk, *JP*
Kwok Man To Paul
Gao Wen Ping

EXECUTIVE COMMITTEE

Lau Yu *(Chairman)*
Zhao Cheng Shu
Ng Tze For
Li Xiao Juan

AUTHORISED REPRESENTATIVES

Ng Tze For
Kwok Kam Tim

COMPANY SECRETARY

Kwok Kam Tim

AUDITOR

Ascenda Cachet CPA Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit B, 12th Floor
Lippo Leighton Tower
103 Leighton Road
Causeway Bay
Hong Kong
Website: http://www.generalnice.com.hk
E-mail: enquiry@ldgnr.com

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

ADR DEPOSITARY

The Bank of New York Mellon Corporation
101 Barclay Street
22nd Floor
New York
NY 10286
USA
Website: http://www.adrbnymellon.com

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.,
Hong Kong Branch
Citic Bank International Limited
DBS Bank (Hong Kong) Limited

Chairman's Statement

Dear shareholders,

On behalf of the board of directors (the "Board") of Loudong General Nice Resources (China) Holdings Limited (the "Company"), I am pleased to present to you the Annual Report of the Company and its subsidiaries (collectively, the "Group") for the financial year ended 31 December 2010 (the "Review Period").

The Group delivered a remarkable result for the Review Period with profit attributable to owners of the Company soared by 271% to approximately HK$187.2 million, from approximately HK$50.4 million posted for the preceding year. For the year ended 31 December 2010, the Group's revenue and gross profit amounted to approximately HK$2,358 million and HK$718 million respectively, recorded a respective increase of approximately 93% and 61% as compared to the corresponding period in 2009. Basic earnings per share for continuing operations amounted to HK$0.12 for the year ended 31 December 2010, up 71% as compared to HK$0.07 for the corresponding period in 2009.

The Board recommends the payment of a final dividend of HK2 cents per share for the year ended 31 December 2010 (2009: Nil).

SUCCESSFUL STRATEGY TO FOCUS ON COAL AND COKE

The remarkable result reported for the Review Period signified the successful strategic move by the Group to raise the stake in its principal subsidiary, Shanxi Loudong-General Nice Coking & Gas Co., Ltd. ("Shanxi Loudong"), from 50.1% to 90% in July 2010. The stake was further lifted to 94.48% in September 2010 when the Group made a capital injection into Shanxi Loudong. As a consequence, the non-controlling interests were substantially reduced, leaving owners of the Company to entitle to a larger portion of the Group's earnings in 2010.

Shanxi Loudong is principally engaged in coal washing, metallurgical coke production, coal-related chemicals production and power generation. It is recognised as one of the largest and most comprehensive coking plants in Xiaoyi City of Shanxi Province, which is the leading coal and coke producing province in China. Metallurgical coke is a major ingredient in steel production and China is the world's largest coke producer, accounting for about 62% of world's coke production in 2010.

Building on the well-established platform of Shanxi Loudong, the Group seeks to transform itself into one of China's leading integrated coal and coke companies, with fully comprehensive operations from coal mining, coal washing, coke production, coal-related chemical production, power generation and logistic distributions.

QUANTITY GROWTH AND QUALITY GROWTH

According to China's Statistical Bureau, the country produced a record 388 million tonnes of coke in 2010, up 9.1% on year-on-year basis. China is also the world's biggest coke exporting country and its coke export jumped nearly 5 times to about 3.2 million tonnes in 2010. The improved performance of the coking industry in China was primarily driven by the recovering steel market, which absorbed about 85-90% of the metallurgical coke produced.

Chairman's Statement

Taking advantage of the much improved business environment and higher demand from steel mills, Shanxi Loudong boosted its coke production to over 1.1 million tonnes in 2010, representing almost 65% increase on year-on-year basis. This production volume translated into capacity utilisation of about 60%, placing Shanxi Loudong at the high end of the 50-60% output rate imposed by the province coking industry association as a measure to support coke prices and maintain profitability.

In view of government policy bias favoring those scalable and environmental friendly coking plants in the province, Shanxi Loudong has consistently outperformed in the industry. Shanxi Loudong has earned an important recognition in coking industry as one of the 50-plus companies in China owning coke export license and export quota. It also enjoys stable source of coal supplies from its key long-term coal mine suppliers, who emerged as winners in Shanxi's coal mining consolidation program in 2009. On the contrary, smaller coking players were battered by high costs of coking coal and growing environmental restrictions, leaving them struggling in loss-making grounds despite a general industry pick-up cycle.

Over the years, Shanxi Loudong focused not only on quantity growth, quality growth has commanded increasing attention gradually in terms of plant technology, efficiency and environmental impact. During the year under review, it has started a major revamp of its prime coal washing plant, which upon completion by the third quarter of 2011, will substantially improve efficiency and reduce emission or wastage. The Group will continue to invest in leading edge facilities, either by itself or in partnership with others, to keep ahead as the industry forerunner.

INDUSTRY SHAKE-UP IN THE 12th FIVE-YEAR PLAN PERIOD

2011 marks the first year of China's 12th Five-Year Plan ("12th FYP"), which is primarily a continuation of the economic rebalancing policy shifts toward domestic consumption and service sector, from export manufacturing and investment. In relation to the coal and coking industry, the plan implies increasing energy efficiency, whilst reducing environmental and social issues in the community.

Under this master framework, mine consolidation will continue to result in more closures/mergers of smaller mines to form bigger mining companies. Likewise, coking sector consolidation will be fully launched during the 12th FYP period. A shake-up of the coking industry is widely anticipated which will lead to similar elimination of smaller, inefficient and polluted coking facilities.

In face of the upcoming industry consolidation, the Company has positioned to grow more efficient and cost competitive in moving further upstream to integrate coal mine resources. On the one hand, the Company lifted its stake in Shanxi Loudong to 94.48% in 2010 to strengthen its leading position in coking. On the other hand, the Group plans to complete the pending acquisition of the 30% equity interest in Shanxi Linxian Taiye Coal Mining Company Limited ("Linxian Taiye") by mid-2011. Linxian Taiye has an estimated reserve of not less than 90 million tonnes and an approved production capacity of 1.2 million tonnes per annum, which would ensure a steady and cheap supply of coking coal. Linxian Taiye is also well endowed with high potentials to expand reserves and mining capability further in the years ahead. This mining acquisition, upon completion, marks a key milestone for the Group to achieve its target to become fully integrated coal and coke enterprise.

Chairman's Statement

EXCITING OPPORTUNITIES AHEAD

China is currently the world's largest consumer of steel, accounting for an estimate 46% of world consumption in 2010. In 2011, the combination of private consumption and infrastructure construction is projected to increase steel consumption to about 647 million tonnes, which will likely buoy the demand of coal and coke.

The Group is one of the few enterprises who target to build a complete value chain in the coal and coke industry, vertically integrating our operations from coal mining to coke manufacturing, to transporting, and to eventually distribute the coke and coal-related chemical products. This fully integrated value chain will ensure a long-term sustainable and strong profitability for the Group, regardless of the short-term volatility experienced in the past two years.

During the Review Period, the Company successfully completed two share placements to raise total proceeds of approximately HK$524 million. Part of the proceeds was employed to satisfy the payment consideration in the Linxian Taiye acquisition.

The fund raising exercises enabled the Group to further strengthen its capital base and to diversity its shareholder base with support from institutional investors, of which the Board believe will lay a solid foundation for the Group's future acquisitions and development.

With the aftershocks of the global financial crisis still reverberating through international markets, the Group is prudently optimistic towards the future. In the year ahead, the Group will strive to enhance the competitiveness of its coking operation, expand its market share in coke, while seeking opportunities to expand its coal mining business. Backed by its leading position in Shanxi Loudong, the Group is well positioned to become a leading integrated coal and coke enterprise in China.

On behalf of the Board, I am pleased to express our appreciation to our shareholders, customers and business partners, as well as the significant contribution of our committed staff members in the past year. The Company will endeavor to maintain a high level of corporate governance and transparency. With our competitive strengths, sustainable development strategies and competent management team, the Group is dedicated to maximise shareholders' returns.

Chairman
Cai Sui Xin

28 March 2011

Management Discussion and Analysis

FINANCIAL RESULTS

For the year ended 31 December 2010, Loudong General Nice Resources (China) Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") recorded revenue from continuing operations of approximately HK$2,358,250,000 (2009: approximately HK$1,224,798,000), representing an increase of around 93% from the previous year, underpinned by the strong demand of metallurgical coke ensuing from global recovery of the steel industry.

Profit attributable to owners of the Company for the year ended 31 December 2010 rose sharply by 271% to approximately HK$187,236,000 from HK$50,414,000 for the preceding year. The significant profit growth was largely attributable to improved sales and reduced non-controlling interests when the Company completed the transaction in July 2010 to increase the equity interest of its principal subsidiary, Shanxi Loudong – General Nice Coking & Gas Co., Ltd ("Shanxi Loudong") from 50.1% to 90%. The 90% stake was further lifted to 94.48% when the Company completed a capital injection in Shanxi Loudong in September 2010.

BUSINESS REVIEW

Shanxi Loudong is primarily engaged in the manufacture and sale of metallurgical coke, which is a key ingredient for steel production. Coupled with the increasing demand of steel and China's continued robust economy, Shanxi Loudong posted a hefty 65% increase in the tonnage of metallurgical coke sold to approximately 1,114,000 tonnes in 2010, compared with about 674,000 tonnes sold in 2009. The Group's increased production volume came out at the high end of Shanxi province average coking utilisation rate of 50-60% in 2010, reflecting the Group's efficient coking operation and the provincial support on environmental friendly and large-scale production plants such as Shanxi Loudong. In 2010, China produced a record 388 million tonnes of coke, mostly driven by steel production demand amidst significant government investment in steel-intensive infrastructure such as rail networks and highways across the nation.

As a result of the glaring sales growth, the Group's gross profit jumped markedly to approximately HK$718,287,000 for the year ended 31 December 2010 from approximately HK$446,522,000 recorded in 2009. However, gross profit margin slipped to about 30% in 2010 from preceding year's 36%, mainly dragged by higher processing costs and the slim profit margin on coke trading business, which accounted for nearly 12% of the Group's total revenues in 2010. The higher processing costs were mainly a consequence of additional subcontracting costs incurred for outsourcing the coal washing process to third parties since mid-2010 when the larger of its two coal washing facilities was closed for upgrade renovation work. Upon completion of the upgrade work estimated in third quarter of 2011, the Group expects to post considerable enhancement on the gross profit margin on its coke manufacturing business.

During the year under review, the Group completed two share placement exercises in January 2010 and August 2010 respectively, thereby continued to strengthen its cashflow and financial position. As of 31 December 2010, the Group's total equity shored up by about 81% to approximately HK$3,230 million from approximately HK$1,785 million recorded in 2009, with gearing ratio stood at a healthy 17% (31 December 2009: 23%).

BUSINESS REVIEW (continued)

In August 2010, General Nice Resources (Hong Kong) Limited, a substantial shareholder of the Company, waived the obligations of the Group under the agreements for the acquisition of 50.1% equity interest of Shanxi Loudong to pay the increased consideration of HK$280 million by way of issue to it of a promissory note.

The debtor's turnover day of the Group improved from 59 days in 2009 to 43 days in 2010, which fell within the normal credit period of the Group. The management of the Group adopts a prudent credit terms. If there are any irregularities in repayment, credit terms granted to debtors will be adjusted accordingly. If the balance due from debtors becomes doubtful, appropriate doubtful debt provision will be provided for.

OUTLOOK

China remained as the world's largest consumer of steel, accounting for an estimate of 46% of world consumption in 2010. Increasing household incomes and higher level of urbanisation will underpin growth in demand for steel-intensive housing, infrastructures like railways and highways, and consumer durables such as automobiles and TVs. In 2011, the combination of strong domestic consumption and moderate growth in key export markets in developed economies is forecast to bolster steel production in China to increase by 7% to about 671 million tonnes.

According to China's 12th Five-Year Plan, small and technology backward coking capacity have to be closed down gradually in the next five years. This consolidation measure of the coking industry will likely provide an improved business environment for the Group's coking business in the short run. Over the next few years, we expect more inefficient and polluted coking capacities to be eliminated, thus benefitting the Group to secure its position as one of the leading integrated coal and coke manufacturers in China.

In Shanxi Province, the restructuring of the coal mining sector since 2009 equally offered the Group opportunities to vertically integrating its operations in coal mining, coke manufacturing and logistics. The Directors believe such fully integrated value chain operation will ensure a long-term stable supply of raw materials and sustainable profitability for the Group.

In 2010, the Group increased its equity interest in Shanxi Loudong, making it a 94.48%-owned subsidiary. It will further strengthen the Group's business in coal processing and production of coke and coal-related chemicals in China. In longer term, the Directors believe that the Group has the competitive edge to benefit from the next stage of coking consolidation program which will eliminate weaker coking players in the market in the years ahead.

OUTLOOK (continued)

On 16 September 2009, the Group entered into a memorandum of understanding to acquire a 49% equity interest in Shanxi Linxian Taiye Coal Mining Company Limited ("Linxian Taiye"). Linxian Taiye owns a coking coal mine with a general mining area of approximately 6.5 square kilometers and estimated coal reserves of not less than 92,000,000 metric tonnes, subject to the assessment by valuers and technical advisors. The approved production capacity of the coal mine is 1,200,000 metric tonnes per year. Subject to satisfactory due diligence, the Directors expect that the possible acquisition of Linxian Taiye, if materialised, will mark as a major milestone for the Group to transform into a leading integrated coal and coke enterprise in China consisting of coal mining, coke manufacturing and related logistics operations. On 4 May 2010, the Group announced that, after further negotiations, the equity interests of Linxian Taiye to be acquired will be revised to 30% for a total consideration of RMB700,000,000 (equivalent to HK$795,410,000 at the date of announcement), with a clause of profit guarantee contributes to the Group by dividend not less than RMB120,000,000 for the year ending 31 December 2011. The vendor further procure the other shareholders of Linxian Taiye to approve payment of annual dividends and distributions amount to not less than 90% of Linxian Taiye's distributable profit. As additional time is required to finalise certain information, including independent technical report and valuation report, the Directors expect to complete this acquisition by middle of 2011.

On 4 May 2010, the Company entered into another memorandum of understanding to acquire 30% equity interest of Shanxi LvLiang Lishi Dan Tan Gou Mining Co., Ltd., which owns an estimated coal reserves of not less than 21,556,000 metric tonnes. The approved production capacity of the coal mine is 900,000 metric tonnes per year.

The Board believes that, the above acquisitions, upon materialised, will substantially increase the attributable profits from both coke manufacturing business and coal mining business, and provide strong base to develop our leading market position in the coal and coke industry. In 3-5 year's time, the Group's long-term growth target is to expand its coking capacity to 5 million tonnes and its coal mining annual capability to 10 million tonnes through both organic growth and acquisitions.

CAPITAL STRUCTURE, LIQUIDITY, FINANCIAL RESOURCES AND DEBT MATURITY PROFILE

As at 31 December 2010, the Group had total bank borrowings in the amount of HK$424,199,000 (as at 31 December 2009: HK$231,627,000), representing an increase of HK$192,572,000. The maturity profile of the Group's bank borrowings of HK$424,199,000 was spread with HK$366,376,000 repayable within 1 year, HK$23,878,000 repayable in the second year, HK$26,082,000 repayable in the third to fifth years and HK$7,863,000 repayable beyond five years.

The Group's total bank borrowing of HK$424,199,000 were 98% denominated in Renminbi ("RMB") with fixed interest rate and 2% in Hong Kong dollars ("HK$") with floating interest rate. The Group's cash and bank balances of HK$34,726,000 were 80% denominated in RMB and 20% in HK$.

Management Discussion and Analysis

TREASURY POLICY

The Group adopts a conservative approach towards its treasury policy. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluation of the financial condition of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

MATERIAL ACQUISITION OR DISPOSAL OF SUBSIDIARIES

During the year under review, the Group completed a very substantial acquisition, which further acquired 39.9% of the equity interests of Shanxi Loudong. As a result, the shareholdings in this subsidiary increased from 50.1% to 90%.

Subsequent to the above acquisition, the Group made a further capital injection amounting to RMB200,000,000 was made to Shanxi Loudong. The fund was used to settle the progressive payment for the acquisition of 30% equity interest of Linxian Taiye. As the non-controlling shareholder did not contribute any fund, the capital injection resulted in an increase in the equity interest of the Group in Shanxi Loudong for 4.48%. Consequently, the Group holds 94.48% of Shanxi Loudong.

In the future, there are an acquisition of 30% equity interest in Linxian Taiye, and a possible acquisition of 30% equity interest of Shanxi LvLiang Lishi Dan Tan Gou Mining Co., Ltd. Announcements regarding those acquisitions were issued on 4 May 2010, 26 May 2010, 29 September 2010 and 15 October 2010. Further details will be announced accordingly in near future.

