Annual Report 2011

Shougang Fushan Resources Group Limited

Stock Code : 639

LOCATIONS OF THE GROUP'S COKING COAL MINES

CORPORATE PROFILE

Shougang Fushan Resources Group Limited
is one of the most sizable integrated coking coal corporations in central-western China.
Taking Shanxi Province as its major investment base,
it is principally engaged in mining of coking coal,
production and sales of raw and clean coking coal.
The Group has three premium operating coking coal mines and three coal preparation plants.

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

EXECUTIVE COMMITTEE

Li Shaofeng *(Chairman)*
Chen Zhouping
Wong Lik Ping
So Kwok Hoo
Chen Zhaoqiang
Liu Qingshan
Xue Kang

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

Li Shaofeng *(Chairman)*
Wong Lik Ping
Kee Wah Sze
Choi Wai Yin
Chan Pat Lam

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Cheng Man Ching

AUDITOR

BDO Limited

SHARE REGISTRARS

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

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

6th Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

STOCK CODE

639

WEBSITE

www.shougang-resources.com.hk

Mr. Li Shaofeng, aged 45, holds a bachelor degree in Automation from University of Science and Technology Beijing. Mr. Li was appointed an Executive Director and the Chairman of the Company in October 2011 and is the chairman of each of the Executive Committee and the Nomination Committee of the Company. He joined Shougang Corporation, the ultimate holding company of Shougang Holding (Hong Kong) Limited ("Shougang Holding"), in 1989 and is the vice chairman and managing director of Shougang Holding, the managing director of Shougang Concord International Enterprises Company Limited ("Shougang International") and a director of each of Ultimate Capital Limited ("Ultimate Capital") and Fine Power Limited ("Fine Power"). Each of Shougang Holding, Shougang International, Ultimate Capital and Fine Power is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"). Mr. Li is the chairman of each of Shougang Concord Century Holdings Limited ("Shougang Century"), Shougang Concord Technology Holdings Limited ("Shougang Technology"), Shougang Concord Grand (Group) Limited ("Shougang Grand") and Global Digital Creations Holdings Limited ("GDC"). He is also a non-executive director of Sinocop Resources (Holdings) Limited, a Hong Kong listed company. Mr. Li is a director of Mount Gibson Iron Limited ("Mount Gibson"), a company listed on the Australian Securities Exchange, and was an alternate director to Mr. Cao Zhong, an ex-director of Mount Gibson, from November 2011 to February 2012. He has extensive experience in management of, and investments in, listed companies, sino-foreign joint ventures and steel industry.

A service contract was entered into between Mr. Li and a wholly-owned subsidiary of the Company commencing on 20 October 2011. Under the service contract, Mr. Li is entitled to a monthly salary of HK$350,000 or such other salary and discretionary bonus as may be determined by the board of directors of the Company (the "Board") from time to time. For the period from 20 October 2011 (the date of appointment of Mr. Li as an Executive Director of the Company) to 31 December 2011, Mr. Li's monthly salary is HK$350,000 and his discretionary bonus is HK$2,000,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Li's individual performance.

Mr. Chen Zhouping, aged 46, graduated from the School of Economics and Management, Beijing Tsinghua University and is a member of the Chinese Institute of Certified Public Accountants. Mr. Chen was appointed a Non-executive Director of the Company in January 2009 and was re-designated as an Executive Director and the Vice-chairman and Managing Director of the Company in May 2010. He is a member of the Executive Committee of the Company. Mr. Chen is a deputy managing director of each of Shougang Holding and Shougang International, and a director of each of Ultimate Capital and Fine Power. Each of Shougang Holding, Shougang International, Ultimate Capital and Fine Power is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Chen is also a non-executive director of Mount Gibson. He has extensive experience in steel industry, engineering design, human resources and management.

A service contract was entered into between Mr. Chen and a wholly-owned subsidiary of the Company commencing on 10 May 2010. Under the service contract, Mr. Chen is entitled to a monthly salary of HK$350,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2011, Mr. Chen's monthly salary is HK$350,000 and his discretionary bonus is HK$8,000,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Chen's individual performance.

Mr. Wong Lik Ping, aged 51. Mr. Wong was appointed an Executive Director and the Chairman of the Company in September 2001 and was re-designated as the Vice-chairman of the Company in March 2009. He is a member of each of the Executive Committee and the Nomination Committee of the Company. Mr. Wong is the chairman and an executive director of Theme International Holdings Limited ("Theme International"), a listed company in Hong Kong. He is also a member of the Shenzhen Committee of Chinese People's Political Consultative Conference. Mr. Wong has extensive experience in trading business, financial industry and investments in a wide range of businesses including mine industry in the People's Republic of China (the "PRC").

A service contract was entered into between Mr. Wong and a wholly-owned subsidiary of the Company commencing on 1 January 2010. Under the service contract, Mr. Wong is entitled to a monthly salary of HK$350,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2011, Mr. Wong's monthly salary is HK$350,000 and his discretionary bonus is HK$8,000,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Wong's individual performance.

Mr. So Kwok Hoo, aged 58, holds bachelor degrees in applied science with major in chemical engineering and business administration in Canada. Mr. So was appointed an Executive Director of the Company in March 1998 and was re-designated as a Deputy Managing Director of the Company in January 2010. He is a member of each of the Executive Committee and the Remuneration Committee of the Company. Mr. So is a non-executive director of APAC Resources Limited ("APAC"), a listed company in Hong Kong. He has extensive experience in marketing of electrochemical and industrial products sales in Asia Pacific Region together with property investment experience in Hong Kong.

A service contract was entered into between Mr. So and a wholly-owned subsidiary of the Company commencing on 1 January 2010. Under the service contract, Mr. So is entitled to a monthly salary of HK$250,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2011, Mr. So's monthly salary is HK$250,000 and his discretionary bonus is HK$3,500,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. So's individual performance.

Mr. Chen Zhaoqiang, aged 44, graduated from Jiaozuo Mining Institute with a bachelor degree majoring in mining engineering and obtained a master degree in management science from Huazhong University of Science & Technology. Mr. Chen was appointed as an Executive Director and Deputy Managing Director of the Company in January 2010. He is also a member of the Executive Committee of the Company. Mr. Chen was a director of APAC from July 2007 to October 2009. He had engaged in many important posts in coal mining industry, including in Pingdingshan Coal Co. Ltd., Henan Pingbao Coal Co. Ltd., and Henan Company for Coal Seam Gas Development & Application. Mr. Chen has extensive experience in coal mining industry including in the areas of production safety management for coal mining, purchase and logistics management, mineral resources development and coal trading.

A service contract was entered into between Mr. Chen and a wholly-owned subsidiary of the Company commencing on 1 January 2010. Under the service contract, Mr. Chen is entitled to a monthly salary of HK$220,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2011, Mr. Chen's monthly salary is HK$220,000 and his discretionary bonus is HK$3,740,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Chen's individual performance.

DIRECTORS' BIOGRAPHIES

Mr. Liu Qingshan, aged 53, graduated from Shanxi University of Finance and Economics Department of Accounting and obtained a master of business administration from Capital University of Economics and Business. Mr. Liu was appointed an Executive Director of the Company in November 2008 and was re-designated as a Deputy Managing Director of the Company in January 2010. He is a member of the Executive Committee of the Company. Before joining the Group, Mr. Liu worked as chief financial controller in Fortune Dragon Group Limited and in other sizable energy resources companies in the PRC. He has extensive experience in the fields of accounting and finance in the mining industry in the PRC.

A service contract was entered into between Mr. Liu and a wholly-owned subsidiary of the Company commencing on 1 January 2010. Under the service contract, Mr. Liu is entitled to a monthly salary of HK$200,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2011, Mr. Liu's monthly salary is HK$200,000 and his discretionary bonus is HK$3,400,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Liu's individual performance.

Mr. Xue Kang, aged 48, holds a diploma of electrical and mechanical engineering from Shanxi Yangquan Coal Mine Vestibule School Electro-mechanics Specialist and a diploma of logistic management from Shanxi Coal-Mining Administrative College Logistic Management Specialist. Mr. Xue was appointed an Executive Director of the Company in January 2008 and was re-designated as a Deputy Managing Director of the Company in January 2010. He is a member of the Executive Committee of the Company. Mr. Xue is also the general manager as well as a director of Jinshan Energy Group Limited, a non-wholly owned subsidiary of the Company in the PRC. He has extensive experience in the field of mine industry in the PRC.

A service contract was entered into between Mr. Xue and a wholly-owned subsidiary of the Company commencing on 1 January 2010. Under the service contract, Mr. Xue is entitled to a monthly salary of HK$200,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2011, Mr. Xue's monthly salary is HK$200,000 and his discretionary bonus is HK$2,800,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Xue's individual performance.

Mr. Leung Shun Sang, Tony, aged 69, holds a master degree in business administration from New York State University. Mr. Leung was appointed a Non-executive Director of the Company in March 2009 and is the chairman of the Remuneration Committee of the Company. He is a non-executive director of Shougang International, a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Leung is also a non-executive director of each of Shougang Century, Shougang Technology, Shougang Grand and GDC. He is the managing director of CEF Group. Mr. Leung has over 40 years of experience in finance, investment and corporate management.

An engagement letter was entered into with Mr. Leung for a term of three years commencing on 1 January 2010. Under the engagement letter, Mr. Leung is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2011, the director's fee of Mr. Leung is HK$300,000. For the financial year ending 31 December 2012, the director's fee of Mr. Leung will be HK$420,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Leung. Such director's fees were determined with reference to Mr. Leung's experience and duties as well as the then prevailing market conditions.

Mr. Zhang Yaoping, aged 44, attended Party School of the Central Committee of C.P.C. in the PRC where he studied economic management. Mr. Zhang was appointed a Non-executive Director of the Company in January 2010. He was an officer of the board of directors' office of a coal mining company in Shanxi Province, the PRC and currently is the chairman of board of secretary as well as a member of the board of directors and the vice president of administration of such company. Mr. Zhang has extensive experience in the field of energy resources industries and steel trading in the PRC.

An engagement letter was entered into with Mr. Zhang for a term of three years commencing on 1 January 2010. Under the engagement letter, Mr. Zhang is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2011, the director's fee of Mr. Zhang is HK$300,000. For the financial year ending 31 December 2012, the director's fee of Mr. Zhang will be HK$420,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Zhang. Such director's fees were determined with reference to Mr. Zhang's experience and duties as well as the then prevailing market conditions.

Mr. Zhang Wenhui, aged 56, graduated from the University of Science and Technology Beijing. Mr. Zhang was appointed a Non-executive Director of the Company in May 2010. He is a deputy managing director of each of Shougang Holding and Shougang International, and a director of each of Ultimate Capital and Fine Power. Each of Shougang Holding, Shougang International, Ultimate Capital and Fine Power is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Zhang joined Shougang Corporation in 1982 and had been working in various companies under Shougang Corporation during the period from 1990 to 2001. He has extensive experience in management and company operations.

An engagement letter was entered into with Mr. Zhang with a term commencing on 10 May 2010 and expiring on 31 December 2012. Under the engagement letter, Mr. Zhang is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2011, the director's fee of Mr. Zhang is HK$300,000. For the financial year ending 31 December 2012, the director's fee of Mr. Zhang will be HK$420,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Zhang. Such director's fees were determined with reference to Mr. Zhang's experience and duties as well as the then prevailing market conditions.

Mr. Kee Wah Sze, aged 64, holds a Master Degree in Chinese and Comparative Law of City University of Hong Kong and Master Degree in Law of the People's University of the PRC. Mr. Kee was appointed an Independent Non-executive Director of the Company in April 1997 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. He is also an executive director of Goldbond Group Holdings Limited and an independent non-executive director of Theme International. All the aforesaid companies are listed companies in Hong Kong. Mr. Kee is a partner of Messrs. Michael Cheuk, Wong & Kee and has been a practicing solicitor in Hong Kong for over 20 years specialized in both the commercial and conveyancing fields. He is a Notary Public of Hong Kong and a China Appointed Attesting Officer.

An engagement letter was entered into with Mr. Kee for a term of three years commencing on 1 January 2010. Under the engagement letter, Mr. Kee is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2011, the director's fee of Mr. Kee is HK$300,000. For the financial year ending 31 December 2012, the director's fee of Mr. Kee will be HK$420,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Kee. Such director's fees were determined with reference to Mr. Kee's experience and duties as well as the then prevailing market conditions.

Mr. Choi Wai Yin, aged 53, holds a Master degree of Science in Finance from the City University of Hong Kong, a Bachelor Degree in Business Administration from the Chinese University of Hong Kong and a Bachelor Degree in law from the Peking University. Mr. Choi was appointed an Independent Non-executive Director of the Company in July 2004 and is the Chairman of the Audit Committee and a member of each of the Nomination Committee and the Remuneration Committee of the Company. He was also appointed an executive director of a company which is the investment manager of two Hong Kong listed companies. Mr. Choi is an investment adviser registered under the SFO. He has over 25 years of experience in the fields of finance and fund management.

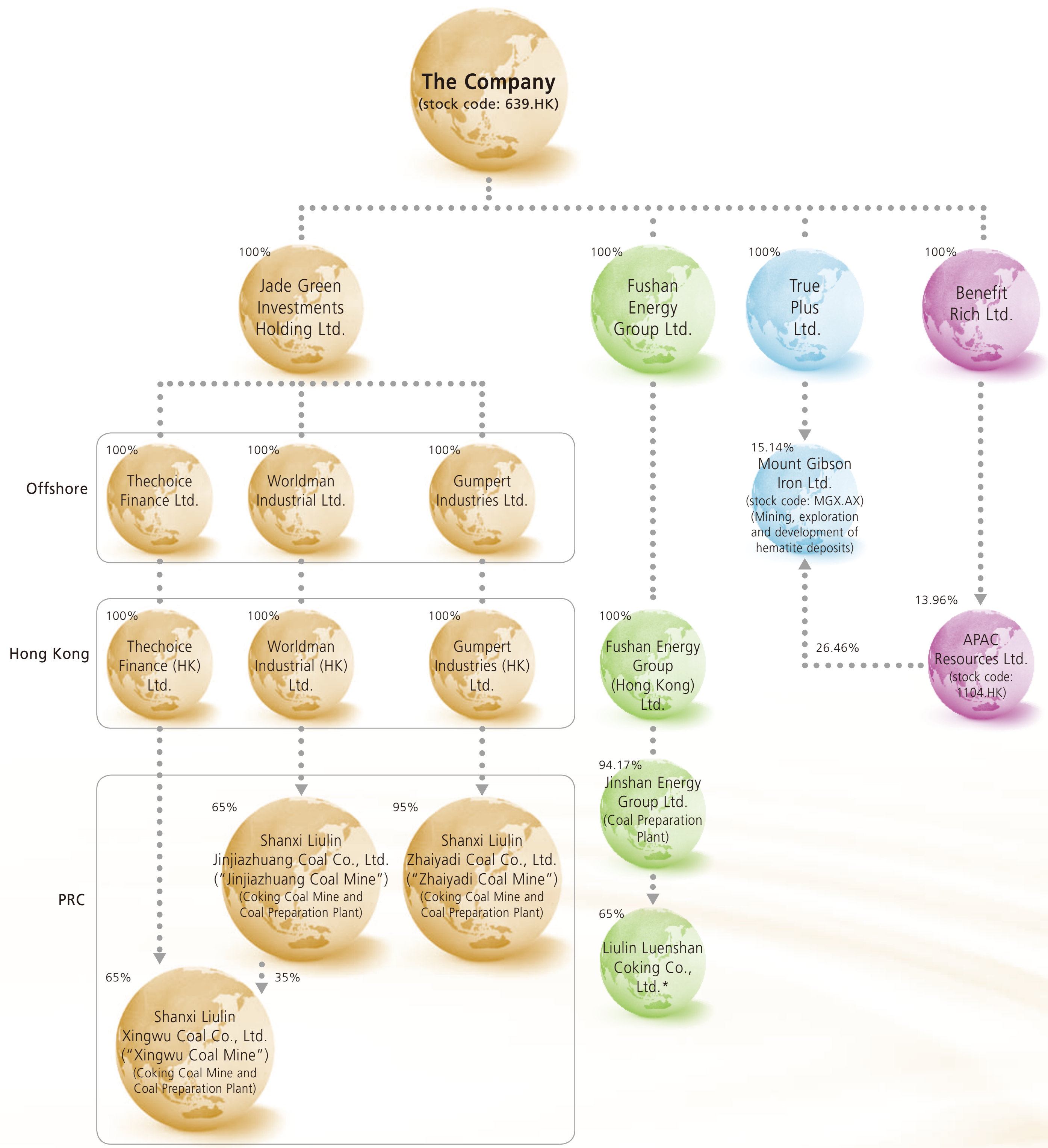
An engagement letter was entered into with Mr. Choi for a term of three years commencing on 1 January 2010. Under the engagement letter, Mr. Choi is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2011, the director's fee of Mr. Choi is HK$300,000. For the financial year ending 31 December 2012, the director's fee of Mr. Choi will be HK$420,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Choi. Such director's fees were determined with reference to Mr. Choi's experience and duties as well as the then prevailing market conditions.

Mr. Chan Pat Lam, aged 63. Mr. Chan was appointed an Independent Non-executive Director of the Company in December 2004 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. He is also an independent non-executive director of Theme International, a listed company in Hong Kong. Currently, Mr. Chan is the assistant to the managing director of a private company, which is engaged in acting as an international container shipping agency in the Western region of Pearl River Delta. He is also the business advisor of a commercial bank in Macau and a partner of another private company which is engaged in trading and wholesaling of grocery items. Mr. Chan has over 35 years of experience in the field of international banking industry in Hong Kong, Macau and California.

An engagement letter was entered into with Mr. Chan for a term of three years commencing on 1 January 2010. Under the engagement letter, Mr. Chan is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2011, the director's fee of Mr. Chan is HK$300,000. For the financial year ending 31 December 2012, the director's fee of Mr. Chan will be HK$420,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Chan. Such director's fees were determined with reference to Mr. Chan's experience and duties as well as the then prevailing market conditions.

MAIN OPERATIONAL STRUCTURE

THE MAIN OPERATIONAL STRUCTURE OF THE GROUP AS AT 31 DECEMBER 2011 WAS AS FOLLOWS:



* The unofficial English translation is for identification purpose only.

FINANCIAL HIGHLIGHTS

(HK$'000)	For the year ended 31 December 2009	2010	2011	Percentage change
Revenue	4,260,676	5,543,285	7,138,643	+29%
Gross profit	3,086,827	4,091,525	5,028,935	+23%
Gross profit margin	72%	74%	70%	
Operating profit	2,270,842	2,976,588	3,948,085	+33%
EBITDA[1]	2,661,817	3,395,058	4,442,910	+31%
Profit for the year	1,442,483	2,215,067	2,649,619	+20%
Profit attributable to Owners	1,126,274	1,802,791	2,256,023	+25%
Earnings per share (HK cents)	23.53	33.52	41.93	+25%
Dividend per share (HK cents)	21	15	19	+27%
– Interim (HK cents)	10	5	6	+20%
– Final (Proposed) (HK cents)	11	10	13	+30%

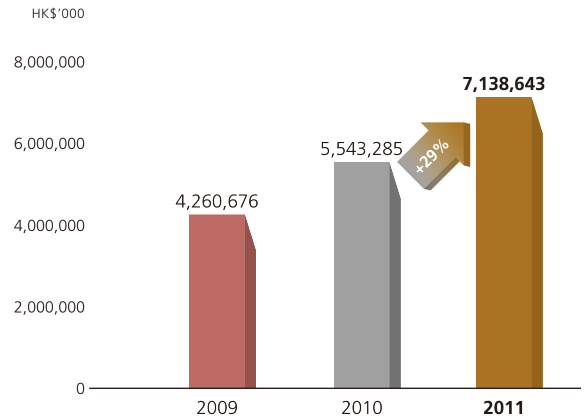
(HK$'000)	As at 31 December 2009	2010	2011	Percentage change
Total assets	22,557,408	26,119,627	27,000,297	+3%
of which: Cash and cash equivalents	2,104,478	2,766,063	4,517,196	+63%
Unpledged bill receivables	601,067	1,223,109	2,224,366	+82%
Total liabilities	(5,227,644)	(6,496,405)	(6,442,164)	-1%
of which: Total borrowings	(806,085)	(1,131,863)	(897,848)	-21%
Gearing ratio[2]	4.65%	5.77%	4.37%	
Total equity	17,329,764	19,623,222	20,558,133	+5%
of which: Equity attributable to Owners	15,825,194	18,149,894	18,966,579	+4%
Net assets per share attributable to Owners (HK$)	2.95	3.37	3.53	+5%

Notes:

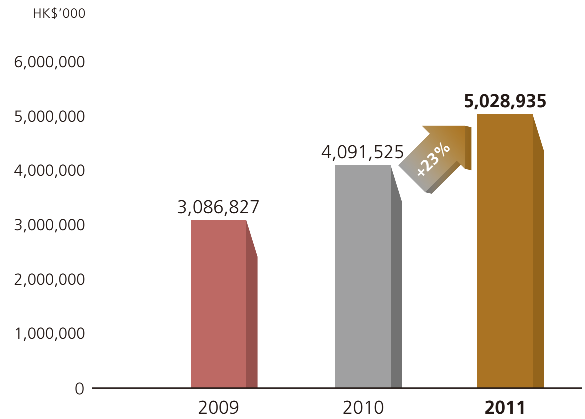
1. EBITDA is defined as operating profit plus depreciation and amortisation.
2. Gearing ratio is computed from total borrowings divided by total equity.

