Hidili Industry International Development Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1393

2010 Annual Report

CONTENTS

Corporate Information	2
Chairman's Statement	4
Management Discussion and Analysis	8
Profile of Directors and Senior Management	19
Directors' Report	22
Corporate Governance Report	33
Independent Auditors' Report	38
Consolidated Statement of Comprehensive Income	40
Consolidated Statement of Financial Position	41
Consolidated Statement of Changes in Equity	43
Consolidated Statement of Cash Flows	44
Notes to Consolidated Financial Statements	46
Financial Summary	112

CORPORATE INFORMATION

DIRECTORS

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Chi Hing
Mr. Chen Limin
Mr. Huang Rongsheng

AUDIT COMMITTEE

Mr. Chan Chi Hing *(Chairman)*
Mr. Chen Limin
Mr. Huang Rongsheng

REMUNERATION COMMITTEE

Mr. Chan Chi Hing *(Chairman)*
Mr. Chen Limin
Mr. Huang Rongsheng
Mr. Xian Yang

AUDITORS

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

COMPANY SECRETARY

Ms. Chu Lai Kuen

AUTHORIZED REPRESENTATIVES

Mr. Xian Yang
Ms. Chu Lai Kuen

REGISTERED OFFICE

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

HEAD OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 3702, 37th Floor
West Tower, Shun Tak Centre
168-200 Connaught Road
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISER

Mallesons Stephen Jaques
13th Floor
Gloucester Tower
The Landmark
15 Queen's Road Central
Central
Hong Kong

STOCK CODE

1393

WEBSITE

http://www.hidili.com.cn

PRINCIPAL BANKERS

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

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

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

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

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

Chairman's Statement

To the respectful shareholders of Hidili Industry International Development Limited,

Benefit from the recovery of the coal market and with the support of our shareholders and staff, Hidili Industry International Development Limited (the "Company") achieved outstanding operating results in 2010. On behalf of the board (the "Board") of the directors (the "Directors") of the Company, I am pleased to present the 2010 Annual Report and the operating results of the Company and the subsidiaries (collectively the "Group") for the year ended 31 December 2010 to the shareholders as follows.

PERFORMANCE OF THE COMPANY'S SHARES

As at 31 December, 2010, the closing price of the Company's shares on the Stock Exchange of Hong Kong Limited ("Stock Exchange") was HK$6.54, a decrease of approximately 33.1% from the closing price of HK$9.77 as at 31 December 2009 while the Hang Seng Index has increased by approximately 5.3%.

THE COMPANY'S OPERATION

The Company achieved a revenue and a earning before interest, taxes, depreciation and amortization ("EBITDA") of approximately RMB2,437 million and RMB1,164 million respectively for the year ended 31 December 2010, representing an increase of approximately 63.0% and 89.6% respectively as compared to RMB1,495 million and RMB614 million for the year ended 31 December 2009. The remarkable increase in both revenue and EBITDA was mainly attributable to release of production volume of raw coal with the construction of mines and auxiliary facilities in the Guizhou and Yunnan provinces proceeding as scheduled and the increase in average selling prices of our coal products. And the effective approach to production and management operation across all mines led to cost saving and greater production efficiency, finally resulting in higher profit margin.

During the year, the Company has produced approximately 4.2 million tonnes of raw coal, approximately 2.0 tonnes of clean coal and approximately 0.4 million tonnes of coke. Other than the production volume of coke, both raw coal and clean coal production recorded a substantial increase of approximately 50.4% and 34.4% respectively in volume. Since the coking plant in Guizhou province ceased operation from September 2010, production volume of coke experienced a decrease of 37.9%. Accordingly, more clean coal volume shifted to direct sales.

In 2010, the Company's coal mining cash cost amounted to RMB124 per tonne of raw coal production, representing a decrease of 8.8% as compared to 2009. The average production costs of clean coal and coke of the Company for the year amounted to RMB319 and RMB456 per tonne respectively, again, representing a decrease of 10.4% and 8.6% respectively as compared with 2009. The decrease in the production costs of our coal products mainly because of the cost saving resulting from economy of scale coming with the release of raw coal production capacity of Guizhou and Yunnan provinces and adoption of efficient management.

Regarding customer development, the Company has successfully developed Fangchenggang（防城港） as the logistic base for our coal products and, accordingly, extended our customer coverage to iron and steel enterprise located in northern areas and southern riverside areas by the water transportation network. During the year, volume of clean coal delivered through Fangchenggang amounted to approximately 40% of the total sales volume. Our top five customers for the year were 柳州鋼鐵股份有限公司(Liuzhou Iron & Steel Company Limited*), 寧波鋼鐵有限公司(Ningbo Iron & Steel Co., Ltd*), 攀鋼集團成都鋼鐵有限責任公司 (Panzhihua Steel Group Chengdu Iron & Steel Company Limited*), 廣東韶關松山股份有限公司 (SGIS Songshan Company Limited*) and 武漢鋼鐵集團國際貿易總公司 (International Economic & Trading Corporation WISCO*), accounting for approximately 13.4%, 13.0%, 12.4%, 9.5% and 8.4% of our total revenue, respectively.

In January 2010, the Company issued RMB1,707 million convertible loan notes for 5 years with coupon interest of 1.5% per annum. In November 2010, the Company further issued US$400 million senior notes repayable for 5 years with fixed interest of 8.625% per annum. The proceeds received from the convertible loan notes and senior notes were used to repay various bank borrowings and to finance the development of coal mines. Finally, the Company successfully shifted part of its current indebtedness to longer terms in order to finance the capital expenditures in the coal mines development. At 31 December 2010, the Company recorded net current assets of RMB2,171 million and bank and cash balances of RMB1,649 million.

EXTRACT OF THE SIGNIFICANT EVENTS OF THE YEAR

Significant events of the Group for 2010 are as follows:

In January 2010, the Company successfully issued 5-year convertible loan notes with a principal amount of RMB1,707 million, of which approximately RMB880 million had been used for repayment of short-term borrowings and the balance used for coal mines construction.

From January to March 2010, the Company further acquired 1 coal mine and an exploration right in Yunnan province.

In April 2010, the Company announced the annual results for 2009, distributing final dividend of RMB0.1 per share.

In May 2010, certain wholly owned subsidiaries of the Company collectively entered into cooperative framework agreement with 廣東省韶關鋼鐵集團有限公司 (Guangdong Province Shaoguan Steel Group Company Limited*) together with its associated company in relation to the supply of clean coal for a term of 10 years from 2011 to 2010 and the establishment of a joint venture company to engage in coal washing activity.

In September, our coking plant in Guizhou province ceased operation.

In November 2010, the Company issued USD400 million senior notes for a term of 5 years bearing interest of 8.625% per annum. The net proceeds from the senior notes were used for repayment of existing bank borrowings, upgrade existing production capacity in its network of mines, plants and facilities as well as existing machinery and infrastructure and general corporate purpose.

6 coal mines in Guizhou province suspended production since 31 December 2010 pursuant to the "Notification of Invalidation of Preserving and Independent Production System under Construction and Technology Innovation of Coal Mines" (「關於取消整合、技改煤礦保留一套獨立生產系統的通知」) published by Guizhou Provincial Government in November 2010 and affected around 0.6 million tonnes of raw coal production of 2011.

ESTIMATED COAL RESERVES AND RESOURCES

The table below presents the estimated coal reserves and resources of our coal mines (excluding Yunxiang Mine, Xiangda Mine, Hexing Mine, Xingji Mine and Shengbao Mine).

	Total coal reserves	Total coal resources
	(in million tonnes)	
As of 31 December 31, 2010	721.1	737.0

Remarks:

1. Reserve and resource estimates have taken into account the estimated coal reserves and resources of our coal mines (excluding Yunxiang Mine, Xiangda Mine, Hexing Mine, Xingji Mine and Shengbao Mine) prepared by Behre Dolbear Asia, Inc. ("BDB"), an independent minerals industry consultant, as of 1 October, 2010, in accordance with the JORC Code, after deduction of the raw coal production for the period from 1 October 2010 to 31 December 2010.

2. Total coal reserves represent proven reserves and probable reserves of 136.9 million tonnes and 585.6 million tonnes respectively as of 1 October 2010 reported by BDB and after deduction of the raw coal production of 1.4 million tonnes for the period from 1 October 2010 to 31 December 2010.

3. Total coal resources represent measured and indicated resources of 220.7 million tonnes and 517.7 million tonnes as of 1 October 2010 reported by BDB and after deduction of the raw coal production of 1.4 million tonnes for the period from 1 October 2010 to 31 December 2010.

4. For five out of our 44 mines, namely Yunxiang Mine, Xiangda Mine, Hexing Mine, Xingji Mine and Shengbao Mine, no JORC Code-compliant report on reserves or resources has been prepared as of 1 October 2010. Consequently, we do not present any updated information on the reserve or resource estimates for these mines above.

5. There has been no material change in the estimated coal reserves and resources of our coal mines (excluding Yunxiang Mine, Xiangda Mine, Hexing Mine, Xingji Mine and Shengbao Mine) prepared by BDB as of 1 October 2010, and the estimated coal reserves and resources of our coal mines (excluding Yunxiang Mine, Xiangda Mine, Hexing Mine, Xingji Mine and Shengbao Mine) as of 31 December 2010 and as set out in the table above. This has been substantiated by our internal experts, taking into account the relevant figures set out in the table above, and the relevant figures in relation to the raw coal production of our coal mines (excluding Yunxiang Mine, Xiangda Mine, Hexing Mine, Xingji Mine and Shengbao Mine) for the period from 1 October 2010 to 31 December 2010, as set out in the above notes.

OUTLOOK

Looking forward into 2011, with the construction of mines and auxiliary facilities in the Guizhou and Yunnan provinces proceeding as scheduled and with pent-up capacity of certain mines being gradually released, coupled with an effective approach to production and management operation across all mines, the Group will further achieve cost control and greater production efficiency. Although 6 coal mines in Guizhou province suspended production since 31 December 2010 pursuant to the "Notification of Invalidation of Preserving and Independent Production System under Construction and Technology Innovation of Coal Mines" (「關於取消整合、技改煤礦保留一套獨立生產系統的通知」) published by Guizhou Provincial Government in November 2010 and affected around 0.6 million tonnes of raw coal production of 2011. The Group believes that with the completion of the other coal mines as scheduled in the Guizhou and Yunnan provinces, raw coal production will be further increased to around 4.9 million tonnes in the year 2011.

Our focus will be placed on coal mine construction, as well as nurturing and gathering managerial talents and establishing a scientifically-managed coal mining team. We believe that the Company is well positioned to achieve significant revenue and profit growth in the foreseeable future with the releasing of its capacity and demand growth on the back of industry recovery.

By order of the Board
Chairman
Xian Yang

Hong Kong
29 March 2011

* *for identification purpose only*

Management Discussion And Analysis

FINANCIAL HIGHLIGHTS

	2010 *RMB'000*	2009 *RMB'000*	Change *%*
Turnover	2,437,319	1,495,396	63.0
Gross Profit	1,693,297	871,270	94.3
Profit Before Tax	822,230	458,361	79.4
Profit Attributable to the Owners of the Company	669,505	403,509	65.9
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	1,164,422	614,249	89.6
Basic Earning per share *(RMB cents)*	32.5	19.6	65.8

The Board proposed the payment of a final cash dividend of RMB6.5 cents per share to all shareholders of the Company.

FINANCIAL REVIEW

TURNOVER

During the year ended 31 December 2010 (the “Year”), turnover of the Group reached approximately RMB2,437.3 million, representing an increase of approximately 63.0%, as compared with approximately RMB1,495.4 million in 2009. The increase was primarily attributable to the increase in sales volumes of clean coal and average selling prices of the principal products and by-products. The sales volume recorded for clean coal and coke during the Year amounted to approximately 1,300,000 tonnes and 470,000 tonnes respectively as compared to approximately 610,000 tonnes and 688,000 tonnes respectively in 2009, representing an increase in volume of clean coal of approximately 113.1% and a decrease in volume of coke of 31.7% respectively. The average selling price in 2010 for both clean coal and coke increased significantly from RMB869.8 per tonne and RMB1,234.3 per tonne respectively to RMB1,131.7 per tonne and RMB1,419.4 per tonne, representing an increase of approximately 30.1% and 15.0% respectively. During the Year, the Group sold 241,000 tonnes of raw coal for approximately RMB116.0 million in the Guizhou and Yunnan provinces. The Group considered to sell out the raw coal directly in order to save transportation costs in transferring to washing plants that far away from the coal mines. The Group expects, with the completion in the development of new washing plants in the year 2011, the raw coal produced can be fully consumed for further processing.

The following table sets forth the Group's turnover contribution, sales volume and average selling price by products for the Year, together with the comparative amounts for 2009:

	2010 Turnover *RMB'000*	2010 Sales Volume *(thousand Tones)*	2010 Average selling price *(RMB/ Tonne)*	2009 Turnover *RMB'000*	2009 Sales volume *(thousand Tones)*	2009 Average selling price *(RMB/ Tonne)*
Principal products						
Clean coal	1,471,308	1,300.1	1,131.7	530,487	609.9	869.8
Coke	666,419	469.5	1,419.4	849,404	688.2	1,234.3
Principal products total	2,137,727			1,379,891		
By-products						
High-ash thermal coal	142,871	639.4	223.4	76,465	416.9	183.4
Coal tar	30,137	13.7	2,199.8	22,298	16.1	1,384.2
By-products total	173,008			98,763		
Other products						
Raw coal	115,962	240.6	482.0	7,570	18.2	416.7
Benzene	8,709	2.6	3,349.6	5,677	3.2	1,787.5
Others	1,913			3,495		
Other products total	126,584			16,742		
Total turnover	2,437,319			1,495,396		

COST OF SALES

Cost of sales for the Year was approximately RMB744.0 million, representing an increase of approximately RMB119.9 million, or approximately 19.2%, as compared with approximately RMB624.1 million in 2009. In line with the development of the mines in the Guizhou and Yunnan provinces, production volume steadily increased and comparatively the costs relating to materials, fuel and power and staff attributable to the unit production costs recorded a decrease. Accordingly, the improvement in efficiency resulted in an increase of gross profit margin.

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

	2010 *RMB per tonne*	2009 *RMB per tonne*
Coal mining		
Cash cost	124	136
Depreciation and amortisation	19	23
Total production cost	143	159
Average cost of clean coal	319	356
Average cost of coke	456	499

In 2010, the raw coal production volume recorded an increase of approximately 1.4 million tonnes, or 50%, as compared with approximately 2.8 million tonnes in 2009. In the Sichuan province, the raw coal production volume maintained at a similar level as that recorded in 2009. The volume growth come from the Guizhou and Yunnan provinces. During the Year, production volume of coke decreased since the coking plant in the Guizhou province ceased operation from September 2010 and the increased clean coal production volume shifted to direct sales. The following table illustrates the production volume of the principal products in Panzhihua, Sichuan province and the Guizhou and Yunnan provinces.