EMPLOYEES

As at 31 December 2010, the total number of employees of the Group were approximately 1,430 (2009: 1,700). Apart from the basic remuneration, discretionary bonus may be granted to eligible employees by reference to the Group's performance as well as the individual's performance. The Group also has adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. As at 31 December 2010, there were 12,349,134 (2009: 21,700,000, adjusted to 24,584,971 as a result of completion of the open offer by the Company in July 2009) outstanding share options granted under such scheme.

CHARGE OF GROUP ASSETS

As at 31 December 2010, the Group pledged an investment property with a carrying value of approximately HK$7,299,000 (as at 31 December 2009: HK$11,199,000), a property with a carrying value of approximately HK$15,381,000 (as at 31 December 2009: HK$15,688,000) and machinery and equipment with a carrying value of HK$71,185,000 (as at 31 December 2009: Nil) as security for the Group's banking facilities.

GEARING RATIO

As at 31 December 2010, the gearing ratio of the Group (being the ratio of net debt divided by total capital plus net debt) was approximately 17% (31 December 2009: 23%). Net debt represents the aggregate amount of the Group's interest-bearing bank borrowings and long term bank loan, non-current portion of loans from non-financial institutions, non-current portion of the loans due to related parties and promissory note less cash and cash equivalents of the Group. Total capital includes total equity and convertible notes of the Company.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group's reporting currency is denominated in HK$. The Group's monetary assets, loans and transactions were principally denominated in RMB and HK$. The Group had a net exchange exposure to RMB as the Group's assets were principally located in China and the revenues were in RMB.

The Group does not have any derivative financial instruments or hedging instruments except for early redemption option embedded in the convertible notes issued. The Group will constantly review the economic situation and its foreign currency risk profile, and will consider appropriate hedging measures in future as may be necessary.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2010.

Biography of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Cai Sui Xin, aged 49, was appointed an executive director and the chairman of Loudong General Nice Resources (China) Holdings Limited (the "Company") with effect from 19 September 2008. He is also a director of certain subsidiaries of the Company, including Abterra Coal & Coke Limited ("Abterra HK") and Shanxi Loudong-General Nice Coking and Gas Co., Ltd. ("Shanxi Loudong"). Mr. Cai is the founder and chairman of General Nice Development Limited ("GND"), General Nice Resources (Hong Kong) Limited ("GNR") and General Nice (Tianjin) Industry Company Limited (collectively "General Nice"). General Nice has developed into two main segments of business, the first segment involves the mining of coal, coal washing, coke manufacturing, logistic business for coke and coal, and the sale of coal, coking coal and coke; the second segment involves the exploration of iron ore mines and the importing of iron ore into the People's Republic of China (the "PRC"). With Mr. Cai's well-established business relationship in Tianjin and Shanxi, General Nice has expanded to one of the PRC's biggest private producers and operators of metallurgical coke. Mr. Cai is the executive chairman and an executive director of Abterra Limited, a company listed on the Singapore Exchange Securities Trading Limited. Mr. Cai is also a director of General Nice Investment (China) Limited ("GNI") and Vantage Region International Limited, both have controlling interest in GNR, a substantial shareholder of the Company.

Mr. Zhao Cheng Shu, aged 47, was appointed an executive director of the Company on 2 April 2009. He is also the deputy chairman and a member of the executive committee of the Company. Mr. Zhao is an economist and a senior engineer and has accumulated over 20 years of experience in the management of sizeable enterprises in the PRC. He is a specialist in corporate management and an entrepreneur. Currently he is a director and the general manager of Shanxi Loudong, and a director of a subsidiary of the Company. He is responsible for overall management and operations of Shanxi Loudong. Besides, Mr. Zhao is the general manager of Xiaoyi Loudong Industry and Trading Group Company ("Xiaoyi Loudong") and a director of Hing Lou Resources Limited ("Hing Lou"), which is a subsidiary of Xiaoyi Loudong and is currently interested in more than 10% in the issued shares capital of the Company. He is also the Vice President of the Federation of Young Entrepreneurs of Shanxi Province, Standing Committee of the Political Consultative Conference and Representative to the National People's Congress of Xiaoyi City of Shanxi Province, Deputy President of the Chamber of Industrial and Commerce of Xiaoyi City of Shanxi Province, Member of the Committee of the Political Consultative Conference of Luiliang City of Shanxi Province, etc. Mr. Zhao has contributed a lot to the society and thus been awarded many honourable titles and prizes, including "Advance Worker Assisting Economic Development of Private Enterprises of Luiliang City of Shanxi Province", "Outstanding Entrepreneur of Private Enterprise of Shanxi Province", "Young Leader of Special Technology of Luiliang City of Shanxi Province", "Outstanding Person in Pushing Relief from Poverty for the Society", "Role Model for Labour in Shanxi Province", "National Model for Labour ", "Ethical Role Model", "Medalist of Labour Day in Shanxi Province" etc. Mr. Zhao holds a Master degree in Enterprise Management specialising in Industrial Economics awarded by the Graduate School of China Institute of Social Science (中國社會科學院).

Mr. Lau Yu, aged 42, was appointed an executive director of the Company with effect from 22 September 2008. He is also the chief executive officer, the chairman of the executive committee and a director of certain subsidiaries of the Company, including Abterra HK and Shanxi Loudong. Mr. Lau has over 18 years of solid experience in international trading of mineral resources and metals, including coal, coke, iron ore and steel. With his extensive experience in the trading of coke and metallurgy, Mr. Lau has established strong relationships with customers in India, Australia, South Africa, Venezuela and Brazil. Mr. Lau is the chief executive officer and an executive director of Abterra Limited, a company listed on the Singapore Exchange Securities Trading Limited. He is also the chief executive officer and a director of GNR, a substantial shareholder of Abterra Limited and the Company. Mr. Lau holds a Bachelor of Business Administration degree from the School of Finance in University of Hawaii in the United States of America.

EXECUTIVE DIRECTORS (continued)

Mr. Ng Tze For, aged 49, was appointed an executive director of the Company with effect from 11 September 2008. He is also a member of the executive committee and director of certain subsidiaries of the Company. Besides, Mr. Ng is currently the chief financial officer of GNR. He has more than 20 years experience in banking, corporate finance, business development and strategy planning for a number of international banks and listed companies in Hong Kong, Beijing and Shanghai. Mr. Ng graduated from The Chinese University of Hong Kong with a Bachelor of Business Administration Degree and obtained a Master Degree in Business Administration from City University of Hong Kong. Prior to joining the Company, Mr. Ng was an executive director of Lee Kee Holdings Limited, of which the shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "SEHK").

Ms. Li Xiao Juan, aged 30, was appointed an executive director of the Company on 30 March 2009. She is currently a member of the executive committee of the Company, the deputy general manager of the Company's subsidiary, Shanxi Loudong, and director of certain subsidiaries of the Company. Ms. Li is mainly responsible for the corporate finance of Shanxi Loudong. Besides, Ms. Li is currently the deputy general manager of GNR and a director of Hing Lou. Both GNR and Hing Lou are currently interested in more than 10% of the issued share capital of the Company. Ms. Li graduated from Fu Dan University (復旦大學) in the PRC with a Bachelor's degree in Economics and subsequently obtained a Master of Science degree in Investments from the University of Birmingham in the United Kingdom.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Xiao Long, aged 50, was appointed an independent non-executive director, audit committee member and remuneration committee member of the Company on 20 February 2009. He is currently the managing director of Fei&Long Consulting und Handels GmbH in Germany where he provides consultation to clients on international trade. His clients are mainly machinery manufacturers in Europe having business with Chinese companies. His previous employments included managerial positions in a mineral resources company in Beijing and some insurance companies in the PRC. With his valuable experience in international business, in 2006 he was appointed the Economic Adviser to the Development and Reformation Committee of Shanxi Province in the PRC (中國山西省發展改革委員會).

Ms. Choy So Yuk, ***JP***, aged 60, was appointed an independent non-executive director, audit committee member and remuneration committee member of the Company on 5 June 2009. She obtained her Bachelor of Science and Master of Philosophy degrees from the University of Hong Kong in 1974 and 1980 respectively. Ms. Choy was the founding managing director of SHK International Services Limited (which was subsequently acquired by Ms. Choy and changed its name to Oriental-Western Promotions Limited). Ms. Choy holds a wide variety of political, social and academic positions, such as a deputy of the National People's Congress of China, a member of the Fujian Provincial Committee of the Chinese People's Political Consultative Conference, and a director of Fujian Middle School. Ms. Choy was a member of the Legislative Council in Hong Kong from 1998 to 2008. Ms. Choy is currently an independent non-executive director of Huafeng Group Holdings Limited (stock code: 364) since its listing on the SEHK on 30 August 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS (continued)

Mr. Kwok Man To Paul, aged 43, was appointed an independent non-executive director, audit committee member and remuneration committee member of the Company on 18 October 2010. Mr. Kwok possesses extensive knowledge and experience in accounting, financing, capital investment and management, operational risks and banking industries. He worked for an international accounting firm and a number of international financial institutions for over 20 years. Mr. Kwok is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountant and a fellow member of the Association of Chartered Certified Accountant. He holds a Master of Applied Finance from Macquarie University of Australia and a Bachelor of Science (Economics) from the University of London in United Kingdom.

Mr. Gao Wen Ping, aged 48, was appointed an independent non-executive director, audit committee member and remuneration committee member of the Company on 18 October 2010. Mr. Gao graduated from the Department of Chinese of HuaZhong Normal University in China with a Master of Arts degree. Mr. Gao had been an associate professor of Lvliang University (呂梁高專) and had served as the deputy county magistrate of Linxian, LvLiang City of Shanxi Province, the deputy secretary of Liulin County, Shanxi Province, the deputy officer of the Department of Commerce of Shanxi Province, a director of Foreign Investment Association and a professor of the Faculty of Law of University of Finance and Economics for over 20 years and has extensive experience in economics, trading, investment and enterprises management.

SENIOR MANAGEMENT

Mr. Kwok Kam Tim, aged 34, joined the Company in 2008 and was appointed the company secretary and authorised representative of the Company with effect from 9 February 2010. Mr. Kwok is also the financial controller of the Company. He is an associate member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Kwok holds a Bachelor of Arts degree in Accounting from The Hong Kong Polytechnic University, and a Bachelor of Engineering degree from The University of Hong Kong Science and Technology. He had worked in an international accounting firm and has over 9 years of experience in accounting, auditing and financial management. Currently, Mr. Kwok is an independent non-executive director of Ming Kei Energy Holdings Limited (stock code: 8239), the shares of which are listed on the growth enterprise market of the SEHK.

Corporate Governance Report

For the year ended 31 December 2010

The board of directors (the "Board") of Loudong General Nice Resources (China) Holdings Limited (the "Company") is pleased to present the corporate governance report for the year ended 31 December 2010.

A. CORPORATE GOVERNANCE PRACTICES

The Board is committed to raising the standard of corporate governance within the Group in order to enhance the transparency in disclosure of material information. The Board strives to implement the best practices embodied in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") where feasible and as far as practicable.

In the opinion of the directors of the Company (the "Directors"), the Company has complied with the code provisions of the CG Code throughout the year ended 31 December 2010, except for the following deviations:

Code Provision A.4.1

Under code provision A.4.1, non-executive directors should be appointed for a specific term and be subject to re-election. None of the existing independent non-executive Directors ("INEDs") of the Company was appointed for a specific term. However, all Directors are subject to the retirement provisions in the Bye-laws of the Company which provides that one-third of the Directors for the time being shall retire from office by rotation and every Director shall be subject to retirement at least once every three years.

Code Provision E.1.2

Due to other commitments which must be attended to by the chairman of the Company (the "Chairman"), the Chairman was unable to attend the Annual General Meeting of the Company held on 25 May 2010 ("the 2010 AGM"), however, representatives of the Board including executive and independent non-executive Directors were present at the 2010 AGM to answer questions thereat.

Due to unexpected commitment, an independent board committee member who prepared to attend the special general meeting held on 7 July 2010 to approve a very substantial acquisition and connected transaction had not attended the meeting. However, the independent financial adviser who was appointed to advise the independent board committee and independent shareholders was present at the meeting to answer questions thereat.

Compliance Control

In August 2010, agreement for capital injection into the principal non wholly-owned subsidiary of the Company was effect and subsequently capital injection was made, which constituted a discloseable transaction for Company and was subject to the reporting and announcement requirements under the Listing Rules, the Company failed to timely comply with such requirements. The Company reported to The Stock Exchange of Hong Kong Limited, published announcements in respect of the capital injection on 24 March 2011 and 30 March 2011 (for further details, please refer to these announcements).

B. DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding directors' securities transactions set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules (the "Model Code"). Following specific enquiry by the Company, all Directors confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2010.

C. BOARD OF DIRECTORS

The Board is responsible for formulating the Group's strategy and monitoring the performance of the Group's businesses. The management has been delegated the authority and responsibility by the Board for the management of the Group. In addition, the Board has delegated various responsibilities to the board committees. Further details of these committees are set out in this report.

The Board currently comprises five executive Directors, namely Mr. Cai Sui Xin, Mr. Zhao Cheng Shu, Mr. Lau Yu, Mr. Ng Tze For and Ms. Li Xiao Juan and four INEDs, namely Mr. Li Xiao Long, Ms. Choy So Yuk, Mr. Kwok Man To, Paul and Mr. Gao Wen Ping.

During the year ended 31 December 2010, the full Board met regularly. In addition to this, additional Board meetings were held and attended by certain executive Directors for normal business. For the year ended 31 December 2010, the Board convened 16 meetings, details of the attendance of Directors are set out in the following table:

	No. of Board Meetings	
Directors	**Held**	**Attended**
Executive Directors		
Mr. Cai Sui Xin *(Chairman)*	16	2
Mr. Zhao Cheng Shu *(Deputy Chairman)*	16	5
Mr. Lau Yu *(Chief Executive Officer)*	16	15
Mr. Ng Tze For	16	16
Ms. Li Xiao Juan	16	8
Independent Non-executive Directors		
Mr. Li Xiao Long	16	2
Ms. Choy So Yuk	16	4
Mr. Kwok Man To Paul (appointed on 18 October 2010)	1	1
Mr. Gao Wen Ping (appointed on 18 October 2010)	1	1
Mr. Cheung Siu Chung (resigned on 18 October 2010)	15	2
Mr. Lo Tung Sing, Tony (resigned on 1 February 2010)	3	0

Throughout the year ended 31 December 2010, the Company met at all times the requirements of the Listing Rules to have at least three INEDs with at least one INED possessing appropriate accounting and financial management expertise and professional qualifications.

The Company has received from its INEDs annual confirmation of independence in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the INEDs are independent.

Biographical details of all Directors are disclosed in the sections headed "Biography of Directors and Senior Management" in this Annual Report. To the best knowledge of the Company, there are no financial, business, family or other material or relevant relationships amongst members of the Board.

D. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code requires that the roles of chairman and chief executive officer should be separated and not performed by the same individual.

During the year under review, Mr. Cai Sui Xin was the Chairman while Mr. Lau Yu acted as the chief executive officer of the Company. The roles of the Chairman and the chief executive officer of the Company are segregated to ensure their respective independence, accountability and responsibility.

E. EXECUTIVE COMMITTEE

During the year, an executive committee comprises four executive Directors, namely Mr. Lau Yu (the chairman), Mr. Zhao Cheng Shu, Mr. Ng Tze For and Ms. Li Xiao Juan was set up to assist the Board in execution of its duties and to facilitate effective management, certain functions, including the daily operation and management functions, implementation of the Group's strategy and planning, have been delegated to the executive committee.

F. NON-EXECUTIVE DIRECTORS

As mentioned in paragraph A above, the existing INEDs are not appointed for a specific term but are subject to the retirement provisions in the Bye-laws of the Company which provides that every Director shall be subject to retirement at least once every three years.

G. REMUNERATION OF DIRECTORS

The remuneration committee of the Company (the "Remuneration Committee") currently comprises four INEDs, namely Mr. Li Xiao Long, Ms. Choy So Yuk, Mr. Kwok Man To Paul and Mr. Gao Wen Ping.

The Remuneration Committee's terms of reference are summarised as follows:

(i) to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration; and

(ii) to make recommendations with respect to the remuneration of the Directors and the senior management of the Company for approval by the Board.

The Group's remuneration policy has been formulated with reference to the market practice and the qualification, duties and responsibilities of Directors and employees. In order to attract, retain and motivate personnel of the required quality to manage the Company successfully, the Company adopted a share option scheme in 2007 to reward those eligible participants who contribute to the success of the Group's operations.

During the year, the Remuneration Committee met once (the attendance of the members is set out below) and passed one written resolutions (which was signed by all the then members of the Remuneration Committee) to review the remuneration of the Directors and recommend to the Board the remuneration of the newly appointed INEDs respectively.

