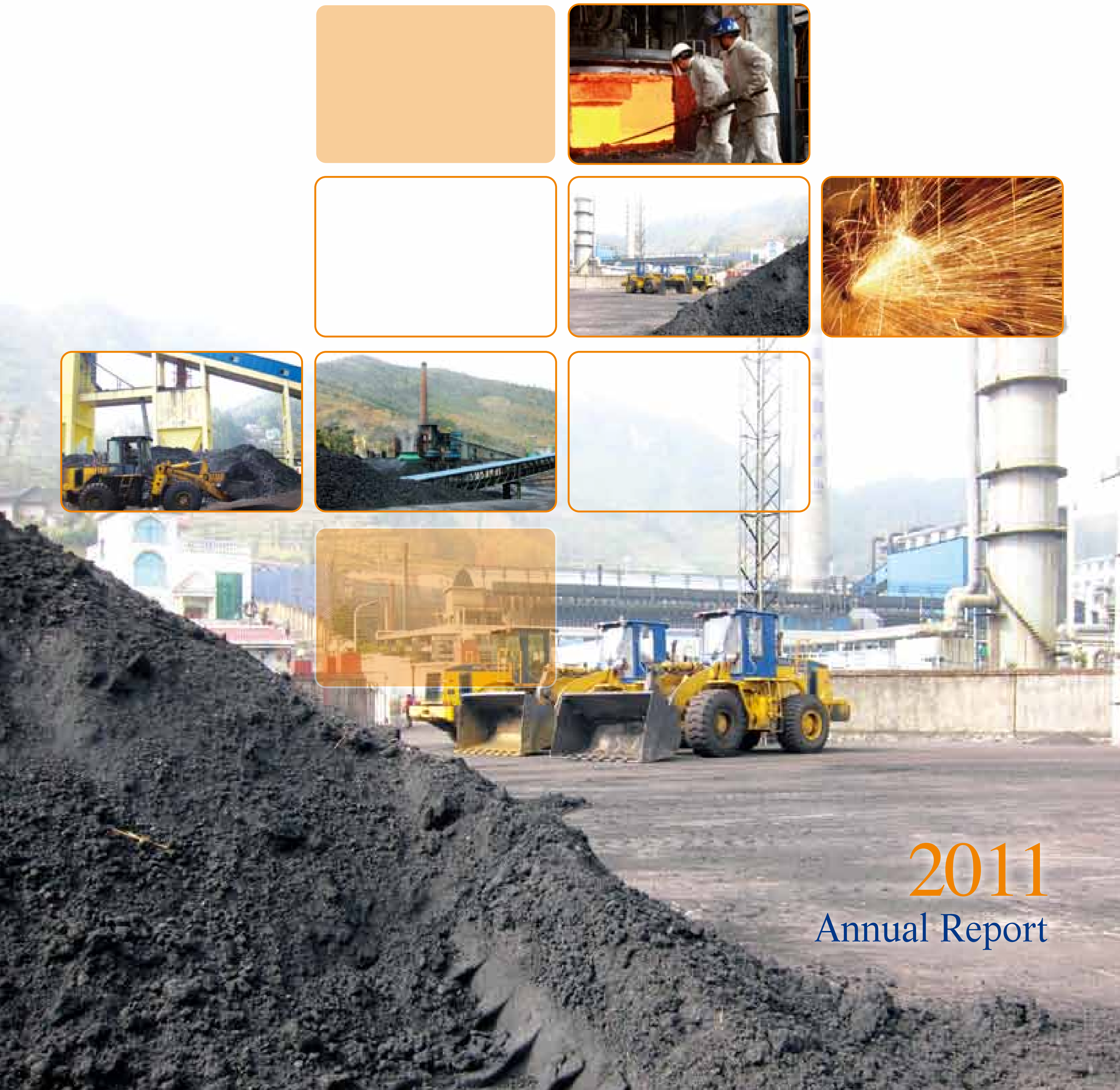
Hidili Industry International Development Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1393



2011
Annual Report

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Corporate Information

DIRECTORS

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUDITOR

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

COMPANY SECRETARY

Ms. Chu Lai Kuen

AUTHORIZED REPRESENTATIVES

Mr. Xian Yang
Ms. Chu Lai Kuen

REGISTERED OFFICE

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Hutchins Drive
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KY1-1111
Cayman Islands

HEAD OFFICE

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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168-200 Connaught Road
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Hong Kong

Corporate Information *(Continued)*

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong
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Wanchai
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STOCK CODE

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PRINCIPAL BANKERS

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98-1 Shuangling Road
Chengdu, Sichuan Province
PRC

Panzhihua City Commercial Bank Ltd,
Zhuhuyuan Branch
Floor 1, Ping Street, Laodong Building
East District, Panzhihua City
Sichuan Province
PRC

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

Chairman's Statement

To the respectful shareholders of Hidili Industry International Development Limited,

On behalf of the board (the "Board") of the directors (the "Directors") of Hidili Industry International Development Limited (the "Company"), I am pleased to present the 2011 Annual Report and the operating results of the Company and the subsidiaries (collectively the "Group") for the year ended 31 December 2011 to the shareholders as follows.

PERFORMANCE OF THE COMPANY'S SHARES

As at 31 December 2011, the closing price of the Company's shares on the Stock Exchange of Hong Kong Limited ("Stock Exchange") was HK$2.3, a decrease of approximately 64.8% from the closing price of HK$6.54 as at 31 December 2010 while the Hang Seng Index has decreased by approximately 20.0%.

THE COMPANY'S OPERATION

The Company achieved a revenue and a earning before interest, taxes, depreciation and amortization ("EBITDA") of approximately RMB2,862 million and RMB1,409 million respectively for the year ended 31 December 2011, representing an increase of approximately 17.4% and 21.0% respectively as compared to RMB2,438 million and RMB1,164 million for the year ended 31 December 2010. The increase in both revenue and EBITDA was mainly attributable to the (i) increase in average selling prices of our coal products; (ii) increase in other income relating to an exchange gain which arose from the appreciation of RMB on the senior notes and (iii) decrease in distribution expenses resulting in saving in transportation expenses and government levies but partly eliminated by (i) increase in cost of sales mainly arising from the purchase of raw coal and clean coal from external suppliers; (ii) increase in administrative expenses arising from the expenses from staff option scheme and professional expenses and (iii) increase in finance expenses mainly resulting from the senior notes issued in November 2010.

During the year, the Company has produced approximately 4.2 million tonnes of raw coal, approximately 2.0 tonnes of clean coal and approximately 0.4 million tonnes of coke. The production volume experienced a slight reduction resulting from the suspension of production for comprehensive safety check on all coal mines imposed by the Guizhou provincial government and the municipal government of Qujing city, Yunnan province in the first half of 2011.

In 2011, the Company's coal mining cash cost amounted to RMB156 per tonne of raw coal production, representing an increase of 25.8% as compared to 2010. The increase in our mining cash cost was mainly attributable to the increase in sharing of material, fuel and power as well as production overheads during the suspension period. The average production costs of clean coal and coke of the Company for the year amounted to RMB428 and RMB629 per tonne respectively, representing an increase of 34.2% and 37.9% respectively as compared with 2010. Other than the increase in coal mining cash cost, the purchase costs of raw coal from outsider suppliers further brought about the increase in production costs of clean coal and coke.

In 2011, our major customers for the year composed of various stated-owned steel manufacturers including 攀鋼集團(Panzhihua Steel Group*), 寧波鋼鐵有限公司 (Ningbo Iron & Steel Co., Ltd*), 柳州鋼鐵股份有限公司 (Liuzhou Iron & Steel Company Limited*), 武漢鋼鐵集團國際貿易總公司 (International Economic & Trading Corporation WISCO*) and 廣東韶關松山股份有限公司 (SGIS Songshan Company Limited*) and accounted for approximately 18.2%, 16.7%, 8.7%, 5.5% and 3.1% of our total revenue, respectively.

EXTRACT OF THE SIGNIFICANT EVENTS OF THE YEAR

Significant events of the Group for 2011 are as follows:

In February 2011, the Company granted 55,000,000 share options at an exercise price of HK$6.604 per share.

In March 2011, the Company announced the annual results of 2010, distributing final dividend of RMB6.5 cents per share.

Starting from April 2011, the Company began to announce its major operational data quarterly.

During March to May 2011, the Group recorded a reduction in production volume of raw coal and clean coal resulting from the suspension of production for comprehensive safety check on all coal mines imposed by the Guizhou provincial government and the municipal government of Qujing city, Yunnan province.

In August and September 2011, accidents continued to occur in Hongguo Town, Panxian county, Guizhou province and Qilin district, Qujing city, Yunnan province. The Group did not own any coal mine in these area. The Group's coal mines in Guizhou province required to conduct self-investigation and rectification. However, the production and construction of the Group's coal mines were not affected.

In September 2011, the Guizhou government imposed levies to raw coal and clean coal sold. Accordingly, the Company was subject to the levies of 10% of the selling price of raw coal with effect from 1 October 2011 and replacing the levies of RMB209.2 for each tonne of clean coal sold.

In December 2011, the Group acquired certain equity interest in two logistic companies in Guizhou province and a washing plant in Yunnan province with a cash consideration of RMB150 million in aggregate.

ESTIMATED COAL RESERVES AND RESOURCES

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

	Total coal reserves	**Total coal resources**
	(in million tonnes)	
Reserves as of 31 December, 2011	716.94	732.82

Remarks:

1. Reserve and resource estimates have taken into account the estimated coal reserves and resources of our coal mines (excluding Yunxiang Mine, Xiangda Mine, Hexing Mine, Xingji Mine and Shengbao Mine) prepared by Behre Dolbear Asia, Inc. ("BDB"), an independent minerals industry consultant, as of 1 October 2010, in accordance with the JORC Code, after deduction of the raw coal production for the period from 1 October 2010 to 31 December 2011.

2. Total coal reserves represented proven reserves and probable reserves of 136.9 million tonnes and 585.6 million tonnes respectively as of 1 October 2010 reported by BDB and after deduction of the raw coal production of 5.5 million tonnes for the period from 1 October 2010 to 31 December 2011.

3. Total coal resources represented measured and indicated resources of 220.7 million tonnes and 517.7 million tonnes respectively as of 1 October 2010 reported by BDB and after deduction of the raw coal production of 5.5 million tonnes for the period from 1 October 2010 to 31 December 2011.

4. For five out of our 43 mines, namely Yunxiang Mine, Xiangda Mine, Hexing Mine, Xingji Mine and Shengbao Mine, no JORC Code-compliant report on reserves or resources has been prepared as of 1 October 2010. Consequently, we do not present any updated information on the reserve or resource estimates for these mines.

5. There has been no material change in the estimated coal reserves and resources of our coal mines (excluding Yunxiang Mine, Xiangda Mine, Hexing Mine, Xingji Mine and Shengbao Mine) prepared by BDB as of 1 October 2010, and the estimated coal reserves and resources of our coal mines (excluding Yunxiang Mine, Xiangda Mine, Hexing Mine, Xingji Mine and Shengbao Mine) as of 31 December 2011 and as set out in the table above. This has been substantiated by our internal experts, taking into account the relevant figures set out in the table above, and the relevant figures in relation to the raw coal production of our coal mines (excluding Yunxiang Mine, Xiangda Mine, Hexing Mine, Xingji Mine and Shengbao Mine) for the period from 1 October 2010 to 31 December 2011, as set out in the above notes.