PROFIT & LOSS SUMMARY

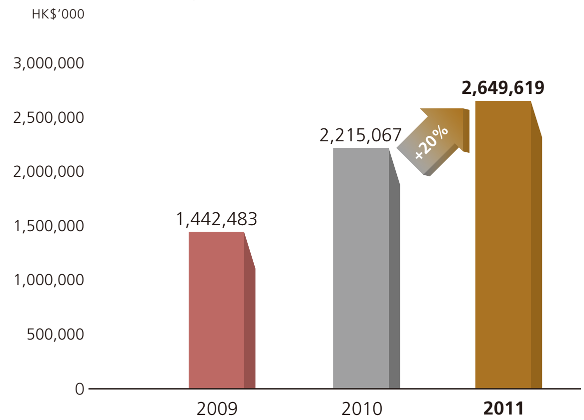
Revenue



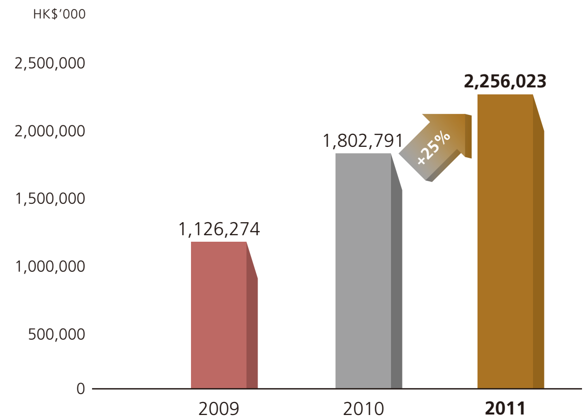
Gross profit



Profit for the year

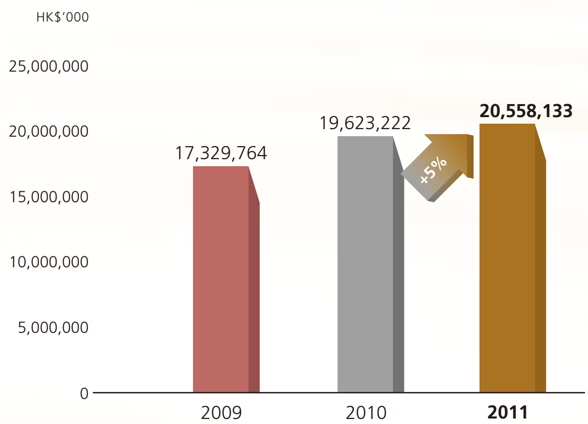


Profit attributable to Owners

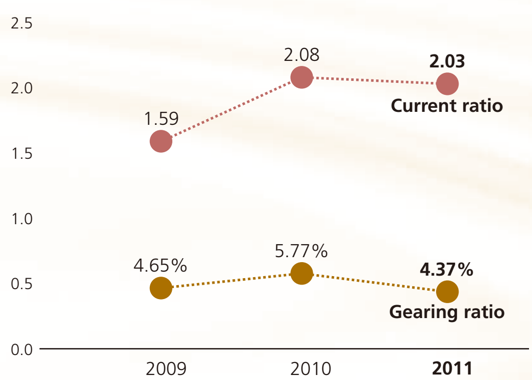


HEALTHY FINANCIAL POSITION

Net assets



Gearing ratio & current ratio



XINGWU COAL MINE

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

JINJIAZHUANG COAL MINE

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

ZHAIYADI COAL MINE

- 16 km southwest of Liulin County and the mining right area extended over 13.9 sq. km and spans 5.5 km east to west and 5.0 km north to south
- Operation commenced in 1988
- Annual designed raw coal production capacity: 2.1 million tonnes
- A coal preparation plant adjacent to the mining site with annual designed input processing capacity of 2.1 million tonnes put into operation in 4th quarter of 2010
- Production of semi-hard coking coal

COAL CHARACTERISTICS

✓ Located within the Lishi-Liulin mining area of Hedong coalfield, one of China's key reserve areas for high-quality hard coking coal.

✓ Regarded as "panda coal" because of its scarcity and high economic value.

✓ The Group's coking coal is of particularly good quality due to its high calorific value and caking index but low ash and sulfur content, characteristics that are highly desirable for coke and steel making.

Coal Quality Characteristic	Basic	Operating Mines Xingwu		Jinjiazhuang		Zhaiyadi
Seam		No. 4	No. 5	No. 3	No. 4	No. 9
Moisture (%)	Ad	0.9	0.3	0.6	0.7	0.7
Ash (%)	D	11.3	10.1	6.3	11.0	10.4
Sulfur Total (%)	D	0.36	0.85	0.32	0.47	1.65
Volatile Matter (%)	Daf	21.6	23.4	21.3	22.4	18.7
Fixed Carbon (%)	Ad	68.6	67.0	73.1	68.4	72.1
Calorific Value (Kcal./kg)	Gr.v.d	7,500	7,200	7,920	7,520	7,540
Caking Index (G)		86	75	49	77	72

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

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

OPERATING DATA

Reserves and output

	Operating Mines			
	XINGWU	JINJIAZHUANG	ZHAIYADI	TOTAL
Reserves				
In-Place Reserves as at 31 December 2007 (Mt)	63.23	64.18	78.34	205.75
Recoverable Reserves as at 31 December 2007 (Mt) – Proven reserves	11.11	20.78	13.32	45.21
Recoverable Reserves as at 31 December 2007 (Mt) – Probable reserves	35.23	23.02	38.89	97.14
Total proven and probable reserves as at 31 December 2007 (Mt)	46.34	43.80	52.21	142.35
Less : Raw coking coal output in 2008 (Mt)	(1.47)	(1.46)	(2.43)	(5.36)
Raw coking coal output in 2009 (Mt)	(1.68)	(1.91)	(2.59)	(6.18)
Raw coking coal output in 2010 (Mt)	(1.78)	(1.99)	(2.46)	(6.23)
Raw coking coal output in 2011 (Mt)	(1.57)	(2.04)	(2.75)	(6.36)
As at 31 December 2011 (Mt)	**39.84**	**36.40**	**41.98**	**118.22**
Raw coking coal output				
Raw coking coal output in 2006 (Mt)	1.514	1.201	1.425	4.140
Raw coking coal output in 2007 (Mt)	1.639	1.508	1.936	5.083
Raw coking coal output for the 7 months ended 31 July 2008 (Mt)	0.777	0.818	1.295	2.890
Raw coking coal output for the 5 months ended 31 December 2008 (Mt)	0.695	0.639	1.133	2.467
Total raw coking coal output in 2008 (Mt)	1.472	1.457	2.428	5.357
Total raw coking coal output in 2009 (Mt)	1.683	1.912	2.594	6.189
Total raw coking coal output in 2010 (Mt)	1.784	1.987	2.455	6.226
Total raw coking coal output in 2011 (Mt)	**1.569**	**2.045**	**2.745**	**6.359**
Current raw coking coal production capacity (Mt per annum)	2.100	2.100	2.100	6.300
Current input processing capacity (Mt per annum)	1.200	3.000	2.100	6.300
Clean coking coal output				
Clean coking coal output in 2006 (Mt)	0.560	–	–	0.560
Clean coking coal output in 2007 (Mt)	0.830	–	–	0.830
Clean coking coal output for the 7 months ended 31 July 2008 (Mt)	0.493	–	–	0.493
Clean coking coal output for the 5 months ended 31 December 2008 (Mt)	0.273	–	–	0.273
Total clean coking coal output in 2008 (Mt)	0.766	–	–	0.766
Total clean coking coal output in 2009 (Mt)	0.717	0.276	–	0.993
Total clean coking coal output in 2010 (Mt)	0.610	0.926	0.069	1.605
Total clean coking coal output in 2011 (Mt)	**0.590**	**1.036**	**0.685**	**2.311**

CHAIRMAN'S STATEMENT

Dear Honorable Shareholders,

On behalf of the Board of Directors of Shougang Fushan Resources Group Limited ("Shougang Resources" or the "Company"), I hereby present the annual results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011 (the "Review Year").

Steady growth in steel production and coking coal selling prices in 2011

In 2011, China's economy maintained steady growth but gradually slowed down evidenced by a decrease in the growth of GDP from 10.3% in the fourth quarter of 2010 to 9.2% in the fourth quarter of 2011. Nevertheless, China's GDP reached RMB47.16 trillion, being the one as the fastest GDP growing economy in the world. The drivers of the economy were mainly led by real estate development increased by 27.9% year-on-year, fixed asset investment (excluded peasant household) increased by 20.3% year-on-year, sales of white goods such as refrigerator consumption increased by 19.2% year-on-year, washing machine consumption increased by 10% year-on-year and automobiles sales increased by 2.45% year-on-year. China has became the world's largest steel producer again since 2010 by producing 683 million tonnes of crude steel, representing a year-on-year increase of 8.93%.

In 2011, the Government continued to increase the efforts on eliminating backward steel production capacity and encourage steel producers to fully optimise the steel industry and increase competitiveness through technological upgrades and energy saving programs. In order to further implement the energy saving policy set out in the "12th Five-Year Development Plan for Steel Industry", the Government requires below 1,000 cubic meters of blast furnaces to be phased out and replaced by large-scale blast furnaces. The development of large scale blast furnaces is bound to shape the future trend in the industry and requires to use high quality coke with higher strength and resistance level; however high quality coking coal supply in China is still scarce, and high quality coking coal mines are mostly located in Shanxi Province which highlight the importance of the coal mines there. As Shougang Resources has three premium coking coal mines in Shanxi Province, we will be able to take advantage of this situation.

During the Review Year, the Group produced 6.36 million tonnes of raw coking coal and 2.31 million tonnes of clean coking coal. Management strictly followed the Company's long term strategic development plan to expand the clean coking coal business, representing a year-on-year increase of 43% in 2011. The increment in the production volume of raw and clean coking coal was the result of the Group's expenditure in infrastructure constructions, such as the completion of construction of the third coal preparation plant by the end of 2010, the changing of long walls, generators, underground ventilation system and underground safety monitoring system. Through strengthening infrastructure constructions enhance the Company to deliver the production targets set forth by the Company in an efficient and safety manner.

The average realised selling price (inclusive of VAT) of raw and clean coking coal year-on-year increased by 22% and 6% to RMB1,021/tonne and RMB1,812/tonne respectively. Benefit from the increase of average realised selling prices and production volume, the Group's gross profit increased substantially from HK$4,092 million in 2010 to HK$5,029 million in the Review Year, our gross margin reached 70%.

During the Review Year, as the holiday preferential tax for foreign-investment entities had expired, with effect from 2011, PRC enterprise income tax increased from 12.5% to 25%, but net profit of the Group for 2011 still increased. The Group's net profit reached HK$2,650 million, representing a year-on-year increase of 20% and profit attributable to owners of the Company (the "Owner") increased by 25% to HK$2,256 million. A non-cash share-based compensation expense of HK$177 million was recognised for 2011 arising from the share options granted by the Company in August 2009, had this non-cash expense been excluded, the net profit and profit attributable to Owners would have been HK$2,827 million and HK$2,433 million respectively.

Satisfactory performance of three premium operating coking coal mines in Shanxi Province, Liulin County

Our three premium coking coal mines in Liulin County, Shanxi Province each has their individual preparation plants, the total processing capacity of these three coal preparation plants is enough to process the entire raw coking coal to be produced from our three mines. Our strong infrastructures gives us the ability to capture future opportunities in the clean coking coal business.

Outlook for 2012

Looking ahead, there are still many uncertainties in the global economy, Europe is still suffering from sovereign debt crisis and countries like France and Austria are losing their AAA Sovereign Credit Rating; even in USA, the unemployment rate is still maintained at a relatively high level, housing market and retail sales still weak, these are potential risks that could trigger to a downturn in the global economy. As for China it is believed that GDP growth will be around 7.5% in 2012. However with weak economies in the global economy, China's economy is hard to remain strong alone. 2012 is a year of transition in China and it is believed that the government will continue to implement policies to suppress the private housing sector, but at the same time there is still a strong demand for social housing and this year the target is to build 7 million units. Ministry of Railway is planning to build 6,366 km of new train rails and investment in these projects is estimated to be RMB400 billion. The construction of these projects will continue to drive up the demand and production of steel and coking coal that will benefit as a whole.

In 2012, our primary focus is "safety first, implementing precautionary measures and integrated management", by providing better training and a safe working environment for our employees. At the same time implementing new measures to optimise the underground management, we are able to enhance the recovery rate and maximise the effectiveness of the mines production. In addition, the Group will take advantage of the strong cash resources and continue to actively look for acquisition opportunities both domestically and abroad to expand the resources and production capacity. We will continue to assess the situation, seise the opportunities and strive to maximise return for our shareholders.

To reward the continual support of our shareholders, the Board of Directors of Shougang Resources has proposed a final dividend of HK13 cents per share. Thus, the annual dividend for 2011 amounted to HK19 cents per share.

Last but not least, on behalf of the Board of Directors of Shougang Resources, I would like to express my heartfelt gratitude to our shareholders, management team, staff and business partners for their continued support to the Group over the past years.

Li Shaofeng
Chairman

Hong Kong, 22 March 2012

BUSINESS REVIEW

The key operational data of our three premium operating coking coal mines in Liulin County, Shanxi (Xingwu Coal Mine, Jinjiazhuang Coal Mine and Zhaiyadi Coal Mine) for the year ended 31 December 2011 together with that of the same period of 2010 is summarised as follows:

		For the year ended 31 December		Change	
	Unit	**2011**	2010	Quantity/ Amount	Percentage
Production volume:					
Raw coking coal	Mt	**6.36**	6.23	+0.13	+2%
Clean coking coal	Mt	**2.31**	1.61	+0.70	+43%
Sales volume:					
Raw coking coal	Mt	**2.77**	3.53	–0.76	–22%
Clean coking coal	Mt	**2.26**	1.58	+0.68	+43%
Average realised selling price (inclusive of VAT):					
Raw coking coal	RMB/tonne	**1,021**	836	+185	+22%
Clean coking coal	RMB/tonne	**1,812**	1,706	+106	+6%

For the year ended 31 December 2011, the Group produced approximately 6.36 million tonnes (2010: approximately 6.23 million tonnes) of raw coking coal, representing a year-on-year increase of 2% and approximately 2.31 million tonnes (2010: approximately 1.61 million tonnes) of clean coking coal, representing a year-on-year increase of 43%. Operation of our three premium operating coking coal mines continued running smoothly and continued maintaining good safety record throughout the year. As a result, the production of raw coking coal for the year reached a similar level to that of the last year.

For the year ended 31 December 2011, we continued to make vigorous effort to expand our clean coking coal business. This falls in line with the Group's long term strategy to shift our sales mix from raw coking coal to clean coking coal and hence both production and sales volume of clean coking coal increased by 43% while sales volume of raw coking coal dropped by 22% for the year ended 31 December 2011.

BUSINESS REVIEW (continued)

For the year ended 31 December 2011, the Group's average realised selling price (inclusive of value added tax "VAT") of raw coking coal increased by 22% to Renminbi ("RMB")1,021/tonne when compared with that of the same period of 2010 (2010: RMB836/tonne) and the Group's average realised selling price (inclusive of VAT) of clean coking coal increased by 6% to RMB1,812/tonne when compared with that of the same period of 2010 (2010: RMB1,706/tonne). The slight increase in average realised selling price of clean coking coal was due to the increase in proportion to sell No.9 clean coking coal which its selling price is lower than that of No.4 clean coking coal in 2011. In terms of sales volume, No.4 and No.9 clean coking coal accounted for 47% and 53% respectively for the year ended 31 December 2011 compared against 77% and 23% respectively for the year ended 31 December 2010. In the fourth quarter of 2010, our third coal preparation plant in Zhaiyadi Coal Mine commenced to process No.9 clean coking coal. This new preparation plant not only increases our clean coking coal production volume but also diversifies our product mix to No.9 clean coking coal to meet customers' demand.

FINANCIAL REVIEW

For the year ended 31 December 2011, the Group recorded a turnover of approximately Hong Kong Dollars ("HK$")7,139 million, representing an increase of approximately HK$1,596 million or 29% as compared with that of approximately HK$5,543 million for the same period of 2010. The growth in turnover was mainly attributable to the increase in average realised selling price of raw and clean coking coal by 22% and 6% respectively, increase in production volume of raw coking coal by 2% and the appreciation of RMB by approximately 5% for the year. All produced raw coking coal was almost either sold or transformed to clean coking coal for sold. The Group only maintained minimal level of coal with carrying amount of approximately HK$12 million as inventories as at 31 December 2011. In terms of turnover, sales of raw and clean coking coal accounted for 41% and 59%, respectively for the year ended 31 December 2011 compared against 52% and 48%, respectively for the year ended 31 December 2010.

For the two years ended 31 December 2011, gross profit margin maintained over 70%.

FINANCIAL REVIEW (continued)

For the year ended 31 December 2011, the Group recorded net profit of approximately HK$2,650 million, representing an increase of approximately HK$435 million or 20% as compared with that of approximately HK$2,215 million for the same period of 2010. For the year ended 31 December 2011, the Group also recorded profit attributable to the owners of the Company (the "Owners") of approximately HK$2,256 million, representing an increase of approximately HK$453 million or 25% as compared with that of approximately HK$1,803 million for the same period of 2010. The substantial increase in net profit and profit attributable to the Owners in 2011 were mainly attributable to the increase in turnover as explained above, even though the increment was partially offset by the increase in income tax expense because of the change of income tax rate from 12.5% to 25% since 1 January 2011 as mentioned below under "Income Tax Expense" and by the increase in production costs as mentioned below under "Cost of Sales". During the year under review, earnings per share was HK41.93 cents (2010: HK33.52 cents), representing a year-on-year increase of 25%.

For the year ended 31 December 2011, the Group incurred a non-cash share-based compensation expense of approximately HK$177 million arising from granting of share option by the Company in August 2009. The Group's net profit and profit attributable to the Owners would have been HK$2,827 million and HK$2,433 million, respectively for the year ended 31 December 2011, if this non-cash expense was excluded. This non-cash share-based compensation expense has completed to charge as expense in profit and loss since September 2011 and thus it is not expected to have such non-cash share-based compensation expense to be incurred in next year if no option is granted.

FINANCIAL REVIEW (continued)

Cost of Sales

The unit production costs are summarised as follows:

	Unit	For the year ended 31 December 2011	2010	Change Amount	Percentage
Production cost of raw coking coal	RMB/tonne	**258**	187	+71	+38%
Less:					
One-off relocation compensation expenses *(see below (ii)(e))*	RMB/tonne	**(13)**	–		
One-off reversal of capitalised environmental restoration fund *(see below (ii)(f))*	RMB/tonne	**(9)**	–		
		236	187	+49	+26%
of which, depreciation and amortisation	*RMB/tonne*	***(57)***	*(53)*	*+4*	*+8%*
Processing cost for clean coking coal	RMB/tonne	**54**	48	+6	+13%
of which, depreciation	*RMB/tonne*	***(11)***	*(10)*	*+1*	*+10%*

During the year under review, cost of sales was approximately HK$2,110 million, representing an increase of approximately HK$658 million or 45%, as compared with that of approximately HK$1,452 million for the same period of 2010. The increase was due to the following reasons:

(i) the increase in production costs as a result of (a) the increase in unit production cost of raw coking coal by 38% as explained in below (ii); (b) the increase in production volume of raw coking coal by 2% from 6.23 million tonnes for the year ended 31 December 2010 to 6.36 million tonnes for the year ended 31 December 2011; and (c) the increase in sales volume of clean coking coal by 43% from 1.58 million tonnes for the year ended 31 December 2010 to 2.26 million tonnes for the year ended 31 December 2011;

FINANCIAL REVIEW (continued)

Cost of Sales (continued)

(ii) the increase in unit production cost of raw coking coal by 38% as a result of the increase in uncontrollable costs such as (a) the payment of levies of city constructional tax and additional educational surcharge by approximately HK$88 million for the year ended 31 December 2011 as these levies have been liable to pay since December 2010; (b) the increase in water resource charge by approximately HK$10 million for the year ended 31 December 2011; (c) the additional levy of continuous development fund amounted to HK$21 million for the year ended 31 December 2011 as the levy is increased by RMB3 (HK$3.6 equivalent) per tonne since March 2011; (d) the increase in mine resources compensation fee which is charged at 1% of the realised selling price of raw coking coal by approximately HK$11 million for the year ended 31 December 2011; and increase in other costs such as (e) the substantial increase in relocation compensation expenses by HK$117 million for the year ended 31 December 2011 mainly due to the provision of HK$98 million made for the one-off relocation compensation expenses arising from the relocation of a coal preparation plant; (f) the increase in charge of environmental restoration fund by approximately HK$109 million, of which HK$69 million was reversed those capitalised in the prior years, for the year ended 31 December 2011 due to the changes of tax policy; and (g) the increase in staff costs by HK$105 million or 33% to HK$427 million for the year ended 31 December 2011 due to the adjustments of staff wages in order to maintain the competitive advantages in the labour market and to retain quality management and staff; and

(iii) the appreciation of RMB for the year ended 31 December 2011 by approximately 5% was attributable to increase in production costs by approximately 5% accordingly when converted into HK$, being the Group's presentation currency.

Included in cost of sales, amortisation of mining rights was approximately HK$286 million for the year ended 31 December 2011, representing an increase of approximately HK$19 million or 7%, as compared with that of approximately HK$267 million for the same period of 2010. The increase in amortisation of mining rights was mainly due to the increase in production volume of raw coking coal by 2% and the appreciation of RMB by approximately 5% during the year under review.

Gross Profit and Gross Profit Margin

As a result of the reasons above, gross profit for the year ended 31 December 2011 was approximately HK$5,029 million, representing an increase of approximately HK$937 million or 23% as compared with that of approximately HK$4,092 million for the same period of 2010. During the year under review, gross profit margin achieved at 70% compared with 74% for the same period of 2010. Even though the average realised selling prices for the year ended 31 December 2011 were higher than that in the same period of 2010, its gross profit margin dropped to 70% due to the increase in production costs as mentioned above under "Cost of Sales".

FINANCIAL REVIEW (continued)

Other Operating Income

During the year under review, other operating income was approximately HK$342 million, representing a substantial increase of approximately HK$180 million or 111% as compared with approximately HK$162 million of the same period in 2010. The increase was mainly attributable to:

(i) the first receipt of dividend income of HK$53 million arising from the equity securities listed in Australia, Mount Gibson Iron Limited ("Mount Gibson"), for the year ended 31 December 2011;

(ii) the increase of net exchange gain of approximately HK$76 million arising from re-translation of the Group's current assets denominated in RMB as at 31 December 2011 as a result of the appreciation of RMB by approximately 4% as at 31 December 2011 compared with that as at 31 December 2010;

(iii) the increase of income from sales of scrapped products generated from the process of clean coking coal by approximately HK$22 million which was substantially increased in line with the production volume of clean coking coal for the year ended 31 December 2011; and

(iv) the substantial increase in bank interest income by approximately HK$32 million from approximately HK$27 million for the same period of 2010 to approximately HK$59 million for the year ended 31 December 2011 as a result of the effective cash management.

Selling and Distribution Expenses

During the year under review, selling and distribution expenses were approximately HK$636 million, representing an increase of approximately HK$255 million or 67% as compared with that of approximately HK$381 million for the same period of 2010. The increase was mainly result from the substantial increase in transportation costs arising from the increase in sales volume of clean coking coal by 43% from 1.58 million tonnes for the year ended 31 December 2010 to 2.26 million tonnes for the year ended 31 December 2011, increase in labour cost and the inflation as well as the appreciation of RMB by approximately 5% during the year under review.