Principal products	2010 Sichuan Production volume *('000 tonnes)*	2010 Guizhou and Yunnan Production volume *('000 tonnes)*	2010 Total Production volume *('000 tonnes)*	2009 Sichuan Production volume *('000 tonnes)*	2009 Guizhou and Yunnan Production volume *('000 tonnes)*	2009 Total Production volume *('000 tonnes)*
Raw coal production	1,527	2,698	4,225	1,505	1,303	2,808
Clean coal	714	1,279	1,993	787	696	1,483
Coke	355	85	440	534	174	708

Material, fuel and power costs for the Year were approximately RMB320.3 million, representing an increase of approximately RMB18.0 million, or approximately 6.0%, as compared with approximately RMB302.3 million in 2009. In the year 2009, materials usage amounting to approximately RMB70 million incurred from the development of mining structure was charged to profit and loss. Accordingly, the materials, fuel and power costs incurred for the year 2009 was amounted to approximately RMB232.3 million. Comparing to the 50% growth in the raw coal production volume, the Group experienced an effective consumption of material, fuel and power with only increased by 37.9% in the Year.

Staff costs for the Year were approximately RMB247.4 million, representing an increase of approximately RMB76.5 million, or approximately 44.8%, as compared with approximately RMB170.9 million in 2009. The increase was primarily attributable to the increase in the number of mine workers in the Guizhou and Yunnan provinces and the rising wages in line with the enlarged production volumes.

Depreciation and amortization for the Year were approximately RMB95.9 million, representing an increase of approximately RMB23.5 million, or approximately 32.5%, as compared with approximately RMB72.4 million in 2009. The increase was primarily attributable to the additional capital expenditure incurred in connection with the coal mines and the acquisition of coal washing and coking plants in the Guizhou and Yunnan provinces during the Year.

GROSS PROFIT

As a result of the foregoing, the gross profit for the Year was approximately RMB1,693.3 million, representing an increase of approximately RMB822.0 million or approximately 94.3%, as compared with approximately RMB871.3 million in 2009. The gross profit margin was approximately 69.5% as compared with approximately 58.3% in 2009.

OTHER INCOME

Other income for the Year amounted to approximately RMB15.1 million, representing an increase of approximately RMB3.7 million or approximately 32.5%, as compared with approximately RMB11.4 million in 2009. The increase was partly attributable to the increase in interest income.

DISTRIBUTION EXPENSES

Distribution expenses for the Year were approximately RMB341.7 million, representing an increase of approximately RMB187.9 million or approximately 122.2%, as compared to approximately RMB153.8 million in 2009. The increase mainly resulted from (i) increase in government levies of approximately RMB40.3 million relating to the increase in sales volume in the Guizhou and Yunnan provinces; (ii) increase in transportation expenses of approximately RMB135.9 million in relation to the increase in railway logistic charges in the Guizhou and Yunnan provinces and the shipment charges incurred in Fangchenggang for coal products delivered to customers along the coastal region.

ADMINISTRATIVE EXPENSES

Administrative expenses for the Year were approximately RMB321.3 million, representing an increase of approximately RMB88.2 million, or approximately 37.8%, as compared with approximately RMB233.1 million in 2009. The increase was mainly attributable to (i) increase in staff costs of approximately RMB22.2 million and travelling expenses of RMB19.0 million in relation to administration staff supporting the enlarged production and development of coal mines in the Guizhou and Yunnan provinces; and (ii) increase in professional fees of approximately RMB20.5 million regarding the issue of convertible loan notes and senior notes during the Year.

NET GAIN ON DERIVATIVE FINANCIAL INSTRUMENTS CLASSIFIED AS HELD-FOR-TRADING

The amount represented (i) the fair value gain on the Group's investments in certain A-shares, Australian listed shares and investment in convertible bond of approximately RMB5.5 million; and (ii) investment income of RMB11.7 million in relation to the disposal of certain A-shares and exchangeable bonds of a private company during the Year.

IMPAIRMENT LOSS RECOGNIZED IN RESPECT OF PROPERTY, PLANT AND EQUIPMENT

The amount represented a provision for impairment loss recognized upon the cessation of operation of the Group's coking plant located in Guizhou province and a coal mine in Sichuan province.

FINANCE COSTS

Finance costs for the Year amounted to approximately RMB214.0 million, representing an increase of approximately RMB157.7 million or approximately 280.1%, as compared with approximately RMB56.3 million in 2009. The sharp increase was mainly attributable to (i) increase in interests payable to bank and other borrowings of approximately RMB74.7 million; (ii) imputed interest incurred from the convertible loans notes of approximately RMB100.7 million; and (iii) interest expenses in relation to the senior notes issued in November 2010 of approximately RMB36.9 million. The increase in bank borrowings together with the issuance of convertible loan notes and senior notes during the year were mainly used to finance the Company's acquisitions and development of coal mines in the Guizhou and Yunnan provinces. During the Year, interest capitalised in mining structure and mining rights amounted to approximately RMB57.8 million, representing an increase of approximately RMB48.8 million as compared with the amount capitalised of approximately RMB9.0 million 2009.

INCOME TAX EXPENSES

Income tax expenses during the Year were approximately RMB146.2 million, representing an increase of approximately RMB89.8 million or approximately 159.2%, as compared with approximately RMB56.4 million in 2009. The amount of income tax expense represented EIT of approximately RMB137.5 million and deferred tax of approximately RMB8.7 million arising from the withholding tax upon distribution of profits earned by the PRC subsidiaries since 1 January 2008. For the current year, the effective tax rate for EIT increased to approximately 17.8% as compared with approximately 12.3% in 2009.

PROFIT FOR THE YEAR

As a result of the foregoing, the profit attributable to the owners of the Company for the Year was approximately RMB669.5 million, representing an increase of approximately RMB266.0 million or approximately 65.9%, as compared with approximately RMB403.5 million in 2009. The net profit margin was 27.7% for the Year as compared with approximately 26.9% in 2009.

EBITDA

The following table illustrates the Group's EBITDA for the Year. The Group's EBITDA margin was 47.8% for the Year as compared with 41.1% in 2009, showing a 16.3% growth.

	2010 *RMB'000*	2009 *RMB'000*
Profit and total comprehensive income for the year	676,042	401,979
Finance costs	213,987	56,349
Income tax expenses	146,188	56,382
Depreciation and amortisation	128,205	99,539
	1,164,422	614,249

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group adopted stringent financial management policies and maintained a healthy financial condition. The Group continued to fund operations principally with internally generated cash flow and short-term bank borrowings. The expansion of operations in the Guizhou and Yunnan provinces was mainly funded by bank borrowings and the issue of convertible loan notes and senior notes.

As at 31 December 2010, the Company had net current assets of approximately RMB2,170.7 million as compared with having net current liabilities of approximately RMB1,089.2 million as at 31 December 2009. Following the issuance of convertible loan notes and senior notes during the Year, the Company shifted part of its current indebtedness to longer terms in order to finance the capital expenditures in the development in coal mines. As at 31 December 2010, the bank balances and cash of the Group amounted to approximately RMB1,649.0 million (2009: RMB674.5 million).

As at 31 December 2010, the total bank and other borrowings of the Group were RMB1,770.0 million (2009: RMB2,962.1 million), in which approximately RMB676.0 million are repayable within one year, with effective interest rates on fixed rate borrowings and variable rate borrowings ranging from 4.68% to 8.10% per annum and from 5.76% to 7.02% per annum respectively. In January 2010, the Company issued RMB1,707 million convertible loan notes. The convertible loan notes bore an effective interest rate of 7.51% per annum. The notes entitle the holders to convert the notes held into ordinary shares of the Company at any time between the date of issue of the notes and their settlement date on 19 January 2015 at a conversion price of HK$12.58 per convertible loan note. The holders may, at their option, request the Company to redeem all or some of the convertible loan notes on 19 January 2013 at 106.2687% of their principal amount. In November 2010, the Company further issued US$400 million worth of senior notes. The senior notes carried fixed interest of 8.625% per annum. The senior notes will be fully repayable by 4 November 2015.

The gearing ratio (calculated as total bank and other borrowings convertible loan notes and senior notes divided by total assets) of the Group as at 31 December 2010 was 40.1% (2009: 27.7%)

PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2010, the Group has pledged assets in an aggregate amount of approximately RMB1,759.3 million (2009: RMB1,918.2 million) to banks for credit facilities in the amount of RMB1,770.0 million (2009: RMB2,962.1 million) granted to the Group.

EMPLOYEES

As at 31 December 2010, the number of employees of the Group was 14,470, showing a steady increase arising from the Group's development in its Guizhou operations. During the Year, staff costs (including Directors' remuneration in the form of salaries and other allowances) amounted to approximately RMB367.2 million (2009: RMB250.2 million).

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

FINAL DIVIDEND

The Board recommends payment of a final cash dividend of RMB6.5 cents per share for the Year to all shareholders of the Company whose names appear on the register of members of the Company on 27 May 2011. Such dividend payment is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company.

RISK IN FOREIGN EXCHANGE

Since all of the Group's business activities are transacted in RMB, the Directors consider that the Group's risk in foreign exchange is insignificant. Accordingly, the Group was only exposed to exchange rate risk arising from the foreign currency bank balance of approximately USD52.3 million, AUD14.1 million and HKD0.5 million.

SIGNIFICANT INVESTMENT HELD

The Group had invested in (i) certain A-shares in the PRC which amounted to approximately RMB50.6 million as at 31 December 2010; (ii) shares of RMB46.8 million in a mining company listed on the Australian Stock Exchange; and (iii) convertible bonds of a private company amounting to approximately RMB 66.8 million which is in the process of applying for listing on the main board of Hong Kong Stock Exchange. All the investments were stated in fair value.

MATERIAL ACQUISITION AND DISPOSAL

During the year, the Group entered into various sales and purchase agreements for the mines acquired and exploration rights at an aggregate consideration of RMB375 million. Saved as disclosed above, there was no material acquisition or disposal of subsidiaries and associated companies by the Group.

CONTINGENT LIABILITIES

As at 31 December 2010, the Group did not have any material contingent liabilities.

CONNECTED TRANSACTIONS

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

(ii) During the Year, transportation costs in an aggregate amount of approximately RMB27.7 million were paid to 盤縣盤實物流配送有限公司(Panxian Panshi Logistic Distribution Company Limited*)("Panxian Panshi"), 盤縣盤鷹物流配送有限公司(Panxian Panying Logistic Distribution Company Limited*) ("Panxian Panying") and 雲南凱捷實業有限公司 (Yunnan Kaijie Industry Company Limited*) ("Yunnan Kaijie") for the provision of railway logistic services. Yunnan Kaijie, the holder of 57% and 51% equity interests in ("Panxian Panshi") and ("Panxian Panying") respectively, is a substantial shareholder of each of 盤縣盤鑫焦化有限公司(Panxian Panyi Coking Companhy Limited*)("Panxin Coking") and 盤縣盤翼選煤有限公司(Panxian Panyi Coal Washing Companhy Limited*)("Panyi Coal Washing"). As Panxian Panshi and Panxian Panying has a monopolistic position of the local railway logistic service in Boguozhen, no relevant market price can be obtained. The pricing basis of the railway logistic service under the framework agreement between the parties has been determined with reference to the pricing offered to other customers by Panxian Panshi and Panxian Panying and the current pricing adopted under the agreement made between the former shareholders of Panxian Panshi, Panxian Panying, Panxin Coking and Panyi Coal Washing. It is an agreed price consisting of the reasonable cost incurred and a reasonable profit margin.

(iii) In September 2009, the Group entered into a capital contribution agreement with Citic Trust Company Limited ("Citic Trust") for the formation of a joint venture company in which Citic Trust agreed to inject RMB500 million as capital contribution for 49% equity interest. It was further agreed that the 49% equity interest will be repurchased by the Group with a premium of 9% per annum after twelve months from the date of the contribution injected. Accordingly, for the purpose securing the payment of the repurchase consideration, the Group pledged the mining right of Xinda Coal Mine and the 51% equity interest of the joint venture company to Citic Trust. The amount of capital contribution injected by Citic Trust in December 2009 amounted to RMB250 million and the amount has been fully repaid as at 31 December 2010.

BUSINESS REVIEW

During the Year, benefit from the recovery of the coal market, the average selling price of major products of the Group recorded a substantial increase as compared with the year 2009. The average selling price of clean coal and coke for the Year increased from RMB869.8 per tonne and RMB1,234.3 per tonne respectively to RMB1,131.7 per tonne and RMB1,419.4 per tonne, representing an growth of approximately 30.1% and 15.0% respectively. Considering the higher gross margin from sales of clean coal and the cessation of operation of coking plant in Guizhou province, the Group increased the sales volume of clean coal from 610,000 tonnes of 2009 to 1,300,000 tonnes in the Year. As regards sales customers, the Group successfully developed Fangchenggang as the logistic base for its major products. Through extending its customer coverage to iron and steel enterprise located in northern areas and southern riverside areas by the water transportation network, sales volume to Ningbo Iron & Steel Co., Ltd. And Chongqing Iron & Steel Company Limited increased substantially during the Year. Volume of clean coal delivered through Fangchenggang amounted to approximately 40% of the total sales volume.

As regards capacity, production volume of raw coal of the Company amounted to approximately 4.2 million tonnes during the Year, representing an increase of approximately 50% as compared with approximately 2.8 million tonnes in year 2009. The increase in capacity was attributable to the additional contribution from coal mine in the Guizhou and Yunnan provinces. Meanwhile, improvements were made in production cost since the Group has clarified and strengthened the segregation of functions and enhanced management of coal mines in different areas, enhanced efficiency and also effectively controlled consumption of materials. Production cost per tonne of raw coal amounted to approximately RMB143 during the Year. As a result of the foregoing, the Group's gross margin for the Year increased to approximately 69.5% as compared with approximately 58.3% in the year 2009. The Group believes that with the completion of the development of washing plants and auxiliary facilities in the Guizhou and Yunnan provinces, the Group can further benefit from a cost saving in transportation costs.

OUTLOOK

With the construction of mines and auxiliary facilities in the Guizhou and Yunnan provinces proceeding as scheduled and with pent-up capacity of certain mines being gradually released, coupled with an effective approach to production and management operation across all mines, the Group achieved cost control and greater production efficiency. Although 6 coal mines in Guizhou province suspended production since 31 December 2010 pursuant to the "Notification of Invalidation of Preserving and Independent Production System under Construction and Technology Innovation of Coal Mines" (「關於取消整合、技改煤礦保留一套獨立生產系統的通知」) published by Guizhou Provincial Government in November 2010 and affected around 0.6 million tonnes of raw coal production of 2011. The Group believes that with the completion of the other coal mines as scheduled in the Guizhou and Yunnan provinces, raw coal production will be further increased to around 4.9 million tonnes in the year 2011.

Benefit from the consolidation of large-sized state-owned iron and steel enterprises, the Group has managed to become the recognized supplier of certain iron and steel giants. Besides, the Group successfully developed Fangchenggang as an important logistic base for the growing production volume of clean coal. In the year 2011, with the completion of the washing plants in the Guizhou and Yunnan provinces. the Group believes the growing raw coal volume from the capacity expansion can well be absorbed and realized.