OPERATIONAL OVERVIEW

PROGRESS OF CONSTRUCTION OF COAL MINES

The Company has (i) 13 coal mines in Sichuan, (ii) 20 coal mines in Giuzhou, and (iii) 10 coal mines in Yunnan. Coal mines in Sichuan district are well established. Upon the acquisitions in 2007, coal mines in Yunnan and Guizhou district are gradually undergoing expansion of production capacity.

As at 31 December 2011, the Company has (i) a total of 20 coal mines in Guizhou Provinces, comprising 10 integrated coal mines, 8 newly constructed coal mines and 2 expanded coal mines, of which 2 integrated coal mines and 3 newly constructed coal mines are currently under jointly trial run, and 3 newly constructed coal mines and 1 integrated coal mine has completed the trial run stage and has commenced production and (ii) a total of 10 coal mines in Yunnan Province comprising 5 integrated coal mines, 2 newly constructed coal mines, 2 expanded coal mines and 1 coal mine with exploration right, of which 1 integrated coal mine is currently under jointly trial run and 1 newly constructed coal mine has completed the trial run stage and has commenced production.

The approved production capacity under the licenses of 20 coal mines in Guizhou are 6.06 million tonnes per annum; the approved production capacity under the existing licenses of 10 coal mines in Yunnan are 1.38 million tonnes per annum, the Company is applying for approval of new production capacity pursuant to the integration program of the coal resources in Yunnan Province. The proposed production capacity for approval are 3.45 million tonnes per annum. The article 24 of Fa Gai Yun Xing [2006] No. 819, stated that for coal mines which need to change the registration of production capacity pursuant to the approved production capacity, they should promptly apply for the change with administrative authorities of coal production permits issuance. Accordingly, upon the construction of coal mines, the Company plans to further change the approved production capacity of Guizhou district to 8.40 million tonnes per annum and the approved production capacity of Yunnan to 5.52 million tonnes per annum, so that the approved production capacity under the Company's licenses shall be in consistent with the actual production capacity. By then, the production capacity of Yunnan and Guizhou region may reach approximately 13.92 million tonnes per annum.

CONSTRUCTION OF WASHING PLANTS

Number of Company's washing plants either in use or under construction are in line with the existing and additional production volume. The Company has 3 washing plants in use in Sichuan with raw coal processing capacity of 2.10 million tonnes per annum; 2 washing plants in use and a washing plant under construction in Guizhou with annual raw coal processing capacity of 1.80 million tonnes and 2.4 million tonnes respectively; 5 washing plants in use and a washing plant under construction in Yunnan (of which one washing plant located near Guizhou district and serves the coal mines in Guizhou) with annual raw coal processing capacity of 2.70 million tonnes and 0.6 million tonnes respectively.

LOGISTIC

The Company mainly relies on railway transport for delivering of its coal products to clients, including the transportation of coal products to ports which are subsequently delivered by means of shipment. In a bid to ensure the transportation capacity of the Company, the Company has invested certain percentage of equity interest in 5 railway logistic companies in Panxian and Fuyuan district that are controlled under the Ministry of Railway in Kunming. In addition, one railway logistic station in Huajiazhuang (花家莊) is under construction, with a designed throughput of 6.5 million tonnes per annum, as well as construction of a jointly invested railway logistic station in Shuicheng region (水城區域), with a designed throughput of 5 million tonnes per annum.

OUTLOOK

In 2012, the coal mines in Sichuan Province will register stable production and operation, whereas the construction of coal mines in Guizhou and Yunnan Provinces and the related ancillary facilities will proceed stepwise as scheduled. With the pent-up capacity of coal mines being gradually released, coupled with an effective approach to production and management operation across all mines, the Group will make a leap in cost control and production efficiency.

Following the smooth completion of other coal mines in Guizhou and Yunnan Provinces, the Group believes that the production volume of raw coal will significantly increase in 2013.

The Company will stress on the construction of coal mines, while without losing focus on cultivating a pool of management talents in relation to reserves and forming a coal mining team up to scientific standards. In anticipation of the release of production capacity and the surge in futures price resulting from coke scarcity, the Company believes that there will be a pronounced growth in revenue and profits in the foreseeable future.

By order of the Board
Chairman
Xian Yang

Hong Kong
20 March 2012

* *for identification purpose only*

Management Discussion And Analysis

FINANCIAL REVIEW

TURNOVER

During the year, turnover of the Group reached approximately RMB2,861.5 million, representing an increase of approximately 17.4%, as compared with approximately RMB2,437.3 million in 2010. The increase was primarily attributable to the increase in sales volumes of clean coal and average selling prices (net of value added tax) of the principal products and by-products and after setting off against the decrease in sales volume of coke. The sales volume recorded for clean coal and coke during the year amounted to approximately 1,762,000 tonnes and 175,000 tonnes, respectively, as compared to approximately 1,300,000 tonnes and 470,000 tonnes, respectively, in 2010, representing an increase in volume of clean coal of approximately 35.5% and a decrease of 62.8%, respectively. The average selling price for both clean coal and coke increased from RMB1,131.7 per tonne and RMB1,419.4 per tonne, respectively in 2010, to RMB1,302.2 per tonne and RMB1,622.3 per tonne, respectively, in 2011 representing an increase of approximately 15.1% and 14.3% respectively.

The following table sets out the Group's turnover contribution, sales volume and average selling price by products for the year, together with the comparative amounts for 2010:

	2011			2010		
	Turnover	**Sales Volume**	**Average selling price**	Turnover	Sales volume	Average selling price
	RMB'000	***(thousand Tones)***	***(RMB/ Tonne)***	*RMB'000*	*(thousand Tones)*	*(RMB/ Tonne)*
Principal products						
Clean coal	**2,294,427**	**1,762.0**	**1,302.2**	1,471,308	1,300.1	1,131.7
Coke	**283,159**	**174.5**	**1,622.3**	666,419	469.5	1,419.4
Principal products total	**2,577,586**			2,137,727		
By-products						
High-ash thermal coal	**185,803**	**684.4**	**271.5**	142,871	639.4	223.4
Coal tar	**13,421**	**5.9**	**2,265.8**	30,137	13.7	2,199.8
By-products total	**199,224**			173,008		
Other products						
Raw coal	**65,763**	**202.0**	**325.5**	115,962	240.6	482.0
Benzene	**6,020**	**1.5**	**4,115.0**	8,709	2.6	3,349.6
Others	**12,939**			1,913		
Other products total	**84,722**			126,584		
Total turnover	**2,861,532**			2,437,319		

COST OF SALES

Cost of sales for the year was approximately RMB1,093.5 million, representing an increase of approximately RMB349.5 million, or approximately 47.0%, as compared with approximately RMB744.0 million in 2010. During the year, the Group recorded a reduction in production volume of raw coal and clean coal resulting from the suspension of production for comprehensive safety check on all coal mines imposed by the Guizhou provincial government and the municipal government of Qujing city, Yunnan province from March to May 2011. Accordingly, the raw coal and clean coal production volume decreased from 4,225,000 tonnes and 1,993,000 tonnes, respectively, in 2010 to 4,106,000 tonnes and 1,846,000 tonnes, respectively, 2011. In order to meet the production needs and customers' demand, the Group purchased additional 83,000 tonnes of raw coal and 124,000 tonnes of clean coal from external suppliers for the year.

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

	Year ended 31 December					
Principal products	**2011 Raw coal production volume (‘000 tonnes)**	**2011 Clean coal production volume (‘000 tonnes)**	**2011 Coke production volume (‘000 tonnes)**	2010 Raw coal production volume (‘000 tonnes)	2010 Clean coal production volume (‘000 tonnes)	2010 Coke production volume (‘000 tonnes)
Sichuan	**1,671**	**840**	**175**	1,527	714	355
Guizhou	**1,234**	**440**	**—**	1,765	742	85
Yunnan	**1,201**	**566**	**—**	933	537	—
	4,106	**1,846**	**175**	4,225	1,993	440
Purchase volume	**83**	**124**	**—**	—	—	—

Material, fuel and power costs for the year were approximately RMB544.9 million, representing an increase of approximately RMB224.6 million, or approximately 70.1%, as compared with approximately RMB320.3 million in 2010. Despite the raw coal production volume experienced a slight decrease of 119,000 tonnes during the year, the raw material costs increased by RMB200.2 million due to the purchases of raw coal and clean coal from external suppliers. In addition, the consumption of fuel and power continued during the suspension period, which has increased the unit production cost of raw coal.

Staff costs for the year were approximately RMB237.7 million, maintained as similar level as approximately RMB247.4 million in 2010.

Depreciation and amortisation for the year were approximately RMB124.6 million, representing an increase of approximately RMB28.7 million, or approximately 29.9%, as compared with approximately RMB95.9 million in 2010. The increase was primarily attributable to the additional capital expenditure incurred in connection with the coal mines and coal washing in Guizhou and Yunnan provinces during the year.

The following table sets out the unit production costs of the respective segment:

	2011	2010
	RMB per tonne	*RMB per tonne*
Coal mining		
Cash cost	**156**	124
Depreciation and amortisation	**25**	19
Total raw coal production cost	**181**	143
Purchase cost of raw coal	**646**	—
Average cost of clean coal	**428**	319
Purchase cost of clean coal	**1,178**	—
Average cost of coke	**629**	456

GROSS PROFIT

As a result of the foregoing, the gross profit for the year was approximately RMB1,768.1 million, representing an increase of approximately RMB74.8 million or approximately 4.4%, as compared with approximately RMB1,693.3 million in 2010. The gross profit margin was approximately 61.8% as compared with approximately 69.5% in 2010.

OTHER INCOME

Other income for the year amounted to approximately RMB134.5 million, representing an increase of approximately RMB111.3 million or approximately 477.8%, as compared with approximately RMB23.3 million in 2010. The increase was partly attributable to: (i) an increase in the interest income from convertible bond receivable of RMB4.9 million, (ii) an increase in the government grant of approximately RMB5.0 million, (iii) an increase of approximately RMB0.6 million of dividend income from held-for-trading investments and (iv) an increase of approximately RMB104.1 million of exchange gain which significantly arose from the appreciation of RMB on the senior notes denominated in US dollar as at 31 December 2011. Such increase was set-off by a decrease in bank interest income of RMB4.5 million resulting from the decrease in average bank deposits.

DISTRIBUTION EXPENSES

Distribution expenses for the year were approximately RMB264.6 million, representing a decrease of approximately RMB77.1 million or approximately 22.6%, as compared to approximately RMB341.7 million in 2010. The decrease was mainly attributable to (i) the decrease of transportation expenses from approximately RMB213.6 million in 2010 to RMB159.0 million for the Year as customers arranged their own delivery of goods directly from the Group's washing plant and the Group enjoyed cost saving but offered discounted selling prices in return; and (ii) the decrease in government levies from approximately RMB94.7 million in 2010 to RMB82.8 million for the Year as the Guizhou and Yunnan provincial government applied lower levies on clean coal in the Year as compared with 2010.