General and Administrative Expenses

During the year under review, administrative expenses were approximately HK$606 million, representing a decrease of approximately HK$15 million or 2% as compared with approximately HK$621 million for the same period of 2010. The slight decrease was resulted from the reduction of the non-cash share-based compensation expense by HK$110 million in 2011 as this expense has been fully recognised since August 2011, however off-set by (i) the increase in payment of road maintenance fee by approximately HK$13 million, which was payment on demand by the relevant authority; (ii) the increase in directors' remuneration and staff costs by approximately HK$31 million; and (iii) the inflation and the appreciation of RMB by approximately 5% during the year under review.

FINANCIAL REVIEW (continued)

Other Operating Expenses

During the year under review, other operating expenses were approximately HK$181 million, which mainly represented the committed annual payment of charitable donation for the year of 2011 of approximately HK$133 million paid by the Group to the Liulin Provincial Government during the year under review, for the construction of modern schools and provision of education facilities as disclosed in the financial statements of the Company for the year ended 31 December 2009.

Finance Costs

During the year under review, actual finance costs were approximately HK$54 million, representing a decrease of approximately HK$13 million or 19% as compared with that of approximately HK$67 million for the same period of 2010. During the year under review, approximately HK$32 million (2010: approximately HK$27 million) of borrowing costs were capitalised in construction in progress. The decrease in actual finance costs were due to the decrease in bank borrowings by approximately HK$234 million from approximately HK$1,132 million as at 31 December 2010 to approximately HK$898 million as at 31 December 2011 and the reduction of average annual interest rate charges on the bank borrowings to approximately 4% for the year ended 31 December 2011 from approximately 5% for the same period of 2010.

Income Tax Expense

During the year under review, income tax expense was approximately HK$1,141 million (2010: approximately HK$529 million), of which approximately HK$123 million (2010: approximately HK$109 million) represented the provision of withholding tax of 5% on the dividend declared from the Group's major subsidiaries incorporated in the People's Republic of China ("PRC") ("major PRC Subsidiaries") in accordance with the tax regulations in the PRC. The substantial increase in income tax expense was increase in line with profits and was due to the increase in income tax rate upon the expiration of the 50% relief on the enterprise income tax in the PRC in 2011. For the calendar years from 2008 to 2010, the enterprise income tax for the Group's major PRC subsidiaries was 12.5%. From the calendar year of 2011 onwards, the enterprise income tax rate for the Group's major PRC Subsidiaries is 25%.

Owner's Attributable Profit

By reasons of the foregoing, the profit attributable to the Owners during the year under review was approximately HK$2,256 million, representing an increase of approximately HK$453 million or 25% as compared with that of approximately HK$1,803 million for the same period of 2010.

Material Investments and Acquisitions

During the year ended 31 December 2011, the Group had no material investments and acquisition. However, during the year under review, a wholly-owned subsidiary of the Group further acquired 3,700,000 equity shares of Mount Gibson at a total cost of approximately HK$38 million. As at 31 December 2011, the Group held approximately 15.14% equity interest in Mount Gibson directly.

FINANCIAL REVIEW (continued)

Material Disposals

Except the transaction disclosed in Note 1 to the financial statements of the Company for the year ended 31 December 2011 in relation to the disposal of entire 66% equity interest in Shanxi Yao Zin Coal and Coking Coal Company Limited (the "Disposal"), the Group had no material disposals for the year ended 31 December 2011. For the year ended 31 December 2011, the Group recorded a gain of approximately HK$142 million on the Disposal.

Safety Production and Environmental Protection

The Group has always been paying great attention to production safety and environmental protection while achieving growth in coal production. Thus, the Group makes great efforts in promoting safety management and strengthening measures for environmental protection, aiming at building itself into a safety-oriented and environmentally-friendly enterprise. During the year under review, all coal mines of the Group operated smoothly and no material safety incidents were recorded.

Charges on Assets

As at 31 December 2011, save for disclosed below, none of the Group's assets was charged or subject to any encumbrance.

(i) bank deposits of approximately HK$354 million and bill receivables of approximately HK$490 million were used for securing bills facilities of approximately HK$792 million; and

(ii) the pledged of shares by certain subsidiaries of the Company namely Jade Green Investments Holding Limited, Thechoice Finance Limited, Worldman Industrial Limited, Gumpert Industries Limited, Thechoice Finance (HK) Limited, Worldman Industrial (HK) Limited and Gumpert Industries (HK) Limited that were used for securing United States Dollars ("USD") 55 million of bank loan for the Company.

Contingent Liabilities

As at 31 December 2011, there were no guarantees given to any banks or financial institutions by the Group.

Gearing Ratio

As at 31 December 2011, gearing ratio of the Group, computed from the Group's total borrowings divided by the total equity, was approximately 4%. The total borrowings amounted to approximately HK$898 million as at 31 December 2011.

FINANCIAL REVIEW (continued)

Exposure to Fluctuations in Exchange Rates

As at 31 December 2011, other than assets and liabilities denominated in RMB and Australian Dollars ("AUD"), the Group had no material exposure to foreign exchange fluctuations. As at 31 December 2011, RMB was appreciated by approximately 4% while AUD was slightly depreciated by approximately 0.3% respectively when compared to that as at 31 December 2010.

Liquidity and Financial Resources

As at 31 December 2011, the Group's current ratio (current assets divided by current liabilities) was approximately 2 times and the Group's cash and bank deposits amounted to approximately HK$4,871 million, of which approximately HK$354 million was deposited to secure bills facilities of the same amount.

Included in trade and bill receivables, the Group has total bill receivables amounting to approximately HK$2,714 million (of which approximately HK$490 million was used for securing bills facilities of approximately HK$437 million) as at 31 December 2011 that were readily convertible into cash, but would be subject to finance cost when conversion before the maturity. Taking into account of free bill receivables of approximately HK$2,224 million, the Group's free cash resources would have approximately HK$6,741 million as at 31 December 2011.

Capital Structure

Total equity, bank borrowings and other borrowings are classified as capital of the Group. As at 31 December 2011, the amount of capital was approximately HK$21,456 million.

During the year under review, the Company repurchased a total of 3,056,000 ordinary shares of the Company on The Stock Exchange of Hong Kong Limited at an aggregate consideration of HK$7,904,000. The share repurchases were made with a view to enhance shareholders' interests. A total of 2,216,000 repurchased shares were cancelled during the year under review while the remaining of 840,000 repurchased shares were cancelled in January 2012.

Save as disclosed above, there was no change in the issued capital of the Company during the year under review. As at 31 December 2011, the issued capital of the Company was approximately HK$538 million, represented approximately 5,378 million shares in number.

As at 31 December 2011, the total borrowings of approximately HK$898 million denominated in USD and RMB. The USD borrowing of approximately HK$425 million bears an interest calculated at LIBOR plus 1.85% per annum and is repayable by 13 installments from September 2010 to September 2013, the RMB borrowings amounting to approximately HK$467 million are subject to floating interest rate adopted by the People's Bank of China and are repayable in March 2012. The remaining balances of borrowings of approximately HK$6 million are subject to fixed interest rates or interest free and are repayable within 1 year from 31 December 2011.

EMPLOYEES

As at 31 December 2011, the Group had 29 Hong Kong employees and 6,772 PRC employees. The remuneration packages of the employees are subject to annual review. The Group provides a mandatory and voluntary provident fund scheme for its employees in Hong Kong and the state-sponsored retirement plan for its employees in PRC. The Group has also adopted a share option scheme since 20 June 2003. During the year under review, no share option was granted, exercised, cancelled or lapsed.

FUTURE PROSPECTS

The growth of China's economy in 2011 was concluded in a slower and yet steady pace when GDP growth rate decreased from a double digit growth in the beginning of 2011 to only 9.2% in the last quarter. The uncertainties in European sovereign debt crisis and a weak United States economy in the second half of 2011 created further potential risks to the global economy. Steel industry in China was affected and evidenced by the daily steel production dropping from approximately 2 million tonnes per day in mid-June 2011 to around 1.6 million tonnes per day in the last two months of 2011. The demand for coking coal was affected as a result of lower steel production. Another reason that contributed to a drop in the international coking coal price was the resumption of production in Australia, Queensland from the flooding that occurred during the first quarter of 2011, which drove the international spot price for coking coal lower. The international spot price in the first quarter of 2012 settled at USD235/tonne. In addition, when Teck Resources Limited signed the price with Pohang Iron and Steel Co., Ltd. (POSCO) for the second quarter of 2012, the price dropped further to settle at USD206/tonne. Due to the scare resource of coking coal, together with, in China, its coking coal price does not rise at the same pace as international spot price, the domestic coking coal price in China still maintains rigid. Thus, in 2011, our averaged realised selling prices of raw and clean coking coal were increased by 22% and 6% respectively. Nevertheless, 2012 will be expected a challenging year for coking coal prices.

China is going to deliver the energy saving policy laid out in the "12th Five-Year Development Plan for Steel Industry" by phasing out blast furnaces with capacity below than 1,000 cubic meters and replacing them with larger scale blast furnaces. As more premium coking coal will be needed by those larger scale blast furnaces, this means more demand for high quality coking coal. Despite a possible slowdown in the 2012 GDP growth rate to 7.5%, it is believed that many railway projects will resume and around 7 million social housing will need to be completed in 2012 which will increase the demand of steel and then benefit the domestic coking coal sector.

We are ready to ride on these favorable factors and develop strong long term strategic business opportunities with major steel producers to further expand our clean coking coal business. Our strong financial strengths give us the advantage to expand our business through acquisitions both domestically and abroad to further expand our resources and production capacity and to maximise the return for our shareholders.

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

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") during the financial year ended 31 December 2011.

BOARD OF DIRECTORS

Composition

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

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

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

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

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

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

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

BOARD OF DIRECTORS (continued)

Role and function

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

Board meetings

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

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

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

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

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

BOARD OF DIRECTORS (continued)

Attendance records

During the financial year ended 31 December 2011, the Directors have made active contribution to the affairs of the Group and four Board meetings were held to consider, among other things, various projects contemplated by the Group and to review and approve the interim results and annual results of the Group.

Details of Directors' attendance records in 2011 were as follows:

	Meetings attended/Eligible to attend
Executive Directors	
Li Shaofeng *(appointed on 20 October 2011)*	1/1
Chen Zhouping	4/4
Wong Lik Ping	3/4
So Kwok Hoo	4/4
Chen Zhaoqiang	3/4
Liu Qingshan	4/4
Xue Kang	1/4
Wang Pingsheng *(resigned on 20 October 2011)*	2/3
Non-executive Directors	
Leung Shun Sang, Tony	4/4
Zhang Yaoping	3/4
Zhang Wenhui	3/4
Independent Non-executive Directors	
Kee Wah Sze	3/4
Choi Wai Yin	4/4
Chan Pat Lam	4/4

BOARD OF DIRECTORS (continued)

Access to information

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

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

Appointment and re-election of Directors

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

According to the Articles, any Director so appointed by the Board shall hold office, in the case of filling a casual vacancy, only until the next following general meeting of the Company or, in the case of an addition to their number, until the next following annual general meeting of the Company who shall then be eligible for re-election at such general meeting. Every Director (including Non-executive Director) is appointed for a specific term and is subject to retirement by rotation at least once every three years.

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

Independent Non-executive Directors

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

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

Directors' and officers' liability

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

CHAIRMAN AND MANAGING DIRECTOR

The roles of Chairman and Managing Director are separate and are not performed by the same individual to reinforce their independence and accountability. Mr. Wang Pingsheng continued to serve as the Chairman of the Company during the period from 1 January 2011 to 19 October 2011. Mr. Li Shaofeng succeeded Mr. Wang Pingsheng as the Chairman of the Company from 20 October 2011. Mr. Chen Zhouping serves as the Managing Director of the Company. The Chairman provides leadership for the Board. The Managing Director has overall chief executive responsibility for the Group's business development and day-to-day management generally. The division of responsibilities between the Chairman and the Managing Director is clearly established and set out in writing.

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

BOARD COMMITTEES

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

Executive Committee

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

The members of the Executive Committee during the year were as follows:

- Li Shaofeng *(Chairman) (appointed as a member on 20 October 2011)*
- Chen Zhouping
- Wong Lik Ping
- So Kwok Hoo
- Chen Zhaoqiang
- Liu Qingshan
- Xue Kang
- Wang Pingsheng *(Chairman) (ceased to act as a member from 20 October 2011)*

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

BOARD COMMITTEES (continued)

Audit Committee

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

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

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

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

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

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

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

- reviewing the final results of the Group for the financial year ended 31 December 2010; and
- reviewing the interim results of the Group for the six months ended 30 June 2011.

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

BOARD COMMITTEES (continued)

Nomination Committee

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

The principal duties of the Nomination Committee include:

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

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

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

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

	Meetings attended/Eligible to attend
Li Shaofeng *(Chairman) (appointed as a member on 20 October 2011)*	1/1
Wong Lik Ping	1/2
Kee Wah Sze	1/2
Choi Wai Yin	2/2
Chan Pat Lam	2/2
Wang Pingsheng *(Chairman) (ceased to act as a member from 20 October 2011)*	1/1

BOARD COMMITTEES (continued)

Nomination Committee (continued)

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

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

- considering and making recommendations to the Board for the appointment of Mr. Li Shaofeng as an Executive Director and the Chairman of the Company; and
- reviewing the structure of the Board.

Remuneration Committee

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

The principal duties of the Remuneration Committee include:

- making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management of the Group;
- reviewing and approving performance-based remuneration;
- determining the specific remuneration packages of all Executive Directors and senior management and making recommendation to the Board of the remuneration of Non-executive Directors;
- reviewing and approving the compensation payable to Executive Directors and senior management and the compensation arrangements relating to dismissal or removal of Directors for misconduct; and
- ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration.

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

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

BOARD COMMITTEES (continued)

Remuneration Committee (continued)

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

	Meetings attended/Eligible to attend
Leung Shun Sang, Tony *(Chairman)*	2/2
So Kwok Hoo	2/2
Kee Wah Sze	1/2
Choi Wai Yin	2/2
Chan Pat Lam	2/2

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

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

- considering and reviewing the remuneration and terms of service contract of Mr. Li Shaofeng;
- considering and reviewing the remuneration of the Executive Directors of the Company for the year 2012.
- determining the bonuses of the Executive Directors of the Company for the year 2011; and
- making recommendations to the Board on the directors' fee of the Non-executive Directors of the Company for the year 2012.

INTERNAL CONTROL

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

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

INTERNAL CONTROL (continued)

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

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

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

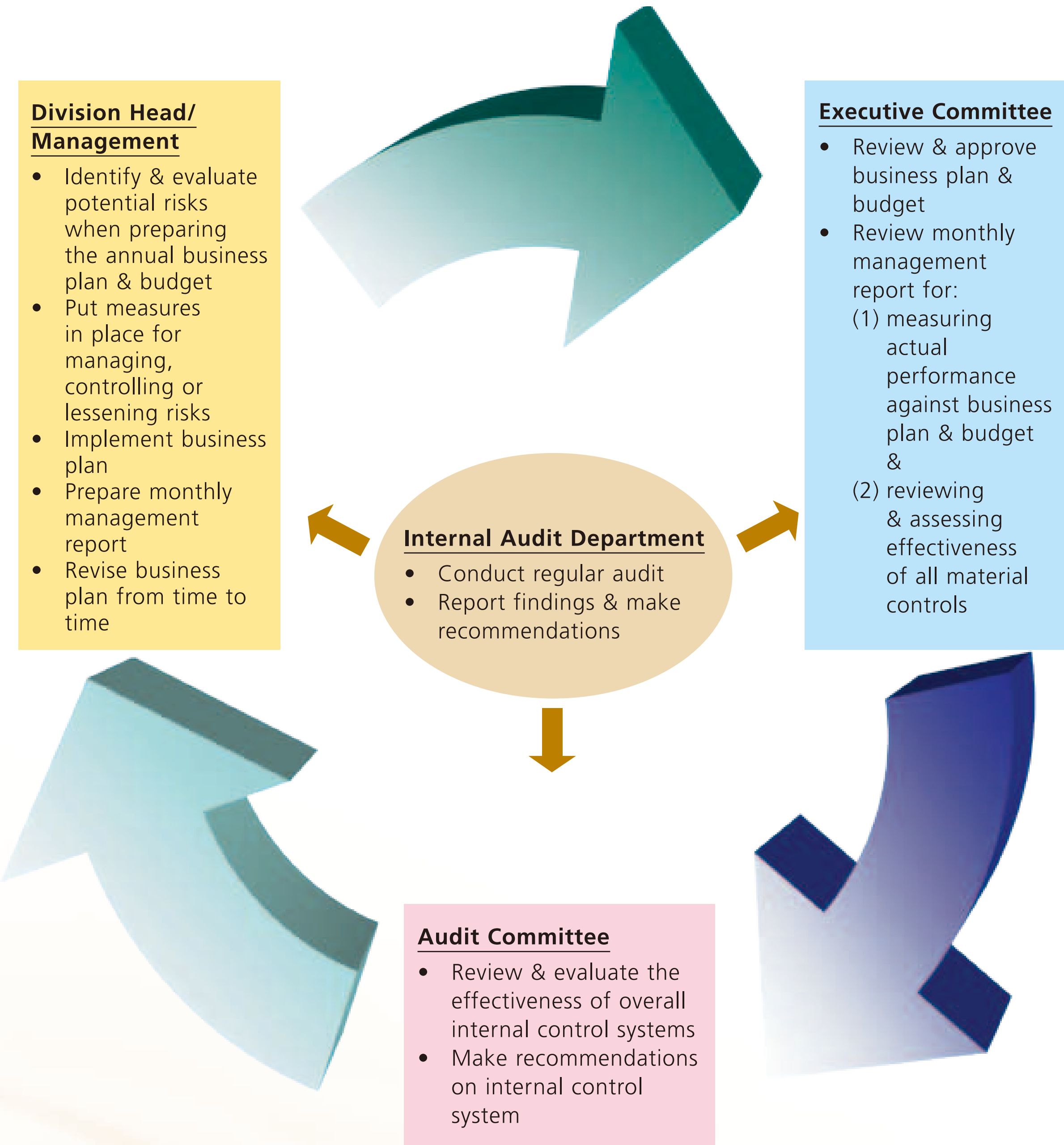
The internal control system is documented and if any revision is required, such information will be submitted to the Audit Committee for evaluation.

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

The Company set up an Internal Audit Department in August 2011 which assists the Board and the Audit Committee to discharge their duties in internal control aspect. The Internal Audit Department, which is independent to the operational departments of the Group, is responsible for conducting regular audits on the major activities of the Group. Its objective is to ensure that all material controls, including financial, operational and compliance controls as well as risk management, are in place and functioning effectively. The Internal Audit Department reports to the Board and the Audit Committee with its findings and makes recommendations to improve the internal control systems of the Group.

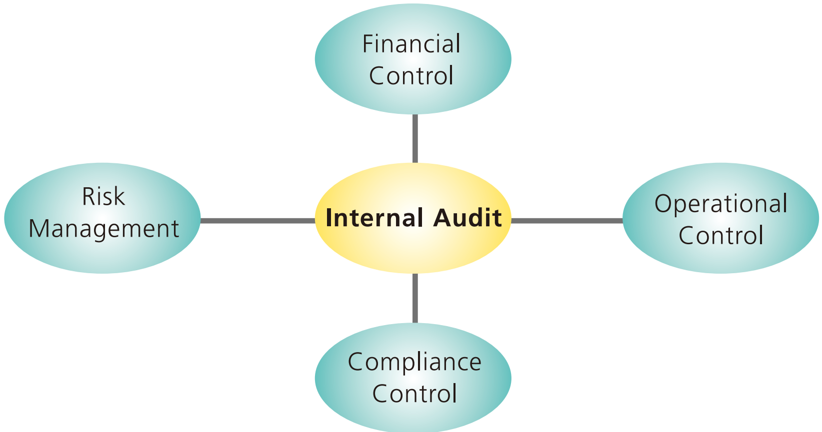
INTERNAL CONTROL (continued)

Internal Control System



INTERNAL CONTROL (continued)

Internal audit functions



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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the year ended 31 December 2011.

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

AUDITOR'S REMUNERATION

During the year, the remuneration paid to the Company's auditor, BDO Limited, is set out as follows:

Services rendered	*HK$'000*
Statutory audit services for 2011	1,530
Non-statutory audit services:	
Professional services rendered for financial due diligence on potential projects	1,000
Review on interim financial report	250
Other services	100
	2,880

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

The statement of the auditor of the Company, BDO Limited, about its reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 58 to 59 of this annual report.

COMMUNICATION WITH SHAREHOLDERS

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

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

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

REPORT OF THE DIRECTORS

The Directors herein present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

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

RESULTS

The results of the Group for the year ended 31 December 2011 and the state of affairs of the Group at that date are set out in the financial statements on pages 60 to 149 of this annual report.

The Board of Directors of the Company recommends a final dividend of HK13 cents per ordinary share for the year ended 31 December 2011 (2010: HK10 cents per ordinary share) payable to shareholders whose names appear on the register of members of the Company at the close of business on Friday, 1 June 2012. This dividend is subject to shareholders' approval at the Company's annual general meeting to be held on Friday, 25 May 2012. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 1 June 2012 for registration. The final dividend is expected to be paid on or about Tuesday, 19 June 2012.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on page 150 of this annual report.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2011 are set out in note 33 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 38 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on pages 66 to 67 of this annual report and in note 39 to the financial statements, respectively.

DONATIONS

Charitable donations made by the Group during the year amounted to approximately HK$137,864,000 (2010: HK$144,210,000).

CHANGE OF THE NAME OF THE COMPANY

Following the passing of a special resolution by the shareholders of the Company regarding change of the name of the Company and the issue of a certificate of change of name by the Hong Kong Registrar of Companies, the name of the Company was changed from Fushan International Energy Group Limited (福山國際能源集團有限公司) to Shougang Fushan Resources Group Limited (首鋼福山資源集團有限公司) with effect from 24 May 2011.