	No. of Remuneration Committee Meeting	
Committee Members	**Held**	**Attended**
Mr. Li Xiao Long	1	0
Ms. Choy So Yuk	1	1
Mr. Kwok Man To Paul (became a member on 18 October 2010)	0	0
Mr. Gao Wen Ping (became a member on 18 October 2010)	0	0
Mr. Cheung Siu Chung (ceased as a member on 18 October 2010)	1	1
Mr. Lo Tung Sing, Tony (ceased as a member on 1 February 2010)	0	0

H. NOMINATION OF DIRECTORS

The Company does not have a nomination committee. However, if the need arises, the Board as a whole will decide on the nomination and appointment of new Directors. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their qualifications, experience and expertise. A candidate who is to be appointed as an INED should also meet the independence criteria set out in Rule 3.13 of the Listing Rules. In accordance with the Bye-laws of the Company, any Director appointed by the Board to fill a casual vacancy shall retire and offer themselves for re-election at the first general meeting immediately following their appointments and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall be eligible for re-election.

During the year, the Board appointed two INEDs, namely Mr. Kwok Man To Paul and Mr. Gao Wen Ping, and approved their remuneration as recommended by the Remunertion Committee at a meeting, which Mr. Cai Sui Xin, Mr. Zhao Cheng Shu, Mr. Ng Tze For, Ms. Li Xiao Juan, Ms. Choy So Yuk had attended while Mr. Lau Yu, Mr. Li Xiao Long and Mr. Cheung Siu Chung had not attended. Both Mr. Kwok Man To Paul and Mr. Gao Wen Ping shall retire and be eligible for re-election at the forthcoming annual general meeting of the Company.

I. AUDITORS' REMUNERATION

For the year under review, the fees in respect of audit and non-audit services provided to the Company and its subsidiaries amounted to HK$550,000 by Ascenda Cachet CPA Limited (the auditor of the Company) and HK$540,000 by Ernst & Young (the preceding auditor of the Company), respectively. The non-audit services mainly related to the professional services rendered to the Company in connection with the circular related services.

J. AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") currently comprises four INEDs, namely Mr. Li Xiao Long, Ms. Choy So Yuk, Mr. Kwok Man To Paul and Mr. Gao Wen Ping.

The Audit Committee's terms of reference are summarised as follows:

(i) to consider and recommend the independence, remuneration, appointment, re-appointment and removal of external auditor;

(ii) to review the independence and objectivity of the external auditor;

(iii) to review financial and accounting policies and practices;

(iv) to oversee financial reporting system and internal control procedures; and

(v) to review connected party transactions.

During the year ended 31 December 2010, the Audit Committee held two meetings to discuss internal control, financial reporting matters and other areas of concerns during the audit. The attendance record of individual member at these Audit Committee meetings is set out in the following table:

	No. of Audit Committee Meetings	
Committee Members	**Held**	**Attended**
Mr. Li Xiao Long	2	1
Ms. Choy So Yuk	2	1
Mr. Kwok Man To Paul (became a member on 18 October 2010)	0	0
Mr. Gao Wen Ping (became a member on 18 October 2010)	0	0
Mr. Cheung Siu Chung (ceased as a member on 18 October 2010)	2	2
Mr. Lo Tung Sing, Tony (ceased as a member on 1 February 2010)	0	0

The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

The audited financial statements of the Company for the year ended 31 December 2010 have been reviewed by the Audit Committee before recommending it to the Board for approval.

K. FINANCIAL REPORTING

The Directors acknowledged their responsibility for preparing consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and its results and cash flows for the relevant financial period. In preparing the consolidated financial statements for the year ended 31 December 2010, the Directors ensured that the consolidated financial statements have been prepared in accordance with statutory requirements and applicable accounting standards and have applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the consolidated financial statements on a going concern basis. The Directors are also responsible for the timely publication of the consolidated financial statements of the Group.

The Directors confirm that, having made all reasonable enquiries, that to the best of their knowledge, information and belief, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The statement made by Ascenda Cachet CPA Limited, the independent auditor of the Company, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the "Independent Auditors' Report" in this Annual Report.

L. INTERNAL CONTROL

The Board is responsible for overseeing the Company's system of internal control.

To facilitate the effectiveness and efficiency of operations and to ensure compliance with relevant laws and regulations, the Group emphasizes on the importance of a sound internal control system which is also indispensable for mitigating the Group's risk exposure. The Group's system of internal control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfillment of the business objectives.

The internal control system is reviewed on an ongoing basis by the Board in order to make it practical and effective in providing reasonable assurance in relation to protection of material assets and identification of business risks.

The Group is committed to identifying, monitoring and managing risks associated with its business activities and has implemented a practical and effective control system which includes a defined management structure with limits of authority, a sound cash management system and periodic review of the Group's performance by the Audit Committee and the Board.

The Board has conducted review of the effectiveness of the system of internal control and is of the view that, based on information furnished to it and on its own observations, the system of internal control adopted for the year ended 31 December 2010 is effective to safeguard the interests of the shareholders' investments and the Company's assets. However, compliance control has rooms to improve. The Company will establish guidelines and make available to the relevant departments to strengthen its compliance control.

The Board has also conducted an annual review on the effectiveness of the accounting and financial reporting function of the Company and takes the view that the Company possesses adequate resources and staff qualifications and experience in this regard.

Report of the Directors

The directors of Loudong General Nice Resources (China) Holdings Limited (the "Company") are pleased to present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 22 to the financial statements.

An analysis of the Group's performance for the year by operating segment is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2010 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 31 to 115.

The Company paid an interim dividend of HK0.5 cent (2009: Nil) per share, totalling HK$9,125,000 for the year ended 31 December 2010.

The board of directors of the Company (the "Board") recommends a final dividend of HK2 cents (2009: Nil) per share for the year ended 31 December 2010 to those shareholders whose names appear on the register of members of the Company on 31 May 2011. The final dividend is subject to approval by shareholders at the forthcoming annual general meeting.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, is set out on page 117 and 118, which does not form part of the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Group during the year are set out in notes 15 and 16 to the financial statements, respectively. Further details of the Group's investment property is set out on page 116.

CONSTRUCTION IN PROGRESS

Details of construction in progress of the Group are set out in note 15 to the financial statements on pages 75 to 77.

BANK BORROWINGS

Details of bank borrowings of the Company and the Group are set out in note 30 to the financial statements on pages 88 and 89.

SHARE CAPITAL AND CONVERTIBLE NOTES

Details of movements in the Company's share capital and convertible notes during the year are set out in notes 34 and 31 to the financial statements respectively.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2010.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 36 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2010, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted approximately to HK$1,764,226,000 (2009: HK$360,779,000). By a special resolution passed by the shareholders of the Company at the special general meeting held on 15 October 2010, the amount of HK$2,269,538,000, which represented the total amount standing to the credit of the share premium account of the Company as at 30 June 2010, was cancelled, and part of the credit arising from the share premium cancellation was applied to eliminate the accumulated losses of the Company as at 30 June 2010 and the remaining balance of the credit arising therefrom was credited to the contributed surplus account of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 84.68% (2009: 87.58%) of the total sales for the year and sales to the largest customer included therein amounted for 48.6% (2009: 59.12%). Purchases from the Group's five largest suppliers accounted for 54.42% (2009: 36.82%) of the total purchases for the year and purchases from the largest supplier included therein amounted for 25.78% (2009: 11.79%).

To the best knowledge of the directors of the Company (the "Directors"), there is a company holding more than 5% of the Company's issued share capital, had beneficial interest in the Group's five largest customers. Save as disclosed above, none of the Directors or any of their associates or any shareholders holding more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

The Directors who were in office during the year and those as at the date of this report are as follows:

Executive Directors:
Mr. Cai Sui Xin
Mr. Zhao Cheng Shu
Mr. Lau Yu
Mr. Ng Tze For
Ms. Li Xiao Juan

Independent non-executive Directors:

Mr. Li Xiao Long	
Ms. Choy So Yuk	
Mr. Kwok Man To Paul	(appointed on 18 October 2010)
Mr. Gao Wen Ping	(appointed on 18 October 2010)
Mr. Cheung Siu Chung	(resigned on 18 October 2010)
Mr. Lo Tung Sing, Tony	(resigned on 1 February 2010)

In accordance with Bye-law 86(2) of the Company's Bye-laws, Mr. Kwok Man To Paul and Mr. Gao Wen Ping will retire at the forthcoming annual general and, being eligible, offer themselves for re-election. In accordance with Bye-laws 87(1) and 87(2) of the Company's Bye-laws, Mr. Zhao Cheng Shu, Ms. Li Xiao Juan and Mr. Li Xiao Long will retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence from each of its independent non-executive Directors 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 still considers all of its independent non-executive Directors to be independent.

MANAGEMENT CONTRACTS

No contract for management and administration of the whole or any substantial part of any business of the Company was entered into or existed during the year.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 11 to 13.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the board of Directors and the remuneration committee of the Company with reference to Directors' duties, responsibilities and performance of the Directors and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 31 December 2010, the following Directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein (the "Register"); or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules, to be notified to the Company and the Stock Exchange:

Long Positions in the Shares and Underlying Shares of the Company

Name of Director	Number of ordinary shares		Number of underlying shares subject to the outstanding share options	Total	Approximate percentage of the issued share capital
	Personal interests	Corporate interests			
Mr. Cai Sui Xin	6,004,621	278,376,383 (Note)	–	284,381,004	15.49%
Mr. Zhao Cheng Shu	–	–	4,531,792	4,531,792	0.25%
Mr. Lau Yu	17,873,792	–	–	17,873,792	0.97%
Mr. Ng Tze For	–	–	3,285,549	3,285,549	0.18%
Ms. Li Xiao Juan	630,000	–	3,965,318	4,595,318	0.25%
Mr. Li Xiao Long	–	–	226,590	226,590	0.01%
Ms. Choy So Yuk	226,590	–	–	226,590	0.01%

Note: These shares are beneficially owned by General Nice Resources (Hong Kong) Limited ("GNR") and Mr. Cai Sui Xin is deemed to be interested in such shares under the SFO by virtue of the fact that each of General Nice Development Limited ("GND") and General Nice Investment (China) Limited ("GNI") holds 40% equity interest in GNR while Vantage Region International Limited ("Vantage Region") and Mr. Cai Sui Xin hold 50% and 5% equity interests in each of GND and GNI respectively. Vantage Region is in turn wholly owned by Mr.Cai Sui Xin.

Save as disclosed above, as at 31 December 2010, none of the Directors and chief executive of the Company was interested, or was deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation which were required to be notified to the Company and the Stock Exchange or recorded in the Register as aforesaid.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "Interests of Directors and Chief Executive", "Substantial Shareholders' and Other Persons' Interests" and "Share Option Scheme" in this report, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable a director of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") on 25 June 2007 for the purpose of providing incentives to Participants (as defined in the Scheme) to contribute to the Group and/or to enable the Group to recruit high-calibre employees and attract resources that are valuable to the Group and the shareholders of the Company as a whole.

Details of the Scheme are set out in note 35 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

Save as disclosed under the section headed "Interests of Directors and Chief Executive" above, as at 31 December 2010, the following persons had an interest in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Long Positions in the Shares/Underlying Shares of the Company

Name	Capacity	Nature of Interest	No. of shares/ underlying shares	Approximate percentage of the issued share capital
GNR	Beneficial owner	Corporate interests	278,376,383	15.16%
GND	Interest of controlled corporation	Corporate interests	278,376,383 (Note 1)	15.16%
GNI	Interest of controlled corporation	Corporate interests	278,376,383 (Note 1)	15.16%
Vantage Region	Interest of controlled corporation	Corporate interests	278,376,383 (Note 1)	15.16%
Tsoi Ming Chi	Interest of controlled corporation	Corporate interests	278,376,383 (Note 1)	15.16%
Hing Lou Resources Limited ("Hing Lou")	Beneficial owner	Corporate interests	241,562,149 (Note 2)	13.16%
Xiaoyi Loudong Industry & Trading Group Company	Interest of controlled corporation	Corporate interests	241,562,149 (Note 3)	13.16%
Ng Ching Mui	Beneficial owner and interest of controlled corporation	Personal and corporate interests	110,008,999 (Note 4)	5.99%

Notes:

1. These shares were beneficially owned by GNR. Each of GND and GNI holds 40% equity interest in GNR while Vantage Region and Mr. Tsoi Ming Chi hold 50% and 35% equity interests in each of GND and GNI respectively. Accordingly, each of GND, GNI, Vantage Region and Mr. Tsoi Ming Chi was deemed to be interested in such shares held by GNR under the SFO.

2. These interests comprise 184,895,483 issued shares and 56,666,666 underlying shares of the Company. The underlying shares may be allotted and issued to Hing Lou upon the exercise of the conversion rights attaching to the convertible notes with the principal amount of HK$85,000,000 at an initial conversion price of HK$1.50 per conversion share.

3. Xiaoyi Loudong Industry & Trading Group Company was deemed to be interested in the shares and underlying shares held by Hing Lou by virtue of the fact that Hing Lou is its wholly-owned subsidiary.

4. Among the 110,008,999 shares, 50,001,000 shares was personal interests and 60,007,999 shares were interest of controlled corporation.

Save as disclosed above, the Directors are not aware of any other persons who, at 31 December 2010, had interests or short positions in the shares or underlying shares of the Company which are recorded in the register and required to be kept under Section 336 of the SFO.

CONNECTED TRANSACTION

On 9 November 2009, Abterra Coal & Coke Limited ("Abterra"), a wholly-owned subsidiary of the Company, and Hing Lou entered into a sale and purchase agreement as supplemented by a supplemental agreement dated 25 May 2010 (collectively the "Agreements") pursuant to which Hing Lou agreed to sell and Abterra agreed to purchase the entire issued share capital of General Nice – Loudong Coal & Coke Limited ("Loudong Coal and Coke") at an aggregate consideration of HK$600,000,000. The consideration was settled as to HK$290,000,000 in cash, HK$250,000,000 by way of the Company issuing convertible notes convertible into shares of the Company at conversion price of HK$1.5 per share, and HK$60,000,000 by way of the Company issuing a promissory note. Loudong Coal and Coke hold 39.9% equity interest in Shanxi Loudong.

The transaction contemplated under the Agreements constituted a very substantial acquisition on the part of the Company under Chapter 14 of the Listing Rules. Hing Lou is an indirect substantial shareholder of Shanxi Loudong, a non wholly-owned subsidiary of the Company, as such Hing Lou was a connected person of the Company. Mr. Zhao Cheng Shu and Ms. Li Xiao Juan, both being Directors, are also directors of Hing Lou and Loudong Coal and Coke. The transaction contemplated under the Agreements also constituted a connected transaction for the Company under Chapter 14A of the Listing Rules, and was subject to the reporting, announcement and the independent shareholders' approval requirements by way of poll under the Listing Rules. The Agreements were approved by the independent shareholders of the Company at a special general meeting held on 7 July 2010. Completion of the Agreements took place on 27 July 2010.

Further details of the Agreements had been disclosed in the announcements of the Company dated 18 November 2009, 26 May 2010 and 27 July 2010 and the circular of the Company dated 21 June 2010 respectively.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules from the date of the last annual report of the Company to the date of this annual report.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, the following Director is considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules:

Mr. Cai Sui Xin is also a director and has controlling interests in GND and General Nice (Tianjin) Industry Co. Ltd. ("GNT") which are also involved in the trading of coke and coal-related chemicals.

As the board of Directors of the Company is independent from the board of directors of GND and GNT and the above director does not control the board of Directors of the Company, the Group is capable of carrying on its businesses independently of, and at arm's length from, the business of GND and GNT.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 14 to 19 of this annual report.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 47 to the financial statements.

AUDITOR

At the special general meeting held on 31 December 2008, Ernst & Young were appointed as auditor of the Company to fill the casual vacancy caused by the resignation of NCN CPA Limited.

On 14 January 2011, the Board appointed Ascenda Cachet CPA Limited as auditor of the Company to fill the casual vacancy caused by the resignation of Ernst & Young until the conclusion of the next annual general meeting. Save for the above, there were no other changes in the Company's auditors in the past three years. A resolution for the reappointment of Ascenda Cachet CPA Limited as auditor of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD
Cai Sui Xin
Chairman

Hong Kong
28 March 2011

Independent Auditors' Report

Ascenda CACHET
天健德揚

13F Neich Tower
128 Gloucester Road
Wanchai, Hong Kong

To the shareholders of Loudong General Nice Resources (China) Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Loudong General Nice Resources (China) Holdings Limited (the "Company", together with its subsidiaries collectively referred to as the "Group") set out on pages 31 to 115, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, 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 about whether the consolidated financial statements are free from material misstatement.