Following the issue of 5-year term convertible loan notes of RMB1,707 million and senior notes of USD400 million, the Group has repaid certain bank and other borrowings. The Group has net current assets of approximately RMB2,170.7 million at 31 December 2010 as compared with having net current liabilities of approximately RMB1,089.2 million as at 31 December 2009. The Group has strengthened its working capital and reduced the pressure on its working capital. Accordingly, the Group can concentrate its effort on the development of coal mines and auxiliary facilities and release capacity in the Guizhou and Yunnan provinces as scheduled.

EXECUTIVE DIRECTORS

MR. XIAN YANG (鮮揚)

Mr. Xian, aged 37, is an executive director of the Company ("Director") and our founder, chairman and president. Mr. Xian graduated from The People's Police School of Sichuan (四川省人民警察學校) in 1994, studied law at Southwest University of Political Science and Law (西南政法大學) from 1994 to 1997 and is studying MBA courses at Sichuan University (四川大學). He worked in the police force and Customs Bureau of Panzhihua City prior to establishing our Group in May 2000. He was awarded a Grade Three Achievement (三等功) by the Ministry of Public Security for his distinguished service. He is responsible for the overall management and business development of the Company and its subsidiaries (collectively the "Group"). He also chairs our Group's investment management committee. Mr. Xian is a cousin of Mr. Xian Qingping and a brother of Mr. Xian Fan, both of whom are members of our senior management. Mr. Xian is also a director of Sanlian Investment Holding Limited, a company which holds approximately 52.58% of the issued share capital of the Company.

MR. SUN JIANKUN (孫建坤)

Mr. Sun, aged 47, is an executive Director and our chief operating officer. He is a senior engineer and graduated from East China University of Metallurgy (華東冶金學院) (now known as Anhui University of Technology (安徽工業大學)) in 1986 with a bachelor's degree in steel metallurgy. Mr. Sun is responsible for the management of day-to-day operations and development of our operations in Panzhihua. He is also the vice chairman of our production safety committee. Prior to joining our Group in December 2006, Mr. Sun worked at Panzhihua Steel Group since 1986 and accumulated broad experience in steel production, quality control and raw material procurement. He served as the vice general manager of Chengdu Steel Company, a subsidiary of Panzhihua Steel Group, from 2003 to 2006 and the vice general manager of Panzhihua New Steel & Vanadium Co., Ltd. (攀枝花新鋼釩股份有限公司), a Shenzhen Stock Exchange listed company, from 2002 to 2003.

MR. WANG RONG (王榮)

Mr. Wang, aged 38, is an executive Director and our vice president. He joined our Group in 2000. He is responsible for the management of day-to-day operations and development of our operations in Guizhou province.

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR. CHAN CHI HING (陳志興)

Mr. Chan, aged 46, is an independent non-executive Director. He joined our Board in June 2007. He is currently the chief operating officer of Far East Consortium International Limited (''FECIL''), a company listed on the main board of the Hong Kong Stock Exchange and a director of various subsidiaries of FECIL. Mr. Chan joined FECIL in 1990 as the chief accountant and served as the financial controller since 2002. From 1990 to 2003, he was in charge of FECIL's financial, treasury and accounting matters. Before joining FECIL, he was an audit manager with an international accounting firm for over 10 years. Mr. Chan has extensive experience in accounting and auditing of Hong Kong listed companies. Since May 2003, Mr. Chan has been an alternate director to Mr. Deacon Te Ken Chiu, director of Far East Hotels and Entertainment Limited, a Hong Kong listed company.

MR. CHEN LIMIN (陳利民)

Mr, Chen, aged 48, is an independent non-executive director. He joined our Board on 1 October 2009. He graduated from South West University of Political Science and Law in 1985. Mr. Chen is currently the senior partner of Beijing Zhong Lun Law Firm and is responsible for the listing of companies, merger and acquisition and corporate restructuring. Mr. Chen has held no directorship in any public listed companies in the past three years.

MR. HUANG RONGSHENG (黃容生)

Mr. Huang, aged 64, is an independent non-executive Director. He joined our Board in June 2007. He graduated from Tsinghua University in 1970. He has over 30 years' experience in the steel industry. Prior to his retirement in December 2006, he worked at Central Iron & Steel Research Institute (鋼鐵研究總院) since 2003. He served as vice general manager and vice president of Panzhihua Steel (Group) Company from 1993 to 2003.

SENIOR MANAGEMENT

MR. XIAN FAN (鮮帆)

Mr. Xian, aged 33, is our chief marketing officer. Mr. Xian graduated from Sichuan University (四川大學) in 1999 with a bachelor's degree. Prior to joining our Group in March 2004, Mr. Xian worked at the Chengdu branch of a mobile company for over four years. From April 2005 to June 2005, he was assistant to the manager of our management department and since July 2005, he has been deputy manager of our management department. Mr. Xian has served as a visiting professor at the Electronic Information Faculty of Sichuan University since 2006. Mr. Xian Fan is a brother of Mr. Xian Yang, our founder, chairman, president and executive Director and a cousin of Mr. Xian Qingping, a member of our senior management.

MR. XIAN QINGPING (鮮清平)

Mr. Xian, aged 36, is our general manager of operations. He is responsible for the management of our operations and sales. Prior to joining our Group in 2000, he worked at Panzhihua Medicines Group (攀枝花市藥業集團) for over five years. Mr. Xian Qingping is a cousin of Mr. Xian Yang, our founder, chairman, president and executive Director and a cousin of Mr. Xian Fan, a member of our senior management.

MR. CHEN SEN (陳森)

Mr. Chen Sen, aged 38, is our general manager of coal business. He is responsible for the operating of our coal mines. Mr. Chen is a senior engineer. He graduated from Guizhou Technology Institute (now Guizhou University) with a bachelor's degree in industrial technical automation in 1992 and obtained a master degree in mine engineering in 2006. Prior to joining our Group in 2010, Mr. Chen had over 15 years of experience working in the mining technology area for Panjiang Coal and Electricity, are the three major coking coal suppliers in Southwestern China.

MR. ZHUANG XIANWEI (莊顯偉)

Mr. Zhuang, aged 40, is our general manager of coal mines. He is responsible for the management of our mining operations in Panzhihua. He is also a mining engineer. Prior to joining our Group in March 2002, Mr. Zhuang worked for the production technology division at Panzhihua Coal Group for over 10 years.

MR. MA BANGWEI (馬幫偉)

Mr. Ma, aged 46, is our general manager of the coal business. He is responsible for the coke production project in Guizhou province, and the management of the coal washing plants in Yunan and Guizhou provinces. He is a senior management consultant and senior economist. Prior to joining our Group in 2006, he worked in Panzhihua Coal Group and has accumulated over 20 years of technical work experience.

MR. XU WENFA (徐文發)

Mr. Xu, aged 45, is our general manager of safe production and environmental protection. He is responsible for the management of safe production and environmental protection. He obtained the title of assistant engineer in smelting in 1991. Prior to joining our Group in 2007, Mr. Xu worked for Pan Steel Group over 20 years as scheduling manager in the production department. From 1998 to 2006, due to his excellence in work, he was awarded the title of Excellent Member of the Communist Party of China and parade guard by the Panzihua Steel Group.

MR.ZHAN JUNJUN (詹軍軍)

Mr. Zhan, aged 45, is our chief executive in human resources. He graduated from Sichuan University with a postgraduate degree in business management and obtained the title of Senior Economist. Prior to joining our Group in 2007, Mr. Zhan has accumulated extensive experience in the management of human resources.

MS. CHU LAI KUEN (朱麗娟)

Ms. Chu, aged 42, is our chief financial officer and company secretary. She is responsible for the financial and accounting management of our Company. She is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Ms. Chu graduated from Hong Kong Polytechnic University with a bachelor's degree (Hons) in accountancy. Prior to joining our Group in October 2008, Ms. Chu has over 16 years of working experience in auditing and financial management.

MR. GUO LIHUA (郭禮華)

Mr. Guo, aged 50, is our compliance manager. He is responsible for the compliance matters. He is a certified public accountant and a certified public valuer in the PRC. Mr. Guo graduated from Sichuan Normal College (四川師範學院) . Prior to joining our Group in 2003, Mr. Guo has over 29 years of working experience in accounting and financial management.

MR. XU HUI (徐輝)

Mr. Xu, aged 31, is our secretary to the Board and the general manager of the Board office. He graduated from Peking University with a bachelor's degree in mathematics and he joined our Group in 2005.

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on pages 40 of this report.

The Directors propose the payment of a final dividend of RMB6.5 cents (equivalent to approximately HK$7.72 cents) per share for the year ended 31 December 2010 to the shareholders whose names appear on the register of members of the Company at the close of business on 27 May 2011. The total amount of such dividend is approximately RMB134,203,000 (equivalent to approximately HK$159,391,000). The proposed distribution of dividends will be considered and approved by the shareholders of the Company at the annual general meeting of the Company. The exchange rate adopted for conversion is the mid-point exchange rate published by the People's Bank of China on 28 March 2011, being the business day prior to the declaration of dividends.

PROPERTY, PLANT AND EQUIPMENT

Additions to the property, plant and equipment of the Group for the year ended 31 December 2010 amounted to approximately RMB1,931 million. Details of the movements during the year in the Group's property, plant and equipment are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year ended 31 December 2010 in the share capital of the Company are set out in note 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Details of the movements during the year ended 31 December 2010 in the reserves of the Group are set out in the consolidated statement of changes in equity on page 43 of this report.

As at 31 December 2010, the Company's reserves available for distribution to shareholders amounted to approximately RMB3,432 million (2009: approximately RMB3,961 million).

PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2010 are set out in note 45 to the consolidated financial statements.

FINANCIAL SUMMARY

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

BORROWINGS

Details of the borrowings of the Group are set out in note 28 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2010, sales to the Group's five largest customers amounted to approximately RMB1,383.4 million, representing 56.7% of the total turnover of the Group. Sales to the single largest customer amounted to approximately RMB327.0 million, representing 13.4% of the total turnover of the Group.

For the year ended 31 December 2010, the amount of purchases made from the Group's five largest suppliers amounted to approximately RMB199.1 million, representing 23.3% of the total purchases of the Group. Purchase from the single largest supplier amounted to approximately RMB65.9 million, representing 7.7% of the total purchases of the Group.

For the year ended 31 December 2010, none of the Directors or any of their associates and any shareholders (which, to be best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's top five largest customers and suppliers.

DIRECTORS

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

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Chi Hing
Mr. Chen Limin
Mr. Huang Rongsheng

Biographical details of the above Directors are set out in the section headed "Profile of Directors and Senior Management" on pages 19 to 21 of this report.

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

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for a fixed term of three years. The service agreements of the executive Directors have been renewed on 1 September 2010. Each of the independent non-executive Directors (other than Mr. Chen Limin) has entered into a service agreement with the Company for a fixed term of two years. The service agreements of Mr. Chan Chi Hing and Mr. Huang Rongsheng have been renewed on 1 September 2009. Mr. Chen Limin has entered into a letter of appointment with the Company for a term of two years commencing on 1 October 2009.

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

REMUNERATION OF THE DIRECTORS

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

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

As at 31 December 2010, the Directors and chief executive of the Company had the following interests and /or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (the "SFO")) which are required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in the Listing Rules, to be notified to the Company and the Stock Exchange:

Name	Name of the entity	Number of issued ordinary shares held	Nature of interest	Approximate percentage of the issued share capital of the Company/ percentage of shareholding
Mr. Xian Yang ("Mr. Xian") *(Note 1)*	The Company	1,083,198,000	Founder and beneficiary of trust	52.58%
Mr. Xian	Sanlian Investment Holding Limited ("Sanlian Investment")	1,000	Beneficial owner	100%
Mr. Sun Jiankun ("Mr. Sun") *(Note 2)*	The Company	15,380,000	Interest of controlled corporation	0.8%
Mr. Sun	Able Accord Enterprises Limited ("Able Accord")	1,000	Beneficial owner	100%
Mr. Wang Rong ("Mr. Wang") *(Note 3)*	The Company	9,324,000	Interest of controlled corporation	0.45%
Mr. Wang	Pavlova Investment Limited ("Pavlova Investment")	1,000	Beneficial owner	100%

Notes:

1. The 1,083,198,000 shares of the Company are held by Sanlian Investment, the issued share capital of which is jointly held by Xian Yang No.1A Ltd. ("Xian Yang No.1A") and Sanlian No.1 Ltd. ("Sanlian No.1"). Mr. Xian is the only controlling shareholder of Xian Yang No.1A and Sanlian No.1. During the year, Mr. Xian formed a discretionary trust, the Xian Yang Foundation 1, of which Sarasin Trust Company Guernsey Limited ("Sarasin Trust") was the trustee. Accordingly, Mr. Xian is deemed to be interested in the 1,083,198,000 shares held by Sanlian Investment by virtue of the SFO. Mr. Xian is also the sole director of Sanlian Investment.

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

3. The 9,324,000 shares of the Company are held by Pavlova Investment, the entired issued share capital of which is held by Mr. Wang. Accordingly, Mr. Wang is deemed to be interested in 9,324,000 shares held by Pavlova Investment by virtue of the SFO. Mr. Sun is also a director of Pavlova Investment.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2010, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, the following persons, other than the Directors and chief executive of the Company, had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Number of issued ordinary shares held*	Nature of interest	Approximate percentage of the issued share capital of the Company*
Sarasin Trust *(Note 1)*	1,083,198,000 (L)	Trustee	52.58% (L)
Sanlian Investment *(Note 1)*	1,083,198,000 (L)	Beneficial owner	52.58% (L)
Mr. Xian *(Note 1)*	1,083,198,000 (L)	Interest of controlled corporation	52.58% (L)
Ms. Qiao Qian *(Note 2)*	1,083,198,000 (L)	Interest of spouse	52.58% (L)
JPMorgan Chase & Co.	271,260,157 (L) 8,688,000 (S) 75,623,097 (P)	Beneficial owner	13.17% (L) 0.42% (S) 3.67% (P)

* (L)-Long position, (S)-Short position, (P)-Lending Pool

Notes:

1. The entire issued share capital of Sanlian Investment is jointly owned by Xian Yang No.1A and Sanlian No.1. Mr. Xian is the only controlling shareholder of Xian Yang No.1A and Sanlian No.1. During the year, Mr. Xian formed a discretionary trust, The Xian Yang Foundation 1, of which Sarasin Trust was the trustee. Accordingly, Mr. Xian is deemed to be interested in 1,083,198,000 shares of the Company held by Sanlian Investment by virtue of the SFO. Mr. Xian is the sole director of Sanlian Investment.