DIRECTORS

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

Li Shaofeng	*(appointed on 20 October 2011)*
Chen Zhouping	
Wong Lik Ping	
So Kwok Hoo	
Chen Zhaoqiang	
Liu Qingshan	
Xue Kang	
Leung Shun Sang, Tony	
Zhang Yaoping	
Zhang Wenhui	
Kee Wah Sze*	
Choi Wai Yin*	
Chan Pat Lam*	
Wang Pingsheng	*(resigned on 20 October 2011)*

* *Independent Non-executive Directors*

DIRECTORS (continued)

In accordance with clauses 94 and 103(A) of the Company's articles of association, Messrs. Li Shaofeng, Chen Zhouping, Wong Lik Ping, So Kwok Hoo, Zhang Yaoping and Zhang Wenhui will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' SERVICE CONTRACTS

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

MANAGEMENT CONTRACTS

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

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

The Directors of the Company who held office at 31 December 2011 had the following interests in the shares and underlying shares of the Company as at 31 December 2011 as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance (the "SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

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

Long positions in the shares and underlying shares of the Company

Name of Director	Capacity in which interests were held	Number of shares/underlying shares in the Company: Interests in shares	Interests in underlying shares*	Total interests	Total interests as to % of the issued share capital of the Company as at 31.12.2011
Chen Zhouping	Beneficial owner	–	6,000,000	6,000,000	0.11%
Wong Lik Ping	Beneficial owner, interests of controlled corporation	58,871,900	4,500,000	63,371,900	1.17%
So Kwok Hoo	Beneficial owner	4,000,000	3,500,000	7,500,000	0.13%
Chen Zhaoqiang	Beneficial owner	280,000	8,000,000	8,280,000	0.15%
Liu Qingshan	Beneficial owner	–	6,000,000	6,000,000	0.11%
Xue Kang	Beneficial owner	–	3,000,000	3,000,000	0.05%
Leung Shun Sang, Tony	Beneficial owner	–	6,000,000	6,000,000	0.11%
Zhang Yaoping	Beneficial owner	–	4,500,000	4,500,000	0.08%
Kee Wah Sze	Beneficial owner	700,000	3,200,000	3,900,000	0.07%
Choi Wai Yin	Beneficial owner	150,000	3,200,000	3,350,000	0.06%
Chan Pat Lam	Beneficial owner	200,000	3,200,000	3,400,000	0.06%

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

Save as disclosed above, as at 31 December 2011, none of the Company's Directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

Name of Director	Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of interest of the Director in the entity
Li Shaofeng	Shougang Concord International Enterprises Company Limited ("Shougang International") #	Sale and trading of coal	Director
Chen Zhouping	Shougang International#	Sale and trading of coal	Director
Wong Lik Ping	King Steel Limited#	Production and sales of coal products	Shareholder
Leung Shun Sang, Tony	Shougang International#	Sale and trading of coal	Director
Zhang Wenhui	Shougang International#	Sale and trading of coal	Director

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES (continued)

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

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2011, according to the register kept by the Company under Section 336 of the SFO, the following companies and persons had interests or short positions in the shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

(a) Long positions in the shares of the Company

Name of shareholder	Capacity in which interests were held	Number of shares	Interests as to % of the issued share capital of the Company as at 31.12.2011	*Note(s)*
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Beneficial owner, interests of controlled corporations	1,582,864,490	29.43%	1
Shougang International	Beneficial owner, interests of controlled corporations	1,463,962,490	27.21%	1
Fine Power Group Limited ("Fine Power")	Beneficial owner	663,918,497	12.34%	1
Ultimate Capital Limited ("Ultimate Capital")	Beneficial owner	650,000,000	12.08%	1
Xing Libin	Beneficial owner, interests of controlled corporation, interests of spouse	508,831,240	9.46%	2
Firstwealth Holdings Limited ("Firstwealth")	Beneficial owner	400,000,000	7. 43%	2

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

(b) Short positions in the shares of the Company

Name of shareholder	Capacity in which interests were held	Number of shares	Interests as to % of the issued share capital of the Company as at 31.12.2011	*Note(s)*
Xing Libin	Interests of controlled corporation	400,000,000	7.43%	2
Firstwealth	Beneficial owner	400,000,000	7.43%	2

Notes:

1. Shougang Holding indicated in its disclosure form dated 8 December 2011 (being the latest disclosure form filed up to 31 December 2011) that as at 6 December 2011, its interests included the interests held by Shougang International, a company which was held as to 47.8% by Shougang Holding, as well as Fine Power and Ultimate Capital, each of which was a wholly-owned subsidiary of Shougang International.

   Shougang International indicated in its disclosure form dated 9 May 2011 (being the latest disclosure form filed up to 31 December 2011) that as at 5 May 2011, its interests included the interests held by Fine Power and Ultimate Capital.

2. Mr. Xing Libin indicated in his disclosure form dated 11 May 2011 (being the latest disclosure form filed up to 31 December 2011) that as at 6 May 2011, his interests included the interests held by Firstwealth, a company which was wholly-owned by Mr. Xing Libin.

Save as disclosed above, as at 31 December 2011, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

PUBLIC FLOAT

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

SHARE OPTION SCHEME

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

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

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

The total number of shares of the Company which may be issued upon exercise of all outstanding share options granted under the Scheme is 267,200,000 which represents approximately 4.97% of the issued share capital of the Company as at the date of this annual report. The maximum number of shares of the Company available for issue upon exercise of all share options which may be granted under the Scheme is 176,425,535, representing approximately 3.28% of the issued share capital of the Company as at the date of this annual report. The total number of shares of the Company issued and to be issued upon the exercise of share options granted under the Scheme (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, in excess of in aggregate 0.1% of the shares of the Company in issue (based on the date of offer) and an aggregate value of HK$5,000,000 (based on the closing price of the Company's shares at the date of each offer), within any 12-month period, are subject to shareholders' approval in advance in a general meeting. Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the Independent Non-executive Directors.

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

SHARE OPTION SCHEME (continued)

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

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

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

Category or name of grantees	Options to subscribe for shares of the Company at the beginning and at the end of the year	Date of grant	Exercise period	Exercise price per share
Directors of the Company				
Chen Zhouping	6,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Wong Lik Ping	4,500,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
So Kwok Hoo	3,500,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Chen Zhaoqiang	8,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Liu Qingshan	6,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00

SHARE OPTION SCHEME (continued)

Category or name of grantees	Options to subscribe for shares of the Company at the beginning and at the end of the year	Date of grant	Exercise period	Exercise price per share
Directors of the Company (continued)				
Xue Kang	3,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Leung Shun Sang, Tony	6,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Zhang Yaoping	4,500,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Kee Wah Sze	3,200,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Choi Wai Yin	3,200,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Chan Pat Lam	3,200,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
	51,100,000			
Employees of the Group	6,000,000	26.04.2006	26.04.2008 – 25.04.2013	HK$1.50
	94,100,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
	100,100,000			
Other participants	116,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
	116,000,000			
	267,200,000			

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

During the year, the Company repurchased a total of 3,056,000 ordinary shares of the Company on the Stock Exchange at an aggregate consideration of HK$7,876,220 (expenses excluded). The share repurchases were made with a view to enhance shareholders' interests. Details of the share repurchases are as follows:

Month of share repurchases	Total number of the ordinary shares repurchased	Highest price paid per share	Lowest price paid per share	Aggregate consideration *(expenses excluded)*
		HK$	*HK$*	*HK$*
December 2011	3,056,000	2.64	2.54	7,876,220

A total of 2,216,000 repurchased shares were cancelled during the year while the remaining of 840,000 repurchased shares were cancelled in January 2012.

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

DISTRIBUTION RESERVES

At the end of the reporting period, the Company had approximately HK$992,278,000 reserves available for distribution as calculated in accordance with the provisions of Section 79B of the Companies Ordinance of which approximately HK$699,062,000 has been proposed as a final dividend for the year.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 69.1% of the total sales for the year and sales to the largest customer included therein amounted to approximately 30.4%. Purchases from the Group's five largest suppliers accounted for approximately 42.0% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 13.1%. A shareholder who owns more than 5% of the share capital of the Company has interests in the Group's largest suppliers. Save as disclosed above, none of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's share capital) had any interest in the Group's five largest customers and suppliers.

CONTINUING CONNECTED TRANSACTIONS

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

(a) A long term strategic cooperation agreement dated 15 June 2008 (the "Long Term Strategic Cooperation Agreement") was entered into between the Company, Shougang Holding and Mr. Wong Lik Ping whereby the Company, inter alia, agreed to supply to Shougang Holding or any companies designated by Shougang Holding not less than two million tonnes of premier clean coking coal for each calendar year from 2009 onwards. A coal supply framework agreement dated 20 August 2008 (the "Coal Supply Framework Agreement") was entered into between the Company and Shougang Corporation to finalise the terms for coal supply under the Long Term Strategic Cooperation Agreement.

As stated in the announcement of the Company dated 3 March 2009 and in the circular of the Company dated 17 March 2009, a supplemental coal supply framework agreement dated 24 February 2009 (the "Supplemental Coal Supply Framework Agreement") was entered into between the Company and Shougang Corporation to further govern the coal supply under the Coal Supply Framework Agreement in order to comply with the Listing Rules. According to the Supplemental Coal Supply Framework Agreement, the term of the Coal Supply Framework Agreement would expire on 31 December 2011 and the caps for the quantity and in monetary terms (exclusive of VAT) for premier clean coking coal supply for each of the three financial years ended 31 December 2011 were fixed as follows:

	From 8 April 2009 (being the date of approval by the independent shareholders of the Supplemental Coal Supply Framework Agreement) to 31 December 2009	**For the financial year ended 31 December 2010**	**For the financial year ended 31 December 2011**
Caps for quantity	2,000,000 tonnes	3,000,000 tonnes	5,000,000 tonnes
Caps in monetary terms	RMB3,634,000,000	RMB5,886,000,000	RMB10,595,000,000

Shougang Corporation became a connected person of the Company as a result of its wholly-owned subsidiary, Shougang Holding became a substantial shareholder of the Company from 24 February 2009 upon completion of the share purchase under the share sale agreement dated 9 February 2009. The entering into of the Supplemental Coal Supply Framework Agreement was for the purpose of compliance with Chapter 14A of the Listing Rules. The Supplemental Coal Supply Framework Agreement was approved by the independent shareholders of the Company on 8 April 2009.

CONTINUING CONNECTED TRANSACTIONS (continued)

(b) As stated in the announcement of the Company dated 30 December 2011, the Supplemental Coal Supply Framework Agreement covers the supply by the Company of premier clean coking coal to Shougang International. As the Supplemental Coal Supply Framework Agreement expired on 31 December 2011, a coal supply agreement was entered into between the Company and Shougang International on 30 December 2011 (the "Coal Supply Agreement") to govern the coal supply to Shougang International and/or its associates by the Group for the three financial years ending 31 December 2014. Pursuant to the Coal Supply Agreement, the cap amounts (exclusive of VAT) for the supply of premier clean coking coal for each of the three financial years ending 31 December 2014 are as follows:

	Financial year ending 31 December		
	2012	**2013**	**2014**
	RMB' million	*RMB' million*	*RMB' millions*
Cap amounts for the supply of premier clean coking coal	100	150	200

As at the date of the Coal Supply Agreement, Shougang International is a substantial shareholder of the Company and thus a connected person of the Company under the Listing Rules. Accordingly, the transactions under the Coal Supply Agreement constitute continuing connected transactions for the Company. Details of the Coal Supply Agreement were disclosed in the announcement of the Company dated 30 December 2011. Shougang International is principally engaged in the manufacture, sale and trading of steel products, shipping operations and mineral exploration. The Company has been supplying coal products to Shougang International pursuant to the Supplemental Coal Framework Agreement. As the Company is obligated to supply coal to Shougang International under the Long Term Strategic Cooperation Agreement and the Coal Supply Framework Agreement and such transactions can further secure procurement of the coal produced by the Group, the Company shall continue with the continuing connected transactions.

CONTINUING CONNECTED TRANSACTIONS (continued)

(c) As stated in the announcement of the Company dated 12 November 2010, a master agreement was entered into between the Company and Mr. Xing Libin ("Mr. Xing") on 12 November 2010 (the "Master Agreement"). Pursuant to the Master Agreement, the Group would supply products (principally clean coking coal, raw coking coal and other coal products) and side products, raw materials, materials, fuel, energy (principally electricity and water), mechanical equipment, equipment, spare parts, accessories, tools, fixed assets, provision of construction and/or other services; and leasing of properties (the "Products/Services") to Mr. Xing and his associates (the "Sales") and Mr. Xing and his associates would supply the Products/Services to the Group (the "Purchases") during the three financial years ending 31 December 2013. The cap amounts (exclusive of VAT) of the Sales and the Purchases for each of the three financial years ending 31 December 2013 are as follows:

	For the financial year ended 31 December 2011 *RMB' million*	**For the financial year ending 31 December 2012** *RMB' million*	**For the financial year ending 31 December 2013** *RMB' million*
Cap amounts for the Sales	1,120	1,210	1,310
Cap amounts for the Purchases	1,660	1,800	1,950

As at the date of the Master Agreement, Mr. Xing was an associate of a substantial shareholder of each of certain subsidiaries and a director of a subsidiary of the Company, thus, he was a connected person of the Company under the Listing Rules. Accordingly, the transactions under the Master Agreement constitute continuing connected transactions for the Company. Details of the Master Agreement were disclosed in the announcement of the Company dated 12 November 2010 and in the circular of the Company dated 1 December 2010. The Master Agreement was approved by the independent shareholders of the Company on 17 December 2010.

CONTINUING CONNECTED TRANSACTIONS (continued)

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

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

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

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

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

As regards the transactions set out in note 44 to the financial statements under the heading of "Related Party Transactions – Group" are concerned, the transactions as set out in note 44(i) were connected transaction which was exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

As far as the transactions set out in note 44(ii) are concerned, the transactions relating to the sale of clean coking coal to a wholly-owned subsidiary of Shougang International by the Group were continuing connected transactions which had been approved by the independent shareholders of the Company while the remaining transactions were not continuing connected transactions.

The transactions set out in note 44(iii) were the remuneration of the Directors as determined pursuant to the service contracts entered into between the Directors and the Group and the securities issued and to be issued upon exercise of options granted to the Directors under the share option scheme of the Company and were connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 29 to 41 of this annual report.

EVENTS AFTER THE REPORTING DATE

Details of significant events occurring after the reporting date are set out in note 48 to the financial statements.

AUDITOR

Due to a merger of the businesses of Grant Thornton ("GTHK") and BDO Limited ("BDO") to practice in the name of BDO as announced by the Company on 2 December 2010, GTHK resigned and BDO was appointed as auditor of the Company effective from 2 December 2010.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint BDO as auditor of the Company.

By Order of the Board
Li Shaofeng
Chairman

Hong Kong, 22 March 2012

INDEPENDENT AUDITOR'S REPORT

BDO

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25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

To the shareholders of Shougang Fushan Resources Group Limited
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Shougang Fushan Resources Group Limited (Formerly known as "Fushan International Energy Group Limited") ("the Company") and its subsidiaries (together "the Group") set out on pages 60 to 149, which comprise the consolidated and company's statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants
Au Yiu Kwan

Practising Certificate Number: P05018

Hong Kong, 22 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Continuing operations			
Revenue	5	**7,138,643**	5,543,285
Cost of sales		**(2,109,708)**	(1,451,760)
Gross profit		**5,028,935**	4,091,525
Other operating income	7	**342,402**	161,855
Selling and distribution expenses		**(636,221)**	(381,020)
General and administrative expenses		**(605,847)**	(620,536)
Other operating expenses		**(181,184)**	(275,236)
Operating profit		**3,948,085**	2,976,588
Finance costs	8	**(21,487)**	(39,646)
Change in fair value of derivative financial instruments		**3,441**	9,672
Share of losses of associates		**(265)**	(526)
Profit before income tax	9	**3,929,774**	2,946,088
Income tax expense	10	**(1,141,146)**	(529,125)
Profit for the year from continuing operations		**2,788,628**	2,416,963
Discontinued operations			
Loss for the year from discontinued operations	11	**(139,009)**	(201,896)
Profit for the year		**2,649,619**	2,215,067
Other comprehensive income for the year			
Fair value (loss)/gain on available-for-sale financial assets		**(1,229,529)**	670,502
Exchange differences on translation of financial statements of foreign operations		**559,692**	469,529
Release of translation reserve upon disposal of discontinued operations		**(18,748)**	–
Total comprehensive income for the year		**1,961,034**	3,355,098
Profit for the year attributable to:			
Owners of the Company	12	**2,256,023**	1,802,791
Non-controlling interests		**393,596**	412,276
Profit for the year		**2,649,619**	2,215,067
Total comprehensive income for the year attributable to:			
Owners of the Company		**1,508,381**	2,883,403
Non-controlling interests		**452,653**	471,695
Total comprehensive income for the year		**1,961,034**	3,355,098
		HK (Cents)	HK (Cents)
Earnings per share from continuing and discontinued operations	14		
– Basic		**41.93**	33.52
– Diluted		**41.90**	33.39
Earnings per share from continuing operations	14		
– Basic		**42.74**	35.90
– Diluted		**42.70**	35.77

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	17	**3,103,343**	2,732,027
Prepaid lease payments	18	**48,068**	47,323
Mining rights	19	**10,563,452**	10,413,660
Goodwill	20	**2,246,812**	2,156,320
Interests in associates	23	**19,950**	19,398
Available-for-sale financial assets	24	**1,771,034**	3,161,097
Deposits, prepayments and other receivables	25	**465,370**	443,990
Loan to a party	28	**–**	234,342
Deferred tax assets	37	**17,806**	16,193
Total non-current assets		**18,235,835**	19,224,350
Current assets			
Inventories	26	**190,507**	134,758
Trade and bill receivables	27	**3,350,955**	2,317,901
Deposits, prepayments and other receivables		**98,216**	123,788
Loan to a party	28	**234,342**	703,025
Amounts due from other parties	28	**19,087**	292,876
Derivative financial instruments		**18**	12,224
Pledged bank deposits	29	**354,141**	32,512
Cash and cash equivalents	30	**4,517,196**	2,766,063
		8,764,462	6,383,147
Assets classified as held for sale	11	**–**	512,130
Total current assets		**8,764,462**	6,895,277
Current liabilities			
Trade and bill payables	31	**1,031,431**	537,808
Other payables and accruals	32	**1,647,612**	1,394,709
Borrowings	33	**897,848**	233,381
Derivative financial instruments		**991**	11,597
Amounts due to other parties	35	**14,545**	22,878
Amounts due to non-controlling interests of subsidiaries	36	**18,776**	256,919
Tax payables		**699,537**	344,369
		4,310,740	2,801,661
Liabilities classified as held for sale	11	**–**	515,894
Total current liabilities		**4,310,740**	3,317,555
Net current assets		**4,453,722**	3,577,722
Total assets less current liabilities		**22,689,557**	22,802,072

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current liabilities			
Borrowings	33	–	898,482
Deferred tax liabilities	37	2,131,424	2,280,368
Total non-current liabilities		2,131,424	3,178,850
Net assets		20,558,133	19,623,222
EQUITY			
Equity attributable to owners of the Company			
Share capital	38	537,751	538,056
Reserves	39	18,428,828	17,611,838
Total equity attributable to owners of the Company		18,966,579	18,149,894
Non-controlling interests		1,591,554	1,473,328
Total equity		20,558,133	19,623,222

Li Shaofeng
Director

Chen Zhouping
Director

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	17	**1,720**	2,285
Interests in subsidiaries	21	**544,920**	544,920
Interests in associates	23	**–**	–
Total non-current assets		**546,640**	547,205
Current assets			
Amounts due from subsidiaries	22	**17,895,615**	16,738,022
Deposits, prepayments and other receivables		**5,265**	853
Cash and cash equivalents	30	**2,384,795**	793,122
Total current assets		**20,285,675**	17,531,997
Current liabilities			
Amounts due to subsidiaries	34	**3,675,087**	999,879
Other payables and accruals	32	**19,296**	10,971
Borrowings	33	**424,516**	229,430
Total current liabilities		**4,118,899**	1,240,280
Net current assets		**16,166,776**	16,291,717
Total assets less current liabilities		**16,713,416**	16,838,922
Non-current liabilities			
Borrowings	33	**–**	424,742
Net assets		**16,713,416**	16,414,180
EQUITY			
Share capital	38	**537,751**	538,056
Reserves	39	**16,175,665**	15,876,124
Total equity		**16,713,416**	16,414,180

Li Shaofeng
Director

Chen Zhouping
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Cash flows from operating activities			
Profit before income tax from continuing operations		**3,929,774**	2,946,088
Loss before income tax from discontinued operations		**(138,950)**	(201,896)
Profit before income tax		**3,790,824**	2,744,192
Adjustments for:			
Amortisation of prepaid lease payments		**1,484**	1,416
Amortisation of mining rights		**285,778**	266,871
Depreciation of property, plant and equipment		**256,760**	197,104
Finance costs		**71,729**	75,166
Share-based compensation		**177,098**	287,205
Provision for impairment on trade receivables		**–**	117,318
Write-down of inventories to net realisable value		**102,636**	15,666
Share of losses of associates		**265**	526
Interest income		**(77,122)**	(42,048)
Dividend income on available-for-sales financial assets		**(53,000)**	–
Gain on disposal of Discontinued Operations	11	**(142,251)**	–
Loss/(Gain) on disposals of property, plant and equipment		**4,389**	(636)
Change in fair value of derivative financial instruments		**(3,441)**	(9,672)
Net foreign exchange gain		**(133,040)**	(61,702)
Operating profit before working capital changes		**4,282,109**	3,591,406
Increase in inventories		**(216,539)**	(16,785)
Increase in trade and bill receivables		**(1,179,564)**	(1,251,567)
Decrease in deposits, prepayments and other receivables		**21,728**	29,486
Decrease in amounts due from other parties		**286,199**	98,893
Increase in trade and bill payables		**490,610**	487,000
Increase/(Decrease) in other payables and accruals		**322,829**	(346,541)
Increase in amounts due to non-controlling interests of subsidiaries		**2,526**	5,295
(Decrease)/Increase in amounts due to other parties		**(9,302)**	8,251
Proceed from financial assets at fair value through profit or loss		**5,888**	–
Cash generated from operations		**4,006,484**	2,605,438
Income tax paid		**(838,645)**	(444,792)
Net cash generated from operating activities		**3,167,839**	2,160,646