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

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

Independent Auditors' Report

OPINION

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

Ascenda Cachet CPA Limited
Certified Public Accountants

Chan Yuk Tong
Practising Certificate number P03723

28 March 2011

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	Notes	**2010 HK$'000**	2009 HK$'000
CONTINUING OPERATIONS			
REVENUE	5	**2,358,250**	1,224,798
Cost of sales		**(1,639,963)**	(778,276)
Gross profit		**718,287**	446,522
Other income and gains	5	**65,643**	118,789
Selling and distribution costs		**(148,985)**	(53,494)
Administrative expenses		**(88,379)**	(67,148)
Other operating expenses		**(31,047)**	(27,309)
Fair value changes on derivative component of convertible notes		**(16,949)**	–
Finance costs	7	**(51,736)**	(80,733)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	**446,834**	336,627
Income tax expense	10	**(160,248)**	(141,927)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**286,586**	194,700
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation	12	**–**	4,796
PROFIT FOR THE YEAR		**286,586**	199,496
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**83,973**	2,900
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**83,973**	2,900
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**370,559**	202,396

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	Notes	**2010 HK$'000**	2009 HK$'000
Profit attributable to:			
Owners of the Company		**187,236**	50,414
Non-controlling interests		**99,350**	149,082
		286,586	199,496
Total comprehensive income attributable to:			
Owners of the Company		**259,376**	51,867
Non-controlling interests		**111,183**	150,529
		370,559	202,396
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	14		
Basic			
– For profit for the year		**HK$0.12**	HK$0.07
– For profit from continuing operations		**HK$0.12**	HK$0.07
Diluted			
– For profit for the year		**HK$0.12**	HK$0.07
– For profit from continuing operations		**HK$0.12**	HK$0.07

Detail of the dividends paid and proposed for the year are disclosed in note 13 to the financial statements.

Consolidated Statement of Financial Position

31 December 2010

	Notes	**2010 HK$'000**	2009 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	15	**2,402,761**	2,280,029
Investment properties	16	**7,299**	11,199
Prepaid land premiums	17	**37,336**	36,925
Interests in an associate	18	**6,004**	5,792
Available-for-sale investments	19	**6,281**	5,679
Goodwill	20	**330,083**	330,083
Other long-term assets	21	**442,641**	200,000
Deferred tax assets	33	**7,063**	6,814
Total non-current assets		**3,239,468**	2,876,521
CURRENT ASSETS			
Inventories	23	**323,603**	473,849
Trade and bills receivables	24	**367,778**	184,908
Prepayments, deposits and other receivables	25	**678,598**	595,374
Equity investments at fair value through profit or loss	26	**588**	568
Due from related companies	43(b)	**142,821**	34,673
Derivative financial instruments	31	**10,813**	–
Pledged deposits	27	**997,355**	134,908
Cash and cash equivalents	27	**34,726**	59,068
Total current assets		**2,556,282**	1,483,348
CURRENT LIABILITIES			
Trade and bills payables	28	**746,723**	244,819
Other payables and accruals	29	**570,310**	212,183
Interest-bearing bank and other borrowings, secured	30	**366,376**	222,095
Due to related companies	43(b)	**160,274**	6,592
Due to shareholders	43(c)	**166,561**	291,223
Due to a director	43(d)	**–**	12
Tax payable		**106,688**	274,540
Total current liabilities		**2,116,932**	1,251,464
NET CURRENT ASSETS		**439,350**	231,884
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,678,818**	3,108,405

Consolidated Statement of Financial Position

31 December 2010

	Notes	**2010 HK$'000**	2009 HK$'000 (Restated)
NON-CURRENT LIABILITIES			
Long-term bank loans, secured	30	**57,823**	9,532
Loans from related companies	43(b)	**213,455**	524,840
Loans from non-financial institutions, secured	30	**14,103**	13,606
Convertible notes	31	**70,261**	638,117
Promissory note	32	**49,586**	–
Tax payable	10	**–**	89,108
Other long-term payables	10	**–**	13,429
Deferred tax liabilities	33	**43,549**	34,526
Total non-current liabilities		**448,777**	1,323,158
NET ASSETS		**3,230,041**	1,785,247
EQUITY			
Equity attributable to owners of the Company			
Issued capital	34	**18,359**	9,912
Equity component of convertible notes	31	**33,721**	107,436
Exchange fluctuation reserve		**68,491**	(3,649)
Reserves	36(a)	**2,972,219**	751,397
		3,092,790	865,096
Non-controlling interests		**137,251**	920,151
Total equity		**3,230,041**	1,785,247

Cai Sui Xin
Director

Zhao Cheng Shu
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

	Attributable to owners of the Company										
	Issued capital HK$'000 (Note 34)	Equity component of convertible notes HK$'000 (Note 31)	Share option reserves* HK$'000 (Note 35)	Exchange fluctuation reserve HK$'000	Share premium account* HK$'000	Capital reserve* HK$'000	Contribution Surplus* HK$'000 (Note 34(d))	(Accumulated losses)/ retained earnings* HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2009	5,331	153,480	–	(5,102)	686,648	1,026	–	(577,886)	263,497	769,622	1,033,119
Issue of ordinary shares through rights issue	2,132	–	–	–	136,704	–	–	–	138,836	–	138,836
Issue of ordinary shares through placement	1,065	–	–	–	130,442	–	–	–	131,507	–	131,507
Conversion of convertible notes	1,384	(46,044)	–	–	313,964	–	–	–	269,304	–	269,304
Equity-settled share option arrangements	–	–	10,085	–	–	–	–	–	10,085	–	10,085
Transfer to reserve	–	–	–	–	–	11,985	–	(11,985)	–	–	–
Total comprehensive income for the year	–	–	–	1,453	–	–		50,414	51,867	150,529	202,396
At 31 December 2009 and 1 January 2010	9,912	107,436	10,085	(3,649)	1,267,758	13,011	–	(539,457)	865,096	920,151	1,785,247
Issue of ordinary shares through placement	3,967	–	–	–	518,301	–	–	–	522,268	–	522,268
Issue of convertible notes	–	99,180	–	–	–	–	–	–	99,180	–	99,180
Conversion of convertible notes	4,362	(172,895)	–	–	929,233	–	–	–	760,700	–	760,700
Exercise of share options	118	–	(4,833)	–	13,930	–	–	–	9,215	–	9,215
Share option lapsed	–	–	(186)	–	–	–	–	186	–	–	–
Transfer to capital reserve	–	–	–	–	–	33,839	–	(33,839)	–	–	–
Cancellation of share premium	–	–	–	–	(2,269,538)	–	1,793,552	475,986	–	–	–
Interim dividend	–	–	–	–	–	–	(9,125)	–	(9,125)	–	(9,125)
Waiver of an amount due to a shareholder	–	–	–	–	–	280,000	–	–	280,000	–	280,000
Acquisition of non-controlling interests	–	–	–	–	–	224,238	–	–	224,238	(812,241)	(588,003)
Deemed acquisition of the equity interest of a subsidiary	–	–	–	–	–	81,842	–	–	81,842	(81,842)	–
Total comprehensive income for the year	–	–	–	72,140	–	–	–	187,236	259,376	111,183	370,559
At 31 December 2010	18,359	33,721	5,066	68,491	459,684	632,930	1,784,427	90,112	3,092,790	137,251	3,230,041

* These reserve accounts comprise the consolidated reserves of HK$2,972,219,000 (2009: HK$751,397,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	**2010 HK$'000**	2009 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:			
From continuing operations		**446,834**	336,627
From discontinued operation	12	**–**	5,944
Adjustments for:			
Finance costs excluding interest on convertible notes and promissory note	7	**31,795**	17,172
Share of profits of associate	18	**–**	(9)
Interest income	5	**(2,160)**	(6,882)
(Gain)/loss on disposal of items of property, plant and equipment	6	**(4,380)**	38
Fair value gain, net:			
Equity investments at fair value through profit or loss		**–**	(2,487)
Depreciation	15	**103,272**	98,860
Change in fair value of investment properties	16	**(2,189)**	(1,539)
Amortisation of prepaid land premiums	17	**917**	906
Reversal of provision for inventories	6	**–**	(18,176)
Reversal of impairment of trade receivables	6	**–**	(38,096)
Equity-settled share option expense		**–**	10,085
Write off of property, plant and equipment	15	**649**	–
Interest accrued for convertible notes and promissory note		**19,941**	63,561
Fair value loss on derivative financial instrument		**16,949**	–
Written back of prepayment previously written off		**(21,132)**	–
		590,496	466,004
Decrease/(increase) in inventories		**150,246**	(199,369)
(Increase)/decrease in trade and bills receivables		**(182,870)**	74,718
Increase in prepayments, deposits and other receivables		**(62,092)**	(12,049)
Increase in amounts due from related parties		**108,148)**	(29,645)
Increase/(decrease) in trade and bills payables		**501,904**	(186,165)
Increase/(decrease) in other payables and accruals		**358,127**	(70,796)
Increase in amounts due to shareholders		**155,338**	–
Increase/(decrease) in amounts due to related companies		**153,682**	(1,851)
(Decrease)/increase in amounts due to a director		**(12)**	12
Decrease in other long-term payables		**(13,429)**	–
Cash flow generated from operations		**1,543,242**	40,859
Income tax paid		**(407,936)**	(3,452)
Net cash flows generated from operating activities		**1,135,306**	37,407

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	**2010** **HK$'000**	2009 HK$'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	**2,160**	6,882
Purchases of items of property, plant and equipment		**(334,625)**	(69,081)
Proceeds from disposal of items of property, plant and equipment		**211,656**	10
Proceeds from disposal of trading investment		**–**	8,993
Deposit paid for acquisition of an associate	21	**(235,447)**	(200,000)
Acquisition of non-controlling interests in a subsidiary		**(290,000)**	–
Proceeds from disposal of an investment property		**6,089**	–
Proceeds from assets held for sale		**–**	143,000
(Increase)/decrease in pledged deposits		**(862,447)**	159,671
Purchases of available-for-sale investments		**(395)**	(236)
Payment for financial asset at fair value through profit or loss		**568**	–
Proceeds from financial asset at fair value through profit or loss		**(588)**	–
Net cash flows (used in)/from investing activities		**(1,503,029)**	49,239
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**531,483**	270,343
New bank loans		**684,982**	452,301
Decrease in loans from related companies		**(311,385)**	(190,797)
Repayment of loans from banks and non-financial institutions		**(500,423)**	(541,178)
Interest paid		**(58,407)**	(31,993)
Dividend paid		**(9,125)**	–
Net cash flow from/(used in) financing activities		**337,125**	(41,324)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(30,598)**	45,322
Cash and cash equivalents at beginning of year		**59,068**	13,746
Effect of foreign exchange rate change, net		**6,256**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		**34,726**	59,068
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	**34,726**	59,068

Statement of Financial Position

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**39**	52
Due from subsidiaries	22	**778,866**	778,866
Interests in subsidiaries	22	**–**	–
Total non-current assets		**778,905**	778,918
CURRENT ASSETS			
Prepayments, deposits and other receivables		**522**	292
Due from a related company		**29,564**	29,564
Due from subsidiaries	22	**1,285,564**	488,090
Due from a shareholder		**10,000**	–
Derivative financial instrument	31	**10,813**	–
Cash and cash equivalents	27	**4,627**	4,417
Total current assets		**1,341,090**	522,363
CURRENT LIABILITIES			
Other payables and accruals		**2,350**	735
Due to a related company		**584**	584
Due to subsidiaries	22	**1,740**	1,740
Due to a shareholder		**13,432**	11,223
Total current liabilities		**18,106**	14,282
NET CURRENT ASSETS		**1,322,984**	508,081
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,101,889**	1,286,999
NON-CURRENT LIABILITIES			
Convertible notes	31	**70,261**	638,117
Promissory note	32	**49,586**	–
TOTAL NON-CURRENT LIABILITIES		**119,847**	638,117
NET ASSETS		**1,982,042**	648,882
EQUITY			
Issued capital	34	**18,359**	9,912
Equity component of convertible notes	31	**33,721**	107,436
Reserves	36(b)	**1,929,962**	531,534
TOTAL EQUITY		**1,982,042**	648,882

Cai Sui Xin
Director

Zhao Cheng Shu
Director

Notes to Financial Statements

31 December 2010

1. GENERAL

Loudong General Nice Resources (China) Holdings Limited (the "Company", together with its subsidiaries, collectively the "Group") was incorporated in the Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). Its shares have been listed on The Stock Exchange of Hong Kong Limited ("HKEX") since January 1994.

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business in Hong Kong is situated at Unit B, 12th Floor, Lippo Leighton Tower, 103 Leighton Road, Causeway Bay, Hong Kong.

The Company is an investment holding company. During the year, the principal business of the Group is coal processing and production of industrial coke and coal-related chemicals.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which include all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention, except for investment properties, equity investments at fair value through profit and loss and derivative financial instrument which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra group balances, transactions, unrealised gains and losses resulting from intra group transactions and dividends are eliminated on consolidation in full.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Basis of consolidation from 1 January 2010 (continued)

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisition of non-controlling interests (formerly known as minority interest) prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interests and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments included in improvements to HKFRSs issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKAS 3 (Revised), HKAS 27 (Revised), amendments to HKAS 7 and HKAS 17 included in Improvements to HKFRSs 2009 and HK Interpretation 4 (Revised in December 2009), the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

The principal effects of adopting these new and revised HKFRSs are as follows:

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

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

(i) HKAS 7 *Statement of Cash Flows:* Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

(ii) HKAS 17 *Leases:* Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

(iii) Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* is revised as a consequence of the amendment to HKAS 17 *Leases included in Improvements to HKFRSs 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this Interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

The Group has reassessed its leases in Hong Kong and Mainland China, previously classified as operating leases, upon the adoption of the amendments. The classification of leases in Mainland China remained as operating leases. As substantially all the risks and rewards associated with the leases in Hong Kong have been transferred to the Group, the leases in Hong Kong have been reclassified from operating leases under "prepaid land premiums" to finance leases under "property, plant and equipment". The corresponding amortisation has also been reclassified to depreciation. The effects of the above changes are summarised below.

	2010 **HK$'000**	2009 HK$'000
Statement of comprehensive income for the year ended 31 December		
Decrease in amortisation of prepaid land premiums	**(264)**	(116)
Increase in depreciation of property, plant and equipment	**264**	116
	–	–
Consolidated statement of financial position at year ended 31 December		
Decrease in prepaid land premiums, net	**13,527**	(13,791)
Increase in property, plant and equipment, net	**(13,527)**	13,791
	–	–

As the leasehold land and building was purchased during 2009, there is no impact on the statement of financial position as at 1 January 2009, and the related notes.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not early adopted the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*[2]
HKFRS 7 Amendment	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers to Financial Assets*[4]
HKFRS 9	*Financial Instruments*[6]
HKAS 12 Amendments	*Deferred Tax: Recovery of underlying assets*[5]
HKAS 24 (Revised)	*Related Party Disclosures*[3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[1]
HK(IFRIC)-Int 14 Amendments	Amendment to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirements*[3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

Apart from the above, the HKICPA has also issued Improvements to HKFRSs 2010 which sets out amendments to a number of HKFRSs primarily with a view to reviewing inconsistencies and clarify wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

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

2 Effective for annual period beginning on or after 1 July 2010

3 Effective for annual periods beginning on or after 1 January 2011

4 Effective for annual periods beginning on or after 1 July 2011

5 Effective for annual periods beginning on or after 1 January 2012

6 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the certain new and revised HKFRSs may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity who's financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in Company' statement of comprehensive income to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the statement of comprehensive income and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates, is included as part of the Group's investments in associates and is not individually tested for impairment. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations from 1 January 2010 (continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations prior to 1 January 2010 but after 1 January 2005 (continued)

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than goodwill, investment properties, inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of comprehensive income in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a member of the key management personnel of the Group;

(d) the party is a close member of the family of any individual referred to in (a) or (c);

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

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

Property, plant and equipment and depreciation

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

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Leasehold land under finance lease	Over the lease term
Buildings	30 years
Plant facilities	30 years
Office equipment	10 years
Machinery	20 years
Vehicles	10 years
Plant infrastructure	20 years
Leasehold improvements, furniture and fixtures	5 years

Plant infrastructure comprises of installations that are integral to the operations of the plant facilities, including transportation pipes, electricity transfer systems and metering systems.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of comprehensive income in the year when the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of comprehensive income in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of comprehensive income in the year of the retirement or disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of comprehensive income.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rental receivable under the operating leases are credited to the statement of comprehensive income on the straight-line basis over the lease terms. Where the Group is the leasee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the statement of comprehensive income on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and bill receivables, other receivable, amounts due from related companies, equity investment at fair value through profit or loss, available-for-sale investment and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in other income and gains or finance costs in the statement of comprehensive income. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of comprehensive income. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of comprehensive income. The loss arising from impairment is recognised in the statement of comprehensive income in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of comprehensive income in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the statement of comprehensive income in other operating expenses and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the statement of comprehensive income as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of comprehensive income.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment loss has been incurred, the amount of the 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the statement of comprehensive income.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of comprehensive income, is removed from other comprehensive income and recognised in the statement of comprehensive income.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income – is removed from other comprehensive income and recognised in the statement of comprehensive income. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of comprehensive income. Increases in their fair value after impairment are recognised directly in other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred the rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and accrual, amounts due to related companies, shareholders and a director, interest-bearing bank loans and other borrowings, liability portion of convertible bonds, promissory note and other long term payables.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income. The net fair value gain or loss recognised in the statement of comprehensive income does not include or includes any interest charged on these financial liabilities.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of comprehensive income.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Derecognition of financial liabilities

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of commodity contracts that meet the definition of a derivative as defined by HKAS 39 but are entered into in accordance with the Group's expected purchase requirements is recognised in the statement of comprehensive income in cost of sales.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of comprehensive income, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current or non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial positions, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on tax (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or the reporting period taking into consideration interpretations and practices prevailing in the countries in which the Group operates an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of comprehensive income by way of a reduced depreciation charge.