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

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

MANAGEMENT CONTRACTS

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

CONTRACTS OF SIGNIFICANCE

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

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

SHARE OPTIONS

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

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

	Number of share options								
Name or category of participant	At 1 January 2010	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2010	Date of grant	Exercise period	Exercise price HK$	Weighted average closing price per share immediate before the date of grant HK$
Directors									
Mr. Chan Chi Hing	40,000	–	–	–	40,000	30 April 2009	1 May 2010 to 24 August 2017	3.15	3.15
	40,000	–	–	–	40,000	30 April 2009	1 May 2011 to 24 August 2017	3.15	3.15
	20,000	–	–	–	20,000	30 April 2009	1 May 2012 to 24 August 2017	3.15	3.15
	100,000	–	–	–	100,000				
Mr. Huang Rongsheng	40,000	–	–	–	40,000	30 April 2009	1 May 2010 to 24 August 2017	3.15	3.15
	40,000	–	–	–	40,000	30 April 2009	1 May 2011 to 24 August 2017	3.15	3.15
	20,000	–	–	–	20,000	30 April 2009	1 May 2012 to 24 August 2017	3.15	3.15
	100,000	–	–	–	100,000				
	200,000	–	–	–	200,000				
Other employees in aggregate	17,128,000	–	–	–	17,128,000	30 April 2009	1 May 2010 to 24 August 2017	3.15	3.15
	17,128,000	–	–	–	17,128,000	30 April 2009	1 May 2011 to 24 August 2017	3.15	3.15
	8,564,000	–	–	–	8,564,000	30 April 2009	1 May 2012 to 24 August 2017	3.15	3.15
	42,820,000	–	–	–	42,820,000				
Other participants in aggregate	32,000	–			32,000	30 April 2009	1 May 2010 to 24 August 2017	3.15	3.15
	32,000	–			32,000	30 April 2009	1 May 2011 to 24 August 2017	3.15	3.15
	16,000	–			16,000	30 April 2009	1 May 2012 to 24 August 2017	3.15	3.15
	80,000	–	–	–	80,000				
	43,100,000	–	–	–	43,100,000				

CONNECTED TRANSACTIONS

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

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

2. During the year, transportation costs of approximately RMB27.7 million and RMB4.6 million were paid to 盤縣盤實物流配送有限公司 (Panxian Panshi Logistic Distribution Company Limited*) ("Panxian Panshi") and 盤縣盤鷹物流配送有限公司 (Panxian Panying Logistic Distribution Company Limited*) ("Panxian Panying") and 雲南凱捷實業有限公司 (Yunnan Kaijie Industry Company Limited*) ("Yunnan Kaijie") for the provision of railway logistic services. Yunnan Kaijie, the holder of 57% and 51% equity interest in Panxian Panshi and Panxian Panying respectively, is a substantial shareholder of each of 盤縣盤鑫焦化有限公司 (Panxian Panxin Coking Company Limited*) ("Panxin Coking") and 盤縣盤翼選煤有限公司 (Panxian Panyi Coal Washing Company Limited*) ("Panyi Coal Washing"). As Panxian Panshi and Panxian Panying occupy a monopolistic position of the local railway logistic service in Boguozhen, no relevant market price can be obtained. The pricing basis of the railway logistic service under the Framework Agreement is determined with reference to the pricing offered to other customers by Panxian Panshi and Panxian Panying and the current pricing adopted under the agreement made between the former shareholders of Panxian Panshi, Panxian Panying, Panxin Coking and Panyi Coal Washing, an agreed price consisting of the reasonable cost incurred and a reasonable profit margin.

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

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

   The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in page 29 of the Annual Report in accordance with Main Board Listing Rule 14A.38. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

3. In September 2009, the Group entered into a capital contribution agreement with Citic Trust Company Limited ("Citic Trust") for the formation of a joint venture company in which Citic Trust agreed to inject RMB500 million as capital contribution for 49% equity interest. It was further agreed that the 49% equity interest will be repurchased by the Group with a premium of 9% per annum after twelve months from the date of the contribution injected. Accordingly, for the purpose securing the payment of the repurchase consideration, the Group pledged the mining right of Xinda Coal Mine and the 51% equity interest of the joint venture company to Citic Trust. The amount of capital contribution injected by Citic Trust amounted to RMB250 million and has been fully repaid as at 31 December 2010.

AUDIT COMMITTEE

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

The audit committee consisted of three independent non-executive Directors, namely, Mr. Chan Chi Hing (Chairman), Mr. Chen Limin and Mr. Huang Rongsheng.

The audit committee has reviewed, together with the management of the Company, the accounting principles, accounting standards and methods adopted by the Company, discussed the matters concerning internal control, auditing and financial reporting matters and has reviewed the consolidated financial statements of the Group for the year ended 31 December 2010.

PRE-EMPTIVE RIGHTS

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the Directors. All Directors have confirmed their compliance with the required standards set out in the Model Code throughout the period from the date of the listing of shares of the Company on the Main Board of the Stock Exchange to 31 December 2010.

CORPORATE GOVERNANCE

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

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

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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

SUFFICIENCY OF PUBLIC FLOAT

On the basis of publicly available information and to the best of the Directors' knowledge, information and belief, the Company has maintained sufficient public float throughout the year ended 31 December 2010.

AUDITORS

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

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from 30 May to 3 June 2011, both days inclusive, during which period no transfer of shares will be registered.

In order to qualify for the proposed final dividend, all transfer instruments accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited at shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by shareholders of the Company for registration no later than 4:30 p.m. on 27 May 2011.

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

Hong Kong
29 March 2011

* *for identification purpose only*

The Company is committed to maintain a high level of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the success of the Group and for safeguarding and maximizing of the interests of shareholders of the Company (the "Shareholders"). The Company has complied with the provision of the Code during the year, except for the deviation from code provision A2.1 under the Code.

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiry of all Directors, all Directors have confirmed their compliance with the required standards as set out in the Model Code throughout the year ended 31 December 2010.

BOARD OF DIRECTORS

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

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Chi Hing
Mr. Chen Limin
Mr. Huang Rongsheng

The brief biographical details of the Directors are set out in the section headed "Profile of Directors and Senior Management" on pages 19 to 21 of this report.

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

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

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

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

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

	Attendance of meetings
Executive Directors	
Mr. Xian Yang	10
Mr. Sun Jiankun	10
Mr. Wang Rong	10
Independent non-executive Directors	
Mr. Chan Chi Hing	10
Mr. Chen Limin	10
Mr. Huang Rongsheng	10

ROLE OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

APPOINTMENT AND RE-ELECTION OF THE DIRECTORS

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

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

REMUNERATION COMMITTEE

The remuneration committee (the "Remuneration Committee") was established on 25 August 2007 with written terms of reference in compliance with the Code. The Remuneration Committee consists of an executive Director, Mr. Xian Yang and all the Independent Non-Executive Directors, namely, Mr. Chan Chi Hing, Mr. Chen Limin and Mr. Huang Rongsheng. Mr. Chan Chi Hing is the Chairman of the Remuneration Committee. The role of the Remuneration Committee is to review and give recommendations to the Board regarding the remuneration package of the Directors and the senior management of the Company and other remuneration related matters. During the year, no meeting was held by the Remuneration Committee.

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

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

During the year, one remuneration committee meeting was held to discuss and approve the annual salary review for 2010 for the Directors and the employees and the remuneration policy. All the members attended the meeting.

NOMINATION COMMITTEE

The Nomination Committee consists of an executive Director, Mr. Xian Yang and all the Independent Non-Executive Directors, namely, Mr. Chan Chi Hing, Mr. Chen Limin and Mr. Huang Rongsheng. The nomination committee will consider the appointment of new Directors first by reviewing the profiles of the candidates and making recommendations to the Board. New Directors appointed by the Board during the year to fill a casual vacancy shall retire and submit themselves for re-election at the first general meeting immediately followed their appointment.

During the year, no nomination committee meeting was held.

AUDIT COMMITTEE

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

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

During the year, three meetings were held. Mr. Chan Chi Hing, Mr. Chen Limin and Mr. Huang Rongsheng of the Audit Committee attended the meetings. The Audit Committee has reviewed together with the management the accounting principles, accounting standards and methods adopted by the Company, discussed the matters concerning internal control, auditing and financial reporting matters and has reviewed the consolidated financial statement of the Group for the year ended 31 December 2010.

AUDITORS' REMUNERATION

The external auditor of the Company is Deloitte Touche Tohmatsu. During the year ended 31 December 2010, the remuneration paid and payable to the auditors of the Company in respect of the audit services provided amounted to RMB2.85 million.

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

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENT

The Directors acknowledge their responsibility for preparing the consolidated financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Company deploys appropriate and sufficient resources to prepare audited account. Senior management is required to present and explain the financial reporting and matters that materially affect or may have material impact on the financial performance and operations of the Company to the Audit Committee and the Board and respond to the queries and concerns raised by the Audit Committee and the Board to their satisfaction. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance. The reporting responsibility of the external auditor of the Company on the consolidated financial statements of the Group are set out in the independent auditor's report on page 38 of this report.

INTERNAL CONTROLS

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

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

Deloitte.
德勤

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

We have audited the consolidated financial statements of Hidili Industry International Development Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 40 to 111, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTOR'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY *(Continued)*

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

OPINION

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
29 March 2011

Consolidated Statement Of Comprehensive Income

For The Year Ended 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000
Turnover	7	2,437,319	1,495,396
Cost of sales		(744,022)	(624,126)
Gross profit		1,693,297	871,270
Other income	8	15,105	11,428
Distribution expenses		(341,654)	(153,849)
Administrative expenses		(321,332)	(233,142)
Net gain on derivatives and held-for-trading investments		17,151	19,003
Impairment loss recognised in respect of property, plant and equipment	15	(26,350)	—
Finance costs	9	(213,987)	(56,349)
Profit before tax		822,230	458,361
Income tax expenses	11	(146,188)	(56,382)
Profit and total comprehensive income for the year	10	676,042	401,979
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		669,505	403,509
Non-controlling interests		6,537	(1,530)
		676,042	401,979
Earnings per share	14		
Basic *(RMB cents)*		32.5	19.6
Diluted *(RMB cents)*		32.1	19.5

As At 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	10,072,361	7,968,805
Prepaid lease payments	16	30,385	31,062
Deposits	17	318,516	219,950
Deposits paid for acquisition of land use rights		25,538	25,274
Deposits paid for acquisition of additional interests in subsidiaries		52,500	36,000
Convertible bond receivable	37	63,536	—
Derivative component in convertible bond receivable	37	3,269	—
Intangible assets	18	104,817	111,691
Goodwill	34(c)	11,065	11,065
Loan receivables	23	25,173	—
		10,707,160	8,403,847
CURRENT ASSETS			
Inventories	20	242,974	144,704
Bills and trade receivables	21(a)	938,975	516,366
Bills receivables discounted with recourse	21(b)	241,733	241,019
Other receivables and prepayments	22	488,357	210,177
Amounts due from related parties	24(a)	106,942	83,755
Held-for-trading investments	19	97,369	48,641
Pledged and restricted bank deposits	25	165,791	577,883
Bank balances and cash	25	1,649,037	674,545
		3,931,178	2,497,090
CURRENT LIABILITIES			
Bills and trade payables	26(a)	271,407	131,875
Advances drawn on bills receivables discounted with recourse	26(b)	241,733	241,019
Other payables and accrued expenses	27	462,997	698,389
Amount due to a related party	24(b)	1,200	—
Amount due to a non-controlling interest of a subsidiary	24(c)	15,455	—
Tax payables		91,698	47,952
Secured bank and other borrowings — due within one year	28	676,000	2,467,084
		1,760,490	3,586,319
NET CURRENT ASSETS (LIABILITIES)		2,170,688	(1,089,229)
		12,877,848	7,314,618

As At 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000
CAPITAL AND RESERVES			
Share capital	29	198,605	198,605
Share premium and reserves	30	6,774,207	6,079,391
Equity attributable to owners of the Company		6,972,812	6,277,996
Non-controlling interests		163,602	145,087
TOTAL EQUITY		7,136,414	6,423,083
NON-CURRENT LIABILITIES			
Provision for restoration and environmental costs	31	11,646	9,329
Deferred tax liabilities	33	306,989	244,682
Other long term payables	32	222,790	142,524
Secured bank and other borrowings			
— due after one year	28	1,094,000	495,000
Senior notes	35	2,596,614	—
Convertible loan notes	36	1,509,395	—
		5,741,434	891,535
		12,877,848	7,314,618

The consolidated financial statements on pages 40 to 111 were approved and authorised for issue by the board of directors on 29 March 2011 and are signed on its behalf by:

DIRECTOR *DIRECTOR*

For The Year Ended 31 December 2010

	Attributable to owners of the Company											
	Share capital	**Share premium**	**Special reserve**	**Statutory surplus reserve**	**Convertible loan notes reserve**	**Future development fund**	**Share options reserve**	**Other reserve**	**Retained profits**	**Total**	**Non-controlling interests**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			(Note 30)	*(Note 30)*		*(Note 30)*		*(Note)*				
At 1 January 2009	198,605	3,310,400	695,492	269,598	—	99,213	—	—	1,265,487	5,838,795	35,759	5,874,554
Profit and total comprehensive income for the year	—	—	—	—	—	—	—	—	403,509	403,509	(1,530)	401,979
Transfer	—	—	—	46,371	—	52,798	—	—	(99,169)	—	—	—
Recognition of equity-settled share based payment expenses *(Note 42)*	—	—	—	—	—	—	35,692	—	—	35,692	—	35,692
Capital contribution from non-controlling interests of subsidiaries	—	—	—	—	—	—	—	—	—	—	55,355	55,355
Arising from acquisition of subsidiaries *(Note 36)*	—	—	—	—	—	—	—	—	—	—	67,503	67,503
An obligation to acquire the non-controlling interest of a subsidiary	—	—	—	—	—	—	—	—	—	—	(12,000)	(12,000)
At 31 December 2009	198,605	3,310,400	695,492	315,969	—	152,011	35,692	—	1,569,827	6,277,996	145,087	6,423,083
Profit and total comprehensive income for the year	—	—	—	—	—	—	—	—	669,505	669,505	6,537	676,042
Transfer	—	—	—	65,943	—	37,906	—	—	(103,849)	—	—	—
Recognition of equity-settled share based payment expenses *(Note 42)*	—	—	—	—	—	—	32,305	—	—	32,305	—	32,305
Capital contribution from non-controlling interests of subsidiaries	—	—	—	—	—	—	—	—	—	—	13,576	13,576
Acquisition of additional interest in a non-wholly owned subsidiary *(Note)*	—	—	—	—	—	—	—	(43,402)	—	(43,402)	(1,598)	(45,000)
Recognition of equity component of convertible loan notes	—	—	—	—	242,408	—	—	—	—	242,408	—	242,408
Dividend *(Note 13)*	—	(206,000)	—	—	—	—	—	—	—	(206,000)	—	(206,000)
At 31 December 2010	198,605	3,104,400	695,492	381,912	242,408	189,917	67,997	(43,402)	2,135,483	6,972,812	163,602	7,136,414

Note: In March 2010, the Group acquired the remaining 15% equity interests of one of its subsidiaries from the non-controlling interest at an aggregate consideration of RMB45 million. The excess of the fair value of the consideration paid over the carrying amount of the net assets acquired has been debited directly to equity.