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Cash flows from investing activities			
Payment to acquire property, plant and equipment		(345,663)	(758,599)
Payment to acquire available-for-sale financial assets		(38,404)	(42,075)
Proceed from disposals of property, plant and equipment		1,266	2,837
Proceed from disposal of Discontinued Operations	11,41	61,406	–
Proceed from loan to a party		703,025	–
(Increase)/Decrease in pledged bank deposits		(320,251)	77,346
Interest received		75,349	26,904
Dividend received		53,000	–
Net cash generated from/(used in) investing activities		189,728	(693,587)
Cash flows from financing activities			
Net proceed from exercise of share options		–	14,982
Payment on shares repurchased		(7,904)	–
Proceed from bank borrowings		–	460,000
Repayment of bank borrowings		(257,903)	(116,596)
Proceed from other borrowings		27,738	17,135
Repayment of other borrowings		–	(26,383)
Finance costs paid		(63,553)	(61,106)
Dividends paid to shareholders		(860,847)	(863,331)
Dividends paid to non-controlling interests of subsidiaries		(563,051)	(266,583)
Net cash used in financing activities		(1,725,520)	(841,882)
Net increase in cash and cash equivalents		1,632,047	625,177
Cash and cash equivalents at 1 January		2,766,223	2,104,478
Effect of foreign exchange rates changes		118,926	36,568
Cash and cash equivalents at 31 December		4,517,196	2,766,223
Cash and cash equivalents at 31 December, represented by:			
Bank balances and cash	30	4,517,196	2,766,063
Bank balances and cash included in assets classified as held for sale	11	–	160
		4,517,196	2,766,223

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Equity attributable to owners of the Company										Non-controlling interests	Total equity
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Statutory reserve HK$'000	Other reserves HK$'000	Retained profits HK$'000	Share-based compensation reserve HK$'000	Security investment reserve HK$'000	Translation reserve HK$'000	Total HK$'000	HK$'000	HK$'000
At 1 January 2011	538,056	14,618,903	-	260,455	271,331	972,786	387,081	670,402	430,880	18,149,894	1,473,328	19,623,222
Disposal of Discontinued Operations (Note 41)	-	-	-	-	-	-	-	-	-	-	228,624	228,624
Share-based compensation	-	-	-	-	-	-	177,098	-	-	177,098	-	177,098
Shares repurchased	(305)	-	305	-	-	(7,904)	-	-	-	(7,904)	-	(7,904)
2010 final dividends approved (Note 13)	-	-	-	-	-	(538,056)	-	-	-	(538,056)	-	(538,056)
2011 interim dividends declared (Note 13)	-	-	-	-	-	(322,834)	-	-	-	(322,834)	-	(322,834)
Dividends paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	(563,051)	(563,051)
Transactions with owners of the Company	(305)	-	305	-	-	(868,794)	177,098	-	-	(691,696)	(334,427)	(1,026,123)
Profit for the year	-	-	-	-	-	2,256,023	-	-	-	2,256,023	393,596	2,649,619
Other comprehensive income:												
– Fair value loss on available-for-sale financial assets	-	-	-	-	-	-	-	(1,229,529)	-	(1,229,529)	-	(1,229,529)
– Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	-	-	-	500,635	500,635	59,057	559,692
– Release of translation reserve upon disposal of Discontinued Operations (Note 41)	-	-	-	-	-	-	-	-	(18,748)	(18,748)	-	(18,748)
Total comprehensive income for the year	-	-	-	-	-	2,256,023	-	(1,229,529)	481,887	1,508,381	452,653	1,961,034
Appropriations to other reserves (Note 39)	-	-	-	-	60,394	(60,394)	-	-	-	-	-	-
Appropriations to statutory reserves (Note 39)	-	-	-	122,644	-	(122,644)	-	-	-	-	-	-
At 31 December 2011	537,751	14,618,903	305	383,099	331,725	2,176,977	564,179	(559,127)	912,767	18,966,579	1,591,554	20,558,133

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Equity attributable to owners of the Company									Non-controlling interests	Total equity
	Share capital HK$'000	Share premium HK$'000	Statutory reserve HK$'000	Other reserves HK$'000	Retained profits HK$'000	Share-based compensation reserve HK$'000	Security investment reserve HK$'000	Translation reserve HK$'000	Total HK$'000	HK$'000	HK$'000
At 1 January 2010	537,056	14,601,448	168,293	147,698	234,169	115,860	(100)	20,770	15,825,194	1,504,570	17,329,764
Share-based compensation	–	–	–	–	–	287,205	–	–	287,205	–	287,205
Issue of shares upon exercise of share options	1,000	17,455	–	–	–	(3,473)	–	–	14,982	–	14,982
Contribution from non-controlling interests of subsidiary	–	–	–	–	–	–	–	–	–	9,200	9,200
2009 final dividends approved	–	–	–	–	(591,862)	–	–	–	(591,862)	–	(591,862)
2010 interim dividends declared (Note 13)	–	–	–	–	(269,028)	–	–	–	(269,028)	–	(269,028)
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	(512,137)	(512,137)
Transactions with owners of the Company	1,000	17,455	–	–	(860,890)	283,732	–	–	(558,703)	(502,937)	(1,061,640)
Profit for the year	–	–	–	–	1,802,791	–	–	–	1,802,791	412,276	2,215,067
Other comprehensive income:											
– Fair value gain on available-for-sale financial assets	–	–	–	–	–	–	670,502	–	670,502	–	670,502
– Exchange differences on translation of financial statements of foreign operations	–	–	–	–	–	–	–	410,110	410,110	59,419	469,529
Total comprehensive income for the year	–	–	–	–	1,802,791	–	670,502	410,110	2,883,403	471,695	3,355,098
Appropriations to other reserves (Note 39)	–	–	–	123,633	(123,633)	–	–	–	–	–	–
Appropriations to statutory reserves (Note 39)	–	–	92,162	–	(92,162)	–	–	–	–	–	–
Lapse of share options	–	–	–	–	12,511	(12,511)	–	–	–	–	–
At 31 December 2010	538,056	14,618,903	260,455	271,331	972,786	387,081	670,402	430,880	18,149,894	1,473,328	19,623,222

1. GENERAL INFORMATION

Pursuant to the special resolution passed at the annual general meeting of the Company held on 19 May 2011, the name of the Company was changed from "Fushan International Energy Group Limited（福山國際能源集團有限公司）" to "Shougang Fushan Resources Group Limited（首鋼福山資源集團有限公司）" with effect from 24 May 2011.

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

The principal activity of the Company is investment holding. The principal activities of the Group's subsidiaries comprise coking coal mining, production and sales of coking coal products and side products. Details of the activities of the principal subsidiaries of the Group are set out in Note 21 to the financial statements.

On 10 December 2010, one of the Group's wholly-owned subsidiaries, New Honest Limited ("New Honest") entered into a conditional sale and purchase agreement (the "Agreement") with an independent third party (the "Purchaser") to dispose of its entire 66% equity interest in a subsidiary of the Group, namely Shanxi Yao Zin Coal and Coking Company Limited ("Shanxi Yao Zin"), for a cash consideration of Renminbi ("RMB") 211,200,000 (Hong Kong Dollars ("HK$") 259,776,000 equivalent) (the "Disposal"). In addition, the Group waived the shareholders' loans to Shanxi Yao Zin amounting to RMB124,900,000 (HK$153,627,000 equivalent) and the corresponding interest upon the completion of the Disposal. Shanxi Yao Zin was incorporated in the PRC and is principally engaged in production and sales of coke products in Shanxi, the PRC. The Disposal was not completed as at 31 December 2010. As operations carried out by Shanxi Yao Zin represent components of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and also represent separate major line of business. The Group had already presented in its financial statements for the year ended 31 December 2010, the Shanxi Yao Zin's operations as discontinued operations (the "Discontinued Operations") in accordance with Hong Kong Financial Reporting Standard 5 ("HKFRS 5").

On 24 March 2011, New Honest and the Purchaser entered into a supplementary agreement pursuant to which New Honest agreed to receive a cash consideration by installments. Up to 31 December 2011, cash consideration of RMB50,000,000 has been received by the Group from the Purchaser. Shanxi Yao Zin has been making losses since its incorporation in 2005. In view of interest of the Group, on 31 December 2011, the directors of the Company transferred their control of the financial and operating policy decisions over Shanxi Yao Zin to the Purchaser. On the same date, the Purchaser agreed to taken up the controls over Shanxi Yao Zin and assumed all assets and liabilities of Shanxi Yao Zin as at that date. The directors consider that the Group has loss of controls over Shanxi Yao Zin and the Disposal was completed on 31 December 2011. As a consequence of the Disposal, the Group recorded a gain of HK$142,251,000 in the consolidated statement of comprehensive income for the year ended 31 December 2011. Further details regarding the Discontinued Operations and Gain on Disposal of Discontinued Operations are set out in Note 11 and Note 41 respectively.

1. GENERAL INFORMATION (continued)

Other than the Disposal as described above, there were no significant changes in the Group's operations during the year.

The financial statements for the year ended 31 December 2011 were approved for issue by the board of directors on 22 March 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements on pages 60 to 149 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretation issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The significant accounting policies that have been used in the preparation of the financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended HKFRSs and the impacts on the Group's financial statements, if any, are disclosed in Note 3. The financial statements have been prepared under historical cost convention except for certain financial instruments classified as available-for-sale financial assets (Note 24) and derivative financial instruments which are stated at fair values. The measurement bases are fully described in the accounting policies below.

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

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

2.2 Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries made up to 31 December each year. Intra-group transactions and balances and unrealised gains and losses on transactions between group companies are eliminated in full in preparing the consolidated financial statements. When unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Business combination and basis of consolidation (continued)

The results of subsidiaries acquired or disposed during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates 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 the Group.

Acquisition of subsidiaries or businesses is accounted for using acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure non-controlling interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Business combination and basis of consolidation (continued)

When the Group losses control of a subsidiary, profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interest in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in non-controlling interest having a deficit balance.

2.3 Subsidiaries

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

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

2.4 Associates

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Associates (continued)

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

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

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Where unrealised losses on assets sales between the Group and its associates are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying equity method.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units ("CGU") that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

2.6 Property, plant and equipment

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

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

Buildings and plants	The shorter of the lease terms and 5%
Mining machinery and equipment	10%
Leasehold improvements	The shorter of the lease terms and $33^1/_3$%
Office equipment	20%
Furniture and fixtures	20%
Motor vehicles	25%

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Property, plant and equipment (continued)

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

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

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

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

2.7 Mining rights

Mining rights are stated at cost less accumulated amortisation and are amortised on the units of production method based on the total proven and probable reserves of the coal mine.

2.8 Impairment of non-financial assets

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Impairment of non-financial assets (continued)

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

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

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

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34 – Interim Financial Reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year.

2.9 Foreign currency translation

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Foreign currency translation (continued)

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

2.10 Revenue recognition

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

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

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

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

2.11 Borrowing costs

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

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs is suspended or ceases when the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Leases

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

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

Prepaid lease payments

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

Assets acquired under finance leases

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

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

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

Operating lease charges as the lessee

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Financial assets

Financial assets are classified into financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

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

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

Financial assets at fair value through profit or loss

These include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Financial assets (continued)

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

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

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

Loans and receivables

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

Available-for-sale financial assets

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Financial assets (continued)

Impairment of financial assets

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

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

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

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

(i) Financial assets carried at amortised cost

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Financial assets (continued)

Impairment of financial assets (continued)

(i) Financial assets carried at amortised cost (continued)

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

(ii) Available-for-sale financial assets

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

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

(iii) Financial assets carried at cost

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Financial assets (continued)

Impairment of financial assets (continued)

(iii) Financial assets carried at cost (continued)

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

2.14 Inventories

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

2.15 Accounting for income taxes

Income tax comprises current tax and deferred tax.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Accounting for income taxes (continued)

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

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

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

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

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

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

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

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

    (i) the same taxable entity; or

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

2.16 Derivative financial instruments

Derivative financial instruments, in individual contracts or separated from hybrid financial instruments, are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value. Derivatives that are not designated as hedging instruments are accounted for as financial assets or financial liabilities at fair value through profit or loss. Gains or losses arising from changes in fair value are taken directly to profit or loss for the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Cash and cash equivalents

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

2.18 Share capital

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

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

2.19 Employee benefit

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

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

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

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

Short-term employee benefits

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Employee benefit (continued)

Share-based employee compensation

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

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

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

2.20 Financial liabilities

The Group's financial liabilities include borrowings, amounts due to non-controlling interests of subsidiaries and other parties, derivative financial instruments, trade and bill payables, other payables and accruals.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Financial liabilities (continued)

Borrowings

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

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

Finance lease liabilities

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

Other financial liabilities at amortised cost

Amounts due to non-controlling interests of subsidiaries and other parties, trade and bill payables, other payables and accruals are recognised initially at their fair values and subsequently measured at amortised cost, using effective interest method.

Derivatives

Derivatives including separated embedded derivatives are measured at fair value (see Note 2.16).

2.21 Provisions, contingent liabilities and contingent assets

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

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

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

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. These are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any amortisation, if appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Related parties

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

(a) The party is a person or a close member of that person's family and that person,

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third party and the other party is an associate of the third party;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependents of that person or that person's spouse or domestic partner.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Segment reporting

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

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

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

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that change in fair value of derivative financial instruments, gain on disposal of Discounted Operations, share-based compensation, interest income, finance costs, share of results of associates, income tax and corporate income and expenses which are not directly attributable to the business activities of any operating segment, are not included in arriving at the operating results of the operating segment.

Segment assets include property, plant and equipment, prepaid lease payments, mining rights, goodwill, inventories, receivables and operating cash and mainly exclude available-for-sale financial assets, derivative financial instruments, deferred tax assets, interests in associates and corporate assets which are not directly attributable to the business activities of any operating segment.

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

2.24 Financial guarantees issued

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Financial guarantees issued (continued)

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

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

2.25 Assets held for sale

Non-current assets held for sale and assets classified as held for sale if their carrying amount is recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. These assets other than financial assets, classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

2.26 Discontinued operations

A discontinued operation is a clearly distinguishable component of the Group's business that has been disposed of or is classified as held for sale, which represents a separate major line of business or geographical area of operations of the Group.

3. ADOPTION OF NEW OR AMENDED HKFRSs

3.1 Adoption of new or amended HKFRSs

During the year, the Group has applied for the following amended HKFRSs issued by the HKICPA, which relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2011:

HKAS 24 (Revised)	Related Party Disclosures
HKFRSs (Amendments)	Improvements to HKFRSs 2010

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

3. ADOPTION OF NEW OR AMENDED HKFRSs (continued)

3.1 Adoption of new or amended HKFRSs (continued)

HKAS 24 (Revised) Related Party Disclosures

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with government entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are disclosed in Note 44.

Improvements to HKFRSs 2010 (issued in May 2010)

In May 2010, the HKICPA issued "Improvements to HKFRSs 2010" which sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. With the adoption of some of the amendments may result in changes in accounting policies, none of these amendments had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

(i) HKFRS 3 Business Combinations

As part of the Improvements to HKFRSs issued in 2010, HKFRS 3 has been amended to clarify that the option to measure non-controlling interests at either fair value or the non-controlling interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets is limited to instruments that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS. The Group has amended its accounting policies for measuring non-controlling interests but the adoption of the amendment had no impact on the Group's financial statements.

(ii) HKAS 1 Presentation of Financial Statements

The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

3. ADOPTION OF NEW OR AMENDED HKFRSs (continued)

3.2 New or amended HKFRSs that have been issued but are not yet effective

The following new or amended HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[4]
Amendments to HKAS 1 (Revised)	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income[2]
Amendments to HKAS 32	Presentation – Offsetting Financial Assets and Financial Liabilities[4]
HKAS 19 (2011)	Employee Benefits[3]
HKAS 27 (2011)	Separate Financial Statements[3]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[3]
HKFRS 9	Financial Instruments[5]
HKFRS 10	Consolidated Financial Statements[3]
HKFRS 12	Disclosure of Interests in Other Entities[3]
HKFRS 13	Fair Value Measurement[3]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 July 2012
3 Effective for annual periods beginning on or after 1 January 2013
4 Effective for annual periods beginning on or after 1 January 2014
5 Effective for annual periods beginning on or after 1 January 2015

Amendments to HKFRS 7 Disclosure – Transfer of Financial Assets

The amendments to HKFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

3. ADOPTION OF NEW OR AMENDED HKFRSs (continued)

3.2 New or amended HKFRSs that have been issued but are not yet effective (continued)

Amendments to HKAS 1 (Revised) Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income

These amendments require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

HKFRS 9 Financial Instruments

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains and losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. This aims to improve and simply the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option. For these fair value option liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the fair value option are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in it entirely. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues apply.

3. ADOPTION OF NEW OR AMENDED HKFRSs (continued)

3.2 New or amended HKFRSs that have been issued but are not yet effective (continued)

HKFRS 10 Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

HKFRS 12 Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

HKFRS 13 Fair Value Measurements

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 Financial Instruments: Disclosures. HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

3. ADOPTION OF NEW OR AMENDED HKFRSs (continued)

3.2 New or amended HKFRSs that have been issued but are not yet effective (continued)

The Group is in the process of making an assessment of the potential impact of these new or revised HKFRSs and the directors are not yet in a position to quantify the effect on the Group's financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

4.1 Impairment of non-financial assets

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

4.2 Impairment of goodwill

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.3 Impairment of loans and receivables

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

4.4 Depreciation

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

4.5 Amortisation of mining rights

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

4.6 Net realisable value of inventories

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

4.7 Valuation of share options granted

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.8 Impairment of available-for-sale financial assets

The group follows the guidance of HKFRS 39 to determine when an available-for-sale financial assets is impaired. This determination requires significant judgement. In making this judgement, the group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

5. REVENUE

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

	2011 **HK$'000**	2010 HK$'000
Continuing operations		
Sales of raw coking coal	**2,917,656**	2,900,273
Sales of clean coking coal	**4,220,987**	2,643,012
	7,138,643	5,543,285
Discontinued operations		
Sales of coke *(Note 11)*	**205,054**	232,228
	7,343,697	5,775,513

6. SEGMENT INFORMATION

The executive directors have identified the Group's two product lines as operating segments as further described in Note 2.23.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results. The Group's segment operating profit reconciles to the Group's profit before income tax as follows:

	Continuing operations				Discontinued operations *(Note 11)*			
	Coking coal mining		Total		Coke production		Consolidated	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Sales to external parties	**7,138,643**	5,543,285	**7,138,643**	5,543,285	**205,054**	232,228	**7,343,697**	5,775,513
Segment operating profit/(loss)	**4,101,582**	3,328,515	**4,101,582**	3,328,515	**(263,327)**	(193,488)	**3,838,255**	3,135,027
Share-based compensation			**(177,098)**	(287,205)	**–**	–	**(177,098)**	(287,205)
Interest income			**77,122**	42,048	**–**	–	**77,122**	42,048
Other operating income not allocated			**66,625**	70	**–**	–	**66,625**	70
General and administrative expenses not allocated			**(120,146)**	(106,840)	**–**	–	**(120,146)**	(106,840)
Operating profit/(loss)			**3,948,085**	2,976,588	**(263,327)**	(193,488)	**3,684,758**	2,783,100
Gain on disposal of Discontinued Operations			**–**	–	**142,251**	–	**142,251**	–
Finance costs			**(21,487)**	(39,646)	**(17,874)**	(8,408)	**(39,361)**	(48,054)
Change in fair value of derivative financial instruments			**3,441**	9,672	**–**	–	**3,441**	9,672
Share of losses of associates			**(265)**	(526)	**–**	–	**(265)**	(526)
Profit/(Loss) before income tax			**3,929,774**	2,946,088	**(138,950)**	(201,896)	**3,790,824**	2,744,192

6. SEGMENT INFORMATION (continued)

	Continuing operations						Discontinued operations *(Note 11)*		Consolidated	
	Coking coal mining		Corporate		Total		Coke production			
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Depreciation	**206,954**	149,665	**857**	755	**207,811**	150,420	**48,949**	46,684	**256,760**	197,104
Amortisation of mining rights	**285,778**	266,871	**–**	–	**285,778**	266,871	**–**	–	**285,778**	266,871
Amortisation of prepaid lease payments	**1,236**	1,179	**–**	–	**1,236**	1,179	**248**	237	**1,484**	1,416
Write-down of inventories to net realisable value	**–**	–	**–**	–	**–**	–	**102,636**	15,666	**102,636**	15,666
Provision for impairment of trade receivables	**–**	117,318	**–**	–	**–**	117,318	**–**	–	**–**	117,318

	Continuing operations						Discontinued operations *(Note 11)*		Consolidated	
	Coking coal mining		Corporate		Total		Coke production			
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**22,028,353**	20,663,873	**3,163,136**	1,734,712	**25,191,489**	22,398,585	**–**	512,130	**25,191,489**	22,910,715
Interests in associates			**19,950**	19,398	**19,950**	19,398	**–**	–	**19,950**	19,398
Deferred tax assets			**17,806**	16,193	**17,806**	16,193	**–**	–	**17,806**	16,193
Available-for-sale financial assets			**1,771,034**	3,161,097	**1,771,034**	3,161,097	**–**	–	**1,771,034**	3,161,097
Derivative financial instruments			**18**	12,224	**18**	12,224	**–**	–	**18**	12,224
Group assets					**27,000,297**	25,607,497	**–**	512,130	**27,000,297**	26,119,627
Segment liabilities	**2,620,256**	2,200,148	**92,108**	12,166	**2,712,364**	2,212,314	**–**	479,210	**2,712,364**	2,691,524
Deferred tax liabilities			**2,131,424**	2,280,368	**2,131,424**	2,280,368	**–**	–	**2,131,424**	2,280,368
Tax payables			**699,537**	344,369	**699,537**	344,369	**–**	989	**699,537**	345,358
Borrowings			**897,848**	1,131,863	**897,848**	1,131,863	**–**	35,695	**897,848**	1,167,558
Derivative financial instruments			**991**	11,597	**991**	11,597	**–**	–	**991**	11,597
Group liabilities					**6,442,164**	5,980,511	**–**	515,894	**6,442,164**	6,496,405

6. SEGMENT INFORMATION (continued)

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

	Revenue from external customers		Non-current assets	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Principal markets				
PRC	**7,343,697**	5,775,513	**16,444,900**	15,809,775
Hong Kong	**–**	–	**2,095**	2,943
	7,343,697	5,775,513	**16,446,995**	15,812,718

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

During the year, HK$2,169,358,000 or 30% (2010: HK$1,914,151,000 or 35%) of the Group's revenues is generated from a single customer under coking coal mining segment. At 31 December 2011, 0.3% (2010: 13%) of the Group's trade and bill receivables was due from this customer.