Where the Group receives a non-monetary grant, the asset and the grant are recorded at the fair value of the non-monetary asset and released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants (continued)

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 35 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of comprehensive income for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

For the Company and its subsidiaries located in Hong Kong

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

For the subsidiaries located in PRC

(a) Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

For the subsidiaries located in PRC (continued)

(b) Medical benefit costs

The Group participates in government-organised defined contribution medical benefits plans, under which it pays contributions to the plans at a fixed percentage of wages and salaries of the existing full time employees in the PRC and has no further legal or constructive obligations to pay additional contributions. The contributions are charged as an expense to the statement of comprehensive income as incurred.

(c) Housing fund

The Group contributes on a monthly basis to defined contribution housing fund plans organised by the PRC government. Contributions to these plans by the Group are expensed as incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate of 3% has been applied to the expenditure on the individual assets.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's Bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and associate are currencies other than Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of at the exchange rates ruling at the end of the reporting period and, their statements of comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the statement of comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statements of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2010 was approximately HK$330,083,000 (2009: HK$330,083,000). Further details are given in note 20 to the financial statements.

Useful lives of property, plant and equipment

The management of the Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or nonstrategic assets that have been abandoned or sold.

Provision for impairment of receivables

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectibles and ageing analysis of accounts and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer.

4 OPERATING SEGMENT INFORMATION

The Group operates only in one business segment, being coal processing and production of industrial coke and coal-related chemicals and supply of electricity in the PRC. Accordingly, there are no further disclosures by the reportable segments based on business segment.

4 OPERATING SEGMENT INFORMATION (continued)

Geographical information

Revenue from external customers in respect of continuing operations based on the location of the customers is as follows:

	2010 HK$'000	2009 HK$'000
Mainland China	**2,057,339**	1,224,798
Hong Kong	**300,911**	–
	2,358,250	1,224,798

The Group operates principally in the PRC. Over 90% of the Group's assets are located in the PRC. Accordingly, no further geographical information on asset was disclosed.

Revenue from continuing operations of approximately HK$1,147,150,000 (2009: HK$771,148,000) was derived from sales to a single customer.

5 REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts and the value of services rendered during the year.

Revenue, other income and gains from continuing operations recognised during the year are as follows:

	2010 HK$'000	2009 HK$'000
Revenue		
Sales of goods	**2,358,250**	1,224,798
Other income		
Collection of a trade receivable previously written off	**–**	79,913
Rental income from leasing of property, plant and equipment	**19,331**	20,346
Bank interest income	**2,160**	6,882
Government grants	**10,245**	3,722
Write back of prepayments previously written off	**21,132**	–
Sundry income	**2,927**	3,779
	55,795	114,642

5 REVENUE, OTHER INCOME AND GAINS (continued)

	2010 HK$'000	2009 HK$'000
Gains		
Increase in fair value of an investment properties	**2,189**	1,539
Gain on disposal of property, plant and equipment	**4,380**	–
Exchange gain	**3,086**	–
Others	**193**	2,608
	9,848	4,147
Other income and gains	**65,643**	118,789
Total revenue, other income and gains	**2,423,893**	1,343,587

6 PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

The Group's profit before tax from continuing operations is arrived after charging/(crediting):

	2010 HK$'000	2009 HK$'000 (Restated)
Cost of inventories sold	**1,639,963**	778,276
Minimum lease payments under operating leases:		
Operating lease rentals – land and buildings	**348**	389
Auditors' remuneration	**550**	1,600
Staff costs (excluding directors' remuneration (note 8)):		
– Salaries and allowances	**37,797**	37,295
– Equity settled share option expense	**–**	10,085
– Retirement benefit costs	**287**	316
Depreciation	**103,272**	98,860
Amortisation of prepaid land premiums	**917**	906
Reversal of provision for inventories	**–**	(18,176)
Reversal of provision of bad debt on trade receivables	**–**	(38,096)
Collection of trade receivables previously written off	**–**	(79,913)
Bank charges	**7,540**	3,934
(Gain)/loss on disposal of items of property, plant and equipment	**(4,380)**	38

7 FINANCE COSTS

	2010 HK$'000	2009 HK$'000
Interest on borrowings wholly repayable within five years:		
Bank loans	**16,227**	26,178
Finance cost arising from discounted bills receivable	**24,978**	7,530
Loans from non-financial institutions	**12,785**	6,179
Convertible notes	**18,344**	63,561
Promissory note	**1,597**	–
	73,931	103,448
Less: Interest capitalised to construction in progress (note 15)	**(22,530)**	(23,037)
	51,401	80,411
Interest on borrowings not wholly repayable within five years:		
Mortgage loans	**335**	322
	51,736	80,733

8 DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2010 HK$'000	2009 HK$'000
Fees	**442**	552
Other emoluments:		
– Salaries, allowances and benefits in kind	**3,900**	2,465
– Equity settled share option expenses	**–**	9,528
– Pension scheme contributions	**36**	21
	4,378	12,566

In prior year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 35 to the financial statements. The fair value of such options which has been recognised in the statement of comprehensive income over the vesting period was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosure.

8 DIRECTORS' REMUNERATION (continued)

a) Independent non-executive directors

The fees paid to independent non-executive directors and equity-settled share option expenses during the year were as follows:

	2010		2009	
	Equity settled share option expenses HK$'000	Fees HK$'000	Equity settled share option expenses HK$'000	Fees HK$'000
Choy So Yuk (appointed on 5 June 2009)	–	120	93	69
Li Xiao Long (appointed on 20 February 2009)	–	120	93	103
Kwok Man To Paul (appointed on 18 October 2010)	–	24	–	–
Gao Wen Ping (appointed on 18 October 2010)	–	24	–	–
Cheung Siu Chung (resigned on 18 October 2010)	–	144	93	180
Lo Tung Sing, Tony (resigned on 1 February 2010)	–	10	93	120
Leung Chung Sing (resigned on 20 February 2009)	–	–	–	17
	–	442	372	489

There were no other emoluments payable to the independent non-executive directors during the year (2009: Nil).

b) Executive directors

2010	Fees HK$'000	Salaries allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity settled share option expenses HK$'000	Pension scheme contributions HK$'000	Total HK$'000
Cai Sui Xin	–	–	–	–	–	–
Lau Yu	–	650	–	–	12	662
Li Xiao Juan	–	1,040	–	–	12	1,052
Ng Tze For	–	1,560	–	–	12	1,572
Zhao Cheng Shu	–	650	–	–	–	650
	–	3,900	–	–	36	3,936

8 DIRECTORS' REMUNERATION (continued)

b) Executive directors (continued)

2009	Fees HK$'000	Salaries allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity settled share option expenses HK$'000	Pension scheme contributions HK$'000	Total HK$'000
Cai Sui Xin	–	–	–	2,463	–	2,463
Lau Yu	–	200	50	1,859	4	2,113
Li Xiao Juan (appointed on 30 March 2009)	–	320	80	1,627	4	2,031
Ng Tze For	–	1,440	120	1,348	12	2,920
Zhao Cheng Shu (appointed on 2 April 2009)	–	200	–	1,859	–	2,059
Lee Sammy Sean (resigned on 5 August 2009)	63	–	–	–	–	63
Lui Ngok Che (resigned on 5 August 2009)	–	55	–	–	1	56
	63	2,215	250	9,156	21	11,705

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2009: five) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2009: Nil) non-director, highest paid employees whose individual remuneration fell within the range of HK$Nil to HK$1,000,000 is as follows:

	2010 HK$'000	2009 HK$'000
Salaries, allowances and benefits in kind	**708**	–
Retirement scheme contributions	**12**	–
	720	–

10 INCOME TAX EXPENSE

No Hong Kong profits tax has been provided as the Group has available tax losses brought forward from previous years for offsetting the assessable profits generated during the year (2009: 16.5%). Taxes on profits assessable in the PRC have been calculated at the rates of tax applicable to the subsidiaries operating therein, based on existing legislation, interpretations and practices in respect thereof. Shanxi Loudong-General Nice Coking & Gas Co., Ltd. is subject to a statutory tax rate of 25%.

The major components of income tax expense for the year are as follows:

	2010 **HK$'000**	2009 HK$'000
Group:		
Charge for the year		
Current – Hong Kong	**–**	708
Current – PRC	**150,976**	121,249
Deferred (note 33)	**9,272**	19,970
Total tax charge for the year	**160,248**	141,927

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the jurisdictions in which the Company and the majority of its subsidiary are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rate (i.e. the statutory rates) to the effective tax rates, is as follows:

Group – 2010

	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit/(loss) before tax from continuing operations	**(51,627)**		**498,461**		**446,834**	
Tax at the statutory tax rate	**(8,518)**	**16.5**	**124,615**	**25.0**	**116,097**	**26.0**
Prior year tax loss not utilised	**(310)**	**0.6**	**–**	**–**	**(310)**	**(0.1)**
Income not subject to tax	**(166)**	**0.3**	**(547)**	**(0.1)**	**(713)**	**(0.2)**
Expenses not deductible for tax	**8,994**	**(17.4)**	**36,180**	**7.2**	**45,174**	**10.1**
Tax charge at effective tax rate	**–**	**–**	**160,248**	**32.1**	**160,248**	**35.8**

10 INCOME TAX EXPENSE (continued)

Group – 2009

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax from continuing operations	(103,206)		439,833		336,627	
Tax at the statutory tax rate	(17,029)	16.5	109,958	25.0	92,929	27.6
Deferred tax assets not recognised	6,200	(6.0)	–	–	6,200	1.8
Expenses not deductible for tax	10,829	(10.5)	30,789	7.0	41,618	12.4
Others	1,180	(1.1)	–	–	1,180	0.3
Tax charge at effective tax rate	1,180	(1.1)	140,747	32.0	141,927	42.1

In 2009, according to an agreement between Shanxi Loudong and the local tax bureau, Shanxi Loudong is granted a grace period to settle the outstanding corporate income tax payable brought forward from previous years with a total amount of approximately RMB78,459,000 (equivalent to approximately HK$89,108,000) no later than the end of year 2011. Moreover, Shanxi Loudong is granted to settle approximately RMB11,825,000 (equivalent to approximately HK$13,429,000) of outstanding value-added tax payable brought forward from previous years no later than the end of year 2011. Both balances had been recorded as other long-term payable as at 31 December 2009.

11 PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2010 includes a loss of HK$49,078,000 (2009: HK$22,505,000) which has been dealt with in the financial statements of the Company (Note 36(b)).

12 DISCONTINUED OPERATION

Disposal of the hotel operation business

On 29 October 2008, City Joint Investments Limited, a wholly-owned subsidiary of the Company, entered into a sale agreement to dispose of the entire interests in Rolling Development Limited and New Point Management Limited, both indirect wholly-owned subsidiaries of the Company. The disposal was completed on 22 January 2009 for a consideration of HK$80 million.

Disposal of the property investment business

On 29 October 2008, the Company entered into a sale agreement to dispose of the entire interest in New Fortune Development Limited, a wholly-owned subsidiary of the Company. The disposal was completed on 12 January 2009 for a consideration of HK$63 million.

The results of the discontinued operations included in the statement of comprehensive income are as follows:

	2010 HK$'000	2009 HK$'000
Revenue and other income	–	6,454
Expenses	–	(510)
Profit before tax from the discontinued operations	–	5,944
Income tax expense	–	(1,148)
Profit for the year from the discontinued operations	–	4,796

13 DIVIDENDS

	2010 HK$'000	2009 HK$'000
Interim – HK0.5 cent (2009: Nil) per ordinary share	**9,125**	–
Proposed final – HK2 cents (2009: Nil) per ordinary share	**36,717**	–
	45,842	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The amount of HK$36,717,000 is based on 1,835,853,814 issued shares as at 28 March 2011.

14 EARNINGS PER SHARE

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the placement and subscription of new shares and conversion of convertible notes to new shares during the year.

The calculation of basic earnings per share for the profit for the year is as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Earnings		
Profit attributable to ordinary owners of the Company		
From continuing operations	**187,236**	45,618
From a discontinued operation	**–**	4,796
Profit attributable to ordinary equity holders of the Company before interest on convertible notes	**187,236**	50,414
Attributable to:		
From continuing operations	**187,236**	45,618
From a discontinued operation	**–**	4,796
	187,236	50,414

	Number of shares	
	2010	2009
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the year	**1,501,043**	697,593
Effect of dilution – weighted average number of ordinary shares:		
Share options	**4,533**	4,056
	1,505,576	701,649

Because the diluted earnings per share amount is increased when taking convertible notes into account, the convertible notes have an anti-dilutive effect on the basic earnings per share for the years and were ignored in the calculation of diluted earnings per share. Therefore, diluted earnings per share amounts are based on the profit for the year and profit attributable to continuing operations of HK$187,236,000 (2009: HK$50,414,000), and the weighted average number of ordinary shares in issue and effect from share options resulting of 1,505,576,000 (2009: 701,649,000) during the year.

15 PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings HK$'000 (restated)	Plant facilities HK$'000	Office equipment HK$'000	Machinery HK$'000	Motor vehicles HK$'000	Plant infrastructure HK$'000	Leasehold improvements, furniture and fixtures HK$'000	Construction in progress HK$'000	Total HK$'000 (restated)
31 December 2010									
At 1 January 2010									
Cost	17,023	804,424	32,368	1,008,441	21,564	284,448	1,078	235,228	2,404,574
Accumulated depreciation	(793)	(34,684)	(4,193)	(64,662)	(2,592)	(17,221)	(400)	–	(124,545)
Net book value	16,230	769,740	28,175	943,779	18,972	267,227	678	235,228	2,280,029
At 1 January 2010, net of accumulated depreciation	16,230	769,740	28,175	943,779	18,972	267,227	678	235,228	2,280,029
Additions	–	956	222	6,240	5,317	–	3	321,887	334,625
Capitalised interest (note 7)	–	–	–	–	–	–	–	22,530	22,530
Depreciation provided during the year	(996)	(27,636)	(3,340)	(62,237)	(3,149)	(5,887)	(27)	–	(103,272)
Disposals	–	(169,787)	–	(37,465)	–	–	(24)	–	(207,276)
Written off	–	–	(91)	(64)	(494)	–	–	–	(649)
Transfer from construction in progress		–	–	14,575	–	–	–	(14,575)	–
Transfer to construction in progress	–	(65,612)	–	(26,128)	–	(11,419)	–	103,159	–
Exchange realignment	748	28,185	1,019	34,499	404	2,773	–	9,146	76,774
At 31 December 2010, net of accumulated depreciation	15,982	535,846	25,985	873,199	21,050	252,694	630	677,375	2,402,761
At 31 December 2010									
Cost	18,125	544,193	33,754	973,574	27,412	273,963	1,054	677,375	2,549,450
Accumulated depreciation	(2,143)	(8,347)	(7,769)	(100,375)	(6,362)	(21,269)	(424)	–	(146,689)
Net book value	15,982	535,846	25,985	873,199	21,050	252,694	630	677,375	2,402,761

15 PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Leasehold land and buildings HK$'000 (restated)	Plant facilities HK$'000	Office equipment HK$'000	Machinery HK$'000	Motor vehicles HK$'000	Plant infrastructure HK$'000	Leasehold improvements, furniture and fixtures HK$'000	Construction in progress HK$'000	Total HK$'000 (restated)
31 December 2009									
At 1 January 2009									
Cost	1,145	803,025	32,114	979,447	18,214	283,929	863	400,300	2,519,037
Accumulated depreciation	(610)	(8,009)	(1,038)	(9,634)	(634)	(4,707)	(223)	–	(24,855)
Net book value	535	795,016	31,076	969,813	17,580	279,222	640	400,300	2,494,182
At 1 January 2009, net of accumulated depreciation	535	795,016	31,076	969,813	17,580	279,222	640	400,300	2,494,182
Additions	15,831	–	200	16,226	3,395	–	215	10,796	46,663
Transfer from construction in progress	–	–	–	199,406	–	–	–	(199,406)	–
Disposals	–	–	–	(187,131)	(48)	–	–	–	(187,179)
Capitalised interest	–	–	–	–	–	–	–	23,037	23,037
Depreciation provided during the year	(178)	(26,512)	(3,146)	(54,548)	(1,972)	(12,327)	(177)	–	(98,860)
Exchange realignment	42	1,236	45	13	17	332	–	501	2,186
At 31 December 2009, net of accumulated depreciation	16,230	769,740	28,175	943,779	18,972	267,227	678	235,228	2,280,029
At 31 December 2009									
Cost	17,023	804,424	32,368	1,008,441	21,564	284,448	1,078	235,228	2,404,574
Accumulated depreciation	(793)	(34,684)	(4,193)	(64,662)	(2,592)	(17,221)	(400)	–	(124,545)
Net book value	16,230	769,740	28,175	943,779	18,972	267,227	678	235,228	2,280,029

Certain property, plant and equipment with a net book value of approximately HK$86,566,000 (2009: HK$15,688,000) were pledged to secure general banking facilities granted to the Group (note 30).