ADMINISTRATIVE EXPENSES

Administrative expenses for the year were approximately RMB407.4 million, representing an increase of approximately RMB77.9 million, or approximately 23.6%, as compared with approximately RMB329.5 million in 2010. The increase was mainly attributable to (i) an increase in expenses relating to the staff option scheme granted from approximately RMB32.3 million in 2010 to approximately RMB81.2 million for the year and (ii) an increase in professional expenses from approximately RMB43.4 million in 2010 to approximately RMB58.7 million for the year.

NET GAIN ON DERIVATIVES AND HELD-FOR-TRADING INVESTMENTS

The amount represented the fair value gain on the Group's investment in derivative component in convertible bond receivable of approximately RMB14.6 million but offset by fair value loss on certain A shares and Australian listed shares of approximately RMB5.2 million during the year.

FINANCE COSTS

Finance costs for the year amounted to approximately RMB308.7 million, representing an increase of approximately RMB94.7 million or approximately 44.3%, as compared with approximately RMB214.0 million in 2010. The sharp increase was mainly attributable to (i) an increase in interest expenses relating to discounted bills of RMB12.9 million; (ii) an increase in the imputed interest incurred from the convertible loans notes of approximately RMB11.4 million; and (iii) an interest expenses in relation to the senior notes issued in November 2010 of approximately RMB183.8 million. The increase in bank borrowings together with the issuance of convertible loan notes and senior notes was mainly used to finance the Company's acquisitions and development of coal mines in Guizhou and Yunnan provinces. During the year, interest capitalised in mining structure and mining rights amounted to approximately RMB146.8 million, representing an increase of approximately RMB89.0 million as compared with the amount capitalised of approximately RMB57.8 million in 2010.

INCOME TAX EXPENSES

Income tax expenses during the year were approximately RMB200.2 million, representing an increase of approximately RMB54.0 million or approximately 36.9%, as compared with approximately RMB146.2 million in 2010. The amount of income tax expense represented EIT of approximately RMB191.8 million and deferred tax of approximately RMB8.4 million arising from the withholding tax upon distribution of profits earned by the PRC subsidiaries since 1 January 2008. For the current year EIT, the effective tax rate increased to approximately 21.5% as compared with approximately 17.8% in 2010.

PROFIT FOR THE YEAR

As a result of the foregoing, the profit attributable to the owners of the Company for the year was approximately RMB713.6 million, representing an increase of approximately RMB44.1 million or approximately 6.6%, as compared with approximately RMB669.5 million in 2010. The net profit margin was 25.5% for the year as compared with approximately 27.7% in 2010.

EBITDA

The following table illustrates the Group's EBITDA for the year. The Group's EBITDA margin was 49.2% for the Year as compared with 47.8% in 2010.

	2011 *RMB'000*	2010 *RMB'000*
Profit and total comprehensive income for the Year	**731,033**	676,042
Finance costs	**308,701**	213,987
Income tax expenses	**200,243**	146,188
Depreciation and amortisation	**169,055**	128,205
	1,409,032	1,164,422

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

As at 31 December 2011, the Company incurred a net current liabilities of approximately RMB122.1 million. Following the issuance of the senior notes by the end of 2010, the Group repaid the long-term bank borrowings with higher finance costs and high security coverage in order to enhance the flexibility of the Group's overall debt profile and to strengthen the Group's working capital.

As at 31 December 2011, the bank balances and cash of the Group amounted to approximately RMB597.0 million (2010: RMB1,649.0 million).

As at 31 December 2011, the total bank borrowings of the Group were RMB1,997 million (2010: RMB1,770 million), in which approximately RMB1,617 million are repayable within one year, with effective interest rate on fixed rate borrowings and variable rate borrowings ranging from 5.04% to 8.50% per annum and 6.34% to 7.87% per annum respectively.

The gearing ratio (calculate as total bank and other borrowings divided by total assets) of the Group as at 31 December 2011 was 38.5% (2010: 40.1%)

PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2011, the Group pledged assets in an aggregate amount of approximately RMB1,449.8 million (2010: RMB1,759.3 million) to banks for credit facilities in the amount of RMB1,397 million (2009: RMB1,770 million) granted to the Group.

EMPLOYEES

As at 31 December 2011, the number of employees of the Group reached 14,400, maintained as similar level in 2010. During the year, the staff costs (including Directors' remuneration in the form of salaries and other allowances) was amounted to approximately RMB429.5 million (2010: RMB399.3 million).

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

FINAL DIVIDEND

The Board now recommends the payment of a final cash dividend of RMB6.9 cents per share for the year to all shareholders of the Company whose names appear on the register of members of the Company on 25 May 2012. Such dividend payment is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company.

RISK IN FOREIGN EXCHANGE

Since all of the Group's business activities are transacted in RMB, the Directors consider that the Group's risk in foreign exchange is insignificant. Accordingly, the Group was only exposed to exchange rate risk arising from the foreign currency bank balance of approximately USD3.5 million, AUD0.3 million and HKD13.3 million.

SIGNIFICANT INVESTMENT HELD

The Group had invested in (i) certain A shares in the PRC which amounted to approximately RMB2.5 million as at 31 December 2011; and (ii) shares of RMB62.0 million in a mining company listed on Australian Stock Exchange.

MATERIAL ACQUISITION AND DISPOSAL

During the year, the Group entered into various equity purchase agreements for the acquisition of certain equity interests in a coal washing plant and two logistic companies located in Guizhou and Yunnan provinces at an aggregate consideration of RMB158 million. Saved as disclosed above, there was no material acquisition or disposal of subsidiaries and associated companies by the Group.

Contingent liabilities

As at 31 December 2011, the Group did not have any material contingent liabilities.

Connected transactions

(i) During the year, rental expenses amounting to RMB0.9 million were paid to Mr. Xian Jilun, father of Mr. Xian Yang, controlling shareholder of the Company and Director, for the leasing of the Company's head office located at 16th Floor and 17th, Dingli Mansion, No. 81 Renmin Road, Panzhihua, Sichuan province, the PRC. The rent paid by the Company is determined with reference to the market rent of comparable properties in the market.

(ii) On 13 December 2011, 雲南恒鼎煤業有限公司 (Yunnan Hidili Coal Company Limited*) ("Yunnan Hidili") entered into equity purchase agreements with 曲靖明珠集團投資開發有限公司 (Qujing Mingzhu Group Investment Development Company Limited*) where Yunnan Hidili acquired the equity interests of the following companies at an aggregate cash consideration of RMB150 million:

- 20% equity interest in 盤縣富源昆鐵選煤有限責任公司 (Panxian Fuyuan Kuntie Coal Washing Company Limited*) ("Fuyuan Kuntie"), a company engaged in coal washing business;

- 18% equity interest in 貴州威箐煤焦物流有限公司 (Guizhou Weiqing Coking Logistic Company Limited*) ("Guizhou Weiqing"), a company providing railway logistic service; and

- 41.78% equity interest in 富源金通煤焦有限公司 (Fuyuan Jintong Coking Company Limited*) ("Fuyuan Jintong"), a company providing railway logistic service.

Prior to 13 December 2011, 雲南凱捷實業有限公司 (Yunnan Kaijie Industry Company Limited*) ("Yunnan Kaijie") was a substantial shareholder of two subsidiaries of the Company, namely 盤縣盤鑫焦化有限公司 (Panxian Panxin Coking Company Limited*) ("Panxin Coking") and 盤縣盤翼選煤有限公司 (Panxian Panyi Coal Washing Company Limited*) ("Panyi Coal Washing"). Hence, Yunnan Kaijie was a connected person of the Company. Yunan Kaije owned 64% equity interest in Fuyuan Kuntie, 51% equity interest in Guizhou Weiqing and 33.18% equity interest in Fuyuan Jintong. Accordingly, Fuyuan Kuntie, Guizhou Weiqing and Fuyuan Jintong are associates of Yunnan Kaijie and hence, connected persons of the Company. The above acquisitions were completed on 13 December 2011.

(iii) On 13 December 2011, 六盤水恒鼎實業有限公司 (Liupanshui Hidili Industry Company Limited*) ("Liupanshui Hidili") and Yunnan Hidili entered into framework agreements with:

- Fuyuan Jintong, Guizhou Weiqing, 盤縣盤實物流配送有限公司 (Panxian Panshi Logistic Distribution Company Limited*) ("Panxian Panshi") and 盤縣盤鷹物流配送有限公司 (Panxian Panying Logistic Distribution Company Limited*) ("Panxian Panying") for the provision of railway logistic services; and

- Fuyuan Kuntie for sub-contracting of coal washing service.

During the year:

- transportation costs of approximately RMB18.9 million in aggregate were paid to Fuyuan Jintong, Guizhou Weiqing, Panxian Panshi and Panxian Panying for the provision of railway logistic services; and

- sub-contracting charge of coal washing service of approximately RMB1.3 million was paid to Fuyuan Kuntie.

Prior to 13 December 2011, Yunnan Kaijie was a substantial shareholder of two subsidiaries of the Company, namely Panxian Coking and Panyi Coal Washing. Hence, Yunnan Kaijie was a connected person of the Company. Yunnan Kaijie owned 64% equity interest in Fuyuan Kuntie, 51% equity interest in Guizhou Weiqing and 33.18% equity interest in Fuyuan Jintong. Accordingly, Fuyuan Kuntie, Guizhou Weiqing and Fuyuan Jintong were associates of Yunnan Kaijie and hence, connected persons of the Company. Since Yunnan Kaijie held 57% equity interest in Panxian Panshi and 51% equity interest in Panxian Panying, each of Panxian Panshi and Panxian Panying was an associate of Yunnan Kaijie.

As Panxian Panshi and Panxian Panying occupy a monopolistic position of the local railway logistic service in Boguozhen, no relevant market price could be obtained. The railway logistic charges and the sub-contracting charges for the coal washing service were determined with reference to (i) the price offered to other customers by Panxian Panshi, Panxian Panying, Fuyuan Jintong, Fuyuan Kuntie and Guizhou Weiqing; (ii) the price offered to Liupanshui Hidili, Panxin Coking and Panyi Coal Washing from 14 July 2008 to 31 December 2010; (iii) volume of clean coal available for delivery with reference to the estimated production volumes of clean coal; (iv) anticipated growth in demand of clean coal; and (v) the business plan of the Group.

* *for identification purpose only*

OUTLOOK

As at 31 December 2011, the Company had (i) a total of 20 coal mines in Guizhou provinces, comprising 10 integrated coal mines, 8 newly constructed coal mines and 2 expanded coal mines, of which 2 integrated coal mines, 3 newly constructed coal mines, 3 newly constructed coal mines are currently under trial run and 1 integrated coal mine has completed the trial run stage and has commenced production and (ii) a total of 10 coal mines in Yunnan province comprising 5 integrated coal mines, 2 newly constructed coal mines, 2 expanded coal mines and 1 coal mine with exploration right, of which 1 integrated coal mine is currently under trial run and 1 newly constructed coal mine has completed the trial run stage and has commenced production.