7. OTHER OPERATING INCOME

	2011	2010
	HK$'000	HK$'000
Continuing operations		
Bank interest income	**58,833**	26,904
Other interest income	**18,289**	15,144
Dividend income on available-for-sale financial assets	**53,000**	–
Gain on disposals of property, plant and equipment	**–**	636
Gain on sales of scrapped products	**77,757**	56,080
Gain on trading of coal	**–**	5,689
Net foreign exchange gain	**133,040**	56,841
Profit on disposal of available-for-sale financial assets	**–**	410
Others	**1,483**	151
	342,402	161,855

8. FINANCE COSTS

	2011	2010
	HK$'000	HK$'000
Continuing operations		
Interest charged on:		
– borrowings repayable within five years	**44,245**	51,630
– early redemption of bill receivables	**8,973**	14,611
Finance charges on finance leases	**637**	517
	53,855	66,758
Less: interest capitalised in CIP * *(Note 17)*	**(32,368)**	(27,112)
Total finance costs	**21,487**	39,646

* Borrowing costs were capitalised at the rates ranging from 2% to 6% (2010: 2% to 5%) per annum for the year ended 31 December 2011.

9. PROFIT BEFORE INCOME TAX

	2011	2010
	HK$'000	HK$'000
Continuing operations		
Profit before income tax is arrived at after charging/(crediting):		
Auditor's remuneration		
– audit services	**1,530**	1,450
– other services	**1,350**	850
Cost of inventories recognised as expenses	**2,109,708**	1,451,760
Amortisation of:		
– prepaid lease payments	**1,236**	1,179
– mining rights	**285,778**	266,871
Depreciation of property, plant and equipment		
– owned assets	**206,068**	148,758
– leased assets	**1,743**	1,662
Employee benefit expenses (including directors' remuneration, share-based compensation and retirement benefits scheme contributions) *(Note 15)*	**807,643**	745,714
Net foreign exchange gain	**(133,040)**	(56,841)
Operating lease charges in respect of land and buildings	**9,902**	14,626
Provision for impairment on trade receivables *(Note 27)*	**–**	117,318
Loss/(Gain) on disposals of property, plant and equipment	**4,389**	(636)

10. INCOME TAX EXPENSE

	2011 HK$'000	2010 HK$'000
Continuing operations		
Current tax – PRC income tax		
– Current year	**1,183,930**	531,420
– (Over-provision)/Under-provision in respect of prior years	**(4,774)**	1,098
Deferred tax (Note 37)		
– Current year	**(38,010)**	(3,393)
	1,141,146	529,125

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit arising in Hong Kong in 2011 and 2010.

In accordance with the Income Tax Law of the PRC for Enterprises with Foreign Investment, the Group's certain major subsidiaries, namely Shanxi Liulin Xingwu Coal Co., Limited ("Xingwu"), Shanxi Liulin Jinjiazhuang Coal Co., Limited ("Jinjiazhuang") and Shanxi Liulin Zhaiyadi Coal Co., Limited ("Zhaiyadi"), all established in the PRC, were entitled to 50% relief on the income tax in the PRC for three years ended 31 December 2010. Thus, enterprise income tax rate for the calendar years from 2008 to 2010 was 12.5%. From 1 January 2011 onwards, enterprise income tax rate for these Group's major PRC subsidiaries is 25% without any exemption.

The Group is also subject to a withholding tax at the rate of 5% (2010: 5%) on the distributions of profits generated from these Group's major PRC subsidiaries which are directly owned by the Group's subsidiaries incorporated in Hong Kong.

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

	2011 HK$'000	2010 HK$'000
Continuing operations		
Profit before income tax	**3,929,774**	2,946,088
Tax calculated at the rates applicable to the the tax jurisdiction concerned	**980,366**	761,329
Tax effect of tax exemption granted	**–**	(419,616)
Tax effect of non-deductible expenses	**51,558**	70,776
Tax effect of non-taxable income	**(26,537)**	(12,573)
Tax effect of unused tax losses not recognised	**17,503**	18,779
Effect of withholding tax at 5% on distributable profits of the Group's major PRC subsidiaries	**123,030**	109,332
(Over-provision)/Under-provision in respect of prior years	**(4,774)**	1,098
Income tax expense	**1,141,146**	529,125

11. DISCONTINUED OPERATIONS AND ASSETS/LIABILITIES CLASSIFIED AS HELD FOR SALE

As described in Note 1, on 31 December 2011, New Honest, one of the Group's wholly-owned subsidiaries, completed the disposal of its entire 66% equity interest in Shanxi Yao Zin (the Disposal) for a cash consideration of RMB211,200,000 (HK$259,776,000 equivalent) to the Purchaser. Up to 31 December 2011, the Group received cash consideration of RMB50,000,000 (HK$61,500,000 equivalent). Based on the credit history of the Purchaser, including the default in payments and current economic conditions, the recoverability on the remaining balance of RMB161,200,000 (HK$198,276,000 equivalent) from the Purchaser is uncertain and may be remote. The directors regard the fair value of the consideration of the Disposal as RMB50,000,000 (HK$61,500,000 equivalent) as at 31 December 2011. In addition, as stipulated in the Agreement, the Group waived the shareholders' loans and the corresponding interest to Shanxi Yao Zin amounting to RMB142,015,000 (HK$174,679,000 equivalent). Loss for the year from the Discontinued Operations is as follows:

	2011	2010
	HK$'000	HK$'000
Loss for the year from Discontinued Operations		
Revenue *(Note 5)*	**205,054**	232,228
Expenses	**(486,255)**	(434,124)
Loss before income tax	**(281,201)**	(201,896)
Income tax expense	**(59)**	–
	(281,260)	(201,896)
Gain on disposal of Discontinued Operations *(Note 41)*	**142,251**	–
Loss for the year	**(139,009)**	(201,896)
Loss for the year from Discontinued Operations attributable to:		
Owners of the Company *(Note 14)*	**(43,381)**	(128,529)
Non-controlling interests	**(95,628)**	(73,367)
Loss for the year	**(139,009)**	(201,896)
Cash flows from Discontinued Operations		
Operating cash inflows/(outflows)	**34,693**	(6,151)
Investing cash outflows	**(46,643)**	(6,698)
Financing cash inflows	**11,771**	8,833
Total cash outflows	**(179)**	(4,016)

11. DISCONTINUED OPERATIONS AND ASSETS/LIABILITIES CLASSIFIED AS HELD FOR SALE (continued)

The carrying amounts of the assets and liabilities of Shanxi Yao Zin at the date of Disposal are disclosed in Note 41 to the financial statements. The Disposal contributed a gain of RMB117,953,000 (HK$142,251,000 equivalent) (Note 41) to the Group during the year, which represents the proceeds of the Disposal less the carrying amount of the subsidiary's net liabilities and attributable goodwill. No tax charge or credit arose from the Disposal.

In accordance with HKFRS 5, assets and liabilities of Shanxi Yao Zin, which can be directly allocated to coke products business as at 31 December 2010 had been shown separately as assets and liabilities classified as held for sale in the consolidated statement of financial position as at that date as follows:

	HK$'000
Property, plant and equipment *(Note 17)*	379,107
Goodwill *(Note 20)*	3,183
Prepaid lease payments *(Note 18)*	9,671
Inventories	31,380
Trade and bill receivables	6,025
Deposits, prepayments and other receivables	82,604
Cash and cash equivalents	160
Total assets classified as held for sale	512,130
Borrowings	35,695
Trade and bill payables	294,281
Other payables and accruals	132,787
Amounts due to related companies	13,038
Amounts due to non-controlling interests of subsidiaries	39,104
Tax payables	989
Total liabilities classified as held for sale	515,894

12. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated profit for the year attributable to the owners of the Company of HK$2,256,023,000 (2010: HK$1,802,791,000), a profit of HK$990,932,000 (2010: HK$1,052,511,000) (Note 39) has been dealt with in the financial statements of the Company.

13. DIVIDENDS

	2011 **HK$'000**	2010 HK$'000
Interim dividend of HK6 cents (2010: HK5 cents) per ordinary share	**322,834**	269,028
Proposed final dividend of HK13 cents (2010: HK10 cents) per ordinary share	**699,062**	538,056
	1,021,896	807,084

On 22 March 2012, the board of directors proposed a final dividend of HK13 cents per ordinary share totalling HK$699,062,000 to the owners of the Company. The final dividend is subject to the shareholders' approval at the forthcoming annual general meeting. The final dividend proposed after 31 December 2011 has not been recognised as a liability as at the reporting date.

On 29 March 2011, the board of directors proposed a final dividend of HK10 cents per ordinary share totalling HK$538,056,000 to the owners of the Company. The final dividend was approved by shareholders at the annual general meeting held on 19 May 2011. The final dividend proposed after 31 December 2010 had not been recognised as a liability as at 31 December 2010.

14. EARNINGS PER SHARE

From continuing and discontinued operations

The calculations of basic and diluted earnings per share from continuing and discontinued operations attributable to owners of the Company are based on the following data:

	2011 **HK$'000**	2010 HK$'000
Profit used to determine basic and diluted earnings per share from continuing and discontinued operations	**2,256,023**	1,802,791
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,380,488**	5,379,043
Effect of dilutive potential ordinary shares – Share options	**3,935**	19,904
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**5,384,423**	5,398,947

From continuing operations

The calculations of basic and diluted earnings per share from continuing operations attributable to owners of the Company are based on the following data:

	2011 **HK$'000**	2010 HK$'000
Profit for the year attributable to owners of the Company	**2,256,023**	1,802,791
Add: Loss for the year attributable to owners of the Company from discontinued operations *(Note 11)*	**43,381**	128,529
Profit used to determine basic and diluted earnings per share from continuing operations	**2,299,404**	1,931,320

14. EARNINGS PER SHARE (continued)

From continuing operations (continued)

Basic earnings and diluted earnings per share for the continuing operations are HK42.74 cents (2010: HK35.90 cents) and HK42.70 cents (2010: HK35.77 cents) respectively, based on the profit for the year attributable to owners of the Company from the continuing operations of HK$2,299,404,000 (2010: HK$1,931,320,000) and the weighted average number of ordinary shares as set out above for both basic and diluted earnings per share.

From discontinued operations

Basic loss and diluted loss per share for the Discontinued Operations are HK0.81 cent (2010: HK2.39 cents) and HK0.81 cent (2010: HK2.38 cents) respectively, based on the loss for the year attributable to owners of the Company from the Discontinued Operations of HK$43,381,000 (2010: HK$128,529,000) and the weighted average number of ordinary shares as set out above for both basic and diluted loss per share.

15. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2011 **HK$'000**	2010 HK$'000
Continuing operations		
Salaries, wages and allowances	**612,606**	441,867
Share-based compensation	**177,098**	287,205
Unutilised annual leaves	**143**	32
Retirement benefits scheme contributions	**17,796**	16,610
	807,643	745,714
Discontinued operations		
Salaries, wages and allowances	**13,825**	11,496
	821,468	757,210

16. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Directors' emoluments

	2011					2010				
	Fees	Salaries, bonuses, allowances and benefits	Retirement benefits scheme contributions	Share-based compensation	Total	Fees	Salaries, bonuses, allowances and benefits	Retirement benefits scheme contributions	Share-based compensation	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors										
Mr. Li Shaofeng*	–	2,875	142	–	3,017	–	–	–	–	–
Mr. Wang Pingsheng**	–	9,261	331	–	9,592	–	8,142	6	–	8,148
Mr. Chen Zhouping***	–	12,363	577	4,331	17,271	–	8,142	8	6,872	15,022
Mr. Wong Lik Ping	–	12,340	803	3,248	16,391	–	12,240	12	5,155	17,407
Mr. So Kwok Hoo	–	6,554	452	2,526	9,532	–	6,524	12	4,009	10,545
Mr. Chen Zhaoqiang****	–	6,424	299	5,805	12,528	–	5,756	12	9,213	14,981
Mr. Xue Kang	–	5,294	240	2,165	7,699	–	5,293	–	3,437	8,730
Mr. Liu Qingshan	–	5,893	272	4,331	10,496	–	5,293	–	6,873	12,166
Mr. Cao Zhong*****	–	–	–	–	–	–	1,418	5	6,157	7,580
Non-executive directors										
Mr. Chen Zhouping ***	–	–	–	–	–	106	–	–	–	106
Mr. Leung Shun Sang, Tony	300	–	–	4,331	4,631	300	–	–	6,873	7,173
Mr. Zhang Wenhui#	300	–	–	–	300	194	–	–	–	194
Mr. Zhang Yaoping##	300	–	–	3,069	3,369	300	–	–	4,870	5,170
Mr. Wang Qinghai###	–	–	–	–	–	105	–	–	–	105
Independent non-executive directors										
Mr. Kee Wah Sze	300	–	–	2,310	2,610	300	–	–	3,665	3,965
Mr. Choi Wai Yin	300	–	–	2,310	2,610	300	–	–	3,665	3,965
Mr. Chan Pat Lam	300	–	–	2,310	2,610	300	–	–	3,665	3,965
	1,800	61,004	3,116	36,736	102,656	1,905	52,808	55	64,454	119,222

* appointed on 20 October 2011
** appointed on 10 May 2010 and subsequently resigned on 20 October 2011
*** appointed on 12 January 2009 and subsequently redesignated from a non-executive director to an executive director on 10 May 2010
**** appointed on 5 January 2010
***** appointed on 4 March 2009 and subsequently resigned on 10 May 2010
# appointed on 10 May 2010
appointed on 1 January 2010
appointed on 5 January 2010 and subsequently resigned on 10 May 2010

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

Directors' emoluments (continued)

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office (2010: Nil).

During the year, no share options were granted to the directors in respect of their services to the Group (2010: Nil). Share-based compensation represents the fair value of the options granted to the directors during the year ended 31 December 2009. The fair value of share options is measured according to the Group's accounting policy for share-based compensation set out in Note 2.19 and Note 40. Details of these benefits in kind including the principal terms and number of options granted are disclosed under the heading "Share Option Scheme" in the Report of the Directors.

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included five (2010: five) directors whose emoluments are reflected in the analysis presented above.

During the year, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2010: Nil).

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings and plants HK$'000	CIP HK$'000	Mining structures HK$'000	Mining machinery and equipment HK$'000	Leasehold improvements HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2010								
Cost	650,545	596,738	403,502	1,051,127	2,693	32,307	38,434	2,775,346
Accumulated depreciation	(33,909)	–	(37,787)	(145,838)	(128)	(7,206)	(14,599)	(239,467)
Net carrying amount	616,636	596,738	365,715	905,289	2,565	25,101	23,835	2,535,879
Year ended 31 December 2010								
Opening net carrying amount	616,636	596,738	365,715	905,289	2,565	25,101	23,835	2,535,879
Exchange retranslation	29,382	26,251	14,713	36,723	–	1,762	1,066	109,897
Additions	17,185	437,647	603	184,947	272	7,889	16,120	664,663
Transfers	246,105	(325,401)	46,201	33,440	–	(345)	–	–
Disposals	(882)	–	–	(139)	–	–	(1,180)	(2,201)
Depreciation	(34,490)	–	(24,503)	(121,626)	(546)	(7,239)	(8,700)	(197,104)
Classified as held for sale *(Note 11)*	–	(18,822)	–	(359,389)	–	(80)	(816)	(379,107)
Closing net carrying amount	873,936	716,413	402,729	679,245	2,291	27,088	30,325	2,732,027
At 31 December 2010								
Cost	944,352	716,413	467,119	840,419	2,965	41,874	47,192	3,060,334
Accumulated depreciation	(70,416)	–	(64,390)	(161,174)	(674)	(14,786)	(16,867)	(328,307)
Net carrying amount	873,936	716,413	402,729	679,245	2,291	27,088	30,325	2,732,027
Year ended 31 December 2011								
Opening net carrying amount	**873,936**	**716,413**	**402,729**	**679,245**	**2,291**	**27,088**	**30,325**	**2,732,027**
Exchange retranslation	**37,581**	**32,635**	**16,657**	**30,296**	**–**	**1,457**	**1,192**	**119,818**
Additions	**35,555**	**244,498**	**213**	**156,256**	**–**	**22,691**	**5,751**	**464,964**
Transfers	**100,127**	**(130,030)**	**5,678**	**16,615**	**–**	**7,421**	**189**	**–**
Disposals	**(1,138)**	**–**	**–**	**(2,727)**	**–**	**(1,745)**	**(45)**	**(5,655)**
Depreciation	**(56,580)**	**–**	**(26,387)**	**(99,167)**	**(638)**	**(15,237)**	**(9,802)**	**(207,811)**
Closing net carrying amount	**989,481**	**863,516**	**398,890**	**780,518**	**1,653**	**41,675**	**27,610**	**3,103,343**
At 31 December 2011								
Cost	**1,120,217**	**863,516**	**492,920**	**1,047,746**	**2,965**	**71,413**	**54,514**	**3,653,291**
Accumulated depreciation	**(130,736)**	**–**	**(94,030)**	**(267,228)**	**(1,312)**	**(29,738)**	**(26,904)**	**(549,948)**
Net carrying amount	**989,481**	**863,516**	**398,890**	**780,518**	**1,653**	**41,675**	**27,610**	**3,103,343**

17. PROPERTY, PLANT AND EQUIPMENT (continued)

During the year, interest expense amounting to approximately HK$32,368,000 (2010: HK$27,112,000) (Note 8) was capitalised in property, plant and equipment.

Net carrying amount of the Group's property, plant and equipment held under finance leases as at 31 December 2011 included in office equipment amounted to approximately HK$8,232,000 (2010: HK$9,602,000). The Group's buildings are situated in the PRC and are held on leases of between 10 to 50 years.

As at 31 December 2011, the Group is still in the process of obtaining the building ownership certificates for certain buildings with net carrying amount of approximately HK$120,837,000 (RMB98,242,000 equivalent) (2010: HK$109,765,000 (RMB93,022,000 equivalent)). In the opinion of directors of the Company, the Group has obtained the rights to use the buildings.

Company

	Leasehold improvements HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2010				
Cost	2,692	233	635	3,560
Accumulated depreciation	(128)	(40)	(53)	(221)
Net carrying amount	2,564	193	582	3,339
Year ended 31 December 2010				
Opening net carrying amount	2,564	193	582	3,339
Additions	12	81	–	93
Disposals	–	–	(489)	(489)
Depreciation	(515)	(50)	(93)	(658)
Closing net carrying amount	2,061	224	–	2,285
At 31 December 2010				
Cost	2,704	311	–	3,015
Accumulated depreciation	(643)	(87)	–	(730)
Net carrying amount	2,061	224	–	2,285
Year ended 31 December 2011				
Opening net carrying amount	**2,061**	**224**	**–**	**2,285**
Additions	**–**	**9**	**–**	**9**
Depreciation	**(515)**	**(59)**	**–**	**(574)**
Closing net carrying amount	**1,546**	**174**	**–**	**1,720**
At 31 December 2011				
Cost	**2,704**	**320**	**–**	**3,024**
Accumulated depreciation	**(1,158)**	**(146)**	**–**	**(1,304)**
Net carrying amount	**1,546**	**174**	**–**	**1,720**

18. PREPAID LEASE PAYMENTS – GROUP

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

	2011 **HK$'000**	2010 HK$'000
Opening net carrying amount	**47,323**	56,273
Exchange retranslation	**1,981**	2,137
Classified as held for sale *(Note 11)*	**–**	(9,671)
Amortisation of prepaid lease payments	**(1,236)**	(1,416)
Closing net carrying amount	**48,068**	47,323
In the PRC held on:		
– Lease of between 10 to 50 years	**48,068**	47,323

19. MINING RIGHTS – GROUP

	2011 **HK$'000**	2010 HK$'000
Opening net carrying amount	**10,413,660**	10,289,882
Exchange retranslation	**435,570**	390,649
Amortisation charge	**(285,778)**	(266,871)
Closing net carrying amount	**10,563,452**	10,413,660
Gross carrying amount	**11,529,619**	11,060,936
Accumulated amortisation	**(966,167)**	(647,276)
Net carrying amount	**10,563,452**	10,413,660

The estimated remaining useful lives of the mining rights range between 27 years and 40 years based on exploration reports prepared in accordance with the relevant PRC standards.

20. GOODWILL – GROUP

	2011	2010
	HK$'000	HK$'000
Gross carrying amount at 1 January	**2,158,330**	2,082,060
Exchange retranslation	**90,492**	79,453
Classified as held for sale *(Note 11)*	**–**	(3,183)
Gross carrying amount at 31 December	**2,248,822**	2,158,330
Less: Accumulated impairment loss	**(2,010)**	(2,010)
Net carrying amount at 31 December	**2,246,812**	2,156,320

The carrying amount of goodwill was allocated as follows:

	2011	2010
	HK$'000	HK$'000
Xingwu	**859,848**	824,875
Jinjiazhuang	**800,577**	768,015
Zhaiyadi	**564,460**	541,503
Jinshan Energy Group Limited ("Jinshan")	**21,927**	21,927
Net carrying amount at 31 December	**2,246,812**	2,156,320

As described in Note 4.2, the recoverable amounts of goodwill totalling HK$2,246,812,000 (2010: HK$2,156,320,000) from each of the above CGUs were determined on the basis of value-in-use calculations, which are based on certain key assumptions on discount rates, growth rates, expected changes in selling prices and direct costs. All value-in-use calculations use cash flow projections based on the financial budgets prepared by management covering a 5-year period, using a growth rate of approximately 2% to 20% (2010: 2% to 20%) and with a discount rate of 18.38% (2010: 19.96%) per annum.

The cash flows beyond the 5-year period are extrapolated using a steady percentage growth rate of 2% (2010: 2%). Cash flow projections during the budget period for each of the above CGU are based on the budgeted revenue and expected gross margins during the budget period and the same raw materials price inflation during the budget period. Expected cash inflows/outflows, which include budgeted sales, gross margin and raw material price inflation, have been determined based on past performance and management's expectations for the market development.