Consolidated Statement Of Cash Flows

For The Year Ended 31 December 2010

	NOTE	2010 RMB'000	2009 RMB'000
OPERATING ACTIVITIES			
Profit before tax		822,230	458,361
Adjustments for:			
Amortisation of prepaid lease payments		677	675
Amortisation of intangible assets		6,874	7,900
Interest income		(9,214)	(8,119)
Depreciation and amortisation of property, plant and equipment		120,654	90,964
Share-based payment expenses		32,305	35,692
Finance costs		213,987	56,349
Loss on disposal of property, plant and equipment		46	206
Impairment loss recognised on financial assets		5,347	785
Impairment of property, plant and equipment		26,350	—
Gain on change in fair value of derivative component in convertible bond receivable		(731)	—
Provision for restoration and environmental costs		2,317	1,486
Operating cash flows before movements in working capital		1,220,842	644,299
Increase in inventories		(96,713)	(8,995)
(Increase) decrease in bills and trade receivables		(418,454)	163,644
Increase in other receivables and prepayments		(265,683)	(94,480)
Increase in amounts due from related parties		(23,187)	(76,110)
Increase in bills and trade payables		139,532	1,347
(Decrease) increase in other payables and accrued expenses		(88,588)	30,533
Increase (decrease) in amount due to a related party		1,200	(2,200)
Decrease in derivative financial instruments		—	(1,873)
Increase in held-for-trading investments		(48,728)	(25,502)
Net cash generated from operations		420,221	630,663
Income taxes paid		(93,706)	(48,261)
NET CASH FROM OPERATING ACTIVITIES		326,515	582,402
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(2,071,486)	(1,942,550)
Decrease (increase) in pledged and restricted bank deposits		412,092	(546,435)
Deposits paid for acquisition of assets and land use right		(240,146)	(245,224)
Interest received		9,214	8,119
Proceeds from disposal of property, plant and equipment		1,794	4,147
(Increase) decrease in loan receivable		(25,173)	5,610
Acquisition of subsidiaries	34	275	(593,741)
Investment in convertible loan notes		(66,074)	—
NET CASH USED IN INVESTING ACTIVITIES		(1,979,504)	(3,310,074)

	NOTE	2010 RMB'000	2009 RMB'000
FINANCING ACTIVITIES			
Net proceeds from issue of convertible loan notes, net of issuance costs		1,664,668	—
New bank and other borrowings raised		1,845,000	4,047,084
Capital contribution from minority shareholders		13,576	13,095
Repayment of bank borrowings		(3,047,084)	(1,260,000)
Interest paid		(156,385)	(56,782)
Net proceeds from issue of senior notes		2,559,751	—
Acquisition of additional interest in a non-wholly owned subsidiary		(9,000)	—
Deposit paid for acquisition of additional interests in a subsidiary		(52,500)	(36,000)
Increase in amount due to non-controlling interests of subsidiaries		15,455	—
Dividend paid		(206,000)	—
NET CASH FROM FINANCING ACTIVITIES		2,627,481	2,707,397
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		974,492	(20,275)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		674,545	694,820
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash		1,649,037	674,545

1. GENERAL

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

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

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

NEW AND REVISED STANDARDS AND INTERPRETATIONS APPLIED IN THE CURRENT YEAR

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised IFRSs") issued by the International Accounting Standards Board (the "IASB") and the IFRS Interpretations Committee (formerly known as International Financial Reporting Interpretations Committee ("IFRIC")) which are or have been effective.

IFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
IFRS 3 (as revised in 2008)	Business Combinations
IAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
IAS 39 (Amendments)	Eligible Hedged Items
IFRSs (Amendments)	Improvements to IFRSs issued in 2009
IFRSs (Amendments)	Amendments to IFRS 5 as part of Improvements to IFRSs issued in 2008
IFRIC - Int 17	Distributions of Non-cash Assets to Owners

Except as described below, the application of the new and revised IFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

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

AMENDMENTS TO IAS 17 LEASES

As part of Improvements to IFRSs issued in 2009, IAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to IAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to IAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in IAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to IAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. The application of IAS 17 does not affect the classification of the Group's leasehold land.

IFRS 3 (AS REVISED IN 2008) BUSINESS COMBINATIONS

IFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

IFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition. The application of IFRS 3 has no impact on the Group's consolidated statement of financial position, profit for the year and earnings per share as only insignificant acquisition-related costs have been incurred for the acquisition of subsidiaries during the current year.

IAS27 (AS REVISED IN 2008) CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The application of IAS27(as revised in 2008) has been resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries of the Group.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with the goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interest in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under IAS27(as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

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

IAS27 (AS REVISED IN 2008) CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS *(Continued)*

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires the Group to derecognise all assets, liabilities, and non-controlling interests at their carrying amounts and to recognise the fair value of the consideration received. Any retained interest in the former subsidiaries is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

These changes have been applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions.

The application of the revised Standard has affected the accounting for the Group's acquisition of additional interest in a non-wholly owned subsidiary in the current year. The change in policy has resulted in the difference of RMB43,402,000 between the consideration paid of RMB45,000,000 and the non-controlling interests recognised of RMB1,598,000 being recognized directly in equity, instead of recognised as goodwill. In addition, RMB36,000,000 of the consideration was paid in 2009 and included in deposit paid for acquisition of additional interests in a subsidiary. The remaining RMB9,000,000 was paid during the current year and classified as financing activities in the consolidated statement of cash flows.

NEW AND REVISED IFRSS ISSUED BUT NOT YET EFFECTIVE

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs issued in 2010[1]
IFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets[2]
IFRS 9	Financial Instruments[3]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[4]
IAS 24 (as revised in 2009)	Related Party Disclosures[5]
IAS 32 (Amendments)	Classification of Rights Issues[6]
IFRIC - Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[5]
IFRIC - Int 19	Extinguishing Financial Liabilities with Equity Instruments[7]

[1] Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.

[2] Effective for annual periods beginning on or after 1 July 2011.

[3] Effective for annual periods beginning on or after 1 January 2013.

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

NEW AND REVISED IFRSS ISSUED BUT NOT YET EFFECTIVE *(Continued)*

[4] Effective for annual periods beginning on or after 1 January 2012.

[5] Effective for annual periods beginning on or after 1 January 2011.

[6] Effective for annual periods beginning on or after 1 February 2010.

[7] Effective for annual periods beginning on or after 1 July 2010.

IFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under IFRS 9, all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that IFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2010. Based on the Group's financial instruments as at 31 December 2010, the application of the new standard is not expected to have a significant impact on amounts reported in respect of the Group's financial assets and liabilities.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

BASIS OF CONSOLIDATION

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein. Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Business combination took place on or after 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred 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. Acquisition related costs are generally recognised in profit or loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BASIS OF CONSOLIDATION *(Continued)*

Business combination took place on or after 1 January 2010 *(Continued)*

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BASIS OF CONSOLIDATION *(Continued)*

Business combinations that took place prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising from acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognized amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognized immediately in profit or loss.

The minority interest in the acquiree was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

GOODWILL

Goodwill arising from an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

REVENUE RECOGNITION

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

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

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset (excluding financial assets at fair value through profit or loss) is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

PROPERTY, PLANT AND EQUIPMENT

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

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

The mining structures and mining rights are stated at cost less subsequent accumulated amortisation and accumulated impairment losses. Amortisation is provided to write off the cost of the mining structures and mining rights using the units of production method over the total proven reserves of the coal mines.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

LEASING

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

PREPAID LEASE PAYMENTS

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

FOREIGN CURRENCIES

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

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

BORROWING COSTS

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

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

RETIREMENT BENEFITS COSTS

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

TAXATION

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INTANGIBLE ASSETS

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

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

INVENTORIES

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

PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

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

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

FINANCIAL INSTRUMENTS

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets

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

Effective interest method

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

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

Financial assets at FVTPL

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

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

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

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

Loans and receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

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

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities and equity

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Convertible loan notes

Convertible loan notes issued by the Group contain the liability, conversion option and early redemption components. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument. Early redemption option embedded in non-derivative host liability component with risks and characteristics that are closely related to the liability component is not separated from the liability component.

On initial recognition, the fair value of the liability component (including the early redemption option which is closely related to the liability component) is determined using the prevailing market interest of similar non-convertible debts. The conversion option component is recognised at fair value and included in equity (convertible loan notes reserve).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Convertible loan notes *(Continued)*

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes reserve until the embedded option is exercised, in which case the balance stated in convertible loan notes equity reserve will be transferred to share premium. Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Equity instruments

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

Derivative financial instruments

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

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Derecognition

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

IMPAIRMENT LOSSES ON TANGIBLE AND INTANGIBLE ASSETS

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

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

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

Share options granted to employees after 1 April 2005

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

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

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

Share options granted to consultants

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are 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.

DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment other than mining rights and mining structures are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual value. Mining rights and mining structures are amortised using the units of production method based on the total proven reserves of the coal mines. The Group assesses annually the residual value and the useful life of the property, plant and equipment. If the expectation differs from the original estimate, such difference will impact the depreciation and the amortisation charged in the year in which such estimate is changed. As at 31 December 2010, the carrying amount of property, plant and equipment was RMB10,072 million (2009: RMB7,969 million). Details of property, plant and equipment are disclosed in note 15.

RESERVE ESTIMATES

As explained in note 3, mining rights are amortised using the units of production method based on the total proven reserves of the coal mines.

Engineering estimates of the Group's mineral reserves involved subjective judgements by mineral engineers in developing such information. There is a Chinese system, which is the national standard set by the PRC Government, regarding the engineering criteria that have to be met before estimated mineral reserves can be designated as "proved". Proved reserve estimates are updated on a regular basis and have taken into account as a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation and amortisation rates. If the expectation differs from the original reserve estimate, such difference will impact the depreciation and amortisation charged in the year in which such estimate is changed. As at 31 December 2010, the Company amount of mining rights and mining structure was RMB6,979 million (2009: RMB6,185 million).

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

PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

Provision for restoration and environmental costs are determined by the management based on their best estimates of the current and future cost and past experiences. If the expectation differs from the original estimate, such difference will impact the cost of production charged in the year in which such estimated is changed. As at 31 December 2010, the carrying amount of provision for restoration and environmental costs was RMB11.6 million (2009: RMB9.3 million). Details are set out in note 31.

ESTIMATED IMPAIRMENT OF TRADE RECEIVABLES, OTHER RECEIVABLES AND LOAN RECEIVABLES

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2010, the carrying amount of trade receivables, other receivables and prepayments and loan receivables is RMB596.1 million, RMB488.4 million and RMB25.2 million, respectively (net of allowance for doubtful debts of RMB4.7 million, RMB25 million and nil, respectively) (2009: carrying amount of RMB388.2 million, RMB210.2 million and nil, respectively, net of allowance of doubtful debts of RMB8.8 million, RMB15.5 million and nil, respectively)

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which included bank borrowings, senior notes and convertible loan notes as disclosed in notes 28, 35 and 36, respectively and cash and cash equivalents and equity attributable to owners of the company, comprised share capital and reserves, as disclosed in notes 29 and 30, respectively.

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

6. FINANCIAL INSTRUMENTS

6A. CATEGORIES OF FINANCIAL INSTRUMENTS

	2010 RMB'000	2009 RMB'000
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	3,278,489	2,113,006
FVTPL		
Held-for-trading investments	97,369	48,641
Derivative financial instruments	3,269	—
Financial liabilities		
Amortised cost	6,923,012	3,995,395

6B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Market risk

(i) Currency risk

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

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

	Liabilities		Assets	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
United States Dollars ("US$")	2,596,614	887,084	78,862	72,345
Hong Kong Dollars ("HK$")	—	6,839	563	581

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

6. FINANCIAL INSTRUMENTS (Continued)

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

Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis

Non-derivative financial instruments

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

The following table details the Group's sensitivity to a 5% (2009: 5%) increase and decrease in RMB against the relevant foreign currency. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes bank balances, bank borrowings and senior notes denominated in US$ and HK$. A positive number below indicates an increase in post-tax profit where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	2010 RMB'000	2009 RMB'000
Profit for the year		
— US$	94,416	30,553
— HK$	(21)	235

(ii) Interest rate risk

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

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

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(ii) Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point (2009: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2009: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2010 would decrease/increase by RMB4,525,000 (2009: decrease/increase by RMB4,690,000). This is mainly attributable to the Group's exposure to interest rates on its bank balances and variable bank borrowings.

(iii) Other price risk

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

Sensitivity analysis

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

If the prices of the respective equity investments had been 5% higher/lower, the Group's post-tax profit for the year ended 31 December 2010 would increase/decrease by RMB3,417,000 (2009: RMB1,824,000) as a result of the changes in fair value of held-for-trading investments.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk

As at 31 December 2010, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

The Group's concentration of credit risk by geographical is mainly in the PRC, which accounted for all of the trade receivables as at 31 December 2010.

The Group is exposed to concentration of credit risk on trade receivables. At 31 December 2010, the five largest debtors accounted for approximately 64% (2009: 91%) of the Group's total trade receivables.

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

Liquidity risk

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

The Group relies on bank borrowings, senior notes and convertible loan notes as a significant source of liquidity. As at 31 December 2010, the Group has bank and other borrowings of approximately RMB1,770 million (2009: RMB2,962 million), senior notes of approximately RMB2,597 million (2009: Nil) and convertible loan notes of RMB1,509 million (2009: Nil).

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

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

2010

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31.12.2010
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-derivative financial liabilities								
Bills and trade payables	—	51,655	176,633	43,119	—	—	271,407	271,407
Advances drawn on bills receivables discounted with recourse	4.38	56,415	60,768	127,727	—	—	244,910	241,733
Other payables	—	24,333	48,328	162,823	—	—	235,484	235,484
Amount due to non-controlling interest of a subsidiary	—	15,455	—	—	—	—	15,455	15,455
Amount due to a related party	—	1,200	—	—	—	—	1,200	1,200
Other payable - consideration payable for mining right	5.31	31,001	—	41,391	234,620	—	307,012	281,724
Bank borrowings								
— floating rate	6.49	—	—	—	468,556	—	468,556	440,000
— fixed rate	6.28	80,437	—	679,021	697,102	—	1,456,560	1,330,000
Senior notes	8.63	—	—	—	2,819,923	—	2,819,923	2,596,614
Convertible loan notes	7.51	—	—	—	1,707,000	—	1,707,000	1,509,395
		260,496	285,729	1,054,081	5,927,201	—	7,527,507	6,923,012

6. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk *(Continued)*

2009

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31.12.2009
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-derivative financial liabilities								
Bills and trade payables	—	26,604	27,141	78,130	—	—	131,875	131,875
Advances drawn on bills receivables discounted with recourse	1.89	107,678	87,686	46,364	—	—	241,728	241,019
Other payables	—	23,764	51,608	411,426	—	—	486,798	486,798
Other payable — consideration payable for mining right	5.31	—	—	40,314	150,092	—	190,406	173,619
Bank borrowings — Fixed-rate	5.69	—	929,219	1,706,407	523,166	—	3,158,792	2,962,084
		158,046	1,095,654	2,282,641	673,258	—	4,209,599	3,995,395

6C. FAIR VALUE

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- the fair value of derivative instruments is calculated using quoted prices or quoted prices from financial institutions for equivalent instruments.