The Company expects the coal mines in Yunnan and Guizhou province will gradually complete development during 2012 to 2015 and commence production stage. Raw coal production volume will significantly increase. The Company also realises and adopts cost control measures to upgrade the production efficiency. Besides, the Company's coal washing plants and railway logistic stations under construction in Guizhou and Yunnan provinces respectively are located nearby those newly developed coal mines. After the commencement of production of the coal washing plants and the use of the auxiliary railway logistic station, the Company expects to further decrease the transportation costs.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

MR. XIAN YANG (鮮揚)

Mr. Xian, aged 38, is an executive Director of the Company ("Director") and our founder, chairman and president. Mr. Xian graduated from The People's Police School of Sichuan (四川省人民警察學校) in 1994, studied law at Southwest University of Political Science and Law (西南政法大學) from 1994 to 1997 and is studying MBA courses at Sichuan University (四川大學). He worked in the police force and Customs Bureau of Panzhihua City prior to establishing our Group in May 2000. He was awarded a Grade Three Achievement (三等功) by the Ministry of Public Security for his distinguished service. He is responsible for the overall management and business development of the Group. He also chairs our Group's investment management committee. Mr. Xian is a cousin of Mr. Xian Qingping who is a member of our senior management. Mr. Xian is also a director of Sanlian Investment Holding Limited, a company which holds approximately 53.24% of the issued share capital of the Company.

MR. SUN JIANKUN (孫建坤)

Mr. Sun, aged 48, is an executive Director and our chief operating officer. He is a senior engineer and graduated from East China University of Metallurgy (華東冶金學院) (now known as Anhui University of Technology (安徽工業大學)) in 1986 with a bachelor's degree in steel metallurgy. Mr. Sun is responsible for the management of day-to-day operations and development of our operations in Panzhihua. He is also the vice chairman of our production safety committee. Prior to joining the Group in December 2006, Mr. Sun worked at Panzhihua Steel Group since 1986 and accumulated broad experience in steel production, quality control and raw material procurement. He served as the vice general manager of Chengdu Steel Company, a subsidiary of Panzhihua Steel Group, from 2003 to 2006 and the vice general manager of Panzhihua New Steel & Vanadium Co., Ltd. (攀枝花新鋼釩股份有限公司), a Shenzhen Stock Exchange listed company, from 2002 to 2003.

MR. WANG RONG (王榮)

Mr. Wang, aged 39, is an executive Director and our vice president. He joined our Group in 2000. He is responsible for the management of day-to-day operations and development of our operations in Guizhou province.

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR. CHAN CHI HING (陳志興)

Mr. Chan, aged 47, is an independent non-executive Director. He joined our Board in June 2007. He is currently the chief operating officer of Far East Consortium International Limited (''FECIL''), a company listed on the main board of the Hong Kong Stock Exchange and a director of various subsidiaries of FECIL. Mr. Chan joined FECIL in 1990 as the chief accountant and served as the financial controller since 2002. From 1990 to 2003, he was in charge of FECIL's financial, treasury and accounting matters. Before joining FECIL, he was an audit manager with an international accounting firm for over 10 years. Mr. Chan has extensive experience in accounting and auditing of Hong Kong listed companies. Since May 2003, Mr. Chan has been an alternate director to Mr. Deacon Te Ken Chiu, director of Far East Hotels and Entertainment Limited, a Hong Kong listed company.

MR. CHEN LIMIN (陳利民)

Mr, Chen, aged 49, is an independent non-executive Director. He joined our Board on 1 October 2009. He graduated from South West University of Political Science and Law in 1985. Mr. Chen is currently the senior partner of Beijing Zhong Lun Law Firm and is responsible for the listing of companies, merger and acquisition and corporate restructuring. Mr. Chen has held no directorship in any public listed companies in the past three years.

MR. HUANG RONGSHENG (黃容生)

Mr. Huang, aged 65, is an independent non-executive Director. He joined our Board since June 2007. He graduated from Tsinghua University in 1970. He has over 30 years' experience in the steel industry. Prior to his retirement in December 2006, he worked at Central Iron & Steel Research Institute (鋼鐵研究總院) since 2003. He served as the vice general manager and the vice president of Panzhihua Steel (Group) Company from 1993 to 2003.

SENIOR MANAGEMENT

MS. CHENG YUANYUN (程遠芸)

Ms. Cheng, aged 38, is an assistant to the president and is responsible for assisting the president to oversee all financial affairs of the Company. She is a certified tax agent who graduated from Southwestern University of Finance and Economics with a major in accounting. Prior to joining the Group in 2008, she worked as the head of the National Tax Administration of Yanbian County, Panzhihua City and the chief of the international division at the National Tax Administration of Panzhihua City.

MR. CHEN SEN (陳森)

Mr. Chen Sen, aged 39, is an assistant to the president and is responsible for assisting president to oversee the coal business of the company. He is a senior engineer. He graduated from Guizhou Technology Institute (now known as Guizhou University) with a bachelor's degree in industrial technical automation in 1992 and obtained a master degree in mine engineering in 2006. Prior to joining our Group in 2010, Mr. Chen had over 15 years of experience working in the mining technology area for Panjiang Coal and Electricity, which is one of the three major coking coal suppliers in Southwestern China.

MR. XIAN QINGPING (鮮清平)

Mr. Xian, aged 37, our general manager of marketing and sales. He is responsible for marketing and sales affairs. Prior to joining the Group in 2000, he worked at Panzhihua Medicines Group (攀枝花市藥業集團) for over five years. Mr. Xian Qingping is a cousin of Mr. Xian Yang, our founder, chairman, president and executive Director.

MR. ZHUANG XIANWEI (莊顯偉)

Mr. Zhuang, aged 41, is our general manager of Yunnan Mining Region and is responsible for the operations of the Company's coal mines in Yunnan. Before seconded to Yunnan, he was responsible for our mining operations in Panzhihua. He is also a mining engineer. Prior to joining our Group in March 2002, Mr. Zhuang worked for the production technology division at Panzhihua Coal Group for over 10 years with extensive experience in management of coal mines.

MR. XU WENFA (徐文發)

Mr. Xu, aged 46, is our general manager of safe production and environmental protection. He is responsible for production safety and environmental protection issues and quality control of our mining operation. He obtained the title of assistant engineer in smelting in 1991. Prior to joining the Group in 2007, Mr. Xu worked for Pan Steel Group over 20 years as scheduling manager in the production department. From 1998 to 2006, due to his excellence in work, he was awarded the title of Excellent Member of the Communist Party of China and parade guard by the Panzihua Steel Group.

MR. ZHAN JUNJUN (詹軍軍)

Mr. Zhan, aged 46, is our chief executive of administration and human resources and is responsible for all the administrative and human resources affairs of the Company. He graduated from Sichuan University with a postgraduate degree in business management and obtained the title of Senior Economist. Prior to joining the Group in 2007, Mr. Zhan has accumulated extensive experience in management of human resources.

MS. CHU LAI KUEN (朱麗娟)

Ms. Chu, aged 43, is our chief financial officer and company secretary. She is responsible for financial and accounting management of our Company. She is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Ms. Chu graduated from Hong Kong Polytechnic University with a bachelor's degree (Hons) in accountancy. Prior to joining the Group in October 2008, Ms. Chu has over 16 years of working experience in auditing and financial management.

MR. GUO LIHUA (郭禮華)

Mr. Guo, aged 51, is our compliance manager. He is responsible for the compliance matters. He is a certified public accountant and a certified public valuer in the PRC. Mr. Guo graduated from Sichuan Normal College (四川師範學院). Prior to joining the Group in 2003, Mr. Guo has over 29 years of working experience in accounting and financial management.

MR. XU HUI (徐輝)

Mr. Xu, aged 32, is our secretary to the Board and general manager of Board office. He graduated from Peking University with a bachelor's degree in mathematics and he joined the Group in 2005.

The Directors present their annual report and the audited consolidated financial statement for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on pages 42 of this report.

The Directors propose the payment of a final dividend of RMB6.9 cents (equivalent to approximately HK$8.49 cents) per share for the year ended 31 December 2011 to the shareholders whose names appear on the register of members of the Company at the close of business on 25 May 2012. The total amount of such dividend is approximately RMB142,530,000 (equivalent to approximately HK$175,400,000). The proposed distribution of dividends will be considered and approved by the shareholders of the Company at the annual for the coming general meeting of the Company. The exchange rate adopted for conversion is the mid-point exchange rate published by the People's Bank of China on 19 March 2012, being the business day prior to the declaration of dividends.

PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment of the Group for the year ended 31 December 2011 amounted to approximately RMB2,299 million. Details of the movements during the year in the Group's property, plant and equipment are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 32 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Details of the movements during the year in the reserves of the Group are set out in the consolidated statement of changes in equity on pages 45 and 46 of this report.

As at 31 December 2011, the Company's reserves available for distribution to shareholders amounted to approximately RMB2,705 million.

PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2011 are set out in note 49 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 128.

BORROWINGS

Details of the borrowings of the Group are set out in note 31 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2011, sales to the Group's five largest customers amounted to approximately RMB1,621.3 million, representing 56.7% of the total turnover of the Group. Sales to the single largest customer amounted to approximately RMB521.1 million, representing 18.2% of the total turnover of the Group.

For the year ended 31 December 2011, the amount of purchases made from the Group's five largest suppliers amounted to approximately RMB342.6 million, representing 32.1% of the total purchases of the Group. Purchase from the single largest supplier amounted to approximately RMB158.4 million, representing 14.8% of the total purchases of the Group.

For the year ended 31 December 2011, none of the Directors or any of their associates and any shareholders (which, to be best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's top five largest customers and suppliers.

DIRECTORS

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

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for a fixed term of three years. The service agreements of the executive Directors have been renewed on 1 September 2010. Each of the independent non-executive Directors has entered into a service agreement with the Company for a fixed term of two years. The service agreements of the independent non-executive Directors have been renewed on 1 September 2011.

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

REMUNERATION OF THE DIRECTORS

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

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

As at 31 December 2011, the Directors and chief executive of the Company had the following interests and/or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (the "SFO")) which are required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in the Listing Rules, to be notified to the Company and the Stock Exchange:

Name	Name of the entity	Number of issued ordinary shares held	Nature of interest	Approximate percentage of the issued share capital of the Company/ percentage of shareholding
Mr. Xian Yang ("Mr. Xian") *(Note 1)*	The Company	1,099,679,000	Founder and beneficiary of trust	53.24%
Mr. Xian	Sanlian Investment Holding Limited ("Sanlian Investment")	1,000	Beneficial owner	100%
Mr. Sun Jiankun ("Mr. Sun") *(Note 2)*	The Company	19,380,000	Interest of controlled corporation	0.94%
Mr. Sun	Able Accord Enterprises Limited ("Able Accord")	1,000	Beneficial owner	100%
Mr. Wang Rong ("Mr. Wang") *(Note 3)*	The Company	7,887,000	Interest of controlled corporation	0.38%
Mr. Wang	Pavlova Investment Limited ("Pavlova Investment")	1,000	Beneficial owner	100%
Mr. Chan Chi Hing	The Company	80,000	Beneficial owner	0.004%

Notes:

1. The 1,099,679,000 shares of the Company are held by Sanlian Investment, the issued share capital of which is jointly held by Xian Yang No.1A Ltd. ("Xian Yang No.1A") and Sanlian No.1 Ltd. ("Sanlian No.1"). Mr. Xian is the only controlling shareholder of Xian Yang No.1A and Sanlian No.1. In 2011, Mr. Xian formed a discretionary trust, the Xian Yang Foundation 1, of which Sarasin Trust Company Guernsey Limited ("Sarasin Trust") was the trustee. Accordingly, Mr. Xian is deemed to be interested in the 1,099,679,000 shares held by Sanlian Investment by virtue of the SFO. Mr. Xian is also the sole director of Sanlian Investment.