The Group's land and building included in property, plant and equipment with a net carrying amount of HK$15,381,000 (2009: HK$15,698,000) is situated in Hong Kong and is held under a long term lease.

15 PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Office equipment HK$'000	Total HK$'000
31 December 2010		
At 1 January 2010		
Cost	**65**	**65**
Accumulated depreciation	**(13)**	**(13)**
Net book value	**52**	**52**
At 1 January 2010, net of accumulated depreciation	**52**	**52**
Depreciation provided during the year	**(13)**	**(13)**
At 31 December 2010, net of accumulated depreciation	**39**	**39**
At 31 December 2010		
Cost	**65**	**65**
Accumulated depreciation	**(26)**	**(26)**
Net book value	**39**	**39**
31 December 2009		
Additions	65	65
Depreciation provided during the year	(13)	(13)
At 31 December 2009, net of accumulated depreciation	52	52
At 31 December 2009		
Cost	65	65
Accumulated depreciation	(13)	(13)
Net book value	52	52

16 INVESTMENT PROPERTIES

	2010 **HK$'000**	2009 HK$'000
Carrying amount at 1 January	**11,199**	9,660
Disposal	**(6,089)**	–
Net gain from a fair value adjustment	**2,189**	1,539
Carrying amount at 31 December	**7,299**	11,199

The Group's investment properties located in Beijing were revalued on 31 December 2010 by RHL Appraisal Limited, independent professionally qualified valuers, at HK$7,299,000 (2009: HK$11,199,000) on an opening market, existing use basis. The investment property is leased to a third party under operating leases, further summary detail of which is included in note 41 to the financial statements.

These properties were pledged to secure general banking facilities granted to the Group (note 30).

17 PREPAID LAND PREMIUMS

	2010 **HK$'000**	2009 HK$'000 (Restated)
Cost:		
At 1 January	**38,092**	38,021
Currency realignment	**1,393**	71
At 31 December	**39,485**	38,092
Accumulated amortisation:		
At 1 January	**1,167**	249
Charge for the year	**917**	906
Currency realignment	**65**	12
At 31 December	**2,149**	1,167
Net book value:		
At 31 December	**37,336**	36,925

The leasehold land is held under a long term lease and is situated in the PRC.

18 INTEREST IN AN ASSOCIATE

	2010 **HK$'000**	2009 HK$'000
Share of net assets	**1,320**	1,108
Goodwill on acquisition	**4,684**	4,684
Unlisted shares, at cost	**6,004**	5,792

Particulars of the associate of the Group at 31 December 2010 and 31 December 2009 is as follows:

Name	Place of Incorporation/ registration	Issue/paid up capital	Percentage of equity interest attributable to the Group	Principal activities
Nan Tie Lou Jun Coke Transportation Co., Ltd. ("Nan Tie")*	Shanxi Province, the PRC	RMB10,000,000	19%	Provision of loading storage and transportation service for coke, washed coals and raw coals

* Ascenda Cachet CPA Limited are not the statutory auditors

A summary of financial information of the associate extracted from their management accounts is set out as follows:

	2010 **HK$'000**	2009 HK$'000
Assets	**38,350**	21,028
Liabilities	**22,627**	6,635
Revenues	**20,628**	10,546
Profit	**778**	49

19 AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2010	2009
	HK$'000	HK$'000
Unlisted investment, at cost	**6,281**	5,679

The above investment consists of investment in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

As at 31 December 2010, unlisted equity investments with a carrying amount of HK$6,281,000 (2009: HK$5,679,000) were stated at cost because the range of reasonable fair value estimates cannot be measured reliably. The Group does not intend to dispose of them in the near future.

20 GOODWILL

	2010	2009
	HK$'000	HK$'000
January 1	**330,083**	50,083
Acquisition of a subsidiary	**–**	280,000
31 December	**330,083**	330,083
As at 31 December		
Cost	**901,222**	901,222
Accumulated impairment	**(571,139)**	(571,139)
	330,083	330,083

Impairment test of goodwill

Goodwill acquired through the business combination has been allocated to the coke cash generating unit. For the purpose of impairment testing, the recoverable amounts of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five year period with a growth rate beyond the time horizon, which is approved by senior management. At 31 December 2010, the discount rate applied to cash flow projections is 15% (2009: 15%). Key assumptions used in the value in use calculation for 31 December 2010 are as follows:

20 GOODWILL (continued)

Impairment test of goodwill (continued)

Revenues

Future revenues are estimated based on annual output taking into account the designed capacity at expected future commodity prices.

Commodity prices

Future commodity prices are estimated by management based on their industry experience, historic price trends and independent expert commentaries.

Discount rates

The discount rates used is based on a weighted average cost of capital, and is real rate, reflecting specific risks relating to the relevant cash generating units.

Growth rates

Cash flows beyond the five year forecast period are assumed to grow at a constant 2% (2009: 2%) per annual, based on expected long term inflation rates in the PRC.

21 OTHER LONG-TERM ASSETS

	2010 **HK$'000**	2009 HK$'000
January 1	**200,000**	–
Deposits paid for acquisition of an associate	**235,447**	200,000
Exchange realignment	**7,194**	–
31 December	**442,641**	200,000

During the year, Shanxi Loudong, a subsidiary of the Company, paid deposits amounting to HK$235,447,000 (2009: HK$200,000,000) to acquire 30% equity interest in Shanxi Linxian Taiye Coal Mining company Limited ("Linxian Taiye"), a coal mining company. As at the date of approval of these financial statements, the acquisition has not yet been completed. Further details are set out in note 42(ii).

22 INVESTMENTS IN SUBSIDIARIES

	2010 **HK$'000**	2009 HK$'000
Unlisted shares, at cost	**–***	–

* The investment at cost has been presented as nil as a result of rounding.

Due from subsidiaries:

	2010 **HK$'000**	2009 HK$'000
Non-current	**1,350,005**	1,350,005
Less: Impairment provision	**(571,139)**	(571,139)
	778,866	778,866
Current	**1,285,564**	488,090
	2,064,430	1,266,956

The due from the subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The classification of non-current due from subsidiaries has been determined based on the amount expected to be settled beyond one year from the end of the reporting period.

Due to subsidiaries:

	2010 **HK$'000**	2009 HK$'000
Current	**1,740**	1,740

The due to the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

22 INVESTMENTS IN SUBSIDIARIES (continued)

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. Details of the principal subsidiaries as at 31 December 2010 were:

Name	Place of incorporation/ registration and operation	Issue/paid up capital	Percentage of equity interest attributable to the Group	Principal activities
Kingfund Corporation Limited	Hong Kong	HK$1	100%	Property investment
Abterra Coal & Coke Limited	Hong Kong	HK$10,000	100%	Investment holding
City Joint Investments Limited	British Virgin Islands	US$1	100%	Investment holding
Buddies Power Enterprises Limited	British Virgin Islands	US$1	100%	Investment holding
Fortune Smart Investment Limited	Hong Kong	HK$1	100%	Property management
Shanxi Loudong*#	PRC	RMB446 million	94.48% ^	Coke extracting and the manufacture of relevant chemicals
Super Energy Limited	Hong Kong	HK$1	100%	Administrative function
General Nice-Loudong Coal & Coke Limited	British Virgin Islands	US$50,000	100%	Investment holding

* Ascenda Cachet CPA Limited are not the local statutory auditors.

\# The subsidiary is registered as Sino-foreign investment enterprise under the PRC law

^ As at 31 December 2009, the Group held 50.1% equity interests in Shanxi Loudong. In July 2010, the Group further acquired 39.9% equity interests in Shanxi Loudong, and the Group's equity interests in Shanxi Loudong increased to 90%. In September 2010, a capital injection amounting to RMB200,000,000 was made to Shanxi Loudong by the Group. As the non-controlling shareholder did not contribute any fund, the capital injection resulted in an increase in the equity interests of the Group in Shanxi Loudong to 94.48%.

23 INVENTORIES

	2010 HK$'000	2009 HK$'000
Raw materials	**175,604**	99,397
Work in progress	**33,432**	16,032
Finished goods	**113,694**	357,703
Spare parts and consumable	**873**	717
	323,603	473,849

24 TRADE AND BILLS RECEIVABLES

	2010 HK$'000	2009 HK$'000
Trade receivables	**321,398**	138,091
Bills receivables	**74,632**	74,071
Impairment	**(28,252)**	(27,254)
	367,778	184,908

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group's customers are concentrated in the steel making industry. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date is as follows:

	2010 HK$'000	2009 HK$'000
Current	**93,245**	87,548
31-60 days	**193,790**	472
61-90 days	**3,297**	3,873
91-365 days	**10,851**	6,199
Over 1 year	**20,215**	39,999
	321,398	138,091

The movements in the provision for impairment of trade receivables are as follows:

	2010 HK$'000	2009 HK$'000
At 1 January	**27,254**	65,350
Impairment losses reversed (note 6)	**–**	(38,096)
Exchange realignment	**998**	–
At 31 December	**28,252**	27,254

The above provision for impairment of trade receivables is in relation to individually impaired trade receivables with a carry amount of HK$31,066,000 (2009: HK$33,168,000). The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

24 TRADE AND BILLS RECEIVABLES (continued)

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	2010	2009
	HK$'000	HK$'000
Neither past due nor impaired	**281,727**	90,312
Less than 1 month past due	**91**	1,995
1 to 3 months past due	**8,348**	2,066
3 to 12 months past due	**166**	4,959
1 year past due	**–**	5,591
	290,332	104,923

Receivables that were neither overdue nor impaired relate to a large number of diversified customers for who there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

25 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2010	2009
	HK$'000	HK$'000
Advances to suppliers	**541,713**	531,514
Other receivables	**136,885**	63,860
	678,598	595,374

None of the above assets are either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

26 EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2010 HK$'000	2009 HK$'000
Listed equity investments, at market value:		
PRC	**588**	568

The above equity investments at 31 December 2009 and 2010 were classified as held for trading.

27 CASH AND CASH EQUIVALENTS

	Group		Company	
	2010 **HK$'000**	2009 HK$'000	**2010** **HK$'000**	2009 HK$'000
Cash and bank balances	**1,032,081**	193,976	**4,627**	4,417
Less: time deposits pledged as security	**(997,355)**	(134,908)	**–**	–
Cash and cash equivalents	**34,726**	59,068	**4,627**	4,417

At the end of the reporting period, the cash and bank balance of Group denominated in Renminbi ("RMB") amounted to HK$1,024,403,000 (2009: HK$177,557,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group was permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

28 TRADE AND BILLS PAYABLES

	2010 HK$'000	2009 HK$'000
Trade payable	**263,488**	90,702
Bills payable	**483,235**	154,117
	746,723	244,819

An aged analysis of the trade payables as at the end of the reporting period, based on invoice date are as follows:

	2010 HK$'000	2009 HK$'000
Current	**168,161**	28,301
31-60 days	**61,595**	9,726
61-90 days	**942**	1,873
90-365 days	**13,731**	30,136
Over 1 year	**19,059**	20,666
	263,488	90,702

The trade payables are interest-free and are normally settled on 90-day terms.

29 OTHER PAYABLES AND ACCRUALS

	2010 HK$'000	2009 HK$'000
Customer advances	**420,111**	29,112
Value-added tax payable	**80,462**	60,958
Other payables	**51,329**	109,931
Accruals	**18,408**	12,182
	570,310	212,183

Other payables are interest-free and have an average term of three months.

30 INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	2010 Effective interest rate (%)	2010 Maturity	2010 HK$'000	2009 Effective interest rate (%)	2009 Maturity	2009 HK$'000
Current						
Bank loans – secured	**5.576% – 6.903%**	**2011**	**343,583**	4.86% – 7.43%	2010	210,558
Current portion of loan from local credit corporation – secured	**5.410%**	**2011**	**22,396**	10.18%	2010	9,086
Current portion of a long term bank loan – secured	**3.5%**	**2011**	**397**	3.00% – 3.25%	2010	2,451
			366,376			222,095
Non-current						
Bank loan – secured	**3.5%**	**2012 – 2031**	**9,585**	3.00% – 3.25%	2011 – 2031	9,532
Loan from local credit Corporation-secured	**5.410%**	**2013**	**48,238**	–	–	–
			57,823			9,532
Other borrowing:						
Loan from non-financial Institutions-unsecured	**28%**	**No fixed term**	**14,103**	28%	No fixed term	13,606
			71,926			23,138
			438,302			245,233

Group	2010 HK$'000	2009 HK$'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**343,980**	213,009
In the second year	**410**	396
In the third to fifth years, inclusive	**1,312**	1,270
Beyond five years	**7,863**	7,866
	353,565	222,541
Other borrowings repayable:		
Within one year	**22,396**	9,086
In the second year	**37,571**	13,606
In the third to fifth years, inclusive	**24,770**	–
Beyond five years	**–**	–
	84,737	22,692
	438,302	245,233

30 INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Notes:

Certain of the Group's bank loans are secured by:

(i) mortgages over the Group's investment properties situated in Beijing, which had an aggregate carrying value at the end of the reporting period of HK$7,299,000 (2009: HK$11,199,000);

(ii) mortgages over the Group's buildings, which had an aggregate carrying value at end of the reporting period of approximately HK$15,381,000 (2009: HK$15,698,000);

(iii) mortgages over the Group's machinery, which had an aggregate carrying value at the end of the reporting period of approximately HK$71,185,000 (2009: HK$Nil); and

(iv) the pledge of certain of the Group's time deposits amounting to HK$997,355,000 (2009: HK$134,908,000).

The non-current loans from non-financial institutions represent funds received from various parties for working capital purposes, and are not repayable within the next 12 months. There are no fixed terms of repayment.

31 CONVERTIBLE NOTES

Convertible note 1

On 31 August 2008, the Company issued convertible note with a nominal value of HK$1,000,000,000 ("Convertible Note 1") as a partial consideration of the acquisition of 50.1% equity interest in Shanxi Loudong. The Convertible Note 1 carry interest at 2% per annum, payable annually, and are convertible at the option of the note holders into ordinary shares on the basis of one ordinary share for every HK$2.5 note held at any time from the date of issue up to seven business days preceding the maturity date. As a result of the open offer and subscription of new shares during the year ended 31 December 2009, the exercise price had been adjusted to HK$2.168 per share at 31 December 2009. The note holders may demand the Company to redeem the convertible notes if the trading of the shares has been suspended consecutively for more than 45 trading days. Any convertible notes not converted will be redeemed on 30 August 2011 at the principal amount outstanding together with all accrued and unpaid interest. During the year ended 31 December 2009, the convertible notes with nominal value of HK$300,000,000 were converted into 138,376,383 shares at conversion price of HK$2.168.

During the year ended 31 December 2010, as a result of the placing and subscription of shares, the exercise price has been adjusted to HK$2.146 per share. The remaining HK$700,000,000 convertible notes had been fully converted into 326,188,254 shares at conversion price of HK$2.146.

Convertible note 2

On 27 July 2010, the Company issued convertible note 2 with a nominal value of HK$250,000,000 ("Convertible Note 2") as a partial consideration for the acquisition of a further 39.9% equity interest in Shanxi Loudong. The Convertible Note 2 do not carry any interest. The note holders may demand the Company to redeem the convertible notes if the trading of the shares has been suspended consecutively for more than 45 trading days. Any Convertible Note 2 not converted will be redeemed on 26 July 2013 at the principal amount outstanding. Up to the end of the reporting period, Convertible Note 2 with nominal value of HK$165,000,000 had been converted into 110,000,000 shares at conversion price of HK$1.5.