As at 31 December 2010, the fair values of the senior notes and convertible loan notes with carrying value of RMB 2,597 million and RMB 1,509 million respectively amounted to RMB 2,597 million and RMB 1,664 million respectively. The directors of the Company consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

6. FINANCIAL INSTRUMENTS (Continued)

6C. FAIR VALUE (Continued)

Fair value measurements recognised in the consolidated statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31.12.2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets at FVTPL				
Derivative component in convertible bond receivable	—	—	3,269	3,269
Held for trading investments	97,369	—	—	97,369
	97,369	—	3,269	100,638

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

There were no transfers between Levels in the current and prior year.

6. FINANCIAL INSTRUMENTS *(Continued)*

6C. FAIR VALUE *(Continued)*

Reconciliation of Level 3 fair value measurements of financial asset

	Derivative component in convertible bond *RMB'000*
As at 1 January 2010	
Purchases	2,538
Total gain or losses:	
— in profit or loss	731
At 31 December 2010	3,269

Included in consolidated statement of comprehensive income for 2010 is a fair value gain of approximately RMB731,000 related to derivative component in convertible bond receivable.

7. REVENUE AND SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. Information reported to the chief operating decision makers (i.e. the executive directors) for the purposes of resource allocation and performance assessment focuses on the Group's business operations, which is the basis upon which the Group is organised.

The Group's operating and reportable segments under IFRS 8 are comprised of: (i) coal mining; (ii) coking; (iii) others. The management identify the Group's segment by the nature of the Group's operation.

Principal activities are as follows:

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

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

SEGMENTS REVENUES AND RESULTS

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

	For the year ended 31 December 2010				
	Coal mining	**Coking**	**Others**	**Inter-segment eliminations**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE					
External	1,730,141	696,556	10,622	—	2,437,319
Inter-segment	463,917	—	—	(463,917)	—
Total	2,194,058	696,556	10,622	(463,917)	2,437,319
RESULTS					
Segment profit	983,662	364,772	3,209	—	1,351,643
Other income					15,105
Administrative expenses					(321,332)
Net gain on derivatives and held-for-trading investments					17,151
Impairment loss recognised in respect of property, plant and equipment					(26,350)
Finance costs					(213,987)
Profit before tax					822,230

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

SEGMENTS REVENUES AND RESULTS *(Continued)*

	For the year ended 31 December 2009				
	Coal mining	**Coking**	**Others**	**Inter-segment eliminations**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE					
External	614,522	871,702	9,172	—	1,495,396
Inter-segment	636,382	—	—	(636,382)	—
Total	1,250,904	871,702	9,172	(636,382)	1,495,396
RESULTS					
Segment profit	256,483	458,683	2,255	—	717,421
Other income					11,428
Administrative expenses					(233,142)
Net gain on derivatives and held-for-trading investments					19,003
Finance costs					(56,349)
Profit before tax					458,361

Inter-segment transactions were carried out at a cost plus margin.

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

SEGMENT ASSETS AND LIABILITIES

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

7. REVENUE AND SEGMENT INFORMATION (Continued)

OTHER SEGMENT INFORMATION

	For the year ended 31 December 2010					
	Coal mining	Coking	Others	Segment total	Adjustments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Note)	*RMB'000*
Amounts included in the measure of segment profit						
Impairment loss on financial assets	5,347	—	—	5,347	—	5,347
Depreciation and amortisation	79,228	21,457	—	100,685	27,520	128,205
Provision for restoration and environmental costs	2,317	—	—	2,317	—	2,317

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

Note: The reconciling items represent adjustments on expenditures incurred for the corporate headquarters, which is not included in segments.

GEOGRAPHICAL INFORMATION

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

7. REVENUE AND SEGMENT INFORMATION (Continued)

INFORMATION ABOUT MAJOR CUSTOMERS

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

	2010 RMB'000	2009 RMB'000
Customer A	326,953	594,262
Customer B	317,870	309,986
Customer C	301,327	153,793

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

8. OTHER INCOME

	2010 RMB'000	2009 RMB'000
Bank interest income	9,214	8,119
Dividend income from held-for-trading investments	700	660
Others	5,191	2,649
	15,105	11,428

9. FINANCE COSTS

	2010 RMB'000	2009 RMB'000
Interest expenses on borrowings wholly repayable within five years:		
— bank and other borrowings	99,266	24,566
— advances drawn on bills receivable discounted	34,974	40,823
— convertible loan notes	100,673	—
— senior notes	36,863	—
	271,776	65,389
Less: Interest capitalised in construction in progress *(note 15)*	(57,789)	(9,040)
	213,987	56,349

10. PROFIT FOR THE YEAR

	2010 RMB'000	2009 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration *(Note 12)*	1,743	1,346
Salaries and other benefits	341,196	240,877
Retirement benefits scheme contributions	24,267	7,975
Share-based payment expense	32,086	35,460
Total staff costs	399,292	285,658
Impairment loss (reversal of impairment loss) recognised on		
— trade receivables	(4,155)	6,148
— other receivables	9,502	247
— loan receivables	—	(5,610)
Impairment loss recognised on financial assets	5,347	785
Auditors' remuneration	2,850	2,850
Amortisation of prepaid lease payments	677	675
Amortisation of intangible assets (of which the RMB3,799,000 (2009: RMB3,800,000) included in distribution expenses and RMB3,075,000 (2009: RMB4,100,000) included in cost of sales)	6,874	7,900
Provision for restoration and environmental costs *(Note 31)*	2,317	1,486
Depreciation and amortisation of property, plant and equipment	120,654	90,964
Loss on disposal of property, plant and equipment	46	206
Cost of inventories recognised as an expense	744,022	624,126
Net exchange (gain) loss (included in administrative expenses)	(8,181)	853

11. INCOME TAX EXPENSES

	2010 RMB'000	2009 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	135,546	50,072
Underprovision(overprovision) in prior years	1,906	(4,945)
	137,452	45,127
Deferred tax *(Note 33)*	8,736	11,255
	146,188	56,382

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for 2010 and 2009.

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

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

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

	2010 RMB'000	2009 RMB'000
Profit before tax	822,230	458,361
Tax at applicable tax rate of 25% (2009: 25%)	205,558	114,590
Tax effect of tax exemption	(1,140)	(36,956)
Tax effect of concessionary tax rate granted	(86,393)	(51,650)
Tax effect of income not taxable for tax purpose	(6,717)	(2,588)
Tax effect of expenses not deductible for tax purpose	10,868	21,737
Tax effect of undistributed profit of subsidiaries in the PRC	9,452	12,268
Tax effect of tax losses not recognised	12,654	3,926
Under(over)provision in prior years	1,906	(4,945)
Income tax expense for the year	146,188	56,382

11. INCOME TAX EXPENSES *(Continued)*

The provision for EIT is based on a statutory rate of 25% (2009: 25%) of the assessable profit of the group entities as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain PRC subsidiaries of the Company which are exempted from EIT or entitled to concessionary tax rate in accordance with the approval from the respective tax bureau.

Pursuant to the "Application of preferential tax treatment for Foreign Investment Enterprise", Panzhihua City Hidili Coke Company Limited ("Hidili Coke"), Panzhihua City Tiandaoqin Industry & Trading Company Limited ("Tiandaoqin"), Panzhihua Yanjiang Industrial Company Limited ("Yanjiang"), Panzhihua City Tianchou Industry & Trading Company Limited ("Tianchou") and Panzhihua Yangfan Industry & Trading Company Limited ("Yangfan") were entitled to 2 years exemption from EIT in 2007 and 2008 and a 50% deduction of EIT for three years (from 2009 to 2011). Therefore, the applicable tax rate of Hidili Coke and Tianchou for 2010 is 12.5% (2009: 12.5%).

For Tiandaoqin, Yangfan, Sichuan Hidili and Yanjiang, they were also entitled to the tax incentives in connection with the development of the western part of the PRC. The applicable tax rate for 2010 is 7.5% (2009: 7.5%).

Panzhihua City Sanlian Transportation Company Limited ("Sanlian Transportation") was entitled to the tax incentives in connection with the development of the western part of the PRC. According to the official approval issued by State Administration of Taxation of Sichuan Province, Sanlian Transportation is entitled to the policy of 2 year's exemption and 3 year's deduction from 2005 to 2009. The applicable tax rate for 2010 is 25% (2009: 12.5%).

According to the Taxpayer Exemption Application Form (納稅人減免稅申請審批表, "EIT Exemption Form") issued by the local tax bureau on 4 July 2007, Liupanshui Hidili Industry Company Limited ("Liupanshui Hidili") was entitled to a 2 years exemption from EIT from 2008 to 2009 and a 50% deduction of EIT for three years from 2010 to 2012. The applicable tax rate of Liupanshui Hidili for 2010 is 12.5% (2009: Nil).

The Tax Law of the PRC requires withholding tax upon distribution of profits earned by the PRC subsidiaries since 1 January 2008. Deferred tax of approximately RMB55,520,000 (2009: RMB46,068,000) has been provided for in the consolidated financial statements in respect of the temporary differences attributable to such profits.

12. DIRECTORS' EMOLUMENTS AND EMPLOYEE'S EMOLUMENTS

The emoluments paid or payable to each of the 6 (2009: 7) directors were as follows:

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

	2010 *RMB'000*	2009 *RMB'000*
Directors:		
Fees	600	600
Basic salaries and allowances	976	537
Retirement benefit scheme contributions	17	43
Share-based payment expenses	150	166
	1,743	1,346

For the year ended 31 December 2010

	Executive directors			Non-executive independent director			
	Xian Yang	Wang Rong	Sun Jiankun	Chan Chi Hing	Chen Limin	Huang Rongsheng	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Directors' fee	—	—	—	200	200	200	600
Basic salaries and allowances	230	555	191	—	—	—	976
Retirement benefit scheme contribution	9	8	—	—	—	—	17
Share-based payment expense	—	—	—	75	75	—	150
	239	563	191	275	275	200	1,743

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

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

For the year ended 31 December 2009

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

Notes:

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

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

No directors waived any emoluments during each of the two years ended 31 December 2009 and 31 December 2010.

(B) FIVE HIGHEST EMPLOYEES' EMOLUMENTS

During the year, the five highest paid individuals included Nil (2009: Nil) directors of the Company. The emoluments of these individuals, all of which are individually within the band HK$1,000,001 to HK$1,500,000 (2009: HK$1,000,001 to HK$1,500,000), were as follows:

	2010 *RMB'000*	2009 *RMB'000*
Basic salaries and allowances	564	664
Retirement benefit scheme contributions	43	104
Share-based payment expenses	4,910	5,424
	5,517	6,192

13. DIVIDENDS

	2010 *RMB'000*	2009 *RMB'000*
Dividends, paid recognised as distribution during 2010:		
Final for 2009, paid — RMB10 cents per share	206,000	—

The final dividend of RMB6.5 cents (2009: RMB10 cents) in respect of the year ended 31 December 2010 per share has been proposed by the directors and is subject to approval by the shareholders in general meeting. During the year ended 31 December 2010, the final dividend of RMB 206,000,000, representing RMB 10 cents for ordinary shares in respect of the year ended 31 December 2009 were declared by the Board and had been recognised and distributed during the year.

14. EARNINGS PER SHARE

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

Earnings

	2010 *RMB'000*	2009 *RMB'000*
Earnings for the purposes of basic and diluted earnings per share (Profit for the year attributable to owners of the Company)	669,505	403,509

Number of shares

	2010 *'000*	2009 *'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,060,000	2,060,000
Effect of dilutive potential ordinary shares:		
Share options	22,778	12,092
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,082,778	2,072,092

The computation of diluted earnings per share for the year ended 31 December 2010 does not assume the conversion of the Company's convertible loan notes since its assumed conversion would result in an increase in earnings per share.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Mining structures and Mining rights	Machinery	Motor vehicles	Office and electronic equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2009	323,756	4,175,269	391,819	53,270	13,306	381,133	5,338,553
Additions	13,113	1,396,458	117,076	15,697	4,731	521,390	2,068,465
Acquired on acquisition of subsidiaries	11,767	765,687	44,660	—	3,232	41,074	866,420
Transfer	27,978	8,109	228	—	—	(36,315)	—
Disposals	(2,001)	—	(170)	(2,485)	(71)	(1,534)	(6,261)
At 31 December 2009	374,613	6,345,523	553,613	66,482	21,198	905,748	8,267,177
Additions	4,217	565,055	119,834	19,843	9,333	1,212,623	1,930,905
Acquired on acquisition of subsidiaries	4,576	226,788	1,581	4,027	—	84,523	321,495
Transfer	41,493	59,990	13,285	—	145	(114,913)	—
Impairment	—	—	(26,350)	—	—	—	(26,350)
Disposals	(422)	—	(1,529)	(1,271)	(279)	—	(3,501)
At 31 December 2010	424,477	7,197,356	660,434	89,081	30,397	2,087,981	10,489,726
DEPRECIATION AND AMORTISATION							
At 1 January 2009	20,398	121,685	47,216	17,010	3,007	—	209,316
Provided for the year	10,020	38,915	30,275	9,795	1,959	—	90,964
Eliminated on disposals	(6)	—	(54)	(1,813)	(35)	—	(1,908)
At 31 December 2009	30,412	160,600	77,437	24,992	4,931	—	298,372
Provided for the year	10,170	57,561	39,023	12,922	978	—	120,654
Eliminated on disposals	(144)	—	(569)	(827)	(121)	—	(1,661)
At 31 December 2010	40,438	218,161	115,891	37,087	5,788	—	417,365
NET BOOK VALUES							
At 31 December 2010	384,039	6,979,195	544,543	51,994	24,609	2,087,981	10,072,361
At 31 December 2009	344,201	6,184,923	476,176	41,490	16,267	905,748	7,968,805

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

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

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

The mining structures and mining rights include the main and auxiliary mine shafts and underground tunnels. The mining rights have average legal lives of 10 to 15 years but in the opinion of the directors of the Company, the Group will be able to renew the mining rights without incurring significant costs.

Amortisation is provided to write off the cost of the mining structures and mining rights using the units of production method based on the total proven reserves of the coal mine.

At 31 December 2010, the legal titles of the mining rights with carrying values of approximately RMB4,031,970,000 (2009: RMB4,030,555,000), have not been granted by the relevant government authorities and the relevant title transfers are still under application. In the opinion of the director, taking into account of the PRC lawyer's legal opinion, all the risks and rewards of ownership of mining rights have been transferred to the Group.

Included in mining structures and mining rights is interest capitalised of RMB66,829,000 (2009: RMB9,040,000).

An impairment loss of RMB26,350,000 was recognised during the year to fully write down the carrying amounts of production machinery in a coking plant. In July 2010, the Group received notification from the local government authority to cease coking operation in that plant as the production did not meet the government requirement.

16. PREPAID LEASE PAYMENTS

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

	2010 *RMB'000*	2009 *RMB'000*
Current assets included in other receivables and prepayments	675	675
Non-current asset	30,385	31,062
	31,060	31,737

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

17. DEPOSITS

As at 31 December 2010, deposits of RMB160,245,000 (2009: RMB99,950,000) were paid to three (2009: two) privately owned mining companies for acquisition of mines in the PRC. Up to the date these consolidated financial statements were authorised for issuance, the Group is still negotiating with the mine owners to agree the final amount of consideration.