2. The 19,380,000 shares of the Company are held by Able Accord, the entired issued share capital of which is held by Mr. Sun. Accordingly, Mr. Sun is deemed to be interested in 19,380,000 shares held by Able Accord by virtue of the SFO. Mr. Sun is also a director of Able Accord.

3. The 7,887,000 shares of the Company are held by Pavlova Investment, the entired issued share capital of which is held by Mr. Wang. Accordingly, Mr. Wang is deemed to be interested in 7,887,000 shares held by Pavlova Investment by virtue of the SFO. Mr. Sun is also a director of Pavlova Investment.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2011, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, the following persons, other than the Directors and chief executive of the Company, had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Number of issued ordinary shares held*	Nature of interest	Approximate percentage of the issued share capital of the Company*
Sarasin Trust *(Note 1)*	560,836,290 (L)	Trustee	27.15% (L)
Sanlian Investment *(Note 1)*	1,099,679,000 (L)	Beneficial owner	53.24% (L)
Mr. Xian *(Note 1)*	1,099,679,000 (L)	Interest of controlled corporation	53.24% (L)
Ms. Qiao Qian *(Note 2)*	1,099,679,000 (L)	Interest of spouse	53.24% (L)
JPMorgan Chase & Co.	115,333,698 (L) 15,034,000 (S) 52,829,635 (P)	Beneficial owner	5.58% (L) 0.73% (S) 2.56% (P)

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

Notes:

1. The entire issued share capital of Sanlian Investment is jointly owned by Xian Yang No.1A and Sanlian No.1. Mr. Xian is the only controlling shareholder of Xian Yang No.1A and Sanlian No.1. In 2011, Mr. Xian formed a discretionary trust, The Xian Yang Foundation 1, of which Sarasin Trust was the trustee. Accordingly, Mr. Xian is deemed to be interested in 1,099,679,000 shares of the Company held by Sanlian Investment by virtue of the SFO. Mr. Xian is the sole director of Sanlian Investment.

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

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

MANAGEMENT CONTRACTS

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

CONTRACTS OF SIGNIFICANCE

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

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

SHARE OPTIONS

The Company has adopted a share option scheme on 25 August 2007 (the "Share Option Scheme"). On 30 April 2009 and 26 February 2011, 43,200,000 share options and 55,000,000 share options have been granted by the Company respectively under the Share Option Scheme. The detailed disclosures relating to the Scheme and valuation of options are set out in Note 44 to the consolidated financial statements.

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

Name or category of participant	At 1 January 2011	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2011	Date of grant	Exercise period	Exercise price HK$	Weighted average closing price per share immediate before the date of grant HK$
	Number of share options								
Directors									
Mr. Chan Chi Hing	40,000	–	(40,000)	–	–	30 April 2009	1 May 2010 to 24 August 2017	3.15	3.15
	40,000	–	(40,000)	–	–	30 April 2009	1 May 2011 to 24 August 2017	3.15	3.15
	20,000	–	–	–	20,000	30 April 2009	1 May 2012 to 24 August 2017	3.15	3.15
	100,000	–	(80,000)	–	20,000				
Mr. Huang Rongsheng	40,000	–	–	–	40,000	30 April 2009	1 May 2010 to 24 August 2017	3.15	3.15
	40,000	–	–	–	40,000	30 April 2009	1 May 2011 to 24 August 2017	3.15	3.15
	20,000	–	–	–	20,000	30 April 2009	1 May 2012 to 24 August 2017	3.15	3.15
	100,000	–	–	–	100,000				
	200,000	–	(80,000)	–	120,000				
Other employees in aggregate	17,128,000	–	(5,541,000)	–	11,587,000	30 April 2009	1 May 2010 to 24 August 2017	3.15	3.15
	17,128,000	–	–	–	17,128,000	30 April 2009	1 May 2011 to 24 August 2017	3.15	3.15
	8,564,000	–	–	–	8,564,000	30 April 2009	1 May 2012 to 24 August 2017	3.15	3.15
	–	21,960,000	–	–	21,960,000	26 February 2011	27 February 2012 to 24 August 2017	6.604	6.604
	–	21,960,000	–	–	21,960,000	26 February 2011	27 February 2013 to 24 August 2017	6.604	6.604
	–	10,980,000	–	–	10,980,000	26 February 2011	27 February 2014 to 24 August 2017	6.604	6.604
	42,820,000	54,900,000	(5,541,000)	–	92,179,000				
Other participants in aggregate	32,000	–	(32,000)	–	–	30 April 2009	1 May 2010 to 24 August 2017	3.15	3.15
	32,000	–	–	–	32,000	30 April 2009	1 May 2011 to 24 August 2017	3.15	3.15
	16,000	–	–	–	16,000	30 April 2009	1 May 2012 to 24 August 2017	3.15	3.15
	–	40,000	–	–	40,000	26 February 2011	27 February 2012 to 24 August 2017	6.604	6.604
	–	40,000	–	–	40,000	26 February 2011	27 February 2013 to 24 August 2017	6.604	6.604
	–	20,000	–	–	20,000	26 February 2011	27 February 2014 to 24 August 2017	6.604	6.604
	80,000	100,030	(32,000)	–	148,000				
	43,100,000	55,000,000	(5,653,000)	–	92,447,000				

CONNECTED TRANSACTION

1. During the year, rental expenses amounting to RMB0.9 million were paid to Mr. Xian Jilun, father of Mr. Xian Yang, a controlling shareholder and a Director of the Company, for the leasing of the Company's head office located at 16th and 17th Floor, Dingli Mansion, No. 81 Renmin Road, Panzhihua, Sichuan province, the PRC. The rent paid by the Company is determined with reference to the market rent of comparable properties in the market.

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

2. On 13 December 2011, 雲南恒鼎煤業有限公司 (Yunnan Hidili Coal Company Limited*) ("Yunnan Hidili") entered into equity purchase agreements with 曲靖明珠集團投資開發有限公司 (Qujing Mingzhu Group Investment Development Company Limited*) where Yunnan Hidili acquired the equity interests of the following companies at an aggregate cash consideration of RMB150 million:

   - 20% equity interest in 盤縣富源昆鐵選煤有限責任公司 (Panxian Fuyuan Kuntie Coal Washing Company Limited*) ("Fuyuan Kuntie"), a company engaged in coal washing business;

   - 18% equity interest in 貴州威箐煤焦物流有限公司 (Guizhou Weiqing Coking Logistic Company Limited*) ("Guizhou Weiqing"), a company providing railway logistic service; and

   - 41.78% equity interest in 富源金通煤焦有限公司 (Fuyuan Jintong Coking Company Limited*) ("Fuyuan Jintong"), a company providing railway logistic service.

   Prior to 13 December 2011, 雲南凱捷實業有限公司 (Yunnan Kaijie Industry Company Limited*) ("Yunnan Kaijie") was a substantial shareholder of two subsidiaries of the Company, namely 盤縣盤鑫焦化有限公司 (Panxian Panxin Coking Company Limited*) ("Panxin Coking") and 盤縣盤翼選煤有限公司 (Panxian Panyi Coal Washing Company Limited*) ("Panyi Coal Washing"). Hence, Yunnan Kaijie was a connected person of the Company. Yunan Kaije owned 64% equity interest in Fuyuan Kuntie, 51% equity interest in Guizhou Weiqing and 33.18% equity interest in Fuyuan Jintong. Accordingly, Fuyuan Kuntie, Guizhou Weiqing and Fuyuan Jintong are associates of Yunnan Kaijie and hence, connected persons of the Company. The above acquisitions were completed on 13 December 2011.

3. On 13 December 2011, 六盤水恒鼎實業有限公司 (Liupanshui Hidili Industry Company Limited*) ("Liupanshui Hidili") and Yunnan Hidili entered into framework agreements with:

   - Fuyuan Jintong, Guizhou Weiqing, 盤縣盤實物流配送有限公司 (Panxian Panshi Logistic Distribution Company Limited*) ("Panxian Panshi") and 盤縣盤鷹物流配送有限公司 (Panxian Panying Logistic Distribution Company Limited*) ("Panxian Panying") for the provision of railway logistic services; and

   - Fuyuan Kuntie for sub-contracting of coal washing service.

   During the year:

   - transportation costs of approximately RMB18.9 million in aggregate were paid to Fuyuan Jintong, Guizhou Weiqing, Panxian Panshi and Panxian Panying for the provision of railway logistic services; and

   - sub-contracting charge of coal washing service of approximately RMB1.3 million was paid to Fuyuan Kuntie.

   The payment of transportation costs and sub-contracting charge of coal washing service constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

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

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

AUDIT COMMITTEE

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

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

The audit committee has reviewed, together with the management of the Company, the accounting principles, accounting standards and methods adopted by the Company, discussed the matters concerning internal control, auditing and financial reporting matters and has reviewed the consolidated financial statements of the Group for the year ended 31 December 2011.

PRE-EMPTIVE RIGHTS

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

MODEL CODE FOR SECURITIES TRANSATIONS BY DIRECTORS OF THE COMPANY

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the Directors. All Directors have confirmed their compliance with the required standards set out in the Model Code throughout the period from the date of the listing of shares of the Company on the Main Board of the Stock Exchange to 31 December 2011.

CORPORATE GOVERNANCE

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

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

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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

SUFFICIENCY OF PUBLIC FLOAT

On the basis of publicly available information and to the best of the Directors' knowledge, information and belief, the Company has maintained sufficient public float throughout the year ended 31 December 2011.

AUDITOR

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

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from 28 May to 31 May 2012, both days inclusive, during which period no transfer of shares will be registered.

In order to qualify for the proposed final dividend, all transfer instruments accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited at shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by shareholders of the Company for registration no later than 4:30 p.m. on 25 May 2012.

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

Hong Kong
20 March 2012

* *for identification purpose only*

Corporate Governance Report

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

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiry of all Directors, all Directors have confirmed their compliance with the required standards as set out in the Model Code throughout the year ended 31 December 2011.