The Convertible Note 2 were split into liability, derivative and equity components upon initial recognition by recognising the liability component and derivative component at their fair values and attributing to the equity component by the residual amount. The liability component was subsequently carried at amortised cost while the derivative component was carried at fair value to be remeasured at the end of each reporting period. The equity component was presented in equity heading "equity component of convertible notes".

31 CONVERTIBLE NOTES (continued)

The convertible notes issued have been split as to the derivative, liability and equity components, as follows:

	Derivative component HK$'000	Liability component HK$'000	Equity component HK$'000	Total HK$'000
At 1 January 2009	–	592,564	153,480	746,044
Interest charged during the year	–	85,994	–	85,994
Interest settled	–	(25,057)	–	(25,057)
Conversion into ordinary shares	–	(15,384)	(46,044)	(61,428)
At 31 December 2009 and 1 January 2010	**–**	**638,117**	**107,436**	**745,553**
Issued of Convertible Note 2 during the year	**(49,136)**	**199,956**	**99,180**	**250,000**
Fair value changes	**16,949**	**–**	**–**	**16,949**
Interest expense	**–**	**18,344**	**–**	**18,344**
Interest paid	**–**	**(4,082)**	**–**	**(4,082)**
Conversion into ordinary shares	**21,374**	**(782,074)**	**(172,895)**	**(933,595)**
At 31 December 2010	**(10,813)**	**70,261**	**33,721**	**93,169**

32 PROMISSORY NOTE

On 27 July 2010, the Company issued an unsecured promissory note with principal value of HK$60,000,000 as a partial consideration for the acquisition of a further 39.9% equity interest in Shanxi Loudong.

The promissory note bears no interest and is repayable in one lump sum on the date falling three years from the issue date of this note. The Company has the right to redeem the note prior to its maturity in integral multiples of HK$1,000,000.

The promissory note is subsequently measured at amortised cost, using an effective interest rate of 7.735%.

	2010 HK$'000	2009 HK$'000
Promissory note issued	**60,000**	–
Fair value changes on issuance of promissory note	**(12,011)**	–
	47,989	–
Interest charged during the year	**1,597**	–
	49,586	–

33 DEFERRED TAX

Deferred tax assets

Group

31 December 2010

	Bad debt provision HK$'000	Total HK$'000
At 1 January 2010	6,814	6,814
Exchange alignment	249	249
At 31 December 2010	7,063	7,063

Deferred tax liabilities

	Capitalised interest HK$'000	Book value in excess of tax base of prepaid land premiums HK$'000	Others HK$'000	Book value in excess of tax base of property, plant and equipment HK$'000	Total HK$'000
At 1 January 2010	16,101	2,279	516	15,630	34,526
Deferred tax charged/ (credited) to the statement of comprehensive income (note 10)	5,633	249	(14)	3,404	9,272
Exchange alignment	725	89	–	(1,063)	(249)
At 31 December 2010	22,459	2,617	502	17,971	43,549

3 DEFERRED TAX (continued)

Deferred tax assets

Group

31 December 2009

	Bad debt provision HK$'000	Inventory provision HK$'000	Total HK$'000
At 1 January 2009	16,338	4,527	20,865
Deferred tax charged to the statement of comprehensive income (note 10)	(9,542)	(4,531)	(14,073)
Exchange alignment	18	4	22
At 31 December 2009	6,814	–	6,814

Deferred tax liabilities

	Capitalised interest HK$'000	Book value in excess of tax base of prepaid land premiums HK$'000	Others HK$'000	Book value in excess of tax base of property, plant and equipment HK$'000	Total HK$'000
At 1 January 2009	10,484	2,030	369	14,815	27,698
Deferred tax charged/ (credited) to the statement of comprehensive income (note 10)	5,595	(699)	147	854	5,897
Exchange alignment	22	948	–	(39)	931
At 31 December 2009	16,101	2,279	516	15,630	34,526

33 DEFERRED TAX (continued)

Deferred tax liabilities (continued)

The Group has accumulative tax losses arising in Hong Kong of HK$75,855,000 (2009: HK$77,979,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in PRC. The requirement has become effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

At 31 December 2009, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of withholding taxes associated with investments in subsidiaries in the PRC for which deferred tax liabilities have not been recognised totaled approximately HK$25,942,000 (2009: HK$11,627,000)

34 SHARE CAPITAL

	2010 **HK$'000**	2009 HK$'000
Authorised: 200,000,000,000 (2009: 200,000,000,000) ordinary shares of HK$0.01 each	**2,000,000**	2,000,000
Issued and fully paid: 1,835,853,814 (2009: 991,237,903) ordinary shares of HK$0.01 each	**18,359**	9,912

34 SHARE CAPITAL (continued)

Issued and fully paid

	Number of shares '000	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2009	533,115	5,331	686,648	691,979
Share issued	458,123	4,581	581,110	585,691
At 31 December 2009 and 1 January 2010	991,238	9,912	1,267,758	1,277,670
Issue of new shares during the year:				
In January 2010 (note a(i))	167,502	1,676	249,578	251,254
In August 2010 (note a(ii))	229,143	2,291	272,680	274,971
Share issue expenses	–	–	(3,957)	(3,957)
Conversion of convertible notes (note b)	436,188	4,362	929,233	933,595
Share options exercised (note c)	11,783	118	9,097	9,215
Transfer from share options reserve	–	–	4,833	4,833
Share premium cancellation (note d)	–	–	(2,269,538)	(2,269,538)
At 31 December 2010	1,835,854	18,359	459,684	478,043

During the year, the movements in the issued share capital of the Company were as follows:

(a) *Placing of existing and new shares and top up subscription of new shares*

(i) On 15 January 2010, the Company entered into a placing agreement with GNR and Enlighten Securities Limited ("Enlighten") pursuant to which Enlighten agreed to place for GNR up to 167,502,000 existing ordinary shares of the Company at the placing price of HK$1.50 per placing share to not less than six placees who and whose ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the Listing Rules); and GNR agreed to subscribe up to 167,502,000 new shares of the Company at the subscription price equivalent to the placing price. The net proceeds of HK$249 million from the placing and subscription was used for payment of the acquisition of 39.9% equity interest of Shanxi Loudong. Upon completion of the subscription on 27 January 2010, a total of 167,502,000 new shares of the Company were issued at HK$1.50 per share. For further details, please refer to the Company's announcements dated 18 January 2010 and 27 January 2010.

(ii) On 3 August 2010, the Company entered into: (i) a placing agreement with GNR and BOCOM international Securities Limited ("BOCOM") pursuant to which BOCOM agreed to place for GNR up to 29,133,000 existing shares at the placing price of HK$1.20 per placing share to not less than six placees who and whose ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the Listing Rules); and (ii) a subscription agreement with GNR pursuant to which GNR agreed to subscribe up to 29,133,000 new shares of the Company at the subscription price of HK$1.20 per subscription share. Upon completion of the subscription on 12 August 2010, a total 29,133,000 new shares of the Company were issued at HK$1.20 per share.

34 SHARE CAPITAL (continued)

Issued and fully paid (continued)

(a) Placing of existing and new shares and top up subscription of new shares (continued)

(ii) *(continued)*

On 3 August 2010, the Company entered into a new share placing agreement with BOCOM pursuant to which BOCOM agreed to place, on a best effort basis, up to 200,010,000 new shares at the new shares placing price of HK$1.20 per new placing share to not less than six placees who and whose ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the Listing Rules). Upon completion of the placing on 17 August 2010, a total of 200,010,000 new shares of the Company were issued at HK$1.20 per share.

The net proceeds of approximately HK$272.7 million from the subscription and placing of shares was used for part payment of the acquisition of Linxian Taiye and for general working capital. For further details, please refer to the Company's announcements dated 3 August 2010 and 17 August 2010.

(b) Conversion of convertible note

During the year ended 31 December 2010, Convertible Note 1 in an aggregate amount of HK$700,000,000 were converted into 326,188,254 shares of the Company at an adjusted conversion price of HK$2.146 per share.

During the year ended 31 December 2010, Convertible Note 2 in an aggregate amount of HK$165,000,000 were converted into 110,000,000 shares of the Company at a conversion price of HK$1.5 per share.

(c) Exercise of share options

During the year ended 31 December 2010, share options to subscribe for 11,782,657 shares were exercised at an adjusted subscription price of HK$0.782 per share. Details of the share option scheme were set out in note 35.

(d) Share premium cancellation

Pursuant to a special resolution passed at the special general meeting on 15 October 2010, the share premium of the Company of HK$2,269,538,000 as at 30 June 2010 was cancelled and eliminated against the accumulated losses of the Company as at 30 June 2010 and the remaining balance was transferred to the contributed surplus account of the Company.

35 SHARE OPTION SCHEME

On 25 June 2007 (the "Adoption Date"), the Company adopted a share option scheme (the "Scheme") for the purpose of providing incentives to Participants (as defined in the Scheme) to contribute to the Group and/or to enable the Group to recruit high-caliber employees and attract resources that are valuable to the Group and the shareholders of the Company as a whole. Participants include the directors, employees, suppliers, customers and any shareholders of any members of the Group and, any person or entity which provides professional advice, consultancy services, research, development or other technical support to any member of the Group. Unless otherwise terminated or amended, the Scheme will remain in force for 10 years from the Adoption Date. The principal terms of the Scheme are summarised as follows:

(a) The maximum number of shares in respect of which share options may be granted under the Scheme must not exceed 10% of the number of shares of the Company in issue as at the Adoption Date. Subject to prior shareholders' approval, the Company may, at any time thereafter, refresh the scheme mandate limit to the extent not exceeding 10% of the shares in issue as at the date of the shareholders' approval. The shareholders approved the refreshment of the scheme limit at a special general meeting held on 15 October 2010. Following the refreshment, the maximum number of shares in respect of which options may be granted under the Scheme is 182,509,081 shares, representing 10% of the total number of shares in issue as at the date of refreshment of the scheme limit on 15 October 2010 and representing approximately 9.94% of the issued share capital of the Company as at 31 December 2010. The maximum number of shares to be issued under the share options granted to each Participant in the Scheme within any 12-month period is limited to 1% of the number of shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

(b) Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associated, in excess of 0.1% of the number of shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

(c) The offer of a grant of share options may be accepted within 14 days from the date of offer, upon payment of a consideration of HK$10.00 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on the expiry of six months after the date of grant and ends on a date which is not later than the expiry date of the Scheme.

(d) The exercise price of the share options is determinable by the directors, but shall not be less than the highest of (i) the closing price of the Company's shares stated in the Stock Exchange's daily quotation sheets on the date of grant; and (ii) the average closing price of the Company's shares stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share.

35 SHARE OPTION SCHEME (continued)

The following options were granted and outstanding under the Scheme during the year:

Name or category of participants	At 01/01/2010 after adjustment (Note 1)	Lapsed during the year	Exercised during the year	At 31/12/2010	Exercise period of the outstanding share options (Note 2)	Average closing price for exercise of options (Note 3)
Director						
Cai Sui Xin	6,004,621	–	(6,004,621)	–	N/A	HK$0.940
Zhao Cheng Shu	4,531,792	–	–	4,531,792	09/01/2010 to 24/06/2017	N/A
Lau Yu	4,531,792	–	(4,531,792)	–	N/A	HK$0.940
Ng Tze For	3,285,549	–	–	3,285,549	09/01/2010 to 24/06/2017	N/A
Li Xiao Juan	3,965,318	–	–	3,965,318	09/01/2010 to 24/06/2017	N/A
Cheung Siu Chung (resigned on 18/10/2010)	226,590	(226,590)	–	–	N/A	N/A
Li Xiao Long	226,590	–	–	226,590	09/07/2010 to 24/06/2017	N/A
Choy So Yuk	226,590	–	(226,590)	–	N/A	HK$0.930
Lo Tung Sing, Tony (resigned on 01/02/2010)	226,590	(226,590)	–	–	N/A	N/A
Sub-total	23,225,432	(453,180)	(10,763,003)	12,009,249		
Other employees (in aggregate)	1,359,539	–	(1,019,654)	339,885	09/01/2010 to 24/06/2017	HK$1.559
Total	24,584,971	(453,180)	(11,782,657)	12,349,134		

35 SHARE OPTION SCHEME (continued)

Notes:

1. These share options were granted on 9 July 2009 at an exercise price of HK$0.886 per share. As a result of completion of the open offer by the Company in July 2009, the exercise price of the share options was adjusted from HK$0.886 to HK$0.782 per share and the number of share options was adjusted accordingly.

2. The vesting period of the share options is from the date of grant until the commencement of the exercise period.

3. The average closing reference price represented the average of the closing prices of the Company's shares immediately before the dates on which the options were exercised during the year, weighted by the number of the options exercised.

4. During the year, no option was granted or cancelled.

The 11,782,657 share options exercised at a price of HK$0.782 per share during the year resulted in the issue of 11,782,657 ordinary shares of the Company and new share capital of HK$117,827 and share premium of approximately HK$9,097,000, as further detailed in note 34 to the financial statements.

At the end of the reporting period, the Company had 12,349,134 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 12,349,134 additional ordinary shares of the Company and additional share capital of HK$123,491 and share premium of approximately HK$9,534,000.

At the date of approval of these financial statements, the Company had 12,349,134 share options outstanding under the Scheme, which represented approximately 0.67% of the Company's shares in issue as at that date.

36 RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the years are presented in the consolidated statement of changes in equity on page 35 of the financial statements.

36 RESERVES (continued)

(b) Company

	Share premium account HK$'000	Capital reserve HK$'000	Contribution surplus HK$'000 (Note 34(d))	Share option reserve HK$'000 (Note 35)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2009	686,648	160,670	–	–	(884,474)	(37,156)
Issue of ordinary shares through rights issue	136,704	–	–	–	–	136,704
Issue of ordinary shares through placement	130,442	–	–	–	–	130,442
Conversion of convertible notes	313,964	–	–	–	–	313,964
Equity-settled share option arrangement	–	–	–	10,085	–	10,085
Total comprehensive income	–	–	–	–	(22,505)	(22,505)
At 31 December 2009 And at 1 January 2010	1,267,758	160,670	–	10,085	(906,979)	531,534
Issue of ordinary shares through placements	518,301	–	–	–	–	518,301
Conversion of convertible notes	929,233	–	–	–	–	929,233
Shares issued arising from exercise of share options	13,930	–	–	(4,833)	–	9,097
Share options lapsed	–	–	–	(186)	186	–
Share premium cancellation	(2,269,538)	–	1,793,552	–	475,986	–
Interim dividend	–	–	(9,125)	–	–	(9,125)
Total comprehensive income	–	–	–	–	(49,078)	(49,078)
At 31 December 2010	459,684	160,670	1,784,427	5,066	(479,885)	1,929,962

37 DISPOSAL OF SUBSIDIARIES

	2010 HK$'000	2009 HK$'000
Net assets disposed of:		
Trade receivable	–	877
Prepayments and other receivables	–	60
Accruals and other payables	–	(477)
	–	460
Gain on disposal of subsidiaries	–	–
	–	460
Satisfied by:		
Due from a former director	–	460

An analysis of the net flow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2010 HK$'000	2009 HK$'000
Cash consideration	–	–
Cash and bank balances disposed of	–	–
Net flow of cash and cash equivalents in respect of the disposal of subsidiaries	–	–

38 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Acquisition of the 39.9% equity interest in Shanxi Loudong

As disclosed in notes 31 and 32 to the financial statements, during the year, the Group had issued convertible notes and promissory note in the principal amounts of HK$250 million and HK$60 million, respectively, together with cash amount of HK$290 million to Hing Lou Resources Limited as consideration for the acquisition of the 39.9% equity interest in Shanxi Loudong.

38 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Waiver of the increased consideration for the acquisition 50.1% equity interest in Shanxi Loudong

Pursuant to the sale and purchase agreement dated 8 December 2007, as supplemented by supplemental agreements, entered between GNR and Buddies Power Enterprises Limited, a subsidiary of the Company, the consideration for the acquisition of 50.1% equity interest in Shanxi Loudong shall be increased by HK$280 million in the event that the aggregate audited attributable net profits of 50.1% equity interest in Shanxi Loudong for the financial years ended 31 December 2008 and 2009 exceeds HK$230 million, such increased amount is to be satisfied by way of Buddies Power Enterprises Limited procuring the Company to issue a promissory note in the principal amount of the increased consideration of HK$280 million to GNR. The targeted profits for the abovesaid financial years were made. The increased consideration was included in the financial statements for the year ended 31 December 2009 as Goodwill and amount due to GNR of HK$280 million.

On 26 August 2010, GNR, Buddies Power Enterprises Limited and the Company entered into a deed of waiver, pursuant to which, GNR agreed to waive the liability due from the Group. Accordingly, the Group had transferred the amount due to GNR to capital reserve and no adjustment to the goodwill previously recorded.