In addition, as at 31 December 2010, the Group entered into a memorandum of understanding with an independent third party and a deposit of RMB158,271,000 (2009: RMB120,000,000) was paid for acquisition of the transportation rights and 20% equity interests in a company engaged in clean coal washing in the PRC. Up to the date of this report, the Group is still negotiating with the independent third party in the PRC to agree the final amount of consideration.

18. INTANGIBLE ASSETS

	Transportation rights *RMB'000* *(Note a)*	**Exploration right** *RMB'000* *(Note b)*	**Total** *RMB'000*
COST			
At 1 January 2009, 31 December 2009 and 31 December 2010	114,000	8,200	122,200
AMORTISATION			
At 1 January 2009	1,584	1,025	2,609
Charge for the year	3,800	4,100	7,900
At 31 December 2010	5,384	5,125	10,509
Charge for the year	3,799	3,075	6,874
At 31 December 2010	9,183	8,200	17,383
CARRYING VALUES			
At 31 December 2010	104,817	—	104,817
At 31 December 2009	108,616	3,075	111,691

18. INTANGIBLE ASSETS *(Continued)*

Notes:

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

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

19. HELD-FOR-TRADING INVESTMENTS

	2010 RMB'000	2009 RMB'000
Held-for-trading investments include:		
Listed securities		
— Equity securities listed in the PRC, at market value	50,592	48,641
— Equity securities listed in the Australia, at market value	46,777	—
	97,369	48,641

20. INVENTORIES

	2010 RMB'000	2009 RMB'000
Coke	9,544	26,939
Coal products	129,901	43,137
Alloy pig iron	10,753	10,784
Auxiliary materials and spare parts	92,776	63,844
	242,974	144,704

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

(A) BILLS AND TRADE RECEIVABLES

	2010 RMB'000	2009 RMB'000
Trade receivables	600,747	397,047
Less: allowance for doubtful debts	(4,683)	(8,838)
	596,064	388,209
Bills receivables	342,911	128,157
	938,975	516,366

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

	2010 RMB'000	2009 RMB'000
Aged:		
0 - 90 days	823,981	482,559
91 - 120 days	96,016	14,560
121 - 180 days	4,169	14,337
181 - 365 days	4,903	4,910
Over 365 days	9,906	—
	938,975	516,366

Before accepting any new customer, the Group will assess credit worthiness by customer. As the customers are mostly the renowned steel manufacturer, therefore based on the past history, the eventual collectability of the receivables neither past due nor impaired is expected.

Included in the Group's bills and trade receivables balance as at 31 December 2010 are debtors aged over 120 days with a carrying amount of RMB18,978,000 (2009: RMB19,247,000) which are past due at the reporting date for which the Group has not recognised impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable as there are continuing settlement. The Group does not hold any collateral over these balances.

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

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

Movement in allowance for doubtful debts

	2010 *RMB'000*	2009 *RMB'000*
Trade receivables		
Balance at beginning of the year	8,838	2,690
Impairment loss recognised on receivables	3,844	6,148
Amounts recovered during the year	(7,999)	—
Balance at end of the year	4,683	8,838

Included in the allowance for doubtful debts are individually impaired trade receivable with an aggregate balance of RMB4,683,000 (31 December 2009: RMB8,838,000) which have in severe financial difficulties. The Group does not held any collateral over those balances.

(B) BILLS RECEIVABLES DISCOUNTED WITH RECOURSE

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

	2010 *RMB'000*	2009 *RMB'000*
Aged:		
0 - 90 days	148,390	162,749
91 - 120 days	93,343	78,270
	241,733	241,019

22. OTHER RECEIVABLES AND PREPAYMENTS

	2010 RMB'000	2009 RMB'000
Advance to suppliers	96,324	50,133
Prepayment of mining operation expenses	24,745	18,502
Prepayments	32,729	25,970
Transportation charges paid on behalf of customers	34,189	21,438
Staff advances	30,163	15,570
Deposits paid	87,302	19,438
Others	182,905	59,126
	488,357	210,177

Movement in allowance for doubtful debts

	2010 RMB'000	2009 RMB'000
Other receivables		
Balance at beginning of the year	15,467	15,220
Impairment loss recognised on receivables	9,502	247
Balance at end of the year	24,969	15,467

23. LOAN RECEIVABLE

	2010 RMB'000	2009 RMB'000
Loan receivables from:		
— An Entity *(note)*	25,173	—

23. LOAN RECEIVABLE *(Continued)*

Movement in impairment loss recognised

	2010 *RMB'000*	2009 *RMB'000*
Balance as at beginning of the year	—	6,110
Amounts written off as uncollectable	—	(500)
Amounts recover during the year	—	(5,610)
Balance at end of the year	—	—

Note: The balances represented the loans advanced to an entity which were registered in the PRC. The loan will be repayable in 2012 with a fixed interest rate of 8% per annum.

24. AMOUNTS DUE FROM (TO) RELATED PARTIES/AMOUNTS DUE TO A NON-CONTROLLING INTEREST OF A SUBSIDIARY

(A) AMOUNTS DUE FROM RELATED PARTIES

Name of related parties

	2010 *RMB'000*	2009 *RMB'000*
Panxian Panshi *(note i)*	50,151	68,559
Panxian Panying *(note ii)*	9,694	14,929
攀枝花市恆為製鈦有限公司 (「恆為製鈦」) Translated as Hengwei Zhitai Company Limited ("Hengwei Zhitai") *(note iii)*	508	267
雲南凱捷實業有限公司 Translated as Yunnan Kaijie Company Limited ("Kaijie") *(note iv)*	46,589	—
	106,942	83,755

(B) AMOUNT DUE TO RELATED PARTY

Name of related party

	2010 *RMB'000*	2009 *RMB'000*
Mr. Xian Jilun (鮮繼倫) *(notes v)*	1,200	—

24. AMOUNTS DUE FROM (TO) RELATED PARTIES/AMOUNTS DUE TO A NON-CONTROLLING INTEREST OF A SUBSIDIARY *(Continued)*

(C) AMOUNT DUE TO A NON-CONTROLLING INTEREST OF A SUBSIDIARY

Amount being unsecured, interest-free and repayable on demand.

Notes:

(i) Panxian Panshi is an investee company in which the Group owned its 37% equity interest as explained in Note 18(a) but does not have any significant influence. The balance was of trade in nature with age within one year at 31 December 2010 and 2009.

(ii) Panxian Panying is an investee company in which the Group owned its 37% equity interest as explained in Note 18(a) but does not have any significant influence. The balance was of trade in nature with age within one year at 31 December 2010 and 2009.

(iii) Hengwei Zhitai is ultimately owned by Mr. Xian Fan, brother of Mr. Xian Yang who is a shareholder and a director of the Company. The balance was of trading in nature with age within one year at 31 December 2010 and 2009.

(iv) Kaijie is the immediate holding company of Panxian Panshi and Panxian Panying. The balance was of trade in nature with age within one year at 31 December 2010.

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

All above balances are unsecured and interest free.

The directors of the Group consider that there has not been a significant change in credit quality of these related parties and there is no recent history of default. The Group does not hold any collateral over the balances.

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

The pledged bank deposits of RMB87,920,000 (2009: RMB520,108,000) are used to secure the bills payable and bank borrowings which are repayable within one year. The restricted bank deposits of RMB77,871,000 (2009: RMB57,775,000) are short-term in nature and the amount is held in a bank under the requirement of the relevant government authority of the PRC. Accordingly, the pledged and restricted bank deposits are classified as current assets.

The average effective interest rate of the pledged and restricted bank deposits and bank balances during the year are 0.61% (2009: 0.66%) per annum.

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

	2010 *RMB'000*	2009 *RMB'000*
US$	12,788	72,345
HK$	563	581

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

(A) BILLS AND TRADE PAYABLES

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

	2010 RMB'000	2009 RMB'000
Aged:		
0 - 90 days	228,850	116,640
91 - 180 days	19,730	13,499
181 - 365 days	8,763	1,736
Over 365 days	14,064	—
	271,407	131,875

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

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

	2010	2009
Fixed interest rate	4.38%	1.89%

27. OTHER PAYABLES AND ACCRUED EXPENSES

	2010 RMB'000	2009 RMB'000
Advance from customers	14,200	18,653
Accrued wages	48,090	33,587
Other tax payables	109,584	66,723
Accrued expenses	62,114	51,112
Welfare payables	1,100	10,421
Payables for acquisition of property, plant and equipment	108,262	414,737
Other long term payables - due within one year *(Note 32)*	58,934	31,095
Obligation to acquire non-controlling interest of a subsidiary *(Note)*	—	12,000
Others	60,713	60,061
	462,997	698,389

27. OTHER PAYABLES AND ACCRUED EXPENSES (Continued)

Note:

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

28. SECURED BANK AND OTHER BORROWINGS

	2010 RMB'000	2009 RMB'000
Bank loans	1,770,000	2,712,084
Other loans	—	250,000
	1,770,000	2,962,084
The secured bank and other borrowings are repayable as follows:		
Carrying amount of bank and other borrowings repayable*:		
Within one year	596,000	2,467,084
More than one year, but not exceeding two years	336,000	255,000
More than two years, but not exceeding five years	758,000	240,000
	1,690,000	2,962,084
Carrying amount of bank loans that are not repayable one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	80,000	—
Total bank and other borrowings	1,770,000	2,962,084
Less: Amount due within one year shown under current liabilities	(676,000)	(2,467,084)
Amount due after one year	1,094,000	495,000

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

28. SECURED BANK AND OTHER BORROWINGS *(Continued)*

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

	2010 *RMB'000*	2009 *RMB'000*
Within one year	676,000	2,467,084
More than one year, but not exceeding two years	276,000	255,000
More than two years, but not exceeding five years	378,000	240,000
	1,330,000	2,962,084

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

	2010	2009
Effective interest rates:		
Fixed-rate borrowings	4.68% to 8.1%	2.04% to 9%
Variable-rate borrowings	5.76% to 7.02%	—

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

	US Dollars *RMB'000*
As at 31 December 2010	—
As at 31 December 2009	887,084

During the year, the Group obtained new loans in an aggregate amount of RMB1,845 million (2009: RMB4,047 million). The loans carry interest at prevailing market rates and are repayable over a period of one to five years. The proceeds were used to finance the acquisition of property, plant and equipment, repayment of existing debts and for general working capital purpose of the Group.

As at 31 December 2010, long-term secured bank loans of RMB594 million (2009: RMB400 million), short-term secured bank loans of RMB216 million (2009: RMB100 million) and other loans of Nil (2009: RMB250 million) were secured by the Group's 100% equity interests in a subsidiary, Shenzhen Hengxin Dingli Commercial Trading Company Limited ("Shenzhen Hengxin").

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

29. SHARE CAPITAL

	Number of shares *(in thousand)*	Amount *HK$'000*	Equivalent to *RMB'000*
Ordinary of HK$0.1 each			
Authorised:			
At 1 January 2009, 31 December 2009 and 31 December 2010	10,000,000	1,000,000	
Issued and fully paid:			
At 1 January 2009, 31 December 2009 and 31 December 2010	2,060,000	206,000	198,605

30. RESERVES

(A) STATUTORY SURPLUS RESERVE

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

(B) FUTURE DEVELOPMENT FUND

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

(C) SPECIAL RESERVE

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

31. PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

	RMB'000
At 1 January 2009	7,843
Provision for the year	1,486
At 31 December 2009	9,329
Provision for the year	2,317
At 31 December 2010	11,646

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

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

32. OTHER LONG TERM PAYABLES

	2010 *RMB'000*	2009 *RMB'000*
Other long term payables comprise of:		
Consideration payable for mining right *(Note)*	**281,724**	173,619
Less: Amount due within one year shown under current liabilities (included in other payables and accrued expenses)	**(58,934)**	(31,095)
	222,790	142,524

Note:

Pursuant to the mining right agreements entered into between the Group and the relevant government authority of the PRC from 2008 to 2010, the consideration payable for the mining right in respect of the mining site located at Guizhou Province carried interest at prevailing market rates and is repayable in instalments over two to ten years. The effective interest rate is 5.31%.

33. DEFERRED TAX LIABILITIES

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

	Withholding tax on undistributed profits of PRC subsidiaries	Fair value adjustment on property, plant and equipment at acquisition	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2009	33,800	11,065	44,865
Arising from acquisition of subsidiaries *(Note 34)*	—	188,562	188,562
Charge (credit) to profit or loss	12,268	(1,013)	11,255
At 31 December 2009	46,068	198,614	244,682
Arising from acquisition of subsidiaries *(Note 34)*	—	53,571	53,571
Charge (credit) to profit or loss	9,452	(716)	8,736
At 31 December 2010	55,520	251,469	306,989

Under the New Law of PRC, withholding tax is imposed on dividend declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. At 31 December 2010, deferred tax has been provided in respect of temporary differences attributable to such retained profits.

At the end of the reporting period, the Group has unused tax losses of approximately RMB95,874,000 (2009: RMB45,258,000) available for offset against future profits. No deferred tax assets have been recognised in respect of such losses due to the unpredictability of future profit streams. All these tax losses will expire during 2012 to 2014.

34. ACQUISITION OF SUBSIDIARIES AND GOODWILL

(A) ACQUISITION OF SUBSIDIARIES - 2010

During the year ended 31 December 2010, the Group acquired 100% equity interest in Fuyuan Fude and Sichuan Dexin, at consideration of RMB1,000,000 and RMB140,316,000, respectively. Fuyuan Fude is engaged in coal washing and Sichuan Dexin is engaged in lithium mining. Fuyuan Fude and Sichuan Dexin were acquired so as to continue the expansion of the Group mining operation. The acquisitions have been accounted for using the purchase method.

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

(A) ACQUISITION OF SUBSIDIARIES - 2010 *(Continued)*

The aggregate net assets acquired by the Group at the date of acquisition are as follows:

	Fair value *RMB'000*
Net assets acquired:	
Property, plant and equipment	321,495
Inventories	1,557
Other receivables	21,999
Bank balances and cash	275
Other payable	(140,439)
Bank borrowings	(10,000)
Deferred tax liability	(53,571)
	141,316
Satisfied by:	
Deposit	141,316
Net cash inflow arising on acquisition:	
Bank balances and cash acquired	275

Fuyuan Fude and Sichuan Dexin contributed RMB8,888,000 and RMB579,000 to the Group's profit and loss respectively for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2010, total group revenue for the year would have been RMB2,437 million and profit for the year would have been RMB680 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010, nor is it intended to be a projection of future results.

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

(B) ACQUISITION OF SUBSIDIARIES AND GOODWILL - 2009

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

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

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

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

(B) ACQUISITION OF SUBSIDIARIES AND GOODWILL - 2009 *(Continued)*

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

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

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

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

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

During the year ended 31 December 2010, management of the Group determined that there is no impairment in these CGUs containing goodwill as the recoverable amount is higher than its carrying amount.