BOARD OF DIRECTORS

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

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

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

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

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

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

	Attendance of meetings
Executive Directors	
Mr. Xian Yang	5
Mr. Sun Jiankun	5
Mr. Wang Rong	5
Independent non-executive Directors	
Mr. Chan Chi Hing	5
Mr. Chen Limin	5
Mr. Huang Rongsheng	5

ROLE OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

APPOINTMENT AND RE-ELECTION OF THE DIRECTORS

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

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

REMUNERATION COMMITTEE

The remuneration committee (the "Remuneration Committee") was established on 25 August 2007 with written terms of reference in compliance with the Code. The Remuneration Committee consists of an executive Director, Mr. Xian Yang and all the Independent Non-Executive Directors, namely, Mr. Chan Chi Hing, Mr. Chen Limin and Mr. Huang Rongsheng. Mr. Chan Chi Hing is the Chairman of the Remuneration Committee. The role of the Remuneration Committee is to review and give recommendations to the Board regarding the remuneration package of the Directors and the senior management of the Company and other remuneration related matters.

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

The Company has adopted a share option scheme as an incentive to Directors and eligible employees. Details of the scheme is set out in note 44 to the consolidated financial statements.

During the year, one remuneration committee meeting was held to discuss and approve the annual salary review for 2011 for the Directors and the employees and the remuneration policy. All the members attended the meeting.

NOMINATION COMMITTEE

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

During the year, no nomination committee meeting was held.

AUDIT COMMITTEE

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

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

During the year, three meetings were held. Mr. Chan Chi Hing, Mr. Chen Limin and Mr. Huang Rongsheng of the Audit Committee attended the meetings. The Audit Committee has reviewed together with the management the accounting principles, accounting standards and methods adopted by the Company, discussed the matters concerning internal control, auditing and financial reporting matters and has review the combined financial statement of the Group for the year ended 31 December 2011.

AUDITORS' REMUNERATION

The external auditor of the Company is Deloitte Touche Tohmatsu. During the year ended 31 December 2011, the remuneration paid and payable to the auditors of the Company in respect of the audit services provided amounted to RMB2.95 million.

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

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENT

The Directors acknowledge their responsibility for preparing the consolidated financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Company deploys appropriate and sufficient resources to prepare audited accounts. Senior management is required to present and explain the financial reporting and matters that materially affect or may have material impact on the financial performance and operations of the Company to the Audit Committee and the Board and respond to the queries and concerns raised by the Audit Committee and the Board to their satisfaction. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance. The reporting responsibility of the external auditor of the Company on the consolidated financial statements of the Group are set out in the independent auditor's report on pages 40 to 41 of this report.

INTERNAL CONTROLS

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

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

Independent Auditor's Report

Deloitte.
德勤

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

We have audited the consolidated financial statements of Hidili Industry International Development Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 42 to 127, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTOR'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY *(Continued)*

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

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

OPINION

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
20 March 2012

Consolidated Statement Of Comprehensive Income

For The Year Ended 31 December 2011

	NOTES	**2011** **RMB'000**	2010 RMB'000
Turnover	8	**2,861,532**	2,437,319
Cost of sales		**(1,093,479)**	(744,022)
Gross profit		**1,768,053**	1,693,297
Other income	9	**134,544**	23,286
Distribution expenses		**(264,607)**	(341,654)
Administrative expenses		**(407,443)**	(329,513)
Net gain on derivatives and held-for-trading investments		**9,430**	17,151
Impairment loss recognised in respect of property, plant and equipment	16	**—**	(26,350)
Finance costs	10	**(308,701)**	(213,987)
Profit before tax		**931,276**	822,230
Income tax expenses	12	**(200,243)**	(146,188)
Profit and total comprehensive income for the year	11	**731,033**	676,042
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**713,608**	669,505
Non-controlling interests		**17,425**	6,537
		731,033	676,042
Earnings per share	15		
Basic *(RMB cents)*		**34.6**	32.5
Diluted *(RMB cents)*		**34.3**	32.1

Consolidated Statement Of Financial Position

	NOTES	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**12,196,348**	10,072,361
Prepaid lease payments	17	**29,707**	30,385
Deposits	18	**35,960**	318,516
Deposit paid for acquisition of land use rights		**86,084**	25,538
Deposit paid for acquisition of additional interests in subsidiaries		**60,000**	52,500
Convertible bond receivable	40	**—**	63,536
Derivative component in convertible bond receivable	40	**—**	3,269
Intangible assets	19	**101,017**	104,817
Goodwill	37(B)	**11,065**	11,065
Interests in associates	20	**146,850**	—
Available-for-sale investments	21	**228,330**	—
Loan receivables	26	**—**	25,173
		12,895,361	10,707,160
CURRENT ASSETS			
Inventories	23	**147,409**	242,974
Bills and trade receivables	24(A)	**1,221,325**	938,975
Bills receivables discounted with recourse	24(B)	**23,000**	241,733
Other receivables and prepayments	25	**661,318**	488,357
Amount due from an associate	27(A)	**1,535**	—
Amounts due from related parties	27(B)	**22,875**	106,942
Held-for-trading investments	22	**64,541**	97,369
Pledged and restricted bank deposits	28	**184,857**	165,791
Bank balances and cash	28	**596,966**	1,649,037
		2,923,826	3,931,178
CURRENT LIABILITIES			
Bills and trade payables	29(A)	**398,418**	271,407
Advances drawn on bills receivables discounted with recourse	29(B)	**23,000**	241,733
Other payables and accrued expenses	30	**769,668**	462,997
Amounts due to related parties	27(C)	**27,577**	1,200
Amount due to a non-controlling interest of a subsidiary	27(D)	**15,142**	15,455
Tax payables		**195,129**	91,698
Bank borrowings — due within one year	31	**1,617,000**	676,000
		3,045,934	1,760,490
NET CURRENT (LIABILITIES) ASSETS		**(122,108)**	2,170,688
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,773,253**	12,877,848

	NOTES	2011 RMB'000	2010 RMB'000
CAPITAL AND RESERVES			
Share capital	32	**199,078**	198,605
Reserves	33	**7,424,754**	6,774,207
Equity attributable to owners of the Company		**7,623,832**	6,972,812
Non-controlling interests		**182,834**	163,602
TOTAL EQUITY		**7,806,666**	7,136,414
NON-CURRENT LIABILITIES			
Provision for restoration and environmental costs	34	**14,807**	11,646
Deferred tax liabilities	36	**315,386**	306,989
Other long term payables	35	**164,098**	222,790
Bank borrowings			
— due after one year	31	**380,000**	1,094,000
Senior notes	38	**2,496,399**	2,596,614
Convertible loan notes	39	**1,595,897**	1,509,395
		4,966,587	5,741,434
		12,773,253	12,877,848

The consolidated financial statements on pages 42 to 127 were approved and authorised for issue by the board of directors on 20 March 2012 and are signed on its behalf by:

Xian Yang
Director

Sun Jiankun
Director

Consolidated Statement Of Changes In Equity

	Attributable to owners of the Company											
	Share capital *RMB'000*	Share premium *RMB'000*	Special reserve *RMB'000* *(Note 33)*	Statutory surplus reserve *RMB'000* *(Note 33)*	Convertible loan notes reserve *RMB'000*	Future development fund *RMB'000* *(Note 33)*	Share options reserve *RMB'000*	Other reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At 1 January 2010	198,605	3,310,400	695,492	315,969	—	152,011	35,692	—	1,569,827	6,277,996	145,087	6,423,083
Profit and total comprehensive income for the year	—	—	—	—	—	—	—	—	669,505	669,505	6,537	676,042
Transfer	—	—	—	65,943	—	37,906	—	—	(103,849)	—	—	—
Recognition of equity-settled share based payment expenses *(Note 44)*	—	—	—	—	—	—	32,305	—	—	32,305	—	32,305
Capital contribution from non-controlling interests of subsidiaries	—	—	—	—	—	—	—	—	—	—	13,576	13,576
Acquisition of additional interest in a non-wholly owned subsidiary *(note i)*	—	—	—	—	—	—	—	(43,402)	—	(43,402)	(1,598)	(45,000)
Recognition of equity component of convertible loan notes	—	—	—	—	242,408	—	—	—	—	242,408	—	242,408
Dividend *(note 14)*	—	(206,000)	—	—	—	—	—	—	—	(206,000)	—	(206,000)

	Attributable to owners of the Company											
	Share capital	Share premium	Special reserve	Statutory surplus reserve	Convertible loan notes reserve	Future development fund	Share options reserve	Other reserve	Retained profits	Total	Non-controlling interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			(Note 33)	*(Note 33)*		*(Note 33)*						
At 31 December 2010	198,605	3,104,400	695,492	381,912	242,408	189,917	67,997	(43,402)	2,135,483	6,972,812	163,602	7,136,414
Profit and total comprehensive income for the year	—	—	—	—	—	—	—	—	713,608	713,608	17,425	731,033
Issue of shares from share option scheme	473	24,417	—	—	—	—	(10,010)	—	—	14,880	—	14,880
Transfer	—	—	—	62,069	—	41,773	—	—	(103,842)	—	—	—
Recognition of equity-settled share based payment expenses *(Note 44)*	—	—	—	—	—	—	81,217	—	—	81,217	—	81,217
Capital contribution from non-controlling interests of subsidiaries	—	—	—	—	—	—	—	—	—	—	1,470	1,470
Acquisition of additional interest in non-wholly owned subsidiaries *(note ii)*	—	—	—	—	—	—	—	(24,438)	—	(24,438)	87	(24,351)
Disposal of partial interest in a subsidiary	—	—	—	—	—	—	—	—	—	—	250	250
Dividend *(Note 14)*	—	(134,247)	—	—	—	—	—	—	—	(134,247)	—	(134,247)
At 31 December 2011	199,078	2,994,570	695,492	443,981	242,408	231,690	139,204	(67,840)	2,745,249	7,623,832	182,834	7,806,666

Note i: In March 2010, the Group acquired the remaining 15% equity interests of one of its subsidiaries from the non-controlling shareholder at an aggregate consideration of RMB45 million, of which RMB36 million was satisfied by deposit paid in previous years and the remaining RMB9 million was paid in the form of cash. The excess of the fair value of the consideration paid over the carrying amount of the net assets acquired has been debited directly to equity.

Note ii: During the year ended 31 December 2011, the Group acquired the remaining 30% equity interests of one of its subsidiaries from the non-controlling shareholder at an aggregate consideration of RMB24.4 million. The excess of the fair value of the consideration paid over the carrying amount of the net assets acquired has been debited directly to equity, of which RMB2.5 million was satisfied by deposit paid in previous years and the remaining RMB21.9 million was paid in the form of cash.