39 CONTINGENT LIABILITIES

As at 31 December 2010, a subsidiary of the Company has discounted bills receivable amounting to HK$72,794,000 (2009: HK$56,701,000) which have not reached maturity.

40 PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are set out in note 30 to the financial statements.

41 OPERATING LEASE ARRANGEMENTS

As lessor

The Group lease its investment properties (note 16) under operating lease arrangements, with leases negotiated for terms of 10 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

In addition, the Group leased certain property, plant and machinery to mining companies, which supply coal to Shanxi Loudong in prior year (2010: Nil).

41 OPERATING LEASE ARRANGEMENTS (continued)

As lessor (continued)

At 31 December 2010, the Group had total future minimum lease receivables under non-cancellable operating leases within its tenants falling due as follows:

	2010 HK$'000	2009 HK$'000
Within one year	**114**	20,164
In the second to fifth years, inclusive	**455**	80,656
After the fifth years	**426**	125,320
	995	226,140

As lessee

The Group leases certain of its office properties and premise under operating lease arrangement. Leases for properties and premise are negotiated for terms ranging from one to two years.

At 31 December 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2010 HK$'000	2009 HK$'000
Within one year	**224**	336
In the second to fifth years, inclusive	**–**	224
	224	560

42 COMMITMENTS

	2010 HK$'000	2009 HK$'000
Contracted, but not provided for:		
In respect of:		
Acquisition of 30% equity interest in Linxian Taiye (Note (ii))	**381,425**	–
	381,425	–
Authorised, but not contracted for:		
In respect of:		
Acquisition of 39.9% equity interest in Shanxi Loudong (Note (i))	**–**	600,000
	–	600,000

42 COMMITMENTS (continued)

(i) On 9 November 2009, the Group entered into an agreement (as supplemented by a supplemental agreement dated 25 May 2010) to acquire a further 39.9% equity interest in Shanxi Loudong at consideration of HK$600 million satisfied by cash of HK$290 million, convertible notes of HK$250 million and HK$60 million by issuing promissory note. The acquisition has been completed during the year ended 31 December 2010.

(ii) on 16 September 2009, the Shanxi Loudong entered into a memorandum of understanding with an independent third party to acquire 49% equity interests in Linxian Taiye. A deposit of RMB176 million (equivalent to HK$200,000,000) was paid upon signing of the memorandum of understanding. On 4 May 2010, Shanxi Loudong entered into an agreement with the independent third party to revise the acquisition to 30% equity interest in Linxian Taiye at a total consideration of RMB700 million (equivalent to HK$824,066,000). During the year, an additional amount of RMB200 million (equivalent to HK$242,641,000) was paid by the Group. The aggregate amount paid by the Group reached RMB376 million (equivalent to HK$442,641,000) at the end of the reporting period. As additional time is required to finalise certain information, the acquisition has not been completed at the date of approval of these financial statements.

43 RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	**2010 HK$'000**	2009 HK$'000
Related party:			
Sales of products to Shanxi Da Jin International (Group) Corporation, a non-controlling shareholder of Shanxi Loudong	(i)	**92,390**	–
Shareholder:			
Sales of products	(i)	**399,192**	–
Associate:			
Transportation fee	(ii)	**4,546**	13,651
Related party:			
Storage charged by Tianjin General Nice Coke & Chemicals Co Limited		**997**	–
Director:			
Rental expense		**336**	–

43 RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Note:

(i) The sales to the related party and the shareholder were made according to the published prices and conditions offered to the major customers of the Group.

(ii) The transportation fee paid were according to the published prices and conditions offered by the related company to their major customers.

(b) Outstanding balances with related parties

The balances with a shareholder and related parties are unsecured, interest-free and have no fixed terms of repayment. These balances represented cash advances to or from those related parties and were non-trade in nature. The carrying amounts of these balances approximated to their fair values as at the end the reporting period.

The detailed breakdown of amounts with related parties and a shareholder is as follows:

Outstanding balances with related parties:

(i) Current portion

	2010 HK$'000	2009 HK$'000
Due from related companies:		
GNT	**29,564**	29,564
Shanxi Minerals Industrial & Trading Co., Ltd	**–**	4,739
Shanxi Nan Tie Lou Jun Coke Transportation Co., Ltd ("Nan Tie")	**384**	370
Shanxi Da Jin International (Group) Corporation	**112,873**	–
	142,821	34,673
Due to related companies:		
GND	**584**	583
GNCC	**997**	–
Xiaoyi Loudong Industry & Trading Group Company	**158,693**	–
Nan Tie	**–**	6,009
	160,274	6,592

43 RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties (continued)

(ii) Non-current portion

	2010 HK$'000	2009 HK$'000
Loan from related companies:		
GND	**209,857**	271,994
GNT	**2,736**	108,668
GNR	**862**	–
Xiaoyi Loudong Industry & Trading Group Company	**–**	144,178
	213,455	524,840

(c) Outstanding balances with shareholders

Current portion

	2010 HK$'000	2009 HK$'000
Due to shareholders:		
GNR	**13,319**	291,223
Hing Lou Resources Limited	**153,242**	–
	166,561	291,223

On 26 August 2010, GNR, Buddies Power Enterprises Limited and the Company entered into a deed of waiver, pursuant to which, GNR agreed to waive the obligations of the Group under the agreements for acquisition of 50.1% equity interest of Shanxi Loudong to issue a promissory note for the increased consideration of HK$280 million (note 38).

(d) Outstanding balances with a director

Current portion

	2010 HK$'000	2009 HK$'000
Due to a director:		
Li Xiao Juan	**–**	12

43 RELATED PARTY TRANSACTIONS (continued)

(e) Compensation of key management personnel of the Group

	2010 HK$'000	2009 HK$'000
Short term employee benefits	**3,900**	3,199
Post-employment benefits	**36**	40
Total compensation paid to key management personnel	**3,936**	3,239

Further detail of key management emoluments are included in note 8 to the financial statements.

44 FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group
31 December 2010
Financial assets

	Financial assets at fair value through profit or loss-held for trading HK$'000	Loan and receivables HK$'000	Available for sale financial assets HK$'000	Total HK$'000
Available-for-sale investment	–	–	6,281	6,281
Trade and bills receivables	–	367,778	–	367,778
Financial assets included in prepayments, deposits and other receivables	–	136,885	–	136,885
Due from related companies	–	142,821	–	142,821
Derivative financial instruments	10,813	–	–	10,813
Equity investments at fair value through profit or loss	588	–	–	588
Pledged deposits	–	997,355	–	997,355
Cash and cash equivalents	–	34,726	–	34,726
	11,401	1,679,565	6,281	1,697,247

44 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

31 December 2010
Financial liabilities

	Financial liabilities at amortised cost HK$'000
Interest-bearing bank and other borrowings, secured	**366,376**
Amounts due to related companies	**160,274**
Amount due to shareholders	**166,561**
Long-term bank loans, secured	**57,823**
Loans from related companies	**213,455**
Loans from non-financial institutions, secured	**14,103**
Trade and bills payables	**746,723**
Financial liabilities included in other payables and accruals (Note 29)	**570,310**
Convertible notes	**70,261**
Promissory note	**49,586**
	2,415,472

Group
31 December 2009
Financial assets

	Financial assets at fair value through profit or loss-held for trading HK$'000	Loan and receivables HK$'000	Available for sale financial assets HK$'000	Total HK$'000
Available-for-sale investment	–	–	5,679	5,679
Trade receivables	–	184,908	–	184,908
Financial assets included in prepayments, deposits and other receivables	–	63,860	–	63,860
Amounts due from related companies	–	34,673	–	34,673
Equity investments at fair value through profit or loss	568	–	–	568
Pledged deposits	–	134,908	–	134,908
Cash and cash equivalents	–	59,068	–	59,068
	568	477,417	5,679	483,664

44 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

31 December 2009
Financial liabilities

	Financial liabilities At amortised cost HK$'000
Interest-bearing bank and other borrowings, secured	222,095
Amounts due to related companies	6,592
Amount due to a shareholder	291,223
Amount due to a director	12
Long-term bank loans, secured	9,532
Loans from related companies	524,840
Loans from non-financial institutions, secured	13,606
Trade and bills payables	244,819
Financial liabilities included in other payables and accruals (Note 29)	212,183
Convertible notes	638,117
	2,163,019

Company
Financial assets

	2010 Loans and receivables HK$'000	2009 Loans and receivables HK$'000
Amounts due from subsidiaries	**2,064,430**	1,266,956
Amount due from a related company	**29,564**	29,564
Due from a shareholder	**10,000**	–
Financial assets included in prepayments, deposits and other receivable	**522**	292
Cash and cash equivalents	**4,627**	4,417
	2,109,143	1,301,229

44 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

	2010 Financials liabilities at amortised cost HK$'000	2009 Financials liabilities at amortised cost HK$'000
Other payables and accruals	**2,350**	735
Amounts due to a shareholder	**13,432**	11,223
Amounts due to subsidiaries	**1,740**	1,740
Amounts due to related companies	**584**	584
Convertible notes	**70,261**	638,117
Promissory note	**49,586**	–
	137,953	652,399

45 FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

45 FAIR VALUE HIERARCHY (continued)

Assets measured at fair value

Group

31 December 2010

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Equity investments at fair value through profit or loss	588	–	–	588
Derivative financial instruments	–	–	10,813	10,813
	588	–	10,813	11,401

31 December 2009

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Equity investments at fair value through profit or loss	568	–	–	568

Company

31 December 2010

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial instruments	–	–	10,813	10,813

The Company did not have any financial assets measured at fair value at 31 December 2009.

Liabilities measured at fair value

The Group and the Company did not have any financial liabilities measured at fair value at 31 December 2010 (2009: Nil).

46 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise promissory note, convertible notes, interest-bearing loan from non-financial institution and cash and bank balance. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

		Group	
	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before (or after) tax** HK$'000	**Increase/ (decrease) in equity*** HK$'000
2010			
Hong Kong dollar	**1%**	**(100)**	**–**
	(1%)	**100**	**–**
2009			
Hong Kong dollar	1%	(2,452)	–
	(1%)	2,452	–

* Excluding retained profits

Foreign currency risk

The Group has transactional currency exposures as the sales and purchases of the Group were mainly transacted in Renminbi ("RMB").

The Group does not have significant foreign currency risk arising from future commercial transactions and recognised financial assets and liabilities since the exchange rate of United States Dollar ("USD") was quite stable during the year ended 31 December 2010.

46 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity at the respective reporting dates to a reasonable possible change in the exchange rate of RMB with all other variables held constant, of Group's loss before tax.

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
31 December 2010			
If HKD weakens against RMB	**5%**	**135,677**	**–**
If HKD strengthens against RMB	**(5%)**	**(135,677)**	**–**
31 December 2009			
If HKD weakens against RMB	5%	103,910	–
If HKD strengthens against RMB	(5%)	(103,910)	–

* Excluding retained earnings/accumulated losses

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the management.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, prepayments and other receivables and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The credit risk on liquid funds is limited because majority of the counterparties are banks of high credit quality in Hong Kong and banks with good reputation in the PRC.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings.

46 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contracted undiscounted payments, was as follows:

Group

31 December 2010

	Within 1 year or on demand HK$'000	1 to 2 years HK$'000	3 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Interest-bearing bank and other borrowings, secured	366,376	23,878	26,082	7,863	424,199
Amounts due to related companies	160,274	–	–	–	160,274
Amounts due to shareholders	166,561	–	–	–	166,561
Loans from non-financial institutions, secured	–	14,103	–	–	14,103
Trade and bills payables	746,723	–	–	–	746,723
Loans from related companies	–	213,455	–	–	213,455
Financial liabilities included in receipts in advance, other payable and accruals	570,310	–	–	–	570,310
Convertible notes	–	70,261	–	–	70,261
Promissory notes	–	49,586	–	–	49,586
	2,010,244	371,283	26,082	7,863	2,415,472

46 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Group

31 December 2009

	Within 1 year or on demand HK$'000	1 to 2 years HK$'000	3 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Interest-bearing bank and other borrowings, secured	222,095	396	1,270	7,866	231,627
Amounts due to related companies	6,592	–	–	–	6,592
Amounts due to a shareholder	291,223	–	–	–	291,223
Loans from non-financial institutions, secured	–	13,606	–	–	13,606
Trade and bills payables	244,819	–	–	–	244,819
Loan from related parties	–	524,840	–	–	524,840
Financial liabilities included in receipts in advance, other payables and accrued expenses	170,889	13,429	–	–	184,318
Convertible notes	14,000	712,000	–	–	726,000
Tax payable	274,540	89,108	–	–	363,648
	1,224,158	1,353,379	1,270	7,866	2,586,673

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

46 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing bank and other borrowings, long-term loans from related parties, promissory note, less cash and cash equivalents and excludes discontinued operations. Capital includes convertible notes and total equity. The gearing ratios as at the ends of reporting periods were as follows:

	2010 **HK$'000**	2009 HK$'000
Interest-bearing bank borrowings, secured	**366,376**	222,095
Long-term bank loans, secured	**57,823**	9,532
Loan from related companies	**213,455**	524,840
Promissory note	**49,586**	–
Non-current loans from non-financial institutions, secured	**14,103**	13,606
Less: Cash and bank balances	**(34,726)**	(59,068)
Net debt	**666,617**	711,005
Equity	**3,230,041**	1,785,247
Convertible notes	**70,261**	638,117
Total capital	**3,300,302**	2,423,364
Total capital and net debt	**3,966,919**	3,134,369
Gearing ratio	**17%**	23%

47 EVENTS AFTER THE REPORTING PERIOD

There were no significant events occurred after the reporting period.

48 COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

49 APPROVAL OF THE FINANCIAL STATEMENTS

These consolidated financial statements were authorised for issue by the Company's board of directors on 28 March 2011.

Particulars of Properties

31 December 2010

INVESTMENT PROPERTY

Location	Intenduse	Site area (sq m)	Lease term
Unit 601 together with its roof, Phase 1, Levels 6 and 7, Block 2, Court No. 4, Greenwich Garden, Yaojiayuan East Lane, Chaoyang District, Bejing City, the PRC	Lease	250.03	Long lease

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 (Remark)
RESULTS					
CONTINUING OPERATIONS					
Revenue	**2,358,250**	1,224,798	506,833	3,128	2,106
Cost of sales	**(1,639,963)**	(778,276)	(293,111)	(2,010)	–
Gross profit	**718,287**	446,522	213,722	1,118	2,106
Other income	**65,643**	118,789	15,421	12,812	1,118
Selling and distribution costs	**(148,985)**	(53,494)	(48,003)	–	–
Administration expenses	**(88,379)**	(67,148)	(69,153)	(5,488)	(2,357)
Other operating expenses	**(31,047)**	(27,309)	(11,415)	–	–
Fair value changes on derivative component of convertible notes	**(16,949)**	–	–	–	–
Gain on the debt restructuring	**–**	–	–	–	560,459
Restructuring cost	**–**	–	–	–	(12,043)
Bargain purchase	**–**	–	–	–	893
Increase in fair value of an investment property	**–**	–	–	–	2,244
Change in fair value of held for trading investment	**–**	–	–	–	(11)
Goodwill impairment loss	**–**	–	(571,139)	–	–
Finance costs	**(51,736)**	(80,733)	(31,652)	(154)	(434)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**446,834**	336,627	(502,219)	8,288	551,975
Income tax expense	**(160,248)**	(141,927)	(15,423)	(413)	2,466
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**286,586**	194,700	(517,642)	7,875	554,441
DISCONTINUED OPERATIONS					
Profit/(loss) for the year from discounted operations	**–**	4,796	3,043	(5,135)	562

Five Year Financial Summary

	Year ended 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 (Remark)
PROFIT/(LOSS) FOR THE YEAR	**286,586**	199,496	(514,599)	2,740	555,003
OTHER COMPREHENSIVE INCOME					
Exchange differences on translation of foreign operations	**83,973**	2,900	(10,184)	–	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX					
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**370,559**	202,396	(524,783)	2,740	555,003
Profit attributable to:					
Owners of the parent	**187,236**	50,414	(563,433)	2,740	555,003
Non-controlling interests	**99,350**	149,082	48,834	–	–
	286,586	199,496	(514,599)	2,740	555,003
Total comprehensive profit attributable to:					
Owners of the parent	**259,376**	51,867	(568,535)	2,740	555,003
Non-controlling interests	**111,183**	150,529	43,752	–	–
	370,559	202,396	(524,783)	2,740	555,003
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	**5,795,750**	4,359,869	4,058,456	333,675	190,208
TOTAL LIABILITIES	**(2,565,709)**	(2,574,622)	(3,025,337)	(5,123)	(5,479)
NON-CONTROLLING INTERESTS	**(137,251)**	(920,151)	(769,622)	–	–
	3,092,790	865,096	263,497	328,552	184,729

Remark: Financial information for years 2005 and 2006 was not restated for discontinued operations as the materiality was insignificant for investors' decision