35. SENIOR NOTES

On 28 October 2010, the Company issued guaranteed senior fixed rate notes at par with aggregate nominal value of US$400,000,000 (the "Notes") which carry fixed interest of 8.625% per annum (interest payable semi-annually in arrear) and will be fully repayable by 4 November 2015.

The Notes are listed on the Singapore Exchange Securities Trading Limited. They are secured on the capital stock of, and guaranteed by, certain of the Company's existing subsidiaries at the date of issue other than those established under the laws of the PRC.

The guarantees are effectively subordinated to secured obligations of each guarantor, to the extent of the value of assets serving as security.

At any time on or after 4 November 2013, the Company may redeem the Notes in whole or in part at the pre-determined redemption prices. At any time prior to 4 November 2013, the Notes may be redeemed at the option of the Company, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the applicable premium as of, plus accrued and unpaid interest, if any, to, the redemption date. Before 4 November 2013, the Company may redeem up to 35% in aggregate principal amount of the Notes, at a redemption price equal to 108.625% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to the redemption date, with the proceeds from sales of certain kinds of the Company's capital stock.

The fair value of the redemption right was insignificant as at 31 December 2010.

36. CONVERTIBLE LOAN NOTES

The Company issued RMB1,707 million aggregate principal amount of US dollars settled 1.5% convertible loan notes on 19 January 2010. The convertible loan notes are denominated in RMB and settled in US dollars which equivalent of its RMB principal amount of RMB1,707 million at the prevailing exchange rate of the date of settlement. The notes entitle the holders to convert them into ordinary shares of the Company at any time between the date of issue of the notes and their settlement date on 19 January 2015 at a conversion price of HK$12.58 per convertible loan notes at a fixed exchange rate of HK$1 to RMB0.8803. Interest of 1.5% will be paid semi-annually up until the settlement date.

The bondholders may, at their option, require the Company to redeem all or some of the convertible loan notes on 19 January 2013 at 106.2687% of their principal amount. Accordingly, the liability component of the convertible loan notes is classified as non-current liability as at the end of reporting period.

Unless previously redeemed, converted or purchased, the convertible loan notes will be redeemed by the Company at 110.8254% of their principal amount on 19 January 2015.

The convertible loan notes contain two components: liability and equity elements. The equity element is presented in equity heading convertible loan notes reserve. The effective interest rate of the liability component is 7.51% per annum.

36. CONVERTIBLE LOAN NOTES *(Continued)*

The movement of the liability component of the convertible loan notes for the year is set out below:

	2010 *RMB'000*
Initial recognition, net of issue costs	1,422,260
Effective interest expenses	100,673
Interest paid	(13,538)
At the end of the year	1,509,395

37. CONVERTIBLE BOND RECEIVABLE/DERIVATIVE COMPONENT IN CONVERTIBLE BOND RECEIVABLE

During the year ended 31 December 2010, the Group subscribed an unlisted convertible bond with principal amount of US$10,000,000 (equivalent to RMB66,074,000) which carries zero coupon interest from an independent third party. On maturity on 31 December 2012, the bond will be redeemed at redemption amount of the principal amount plus 20% per annum calculated from the closing date to the actual date of payment. The fair value at initial recognition of the receivable component and derivative component, which amount to RMB63,536,000 and RMB2,538,000 respectively, are determined based on the valuation provided by Jones Lang LaSalle Sallmanns, independent professionally qualified valuers not connected with the Group. Subsequent to initial recognition, the receivable component is carried at amortised cost using the effective interest method.

The convertible bond was recognised as follows:

	Debt component *RMB'000*	**Derivative component** *RMB'000*
At date of subscription	63,536	2,538
Fair value gain credited to profit or loss	—	731
At 31 December 2010	63,536	3,269

37. CONVERTIBLE BOND RECEIVABLE/DERIVATIVE COMPONENT IN CONVERTIBLE BOND RECEIVABLE *(Continued)*

The methods and assumptions applied for the valuation of the convertible bond are as follows:

(I) VALUATION OF RECEIVABLE COMPONENT

The fair value of receivable component was calculated based on the present value of contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the credit rating of the convertible bonds issuer and maturity term. The effective interest rate of the receivable component as at 31 December 2010 is 19.86%.

(II) VALUATION OF DERIVATIVE COMPONENTS

Derivative components are measured at fair value using the Binomial Option Pricing model, at initial recognition and at the balance sheet date. The inputs into the model as at date of subscription and at 31 December 2010, was as follows:

	(Date of subscription) 20 December 2010	31 December 2010
Conversion ratio	15.423%	15.423%
Volatility	49.83%	48.15%
Dividend yield	0%	0%
Option life	2 years	2 years
Risk free rate	0.69%	0.64%

38. OPERATING LEASE

THE GROUP AS LESSEE

Minimum lease payments paid under operating leases during the year:

	2010 RMB'000	2009 RMB'000
Premises	19,193	19,216

38. OPERATING LEASE *(Continued)*

THE GROUP AS LESSEE *(Continued)*

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

	2010 *RMB'000*	2009 *RMB'000*
Within one year	4,104	3,039
Between two and five years	5,443	5,591
Over five years	487	1,178
	10,034	9,808

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

39. CAPITAL COMMITMENTS

	2010 *RMB'000*	2009 *RMB'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	302,549	256,956

40. PLEDGE OF ASSETS

Other than as disclosed in note 28, at the end of respective reporting period, the Group pledged the following assets to banks for credit facilities granted to the Group:

	2010 *RMB'000*	2009 *RMB'000*
Property, plant and equipment	1,585,642	1,379,254
Bank deposits	87,920	520,108
Bills receivable	80,000	12,870
Prepaid lease payments	5,718	5,989
	1,759,280	1,918,221

41. EVENT AFTER REPORTING PERIOD

On 26 February 2011, the Company granted 55,000,000 share options to certain eligible persons at an exercise price of HK$6.60 per share. Details of which are set out in the Company's announcement dated 28 February 2011.

42. SHARE OPTION SCHEME

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

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

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

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

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

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

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

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

42. SHARE OPTION SCHEME *(Continued)*

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

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

At 31 December 2010, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 43,100,000 (2009: 43,100,000), representing 2.09% (2009: 2.09%) of the shares of the Company in issue at that date. The Directors and employees should be remained in office or employed by the Group for the options to be vested.

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

Directors

Date of grant	Exercisable period	Remaining life	Exercise price	Outstanding at 1.1.2010	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2010
		years	*HK$*					
30.4.2009	30.4.2010 - 24.8.2017	6.56	3.15	80,000	—	—	—	80,000
30.4.2009	30.4.2011 - 24.8.2017	6.56	3.15	80,000	—	—	—	80,000
30.4.2009	30.4.2012 - 24.8.2017	6.56	3.15	40,000	—	—	—	40,000
				200,000	—	—	—	200,000
Exercisable at 31 December 2010								80,000

42. SHARE OPTION SCHEME *(Continued)*

Employees

Date of grant	Exercisable period	Remaining life *years*	Exercise price *HK$*	Outstanding at 1.1.2010	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2010
30.4.2009	30.4.2010 - 24.8.2017	6.56	3.15	17,128,000	—	—	—	17,128,000
30.4.2009	30.4.2011 - 24.8.2017	6.56	3.15	17,128,000	—	—	—	17,128,000
30.4.2009	30.4.2012 - 24.8.2017	6.56	3.15	8,564,000	—	—	—	8,564,000
				42,820,000	—	—	—	42,820,000
Exercisable at 31 December 2010								17,128,000

Consultant

Date of grant	Exercisable period	Remaining life *years*	Exercise price *HK$*	Outstanding at 1.1.2010	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2010
30.4.2009	30.4.2010 - 24.8.2017	6.56	3.15	32,000	—	—	—	32,000
30.4.2009	30.4.2011 - 24.8.2017	6.56	3.15	32,000	—	—	—	32,000
30.4.2009	30.4.2012 - 24.8.2017	6.56	3.15	16,000	—	—	—	16,000
				80,000	—	—	—	80,000
Exercisable at 31 December 2010								32,000
Total				43,100,000	—	—	—	43,100,000

42. SHARE OPTION SCHEME *(Continued)*

Directors

Date of grant	Exercisable period	Remaining life *years*	Exercise price *HK$*	Outstanding at 1.1.2009	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2009
30.4.2009	30.4.2010 - 24.8.2017	7.56	3.15	—	120,000	—	(40,000)	80,000
30.4.2009	30.4.2011 - 24.8.2017	7.56	3.15	—	120,000	—	(40,000)	80,000
30.4.2009	30.4.2012 - 24.8.2017	7.56	3.15	—	60,000	—	(20,000)	40,000
				—	300,000	—	(100,000)	200,000
Exercisable at 31 December 2009								—

Employees

Date of grant	Exercisable period	Remaining life *years*	Exercise price *HK$*	Outstanding at 1.1.2009	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2009
30.4.2009	30.4.2010 - 24.8.2017	7.56	3.15	—	17,128,000	—	—	17,128,000
30.4.2009	30.4.2011 - 24.8.2017	7.56	3.15	—	17,128,000	—	—	17,128,000
30.4.2009	30.4.2012 - 24.8.2017	7.56	3.15	—	8,564,000	—	—	8,564,000
				—	42,820,000	—	—	42,820,000
Exercisable at 31 December 2009								—

42. SHARE OPTION SCHEME *(Continued)*

Consultant

Date of grant	Exercisable period	Remaining life	Exercise price	Outstanding at 1.1.2009	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2009
		years	*HK$*					
30.4.2009	30.4.2010 - 24.8.2017	7.56	3.15	—	32,000	—	—	32,000
30.4.2009	30.4.2011 - 24.8.2017	7.56	3.15	—	32,000	—	—	32,000
30.4.2009	30.4.2012 - 24.8.2017	7.56	3.15	—	16,000	—	—	16,000
				—	80,000	—	—	80,000
Exercisable at 31 December 2009								—
Total				43,200,000	—	—	(100,000)	43,100,000

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

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

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

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

42. SHARE OPTION SCHEME *(Continued)*

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

The Company has used the Model to value the share options granted in 2009. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any charge in the variables so adopted may materially affect the estimation of the fair value of an option.

The Group recognised the total expense of RMB32,305,000 (2009: RMB35,692,000) for the year ended 31 December 2010 in relation to the share options granted by the Company in which approximately RMB32,086,000 (2009: RMB35,460,000) was related to options granted to the Group's employees, RMB150,000 (2009: RMB 166,000) was related to options granted to Directors and RMB69,000 (2009: RMB66,000) was related to options granted by the Company to the consultant.

During the year ended 31 December 2010, no share options have been granted, exercised, cancelled or lapsed under the Scheme.

43. RELATED PARTY TRANSACTIONS

(A) DURING THE YEAR, THE GROUP ENTERED INTO THE FOLLOWING TRANSACTIONS WITH RELATED PARTIES:

Name of Company	Relationship	Nature of transactions	2010 RMB'000	2009 RMB'000
Panxian Panshi	An investee company	Transportation costs payable by the Group	18,402	20,875
Panxian Panying	An investee company	Transportation costs payable by the Group	3,127	4,616
Kaijie	Controlling shareholder of Panxian Panshi and Panxian Panying	Transportation costs payable by the Group	6,207	—
Hengwei Zhitai	A company ultimately owned by Mr. Xian Fan, brother of Mr. Xian Yang	Technical support income receivable by the Group	740	770
		Sales	43	—
Mr. Xian Jilun	Father of Mr. Xian Yang	Rental payable by the Group	1,200	1,200

43. RELATED PARTY TRANSACTIONS *(Continued)*

(A) DURING THE YEAR, THE GROUP ENTERED INTO THE FOLLOWING TRANSACTIONS WITH RELATED PARTIES: *(Continued)*

As at 31 December 2010, the Director, Mr. Xian Yang guaranteed the bank borrowings of approximately RMB1,353 million (2009: RMB1,617 million).

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

(B) THE REMUNERATION OF DIRECTORS AND OTHER MEMBERS OF KEY MANAGEMENT DURING THE YEAR WAS AS FOLLOWS:

	2010 *RMB'000*	2009 *RMB'000*
Short-term benefits	2,140	1,801
Post-employment benefits	60	147
Share-based payments	5,060	5,590
	7,260	7,538

44. RETIREMENT BENEFITS SCHEME

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

As at 31 December 2010 and 2009, the Group had no significant obligation apart from the contribution as stated above.

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries as at 31 December 2010 and 2009 are as follows:

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Hidili Investment (1)	BVI	HKD1,250,000	100%	—	Investment holding
Sichuan Hidili (1)	The PRC	RMB700,000,000	—	100%	Manufacture and sale of clean coal
Tiandaoqin (1)	The PRC	RMB10,000,000	—	100%	Sale of coal and coal products
Yanjiang (1)	The PRC	RMB5,000,000	—	100%	Coal mining and development
Hidili Coke (1)	The PRC	RMB600,000,000	—	100%	Coal mining, manufacture and sale of coke and clean coal
Yangfan (1)	The PRC	RMB10,000,000	—	100%	Sale of coal and coal products
Sanlian Transportation (1)	The PRC	RMB6,800,000	—	100%	Provision of transportation services
Liupanshui Hidili (1)	The PRC	RMB200,000,000	—	100%	Mine holding and development
Panxian Ciaozi Industry & Trading Company Limited (2)	The PRC	RMB7,000,000	—	70%	Mine holding and development
Panxin Coking (2)	The PRC	RMB70,000,000	—	70%	Manufacture of coke
Panyi Coal Washing (2)	The PRC	RMB15,000,000	—	70%	Clean coal washing
Panxian Xinyuan Industry and Trade Company Limited (2)	The PRC	RMB5,000,000	—	100%	Coal mining and sale of coal

Notes:

(1) Sino-foreign owned enterprised established in the PRC

(2) Domestic enterprise established in the PRC

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

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

Financial Summary

For The Year Ended 31 December 2010

	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000
Turnover	2,437,319	1,495,396	2,488,449	1,042,541	814,832
Profit attributable to owners of the Company	669,505	403,509	1,003,350	570,289	89,677

	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000
Non-current assets	10,707,160	8,403,847	5,291,630	2,689,235	821,215
Current assets	3,931,178	2,497,090	1,994,337	4,352,264	825,838
Current liabilities	(1,760,490)	(3,586,319)	(1,358,705)	(2,019,916)	(778,270)
Non-current liabilities	(5,741,434)	(891,535)	(52,708)	(6,116)	(623,811)
Total equity	7,136,414	6,423,083	5,874,554	5,015,467	244,972
Minority interests	(163,602)	(145,087)	(35,759)	(6,982)	—
Equity attributable to owners of the Company	6,972,812	6,277,996	5,838,795	5,008,485	244,972

SEGMENT ANALYSIS

	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000
Turnover					
Coal mining	1,730,141	614,522	1,234,831	434,553	427,218
Coking	696,556	871,702	1,242,423	537,580	383,607
Others	10,622	9,172	11,195	70,408	4,007
Segment results					
Coal mining	983,662	256,483	627,715	256,142	238,578
Coking	364,772	458,683	708,425	341,361	203,750
Others	3,209	2,255	995	33,693	1,906

恒鼎

Hidili Industry International Development Limited