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

21. INTERESTS IN SUBSIDIARIES – COMPANY

	2011 HK$'000	2010 HK$'000
Unlisted equity interest, at cost	**839,269**	839,269
Less: Provision for impairment	**(294,349)**	(294,349)
	544,920	544,920

Particulars of the subsidiaries at 31 December 2011 are as follows:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Effective interest held by the Group 2011	2010
Xingwu *	PRC, limited liability company	Mining, production and sales of coal in the PRC	Registered capital of RMB250,000,000	**88%**	88%
Jinjiazhuang *	PRC, limited liability company	Mining, production and sales of coal in the PRC	Registered capital of RMB374,000,000	**65%**	65%
Zhaiyadi *	PRC, limited liability company	Mining, production and sales of coal in the PRC	Registered capital of RMB800,000,000	**95%**	95%
Jinshan *	PRC, limited liability company	Investment holding, production and sales of coal products in the PRC	Registered capital of RMB600,000,000	**94%**	94%
Liulin Luenshan Coking Company Limited ("Luenshan") *^	PRC, limited liability company	Production and sales of coal products in the PRC	Registered capital of RMB120,000,000	**61%**	61%
Fu Hui Investments Limited	Hong Kong, limited liability company	Administration and investment vehicle of the Group (Hong Kong)	100 ordinary shares of HK$1 each	**100%**	100%
Fu Hui Jewellery & Goldsmith Company Limited	Hong Kong, limited liability company	Investment vehicle of the Group (Hong Kong)	2,000,000 ordinary shares of HK$1 each	**100%**	100%
Thechoice Finance (HK) Limited ("ThechoiceHK")	Hong Kong, limited liability company	Investment holding in Hong Kong	1 ordinary share of HK$1	**100%**	100%
Worldman Industrial (HK) Limited ("WorldmanHK")	Hong Kong, limited liability company	Investment holding in Hong Kong	1 ordinary share of HK$1	**100%**	100%

21. INTERESTS IN SUBSIDIARIES – COMPANY (continued)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Effective interest held by the Group 2011	Effective interest held by the Group 2010
Gumpert Industries (HK) Limited ("GumpertHK")	Hong Kong, limited liability company	Investment holding in Hong Kong	1 ordinary share of HK$1	**100%**	100%
Fushan Energy Group (Hong Kong) Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	1 ordinary share of HK$1	**100%**	100%
Jade Green Investments Holding Limited ("Jade Green")	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	**100%**	100%
Thechoice Finance Limited ("Thechoice")	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	**100%**	100%
Worldman Industrial Limited ("Worldman")	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	**100%**	100%
Gumpert Industries Limited ("Gumpert")	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	**100%**	100%
Fushan Energy Group Limited	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	**100%**	100%
New Honest	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	**100%**	100%
Maxease Limited	BVI, limited liability company	Investment vehicle in Hong Kong	1 ordinary share of US$1	**100%**	100%
True Plus Limited	BVI, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	**100%**	100%
Benefit Rich Limited	Samoa, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	**100%**	100%
Shanxi Jinxinglong Energy Co., Ltd ^	PRC, limited liability company	Investment on coal projects in the PRC	Registered capital of RMB50,000,000	**88%**	88%
Shanxi Jinsheng Energy Co., Ltd ^	PRC, limited liability company	Investment on coal projects in the PRC	Registered capital of RMB50,000,000	**65%**	65%
Shanxi Jinfulong Energy Co., Ltd ^	PRC, limited liability company	Investment on coal projects in the PRC	Registered capital of RMB10,000,000	**95%**	–

21. INTERESTS IN SUBSIDIARIES – COMPANY (continued)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Effective interest held by the Group 2011	2010
Full Bright International Limited	New York, USA, limited liability company	Dormant	US$183,750	**100%**	100%

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

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

The financial statements of the principal subsidiaries have been examined by BDO Limited, Hong Kong, for purpose of the consolidation of the Company.

The entire equity interests in Jade Green, Thechoice, Worldman, Gumpert, ThechoiceHK, WorldmanHK, GumpertHK with a carrying amount of HK$9,329,352,000 (2010: HK$9,329,352,000) were pledged for the banking facilities of United States Dollars ("US$")55,000,000 (31 December 2010: US$84,150,000) granted to the Group as at 31 December 2011 (Note 33).

22. AMOUNTS DUE FROM SUBSIDIARIES – COMPANY

	2011 HK$'000	2010 HK$'000
Amounts due from subsidiaries	**18,154,656**	16,874,312
Loans to subsidiaries	**34,656**	75,741
Less: Provision for impairment	**(293,697)**	(212,031)
	17,895,615	16,738,022

Amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

Loans to subsidiaries as at 31 December 2011 are unsecured, interest bearing at 7.5% per annum (2010: 7.5% per annum) and are repayable on demand. Included in the balance is interest receivable of HK$1,676,000 (2010: HK$15,741,000) which is repayable together with the principal debts.

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

23. INTERESTS IN ASSOCIATES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted shares, at cost	**19,884**	19,884	**–**	4
Exchange retranslation	**748**	(69)	**–**	–
Share of net assets	**(682)**	(417)	**–**	–
Amounts due from associates	**–**	3,739	**–**	3,739
	19,950	23,137	**–**	3,743
Less: Provision for impairment	**–**	(3,739)	**–**	(3,743)
	19,950	19,398	**–**	–

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

Particulars of the associates at 31 December 2011 are as follows:

Name	Place of incorporation	Principal activities and place of operations	Particulars of registered capital/ issued share capital	Group's/Company's effective interest 2011	Group's/Company's effective interest 2010
Luliang Jin Yu Cangchu Company Limited# 呂梁晉煜倉儲有限公司	PRC	Provision of coal storage services in PRC	RMB42,000,000	**35%**	35%

The unofficial English translation is for identification purpose only.

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

	2011	2010
	HK$'000	HK$'000
Assets	**56,184**	52,903
Liabilities	**6,745**	4,736
Revenue	**2,721**	2,356
Loss	**(754)**	(1,500)

24. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2011 **HK$'000**	2010 HK$'000
Equity securities, at fair value		
– listed in Australia *(Note (a))*	**1,446,944**	2,684,397
– listed in Hong Kong *(Note (b))*	**315,480**	468,440
	1,762,424	3,152,837
Unlisted equity interest, at cost *(Note (c))*	**8,610**	8,260
	1,771,034	3,161,097

Notes:

(a) This represents an investment in a company listed on the Australian Securities Exchange Limited (the "Australian Securities Exchange"), Mount Gibson Iron Limited ("Mount Gibson").

As at 31 December 2011, the Group directly held 15.14% (2010: 14.80%) interest in Mount Gibson and the fair value of the investment in Mount Gibson was HK$1,446,944,000 (2010: HK$2,684,397,000) which represented the market value with reference to its closing price as at that day in the Australian Securities Exchange. A fair value loss of HK$1,275,856,000 (2010: gain of HK$845,889,000) was recognised in the security investment reserve during the year ended 31 December 2011.

(b) This represents an investment in a company listed on the Stock Exchange, APAC Resources Limited ("APAC").

As at 31 December 2011, the Group directly held 13.96% (2010: 13.83%) interest in APAC and the fair value of the investment in APAC was HK$315,480,000 (2010: HK$468,440,000) which represented the market value with reference to its closing price as at that day in the Stock Exchange. A fair value loss of HK$152,960,000 (2010: gain of HK$23,900,000) was recognised in the security investment reserve during the year ended 31 December 2011.

(c) This represents a 7% (2010: 7%) equity investment in an unlisted company incorporated in the PRC. The investee company has not yet commenced its business as at 31 December 2011 and will be engaged in transportation business in the PRC. The unlisted equity interest with a carrying amount of HK$8,610,000 (2010: HK$8,260,000) is measured at cost less impairment losses as there are no quoted market prices in active market and the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably.

The fair value of the Group's investments in listed and unlisted equity securities has been measured as described in Note 46(vi).

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

	2011 **HK$'000**	2010 HK$'000
Deposits for a potential mining project	**173,282**	166,238
Housing loans to PRC employees	**48,083**	–
Prepayments for CIP and property, plant and equipment	**187,548**	225,054
Prepayments for land-use rights	**56,457**	52,698
	465,370	443,990

26. INVENTORIES – GROUP

	2011 **HK$'000**	2010 HK$'000
Spare parts and consumables	**178,607**	128,764
Coking coal	**11,900**	5,994
	190,507	134,758

As at 31 December 2011 and 2010, no inventories were stated at net realisable value.

27. TRADE AND BILL RECEIVABLES – GROUP

	2011 **HK$'000**	2010 HK$'000
Trade receivables	**802,861**	903,640
Less: Provision for impairment losses	**(166,058)**	(159,308)
	636,803	744,332
Bill receivables	**2,714,152**	1,573,569
	3,350,955	2,317,901

Trade receivables generally have credit terms ranging from 60 to 90 days (2010: 60 to 90 days) and no interest is charged.

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

27. TRADE AND BILL RECEIVABLES – GROUP (continued)

As at 31 December 2011, included in bill receivables is an amount of RMB398,200,000 (HK$489,786,000 equivalent) (2010: RMB297,000,000 (HK$350,460,000 equivalent)) which was pledged for bill payables of RMB355,673,000 (HK$437,478,000 equivalent) (2010: RMB287,000,000 (HK$338,660,000 equivalent)) (Note 31).

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

Impairment losses in respect of trade and bill receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case impairment loss is written off against trade and bill receivables directly. As at 31 December 2011, ageing analysis of net trade and bill receivables, based on the invoice dates, is as follows:

	2011	2010
	HK$'000	HK$'000
0 – 90 days	**1,555,026**	1,455,413
91 – 180 days	**1,787,034**	695,300
181 – 365 days	**8,895**	80,027
Over 365 days	**–**	87,161
	3,350,955	2,317,901

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

	2011	2010
	HK$'000	HK$'000
At 1 January	**159,308**	44,859
Exchange retranslation	**6,750**	4,709
Classified as held for sale	**–**	(4,313)
Amounts written off as uncollectible	**–**	(3,265)
Impairment loss recognised *(Note 9)*	**–**	117,318
At 31 December	**166,058**	159,308

27. TRADE AND BILL RECEIVABLES – GROUP (continued)

As at 31 December 2011, ageing analysis of trade and bill receivables that are not impaired is as follows:

	2011 HK$'000	2010 HK$'000
Neither past due nor impaired	3,319,875	2,128,082
1 – 90 days past due	22,185	22,629
91 – 180 days past due	6,137	58,318
181 – 365 days past due	2,758	54,493
Over 365 days past due	–	54,379
	31,080	189,819
	3,350,955	2,317,901

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

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

28. LOAN TO A PARTY/AMOUNTS DUE FROM OTHER PARTIES – GROUP

	2011 HK$'000	2010 HK$'000
Mr. Xing Libin ("Mr. Xing") *(Note)*	**234,342**	937,367
Liulin Xian Yongsheng Xuanmeichang ("Yongsheng Xuanmeichang") #	**412**	224,044
Shanxi Fortune Dragon Coalification Company Limited #	**256**	56,622
Luliang Fengfei Jingwei Intertexture Company Limited ("Luliang Fengfei") #	**–**	2,067
Liulin Guojiashan Meiye Company Limited #	**9,863**	5,094
Liulin Xian Wangjiagou Meikuang #	**296**	–
Liulin Xian Longmenta Meikuang #	**668**	–
Liulin Xian Shiweigou Meiye Company Limited #	**–**	2,708
Mr. Xing Yanbin	**932**	895
Liulin Xian Nahagou Meiye Company Limited #	**3,028**	607
Liulin Xian Baicaoer Jiansing Xuanmei Company Limited #	**247**	238
Fortune Dragon Group Limited #	**185**	177
Shanxi Panlong Jianzhu Gongcheng Company Limited ("Panlong Gongcheng") #	**2,906**	143
Ms. Xing Xiaorui	**128**	123
Shanxi Liulin Xiasitou Meiye Company Limited ("Xiasitou Meiye") #	**151**	145
Liulin Xian Chenjiawan Meiye Company Limited #	**15**	13
	253,429	1,230,243
Less: Loan to a party included under current assets *(Note)*	**(234,342)**	(703,025)
Less: Loan to a party included under non-current assets *(Note)*	**–**	(234,342)
Amount included under current assets	**19,087**	292,876

\# The unofficial English translation is for identification purpose only.

Note:

Pursuant to the loan agreement dated 13 April 2010 (the "Loan Agreement") entered into between Jade Green and Mr. Xing, Jade Green conditionally agreed to make the loan of HK$937,367,000 (RMB824,883,000 equivalent) (the "Loan Amount") to Mr. Xing to settle the outstanding liabilities owed by Mr. Xing. The Loan Amount and the transactions contemplated thereunder were approved at the extraordinary general meeting of the Company held on 8 June 2010. The Loan Amount is secured by 35% equity interest in Luenshan and dividend rights in respect of 35% equity interest in Jinjiazhuang and 5% equity interests in Zhaiyadi. The Loan Amount and interest accrued are repayable in three installments where (i) HK$468,683,000 repaid on 9 June 2011; (ii) HK$234,342,000 repaid on 9 December 2011; and (iii) the remaining HK$234,342,000 repayable on 9 June 2012. The Loan Amount is subject to floating interest rate of LIBOR plus 2.5% per annum. Details of the Loan Agreement were disclosed in the circular of the Company dated 4 May 2010. During the year, part of the Loan Amount amounting to HK$703,025,000 and the relevant interest of HK$33,023,000 have been repaid by Mr. Xing.

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

29. PLEDGED BANK DEPOSITS – GROUP

As at 31 December 2011, all pledged bank deposits of RMB287,919,000 (HK$354,141,000 equivalent) (2010: RMB27,552,000 (HK$32,512,000 equivalent)) were denominated in RMB and were pledged for bill payables of RMB287,919,000 (HK$354,141,000 equivalent) (2010: RMB27,540,000 (HK$32,497,000 equivalent)) (Note 31).

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

30. CASH AND CASH EQUIVALENTS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and on hand	**124,555**	141,221	**2,164**	14,885
Short-term bank deposits	**4,392,641**	2,624,842	**2,382,631**	778,237
	4,517,196	2,766,063	**2,384,795**	793,122

Cash at banks generates interest at the floating rates based on the daily bank deposit rates. Short-term bank deposits were made for varying periods of one day to three months depending on the immediate cash requirements of the Group and earned interest at the respective short-term time deposit rates ranging from 0.005% to 4.85% (2010: 0.05% to 2.41%) per annum.

Include in cash and cash equivalents are the following amounts denominated in a currency other than HK$:

	Group		Company	
'000	**2011**	2010	**2011**	2010
AUD	**5,465**	–	**318**	–
RMB	**3,281,846**	1,264,317	**1,869,440**	133,057
US$	**32,162**	72,562	**10,549**	72,080

31. TRADE AND BILL PAYABLES – GROUP

The Group was granted by its suppliers credit period ranging between 30 to 180 days (2010: 30 to 180 days) during the year. Based on the invoice dates, ageing analysis of trade and bill payables as at 31 December 2011 is as follows:

	2011 HK$'000	2010 HK$'000
0 – 90 days	**519,028**	400,176
91 – 180 days	**471,479**	108,427
181 – 365 days	**14,706**	11,140
Over 365 days	**26,218**	18,065
	1,031,431	537,808

As at 31 December 2011, bill payables of RMB643,592,000 (HK$791,619,000 equivalent) (2010: RMB314,540,000 (HK$371,157,000 equivalent)) were secured by the pledged bank deposits of RMB287,919,000 (HK$354,141,000 equivalent) (2010: RMB27,552,000 (HK$32,512,000 equivalent)) (Note 29) and bill receivables of RMB398,200,000 (HK$489,786,000 equivalent) (2010: RMB297,000,000 (HK$350,460,000 equivalent)) (Note 27).

32. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Advances from customers	**486,010**	504,445	**–**	–
Accruals	**401,645**	327,696	**19,296**	10,971
Other payables	**759,957**	562,568	**–**	–
	1,647,612	1,394,709	**19,296**	10,971

33. BORROWINGS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current				
Bank borrowings – secured *(Note (a))*	**891,916**	229,430	**424,516**	229,430
Other borrowings *(Note (b))*	**2,214**	2,125	**–**	–
Finance lease payables *(Note (c))*	**3,718**	1,826	**–**	–
	897,848	233,381	**424,516**	229,430
Non-current				
Bank borrowings – secured *(Note (a))*	**–**	896,742	**–**	424,742
Finance lease payables *(Note (c))*	**–**	1,740	**–**	–
	–	898,482	**–**	424,742
Total borrowings	**897,848**	1,131,863	**424,516**	654,172

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

33. BORROWINGS (continued)

Notes:

(a) Bank borrowings – secured

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**891,916**	229,430	**424,516**	229,430
In the second year	**–**	703,011	**–**	231,011
In the third to fifth year	**–**	193,731	**–**	193,731
	–	896,742	**–**	424,742
	891,916	1,126,172	**424,516**	654,172

The Group's and the Company's interest-bearing bank borrowings were denominated in the following foreign currencies other than HK$:

	Group		Company	
'000	**2011**	2010	**2011**	2010
RMB (i)	**380,000**	400,000	**–**	–
US$ (ii)	**55,000**	84,150	**55,000**	84,150

(i) In March 2010, two bank borrowings, each of RMB200,000,000 with a terms of 2 years, were drawn down from a bank and used as the working capital. Interest on these bank borrowings is charged at the floating lending rate adopted by the People's Bank of China. The Company has given guarantee to the bank for these bank borrowings. As at 31 December 2011, RMB380,000,000 of these two bank borrowings are outstanding and are due for repayment on March 2012.

(ii) Interest is charged at LIBOR plus 1.85% per annum and secured by the undertaking by Shougang Holding (Hong Kong) Limited ("Shougang Holding"), guarantees, share pledged and undertaking provided by Jade Green, Thechoice, Worldman, Gumpert, ThechoiceHK, WorldmanHK and GumpertHK, the negative share pledge of Xingwu, Jinjiazhuang and Zhaiyadi directly or indirectly owned by Thechoice, Worldman and Gumpert respectively.

33. BORROWINGS (continued)

Notes: (continued)

(b) Other borrowings

	2011 HK$'000	2010 HK$'000
Within one year	**2,214**	2,125

Other borrowings at 31 December 2011 and 2010 are obtained from third parties, unsecured, interest-free and repayable on demand. All these other borrowings are due within one year and denominated in RMB.

(c) Finance lease payables

Analysis of the obligations under finance leases is as follows:

	2011 HK$'000	2010 HK$'000
Total minimum lease payments:		
Due within one year	**5,104**	2,448
Due in the second to fifth years inclusive	**–**	2,448
	5,104	4,896
Future finance charges on finance leases	**(1,386)**	(1,330)
Presents value of finance lease liabilities	**3,718**	3,566
Present value of finance lease liabilities is as follows:		
Due within one year	**3,718**	1,826
Due in the second to fifth years	**–**	1,740
	3,718	3,566
Less: Due within one year included under current portion of borrowings	**(3,718)**	(1,826)
Non-current portion included under non-current liabilities	**–**	1,740

34. AMOUNTS DUE TO SUBSIDIARIES – COMPANY

Amounts due are unsecured, interest-free and repayable on demand.

35. AMOUNTS DUE TO OTHER PARTIES – GROUP

	2011 HK$'000	2010 HK$'000
Luliang Fengfei	7,108	9,428
Yongsheng Xuanmeichang	–	4,867
Shanxi Luensheng Energy Limited #	3,848	2,480
Panlong Gongcheng	–	3,333
Shanxi Shengtelong Material Trading Co., Ltd #	434	1,184
Liulin Xian Liansheng Duozhong Jingying Company Limited #	1,585	1,074
Liulin Xian Longmenta Meikuang #	154	6
Xiasitou Meiye	888	–
Mr. Li XingXing	272	260
Ms. Xing Xiaorui	231	222
Mr. Xing	25	24
	14,545	22,878

The unofficial English translation is for identification purpose only.

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

36. AMOUNTS DUE TO NON-CONTROLLING INTERESTS OF SUBSIDIARIES – GROUP

The balances as at 31 December 2011 and 2010 are denominated in RMB and are unsecured, interest-free and repayable on demand.

37. DEFERRED TAX ASSETS AND LIABILITIES – GROUP

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

	Tax deductible expense	
	2011 HK$'000	2010 HK$'000
At 1 January	16,193	20,191
Exchange retranslation	704	659
Credited/(Charged) to profit or loss *(Note 10)*	909	(4,657)
At 31 December	17,806	16,193

37. DEFERRED TAX ASSETS AND LIABILITIES – GROUP (continued)

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

	Withholding tax HK$'000 (Note a)	Fair value adjustments of property, plant and equipment and mining rights HK$'000	Mining funds HK$'000 (Note b)	Total HK$'000
At 1 January 2010	–	1,991,574	20,036	2,011,610
Exchange retranslation	–	75,764	1,757	77,521
Charged to security investment reserve	199,287	–	–	199,287
(Credited)/Charged to profit or loss *(Note 10)*	–	(45,726)	37,676	(8,050)
At 31 December 2010 and 1 January 2011	**199,287**	**2,021,612**	**59,469**	**2,280,368**
Exchange retranslation	**–**	**84,726**	**2,718**	**87,444**
Reversed from security investment reserve	**(199,287)**	**–**	**–**	**(199,287)**
(Credited)/Charged to profit or loss *(Note 10)*	**–**	**(46,944)**	**9,843**	**(37,101)**
At 31 December 2011	**–**	**2,059,394**	**72,030**	**2,131,424**

Notes:

(a) In accordance with Australian Capital Gains Tax laws, the Group's net capital gains on the listed Australia equity investments is subject to capital gain tax at 30%. During the year, HK$199,287,000 (2010: HK$199,287,000 charged to) were reversed from security investment reserve as the fair value of these listed Australian equity investments is below the cost.

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

37. DEFERRED TAX ASSETS AND LIABILITIES – GROUP (continued)

As at 31 December 2011 and 2010, deferred tax assets mainly related to certain subsidiaries incorporated in Hong Kong and PRC have not been recognised in relation to the deductible temporary differences and unused tax losses as it is uncertain whether future taxable profit is available against which the deductible temporary differences and tax losses can be utilised. Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deductible temporary differences	**2,379**	2,238	**–**	–
Tax losses	**288,978**	276,126	**258,071**	245,921
	291,357	278,364	**258,071**	245,921

The Group has tax losses of approximately HK$4,810,000 (2010: HK$4,566,000) which shall expire in two to three years and tax losses of approximately HK$284,168,000 (2010: HK$271,560,000) which are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

38. SHARE CAPITAL

	Number of shares		Amount	
	2011	2010	**2011**	2010
	'000	'000	**HK$'000**	HK$'000
Authorised:				
Ordinary shares of HK$0.10 each				
At 31 December	**10,000,000**	10,000,000	**1,000,000**	1,000,000
Issued and fully paid:				
Ordinary shares of HK$0.10 each				
At 1 January	**5,380,563**	5,370,563	**538,056**	537,056
Issue of new shares upon conversion of share options	**–**	10,000	**–**	1,000
Shares repurchased	**(3,056)**	–	**(305)**	–
At 31 December	**5,377,507**	5,380,563	**537,751**	538,056

38. SHARE CAPITAL (continued)

During the year, the Company repurchased 3,056,000 ordinary shares of the Company on the Stock Exchange for a total consideration of HK$7,904,000. Out of the 3,056,000 repurchased ordinary shares, 2,216,000 repurchased ordinary shares were cancelled during the year and the remaining 840,000 repurchased ordinary shares were cancelled subsequent to the reporting date. The issued share capital of the Company has been reduced by the par value of the total repurchased ordinary shares.

39. RESERVES

Group

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

Share premium

This includes the premium arising from issue of shares of the Company at a premium.

Statutory reserve

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

Other reserves

In accordance with the Notice of the Ministry of Finance and the State Administration of Safety Coal Mine in Liulin Province in May 2005 (Liucaizi [2005] No. 35) and the No. 3 document of the Ministry of Finance in 23 June 2009 (Caikuai [2009] No.8), entities engaged in coal mining are required to provide for production maintenance fee, safety fund and other expense of similar nature at fixed rates on coal production volume. These funds were charged as expenses to cost of production and credited to specific reserves accordingly. At the end of the financial year, the unused funds were reversed against the cost of related production when the Group prepared its financial statements in accordance with HKFRSs.

39. RESERVES (continued)

Company

	Share premium HK$'000	Capital redemption reserve HK'000	Retained profits HK$'000	Share-based compensation reserve HK$'000	Total HK$'000
At 1 January 2010	14,601,448	–	666,008	115,860	15,383,316
Share-based compensation	–	–	–	287,205	287,205
Issue of shares upon exercise of share option	17,455	–	–	(3,473)	13,982
Lapse of share options	–	–	12,511	(12,511)	–
Profit for the year *(Note 12)*	–	–	1,052,511	–	1,052,511
2009 final dividend approved	–	–	(591,862)	–	(591,862)
2010 interim dividend declared	–	–	(269,028)	–	(269,028)
At 31 December 2010 and 1 January 2011	**14,618,903**	**–**	**870,140**	**387,081**	**15,876,124**
Share-based compensation	**–**	**–**	**–**	**177,098**	**177,098**
Shares repurchased	**–**	**305**	**(7,904)**	**–**	**(7,599)**
Profit for the year *(Note 12)*	**–**	**–**	**990,932**	**–**	**990,932**
2010 final dividend approved	**–**	**–**	**(538,056)**	**–**	**(538,056)**
2011 interim dividend declared	**–**	**–**	**(322,834)**	**–**	**(322,834)**
At 31 December 2011	**14,618,903**	**305**	**992,278**	**564,179**	**16,175,665**

40. SHARE OPTION SCHEME

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

40. SHARE OPTION SCHEME (continued)

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

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

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

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

The fair value of the options granted in 2009, measured at the date of grant on 19 August 2009, is totalled approximately HK$596,460,000. As the options vest after two years from the date of grant on 19 August 2009, the amount is recognised as share-based compensation in profit or loss over 2 years from 19 August 2009 to 18 August 2011. An amount of HK$177,098,000 (2010: HK$287,205,000) has been charged as share-based compensation expense in profit or loss during the year. The corresponding amount has been credited share-based compensation reserve. No liabilities were recognised due to share-based payment transactions.

40. SHARE OPTION SCHEME (continued)

The total number of option exercisable under the Scheme as at 31 December 2011 was 267,200,000 shares (2010: 6,000,000 shares) which represents approximately 4.97% (2010: 0.1%) of the Company's issued shares as at 31 December 2011. All share-based compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options other than by issuing the Company's ordinary shares.

All share options granted are accounted for under HKFRS 2. Share options and weighted average exercise price for the years ended 31 December 2011 and 2010 are as follows:

	2011		2010	
	Number '000	**Weighted average exercise price HK$**	Number '000	Weighted average exercise price HK$
Outstanding at 1 January	**267,200**	**5.90**	297,050	5.76
Lapsed	**–**	**–**	(19,850)	6.00
Exercised	**–**	**–**	(10,000)	1.50
Outstanding at 31 December	**267,200**	**5.90**	267,200	5.90
Exercisable at 31 December	**267,200**	**5.90**	6,000	1.50

No options were exercised during 2011. Weighted average market share price for share options exercised during 2010 at the date of exercise was HK$7.10.

The exercise prices of the options outstanding as at 31 December 2011 were HK$1.50 or HK$6.0 (2010: HK$1.50 or HK$6.0) respectively and a weighted average remaining contractual life of 4.6 years (2010: 5.6 years).

No options were granted or cancelled during 2011 and 2010.

41. GAIN ON DISPOSAL OF DISCONTINUED OPERATIONS

As referred to in Note 11, on 31 December 2011, the Group disposed of its subsidiary, Shanxi Yao Zin. Net liabilities of Shanxi Yao Zin at the date of the Disposal on 31 December 2011 were as follows:

	HK$'000
Net liabilities disposed of:	
Property, plant and equipment	385,057
Goodwill	3,182
Prepaid lease payments	9,828
Inventories	97,870
Trade and bill receivables	6,895
Deposits, prepayments and other receivables	113,069
Cash and cash equivalents	94
Borrowings	(74,108)
Trade and bill payables	(505,144)
Other payables and accruals	(269,309)
Amounts due to fellow subsidiaries	(174,679)
Amounts due to related parties	(14,329)
Amounts due to non-controlling interests of subsidiaries	(42,706)
Tax payables	(1,026)
	(465,306)
Non-controlling interests	228,624
Translation reserves	(18,748)
Liabilities due to fellow subsidiaries waived by the Group	174,679
Gain on the Disposal *(Note 11)*	142,251
Total consideration	61,500
Satisfied by:	
Cash consideration	61,500
An analysis of net inflow of cash and cash equivalents in respect of the Disposal is as follows:	
Cash consideration	61,500
Less: Cash and cash equivalents disposed	(94)
Net inflow of cash and cash equivalents in respect of the Disposal	61,406

42. COMMITMENTS

(a) Operating lease commitments

Group

At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings payable by the Group are as follows:

	2011 **HK$'000**	2010 HK$'000
Within one year	**5,444**	7,493
In the second to fifth years	**14,564**	24,564
After fifth years	**61,483**	144,064
	81,491	176,121

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

Company

The Company did not have any significant operating lease commitments as at 31 December 2011 and 2010.

(b) Capital commitments

Group

	2011 **HK$'000**	2010 HK$'000
Contracted but not provided for:		
– Acquisition of property, plant and equipment	**376,364**	405,190
– Exploration and design fees for a potential mining project	**9,200**	8,826
	385,564	414,016

42. COMMITMENTS (continued)

(b) Capital commitments (continued)

Company

The Company did not have any capital commitments as at 31 December 2011 and 2010.

(c) Other commitments

Group

In accordance with notices issued by the Liulin County Government of Shanxi Province, certain mining companies in Liulin County, including Xingwu, Jinjiazhuang and Zhaiyadi, are obliged to pay subsidies for the improvement of educational infrastructure and facilities in the Liulin County including construction of modern schools and provision of educational facilities from 2012 to 2014 (31 December 2010: 2009 to 2011). Such subsidies will be charged in the consolidated statement of comprehensive income in the corresponding years accordingly. As at 31 December 2011, management expects that three (31 December 2010: one) further payments of RMB198,000,000 (HK$243,540,000 equivalent) (31 December 2010: RMB110,000,000 (HK$129,800,000 equivalent)) each are payable in 2012 to 2014 (31 December 2010: 2011).

43. FINANCIAL GUARANTEE CONTRACTS

As at 31 December 2011 and 2010, the Group has no outstanding financial guarantee contracts.

As at 31 December 2011, the Company has executed guarantees amounting to RMB380,000,000 (HK$467,400,000 equivalent) (2010: RMB400,000,000 (HK$472,000,000 equivalent)) with respect to the bank facilities granted to certain subsidiaries of the Group. Under the guarantees, the Company would be liable to pay the bank if the bank is unable to recover these loans. At 31 December 2011 and 2010, no provision for the Company's obligation under the guarantee contracts is required as the directors consider that it is not probable that the repayment of the loans would be in default.

44. RELATED PARTY TRANSACTIONS – GROUP

Except as disclosed elsewhere in the financial statements, the following transactions for the years ended 31 December 2011 and 2010 were carried out with related parties:

(i) During the year, the Group paid management fees and company secretarial service fees of HK$1,560,000 (2010: HK$1,775,000) to Shougang Concord International Enterprises Company Limited ("Shougang International"), which is the single largest shareholder of the Company. During the year, the Group also paid rental expenses of HK$1,800,000 (2010: HK$1,800,000) to a wholly-owned subsidiary of Shougang Holding, which is the controlling shareholder of Shougang International.

(ii) During the year, the Group sold clean coking coal amounted to HK$1,395,492,000 (2010: HK$419,467,000) to Shougang Corporation, being Shougang Holding's ultimate holding company, and group companies of Shougang Corporation (collectively referred to as the "Shougang Group") and clean coking coal amounted to HK$34,352,000 (2010: HK$5,687,000) to a wholly-owned subsidiary of Shougang International. These sales were made at market prices with a maximum discount of 3%. As at 31 December 2011, amount due from the Shougang Group was HK$55,231,000 (2010: HK$178,667,000) and there was no receipts in advance from Shougang Group (2010: HK$40,373,000).

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

45. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Major non-cash transactions

Pursuant to the transfer agreements dated 25 March 2011, dividends of RMB189,460,000 (HK$228,489,000 equivalent) and RMB15,057,000 (HK$18,158,000 equivalent) attributable to non-controlling interests of Jinjiazhuang and Zhaiyadi for the period from July to November 2010 were used to settle the outstanding balances in trade receivables of RMB198,474,000 (HK$239,360,000 equivalent) and other receivables of RMB6,043,000 (HK$7,287,000 equivalent) respectively.

46. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

(i) Foreign currency risk

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

46. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Foreign currency risk (continued)

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

	Group				Company			
	2011		2010		2011		2010	
	Expressed in HK$'000		Expressed in HK$'000		Expressed in HK$'000		Expressed in HK$'000	
	AUD	US$	AUD	US$	AUD	US$	AUD	US$
Available-for-sales financial assets	1,446,944	–	2,684,397	–	–	–	–	–
Derivative financial instruments – assets	–	18	–	12,224	–	–	–	–
Cash and bank balances	43,066	249,898	–	564,097	2,507	81,967	–	560,349
Derivative financial instruments – liabilities	–	(991)	–	(11,597)	–	–	–	–
Bank borrowings	–	(424,516)	–	(654,172)	–	(424,516)	–	(654,172)
Overall net exposure	1,490,010	(175,591)	2,684,397	(89,448)	2,507	(342,549)	–	(93,823)

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

	Group						Company					
	2011			2010			2011			2010		
	Increase/ (Decrease) in foreign exchange rates	Effect on profit for the year HK$'000	Effect on equity HK$'000	Increase/ (Decrease) in foreign exchange rates	Effect on profit for the year HK$'000	Effect on equity HK$'000	Increase/ (Decrease) in foreign exchange rates	Effect on profit for the year HK$'000	Effect on equity HK$'000	Increase/ (Decrease) in foreign exchange rates	Effect on profit for the year HK$'000	Effect on equity HK$'000
AUD	+5%	2,152	70,856	+5%	–	96,107	+5%	125	–	+5%	–	–
AUD	–5%	(2,152)	(70,856)	–5%	–	(96,107)	–5%	(125)	–	–5%	–	–

46. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Credit risk

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

Financial assets carrying significant credit risk exposures are the trade receivables aged over 365 days amounting to nil (2010: HK$87,161,000) (Note 27). Management is of the opinion that reasonable actions and mitigations have been carried out to minimise the exposure to credit risk and details of such mitigations are set out in respective notes to the financial statements. In this regards, the directors consider that the Group's credit risk is sufficiently managed.

The credit risk on all pledged bank deposits and cash and cash equivalents of the Group/Company is minimised as the funds are placed with major banks located in Hong Kong and the PRC respectively.

The Company has limited credit risk on amounts due from subsidiaries. Management periodically monitors the financial position of each of its subsidiaries to ensure each subsidiary is financially viable to settle the debts due to the Company.

(iii) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Group's/Company's major exposure to interest rate risk relates primarily to the bank borrowings and cash and cash equivalents. The Group's/Company's remaining borrowings are charged at floating interest rates. Interest rates and terms of loan to a party, pledged bank deposits, cash and cash equivalents and borrowings are disclosed in Notes 28, 29, 30 and 33 respectively.

The following table illustrates the sensitivity of profit after income tax for the year and retained profits to a change in interest rates of +25 basis points and -25 basis points (2010: +25 basis points and -25 basis points) with effect from the beginning of the year. The calculations are based on the bank borrowings and cash and cash equivalents at 31 December 2011 and 2010. All other variables are held constant.

46. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iii) Interest rate risk (continued)

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
If interest rates were 25 basis point (2010: 25 basis point) higher Profit for the year decrease by	**(1,927)**	(2,469)	**(1,056)**	(1,598)
If interest rates were 25 basis point (2010: 25 basis point) lower Profit for the year increase by	**1,927**	2,469	**1,056**	1,598

(iv) Price risk

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

For listed equity securities, an average volatility of 19.08% and 25.73% was observed in Hang Seng Index in Hong Kong and All Ordinary Index in Australia in 2011 respectively (2010: 18.26% and 15.49%). Had the quoted stock price for these securities increased or decreased by that amount, the Group's security investment reserve under equity would have been increased or decreased by approximately HK$357,180,000 (2010: HK$376,606,000).

The Company does not expose to the price risk.

(v) Liquidity risk

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

46. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(v) Liquidity risk (continued)

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

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

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

	Group			
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but not exceeding four years HK$'000
As at 31 December 2011				
Non-derivative financial liabilities				
Trade and bill payables	1,031,431	1,031,431	1,031,431	–
Other payables and accruals	755,428	755,428	755,428	–
Borrowings	897,848	935,924	935,924	–
Amounts due to other parties	14,545	14,545	14,545	–
Amounts due to non-controlling interests of subsidiaries	18,776	18,776	18,776	–
	2,718,028	2,756,104	2,756,104	–
Derivative financial liabilities				
Net settled forward foreign exchange contracts – Cash outflow	991	991	991	–

46. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(v) Liquidity risk (continued)

	Company			
	Carrying amount HK$'000	**Total contractual undiscounted cash flow HK$'000**	**Within one year or on demand HK$'000**	**More than one year but not exceeding four years HK$'000**
As at 31 December 2011				
Non-derivative financial liabilities				
Amounts due to subsidiaries	**3,675,087**	**3,675,087**	**3,675,087**	**–**
Other payables and accruals	**18,569**	**18,569**	**18,569**	**–**
Borrowings	**424,516**	**433,237**	**433,237**	**–**
	4,118,172	**4,126,893**	**4,126,893**	**–**
Financial guarantees issued				
Maximum amount guaranteed	**–**	**467,400**	**467,400**	**–**

	Group			
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but not exceeding four years HK$'000
As at 31 December 2010				
Non-derivative financial liabilities				
Trade and bill payables	537,808	537,808	537,808	–
Other payables and accruals	624,200	624,200	624,200	–
Borrowings	1,131,863	1,210,101	274,358	935,743
Amounts due to other parties	22,878	22,878	22,878	–
Amounts due to non-controlling interests of subsidiaries	256,919	256,919	256,919	–
Liabilities classified as held for sale	515,894	523,616	523,616	–
	3,089,562	3,175,522	2,239,779	935,743
Derivative financial liabilities				
Net settled forward foreign exchange contracts				
– Cash outflow	11,597	11,597	11,597	–

46. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(v) Liquidity risk (continued)

	Company			
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but not exceeding four years HK$'000
As at 31 December 2010				
Non-derivative financial liabilities				
Amounts due to subsidiaries	999,879	999,879	999,879	–
Other payables and accruals	10,423	10,423	10,423	–
Borrowings	654,172	682,115	245,303	436,812
	1,664,474	1,692,417	1,255,605	436,812
Financial guarantees issued				
Maximum amount guaranteed	–	472,000	472,000	–

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

The following table presents the carrying value of financial assets and liabilities measured at fair value at the end of the reporting period in the statement of financial position in accordance with the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures. The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

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

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

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

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

46. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

The financial assets measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

		2011			
	Notes	**Level 1 HK$'000**	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Assets					
Available-for-sale financial assets					
– Listed equity securities	**(a)**	**1,762,424**	**–**	**–**	**1,762,424**
Financial assets at fair value through profit or loss					
– Derivative financial assets	**(b)**	**–**	**18**	**–**	**18**
Total fair value		**1,762,424**	**18**	**–**	**1,762,442**
Liabilities					
Financial assets at fair value through profit or loss					
– Derivative financial liabilities	**(b)**	**–**	**(991)**	**–**	**(991)**
Net fair value		**1,762,424**	**(973)**	**–**	**1,761,451**

		2010			
	Notes	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets					
Available-for-sale financial assets					
– Listed equity securities	(a)	3,152,837	–	–	3,152,837
Financial assets at fair value through profit or loss					
– Derivative financial assets	(b)	–	12,224	–	12,224
Total fair value		3,152,837	12,224	–	3,165,061
Liabilities					
Financial assets at fair value through profit or loss					
– Derivative financial liabilities	(b)	–	(11,597)	–	(11,597)
Net fair value		3,152,837	627	–	3,153,464

46. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

There were no transfers between Level 1 and 2 in the reporting periods.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to previous reporting periods.

(a) *Listed securities*

The listed equity securities are denominated in AUD and HK$. Fair values have been determined by reference to their quoted bid prices at the reporting date and have been translated using the spot foreign currency rates at the end of the reporting period where appropriate.

(b) *Derivative financial assets*

Where derivatives are traded either on exchanges or liquid over-the-counter markets, the Group uses the closing price at the reporting date. Normally, the derivatives entered into by the Group are not traded on active markets. The fair values of such contracts are estimated using a valuation technique that maximises the use of observable market inputs e.g. market currency and interest rates (Level 2). The derivatives entered into by the Group are included in Level 2 and consist of foreign currency forward contracts.

Of the total gains or losses for the year included in profit or loss, profit of approximately HK$3,441,000 (2010: HK$628,000) relates to forward contracts are included in "change in fair value of derivative financial instruments" in the consolidated statement of comprehensive income.

The Company does not expose to the risk on fair value measurement.

(vii) Summary of financial assets and liabilities by category

The carrying amounts of the Group's/Company's financial assets and liabilities as recognised at the reporting dates may also be categorised as follows. See Notes 2.13 and 2.20 for explanations about how the category of instruments affects their subsequent measurement.

46. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(vii) Summary of financial assets and liabilities by category (continued)

	Group		Company	
	2011	2010	**2011**	2010
	HK$000	HK$000	**HK$000**	HK$000
Non-current assets				
Loan and receivables:				
– Loan to a party	**–**	234,342	**–**	–
– Other receivables	**48,083**	–	**–**	–
Available-for-sale financial assets	**1,771,034**	3,161,097	**–**	–
	1,819,117	3,395,439	**–**	–
Current assets				
Loan and receivables:				
– Trade and bill receivables	**3,350,955**	2,317,901	**–**	–
– Other receivables	**28,608**	27,950	**2,742**	159
– Amounts due from subsidiaries	**–**	–	**17,895,615**	16,738,022
– Loan to a party	**234,342**	703,025	**–**	–
– Amounts due from other parties	**19,087**	292,876	**–**	–
Financial assets at fair value through profit or loss				
– Derivatives financial instruments	**18**	12,224	**–**	–
Pledged bank deposits	**354,141**	32,512	**–**	–
Cash and cash equivalents	**4,517,196**	2,766,063	**2,384,795**	793,122
	8,504,347	6,152,551	**20,283,152**	17,531,303
	10,323,464	9,547,990	**20,283,152**	17,531,303

46. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(vii) Summary of financial assets and liabilities by category (continued)

	Group		Company	
	2011	2010	**2011**	2010
	HK$000	HK$000	**HK$000**	HK$000
Current liabilities				
Financial liabilities at amortised cost:				
– Trade and bill payables	**1,031,431**	537,808	**–**	–
– Other payables and accruals	**755,428**	624,200	**18,569**	10,423
– Borrowings	**897,848**	233,381	**424,516**	229,430
– Amounts due to other parties	**14,545**	22,878	**–**	–
– Amounts due to non-controlling interests of subsidiaries	**18,776**	256,919	**–**	–
– Amounts due to subsidiaries	**–**	–	**3,675,087**	999,879
Financial liabilities at fair value through profit or loss				
– Derivative financial instruments	**991**	11,597	**–**	–
	2,719,019	1,686,783	**4,118,172**	1,239,732
Non-current liabilities				
Financial liabilities at amortised cost:				
– Borrowings	**–**	898,482	**–**	424,742
	2,719,019	2,585,265	**4,118,172**	1,664,474

47. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

(a) To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns and benefits for stakeholders;

(b) To support the Group's ability and growth; and

(c) To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and equity holder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy. Management regards total equity and its reserves as capital, for capital management purpose.

48. EVENTS AFTER THE REPORTING DATE

(a) In January 2012, the Group has made the annual payment of charitable donation for the calendar year 2012 of approximately RMB198,000,000 (HK$243,540,000 equivalent) as disclosed in Note 42(c). Accordingly, the sum of HK$243,540,000 is charged as other operating expenses in the consolidated statement of comprehensive income in the first half of 2012.

(b) On 9 February 2012, Mount Gibson, which is accounted for as an available-for-sale financial assets of the Group and its shares are listed in Australia, declared a maiden fully franked interim dividend of AUD2 cents per ordinary share totalling AUD21,651,414 to its shareholders for the period ended 31 December 2011. As at 31 December 2011, the Group held 163,866,874 ordinary shares of Mount Gibson and is entitled to the dividend of AUD3,277,337 from Mount Gibson. Such dividend will be received in 20 April 2012. Accordingly, the Group will recognise such dividend income of AUD3,277,337 (HK$25,825,000 equivalent) in the consolidated statement of comprehensive income in the first half of 2012.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years as extracted from the respective published audited financial statements and restated upon the adoption of the new or amended HKFRSs as appropriate, is set out below. This summary does not form part of the audited financial statements.

	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**7,138,643**	5,543,285	4,470,131	1,896,577	15,056
Profit/(Loss) attributable to owners of the Company	**2,256,023**	1,802,791	1,126,274	567,649	(77,948)
Assets and liabilities					
Total assets	**27,000,297**	26,119,627	22,557,408	19,252,268	1,295,084
Total liabilities	**(6,442,164)**	(6,496,405)	(5,227,644)	(6,803,271)	(503,074)
Net assets	**20,558,133**	19,623,222	17,329,764	12,448,997	792,010
Non-controlling interests	**(1,591,554)**	(1,473,328)	(1,504,570)	(1,627,258)	(58,279)
Equity attributable to owners of the Company	**18,966,579**	18,149,894	15,825,194	10,821,739	733,731