Consolidated Statement Of Cash Flows

	2011 RMB'000	2010 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**931,276**	822,230
Adjustments for:		
Amortisation of prepaid lease payments	**678**	677
Amortisation of intangible assets	**3,800**	6,874
Interest income	**(9,583)**	(9,214)
Depreciation and amortisation of property, plant and equipment	**164,577**	120,654
Share-based payment expenses	**81,217**	32,305
Finance costs	**308,701**	213,987
Loss on disposal of property, plant and equipment	**1,240**	46
(Reversed of) Impairment loss recognised on financial assets	**(560)**	5,347
Impairment of property, plant and equipment	**—**	26,350
Gain on change in fair value of derivative component in convertible bond	**(14,656)**	(731)
Operating cash flows before movements in working capital	**1,466,690**	1,218,525
Increase (decrease) in other payables and accrued expenses	**280,394**	(88,588)
Increase in bills and trade payables	**127,011**	139,532
Decrease (increase) in inventories	**95,565**	(96,713)
Decrease (increase) in amounts due from related parties	**84,067**	(23,187)
Decrease (increase) in held-for-trading investments	**32,828**	(48,728)
Increase in amount due to a related party	**26,377**	1,200
Provision for restoration and environmental costs	**3,161**	2,317
Increase in amount due from an associate	**(1,535)**	—
Increase in other receivables and prepayments	**(161,386)**	(265,683)
Increase in bills and trade receivables	**(280,692)**	(418,454)
Net cash generated from operations	**1,672,480**	420,221
Income taxes paid	**(88,415)**	(93,706)
NET CASH FROM OPERATING ACTIVITIES	**1,584,065**	326,515

	NOTE	2011 RMB'000	2010 RMB'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(2,184,418)**	(2,071,486)
Placement of pledged and restricted bank deposits		**(643,887)**	(969,614)
Acquisition of associates		**(30,779)**	—
Acquisition of available-for-sale investments		**(20,998)**	—
Deposits paid for acquisition of assets and land use right		**(2,539)**	(240,146)
Interest received		**4,690**	9,214
Proceeds from disposal of property, plant and equipment		**9,026**	1,794
Withdrawal of pledged and restricted bank deposits		**624,821**	1,381,706
Advance of loan receivables to a third party		**—**	(25,173)
Acquisition of subsidiaries	37(A)	**—**	275
Purchase of convertible loan notes		**—**	(66,074)
NET CASH USED IN INVESTING ACTIVITIES		**(2,244,084)**	(1,979,504)
FINANCING ACTIVITIES			
Repayment of bank borrowings		**(1,230,000)**	(3,047,084)
Interest paid		**(469,241)**	(156,385)
Dividend paid		**(134,247)**	(206,000)
Acquisition of additional interest in non-wholly owned subsidiaries		**(21,851)**	(9,000)
Deposit paid for acquisition of additional interests in subsidiaries		**(10,000)**	(52,500)
(Decrease) increase in amount due to non-controlling interests of subsidiaries		**(313)**	15,455
Proceeds from issue of senior notes		**—**	2,559,751
Proceeds from issue of convertible loan notes, net of issuance costs		**—**	1,664,668
Proceeds from disposal of partial interest in a subsidiary		**250**	—
Capital contribution from minority shareholders		**1,470**	13,576
Proceeds on issue of shares		**14,880**	—
New bank borrowings raised		**1,457,000**	1,845,000
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(392,052)**	2,627,481
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(1,052,071)**	974,492
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**1,649,037**	674,545
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, (representing bank balances and cash)		**596,966**	1,649,037

1. GENERAL

Hidili Industry International Development Limited 恒鼎實業國際發展有限公司 (the "Company") was incorporated in the Cayman Islands under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 1 September 2006. Its shares are listed on The Stock Exchange of Hong Kong Limited. The address of the registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands, and the address of the principal place of business of the Company is Room 3702, 37th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong. In the opinion of the directors, the Company's parent company and ultimate holding company is Sanlian Investment Holding Limited, a company incorporated in the British Virgin Islands which is in turn held by a trust controlled by Mr. Xian Yang, executive director and president of the Company. The Company acts as investment holding company and its subsidiaries are engaged in mining and sale of coke, raw coal and clean coal.

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

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

In preparing these consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that as at 31 December 2011, the Group's current liabilities exceeded its current assets by RMB122,108,000. The directors are of the opinion that, taking into consideration of the internally generated funds of the Group and the presently available banking facilities, the Group will have sufficient working capital for its present requirements for the next twelve months from the end of the reporting period. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

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

NEW AND REVISED IFRSS APPLIED IN THE CURRENT YEAR

IFRSs (Amendments)	Improvements to IFRSs issued in 2010
IAS 24 (as revised in 2009)	Related Party Disclosures
IAS 32 (Amendments)	Classification of Rights Issues
IFRIC — Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
IFRIC — Int 19	Extinguishing Financial Liabilities with Equity Instruments

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

NEW AND REVISED IFRSS ISSUED BUT NOT YET EFFECTIVE

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 1	Government Loans[2]
Amendments to IFRS 7	Disclosures — Transfers of Financial Assets[1]
Amendments to IFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
IFRS 9	Financial Instruments[3]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
IFRS 10	Consolidated Financial Statements[2]
IFRS 11	Joint Arrangements[2]
IFRS 12	Disclosure of Interests in Other Entities[2]
IFRS 13	Fair Value Measurement[2]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to IAS 12	Deferred Tax — Recovery of Underlying Assets[4]
IAS 19 (as revised in 2011)	Employee Benefits[2]
IAS 27 (as revised in 2011)	Separate Financial Statements[2]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[6]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[2]

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

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

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

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

[3] Effective for annual periods beginning on or after 1 January 2015.

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

[5] Effective for annual periods beginning on or after 1 July 2012.

[6] Effective for annual periods beginning on or after 1 January 2014.

IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 incudes the requirements for the classification and measurement of financial liabilities and for derecognition.

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

- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

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

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

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of IFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 *Financial Instruments:* Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

The directors of the Company anticipate that the application of the other new and revised IFRSs will have no material impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

BASIS OF CONSOLIDATION

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income and expense of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if it results in the non-controlling interests having a deficit balance (effective from 1 Jan 2010 onwards).

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BASIS OF CONSOLIDATION *(Continued)*

Business combination

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

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

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

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BASIS OF CONSOLIDATION *(Continued)*

Investment in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investments in associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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 an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the 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.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

GOODWILL

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that are expected to benefit from the synergies of the combination.

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

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

REVENUE RECOGNITION

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

Sale of goods is recognised when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

REVENUE RECOGNITION *(Continued)*

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes, other than mining structures and mining rights, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses. Depreciation on these assets is recognised so as to write off the cost of assets less their residual value over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

LEASING

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

PREPAID LEASE PAYMENTS

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

FOREIGN CURRENCIES

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Exchange difference from foreign currency borrowings are not regarded as borrowing costs eligible for capitalisation.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

RETIREMENT BENEFITS COSTS

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

TAXATION

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

TAXATION *(Continued)*

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

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

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

INTANGIBLE ASSETS

Intangible assets with finite useful lives acquired separately, including transportation rights and exploration right, are carried at costs less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

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

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The Group's financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

Financial assets at FVTPL

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

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

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

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

AFS financial assets

AFS financial assets are non-derivatives that are either designated or not classified as loans and receivables, held-to-maturity investments or financial assets at FVTPL.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

AFS financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less any identified impairment losses at the end of the reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

Loans and receivables

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

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

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

For AFS equity investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

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

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

For financial assets carries at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial assets, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Convertible loan notes contains liability and equity components

Convertible loan notes issued by the Group that contain both the liability and conversion option components are classified separately as financial liabilities and equity on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liabilities and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component (including the early redemption option which is closely related to the liability component) is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date (convertible loan notes reserve).

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity (convertible loan notes reserve), net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in convertible loan notes reserve until the embedded option is exercised, in which case, the balance recognised in convertible loan notes reserve will be transferred to share premium. When the conversion option remains unexercised at the expiry date, the balance recognised in convertible loan notes reserve will be transferred to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

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

Derivative financial instruments

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

Embedded derivatives

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Derecognition

Financial liabilities are derecognised when, and only when, the Group's obligation is discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value 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 assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

Share options granted to employee

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

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

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

Share options granted to consultants

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

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

DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment other than mining structures and mining rights are depreciated on a straight-line basis over their useful lives, after taking into account their estimated residual value.

Mining structures and mining rights are amortised using the units of production method based on the total proven reserves of the coal mines. The Group assesses annually the residual value and the useful life of the property, plant and equipment. If the expectation differs from the original estimate, such difference will impact the depreciation and the amortisation charged in the year in which such estimate is changed. As at 31 December 2011, the carrying amount of property, plant and equipment was RMB12,196 million (2010: RMB10,072 million). Details of property, plant and equipment are disclosed in note 16.

RESERVE ESTIMATES

As explained in note 4, mining structures and mining rights are amortised using the units of production method based on the total proven reserves of the coal mines.

Engineering estimates of the Group's mineral reserves involved subjective judgements by mineral engineers in developing such information. There is a Chinese system, which is the national standard set by the PRC Government, regarding the engineering criteria that have to be met before estimated mineral reserves can be designated as "proven". Proven reserve estimates are updated on a regular basis and are taken into account as a change in estimate for accounting purposes and are reflected on a prospective basis in related depreciation and amortisation rates. If the expectation differs from the original reserve estimate, such difference will impact the depreciation and amortisation charged in the year in which such estimate is changed. As at 31 December 2011, the carrying amount of mining structures and mining rights was RMB7,495 million (2010: RMB6,979 million).

PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

Provision for restoration and environmental costs are determined by the management based on their best estimates of the current and future cost and past experiences. If the expectation differs from the original estimate, such difference will impact the cost of production charged in the year in which such estimated is changed. As at 31 December 2011, the carrying amount of provision for restoration and environmental costs was RMB14.8 million (2010: RMB11.6 million). Details are set out in note 34.

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

ESTIMATED IMPAIRMENT OF TRADE RECEIVABLES, OTHER RECEIVABLES AND LOAN RECEIVABLES

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

As at 31 December 2011, the carrying amounts of trade receivables, other receivables and loan receivables are RMB529.4 million, RMB562.1 million and RMB27.2 million, respectively (net of allowance for doubtful debts of RMB3.0 million, RMB26.1 million and nil, respectively). (2010: Carrying amount of RMB596.1 million, RMB430.9 million and RMB25.2 million, respectively, net of allowance of doubtful debts of RMB4.7 million, RMB25.0 million and nil, respectively)

6. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which included bank borrowings disclosed in note 31, cash and cash equivalents and equity attributable to owners of the company, comprised share capital and reserves, as disclosed in notes 32 and 33, respectively.

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

7. FINANCIAL INSTRUMENTS

7A. CATEGORIES OF FINANCIAL INSTRUMENTS

	2011 ***RMB'000***	2010 *RMB'000*
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	**2,151,759**	3,278,489
FVTPL		
Held-for-trading investments	**64,541**	97,369
Derivative financial instruments	**—**	3,269
Available-for-sale financial assets	**228,330**	—
Financial liabilities		
Amortised cost	**7,012,553**	6,923,012

7. FINANCIAL INSTRUMENTS (Continued)

7B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Market risk

(i) Currency risk

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

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

	Liabilities		Assets	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
United States Dollars ("US$")	**2,496,399**	2,596,614	**15,142**	78,862
Hong Kong Dollars ("HK$")	**—**	—	**10,785**	563

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

7. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis

Non-derivative financial instruments

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

The following table details the Group's sensitivity to a 5% (2010: 5%) increase and decrease in RMB against the relevant foreign currency. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes bank balances, convertible bonds receivables and senior notes denominated in US$ and HK$. A positive/negative number below indicates an increase/decrease in post-tax profit where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	2011 ***RMB'000***	2010 *RMB'000*
Profit for the year		
— US$	**93,047**	94,416
— HK$	**(404)**	(21)

7. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(ii) Interest rate risk

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

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point (2010: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2010: 50 basis points) higher/lower and all other variables were held constant, the Group's: post-tax profit for the year ended 31 December 2011 would increase/decrease by HK$1,963,000 (2010: decrease/increase by HK$4,525,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

(iii) Other price risk

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

Sensitivity analysis

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

If the prices of the respective equity investments had been 5% higher/lower, the Group's post-tax profit for the year ended 31 December 2011 would increase/decrease by RMB2,420,000 (2010: RMB3,417,000) as a result of the changes in fair value of held-for-trading investments.

7. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk

As at 31 December 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

The Group is exposed to concentration of credit risk on trade receivables. At 31 December 2011, the five largest debtors accounted for approximately 65% (2010: 64%) of the Group's total trade receivables. The five largest debtors are well established steel manufacturers in Sichuan province which have good internal credit rating by the Group. The Group has no significant credit risk with any of these customers since the Group maintains long-term and stable business relationship. Apart from delegating a team for determining the credit limits, credit approval and other monitoring procedures on these customers, the Group had also explored new customers in order to minimise the concentration of credit risk.

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

The credit risk on deposits is limited because the counterparties have good credit rating. The credit risk on deposits paid for acquisition of land use rights is limited because the counterparties are government bodies.

Liquidity risk

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

The Group relies on bank borrowings, senior notes and convertible loan notes as a significant source of liquidity. As at 31 December 2011, the Group has bank borrowings of approximately RMB1,997 million (2010: RMB1,770 million), senior notes of approximately RMB2,496 million (2010: RMB2,597 million) and convertible loan notes of RMB1,596 million (2010: RMB1,509 million).

7. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk *(Continued)*

In order to mitigate the liquidity risk, the management regularly monitors the operating cash flow of the Group to meet its liquidity requirements in short and long term. The directors are of the opinion that, taking into consideration of the internally generated funds of the Group and the presently available banking facilities, the Group has sufficient working capital for its present requirements.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

2011

	Weighted average effective interest rate	Repayable on demand or less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total undiscounted cash flows	Carrying amount at 31.12.2011
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-derivative financial liabilities							
Bills and trade payables	—	103,458	290,560	4,400	—	398,418	398,418
Advances drawn on bills receivables discounted with recourse	4.13	—	—	23,594	—	23,594	23,000
Other payables	—	95,984	144,644	—	—	240,628	240,628
Amount due to non-controlling interest	—	15,142	—	—	—	15,142	15,142
Amount due to related companies	—	27,577	—	—	—	27,577	27,577
Other payable — consideration payable for mining right	5.40	14,457	16,648	24,427	174,108	229,640	218,492
Bank borrowings							
— floating rate	7.21	—	50,601	717,958	407,398	1,175,957	1,117,000
— fixed rate	7.14	—	—	919,270	—	919,270	880,000
Senior notes	8.63	—	—	—	2,711,089	2,711,089	2,496,399
Convertible loan notes	7.51	12,908	—	12,767	1,955,065	1,980,740	1,595,897
		269,526	502,453	1,702,416	5,247,660	7,722,055	7,012,553

7. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk *(Continued)*

2010

	Weighted average effective interest rate	Repayable on demand or less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total undiscounted cash flows	Carrying amount at 31.12.2010
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-derivative financial liabilities							
Bills and trade payables	—	51,655	176,633	43,119	—	271,407	271,407
Advances drawn on bills receivables discounted with recourse	4.38	56,415	60,768	127,727	—	244,910	241,733
Other payables	—	24,333	48,328	162,823	—	235,484	235,484
Amount due to non-controlling interest	—	15,455	—	—	—	15,455	15,455
Amount due to related companies	—	1,200	—	—	—	1,200	1,200
Other payable — consideration payable for mining right	5.31	14,448	16,562	28,815	234,620	294,445	281,724
Bank borrowings							
— floating rate	6.49	—	—	—	468,556	468,556	440,000
— fixed rate	6.28	80,437	—	679,021	697,102	1,456,560	1,330,000
Senior notes	8.63	—	—	—	2,819,923	2,819,923	2,596,614
Convertible loan notes	7.51	12,908	—	12,697	1,955,065	1,980,670	1,509,395
		256,851	302,291	1,054,202	6,175,266	7,788,610	6,923,012

Bank loans with a repayment on demand clause are included in the "Repayable on demand or less than 1 month" time band in the above maturity analysis. As at 31 December 2010, the aggregate undiscounted principal amounts of these bank loans amounted to RMB80,000,000. Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid in two years in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to RMB80,437,000.

As at 31 December 2011, no bank borrowings is with repayable on demand clause.

7. FINANCIAL INSTRUMENTS (Continued)

7C. FAIR VALUE

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

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

As at 31 December 2011, the fair value of the senior notes and convertible loan notes with carrying value of RMB2,496 million (2010: RMB2,597 million) and RMB1,596 million (2010: RMB1,509 million) respectively amounted to RMB2,052 million (2010: RMB2,597 million) and RMB1,396 million (2010: RMB1,664 million). The directors of the Company consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Fair value measurements recognised in the consolidated statement of financial position

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

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

7. FINANCIAL INSTRUMENTS *(Continued)*

7C. FAIR VALUE *(Continued)*

	31.12.2011			
	Level 1	Level 2	Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets at FVTPL				
Held for trading investments	64,541	—	—	64,541
Available-for-sale financial assets				
Unlisted equity securities	—	—	152,631	152,631

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

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

7. FINANCIAL INSTRUMENTS (Continued)

7C. FAIR VALUE (Continued)

Reconciliation of Level 3 fair value measurements of financial asset

	Unlisted equity securities RMB'000	Derivative component in convertible bond RMB'000
As at 1 January 2010	—	—
Purchase	—	2,538
Total gain or losses:		
— in profit or loss	—	731
As at 31 December 2010	—	3,269
Total gain or losses:		
— in profit or loss	—	14,656
Purchases	—	6,863
Conversion of convertible bond	152,631	(24,788)
At 31 December 2011	152,631	—

Included in consolidated statement of comprehensive income for 2011 is a fair value gain of approximately RMB14,656,000 (2010: RMB731,000) related to derivative component in convertible bond receivable.

8. REVENUE AND SEGMENT INFORMATION

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

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

8. REVENUE AND SEGMENT INFORMATION *(Continued)*

Principal activities are as follows:

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

SEGMENTS REVENUES AND RESULTS

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

	For the year ended 31 December 2011				
	Coal mining	**Coking**	**Others**	**Inter-segment eliminations**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE					
External	2,545,993	296,580	18,959	—	2,861,532
Inter-segment	238,282	—	—	(238,282)	—
Total	2,784,275	296,580	18,959	(238,282)	2,861,532
RESULTS					
Segment profit	1,351,362	144,611	7,473	—	1,503,446
Other income					134,544
Administrative expenses					(407,443)
Net gain on derivatives and held-for-trading investments					9,430
Finance costs					(308,701)
Profit before tax					931,276

8. REVENUE AND SEGMENT INFORMATION (Continued)

SEGMENTS REVENUES AND RESULTS (Continued)

	For the year ended 31 December 2010				
	Coal mining	Coking	Others	Inter-segment eliminations	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE					
External	1,730,141	696,556	10,622	—	2,437,319
Inter-segment	463,917	—	—	(463,917)	—
Total	2,194,058	696,556	10,622	(463,917)	2,437,319
RESULTS					
Segment profit	983,662	364,772	3,209	—	1,351,643
Other income					23,286
Administrative expenses					(329,513)
Net gain on derivatives and held-for-trading investments					17,151
Impairment loss recognised in respect of property, plant and equipment					(26,350)
Finance costs					(213,987)
Profit before tax					822,230

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

SEGMENT ASSETS AND LIABILITIES

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

8. REVENUE AND SEGMENT INFORMATION *(Continued)*

OTHER SEGMENT INFORMATION

	For the year ended 31 December 2011					
	Coal mining	Coking	Others	Segment total	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(Note)*	*RMB'000*
Amounts included in the measure of segment profit or loss						
Reversal of impairment loss on financial assets	(560)	—	—	(560)	—	(560)
Depreciation and amortisation	113,789	19,260	—	133,049	36,006	169,055
Provision for restoration and environmental costs	3,161	—	—	3,161	—	3,161

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

Note: The unallocated item is for the corporate headquarters, which is not included in segment information.

GEOGRAPHICAL INFORMATION

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

8. REVENUE AND SEGMENT INFORMATION *(Continued)*

INFORMATION ABOUT MAJOR CUSTOMERS

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

	2011	2010
	RMB'000	*RMB'000*
Customer A[2]	**521,052**	326,953
Customer B[3]	**476,709**	317,870
Customer C	**N/A[1]**	301,327

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

[2] Revenue from sales of clean coal amounted to RMB347,011,000 and coke amounted to RMB174,041,000 (2010: sales of clean coal amounted to RMB326,953,000).

[3] Revenue from sales of clean coal.

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

9. OTHER INCOME

	2011	2010
	RMB'000	*RMB'000*
Bank interest income	**4,690**	9,214
Interest income from convertible bond receivable	**4,893**	—
Government grant	**5,039**	62
Dividend income from held-for-trading investments	**1,259**	700
Exchange gain, net	**112,244**	8,181
Others	**6,419**	5,129
	134,544	23,286

10. FINANCE COSTS

	2011	2010
	RMB'000	*RMB'000*
Interest expenses on borrowings wholly repayable within five years:		
— bank borrowings	**74,776**	99,266
— advances drawn on bills receivable discounted	**47,911**	34,974
— convertible loan notes	**112,107**	100,673
— senior notes	**220,734**	36,863
	455,528	271,776
Less: Interest capitalised in construction in progress *(note 16)*	**(146,827)**	(57,789)
	308,701	213,987

11. PROFIT FOR THE YEAR

	2011 RMB'000	2010 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration *(Note 13)*	**2,985**	1,743
Salaries and other benefits	**330,679**	341,196
Retirement benefits scheme contributions	**14,776**	24,267
Share-based payment expense	**81,021**	32,086
Total staff costs	**429,461**	399,292
Impairment loss (reversal of impairment loss) recognised on		
— trade receivables	**(1,658)**	(4,155)
— other receivables	**1,098**	9,502
(Reversal of) impairment loss recognised on financial assets	**(560)**	5,347
Auditors' remuneration	**2,950**	2,850
Amortisation of prepaid lease payments	**678**	677
Amortisation of intangible assets (of which the RMB3,800,000 (2010: RMB3,799,000) included in distribution expenses and Nil (2010: RMB3,075,000) included in cost of sales)	**3,800**	6,874
Provision for restoration and environmental costs *(Note 34)*	**3,161**	2,317
Depreciation and amortisation of property, plant and equipment	**164,577**	120,654
Loss on disposal of property, plant and equipment	**1,240**	46
Cost of inventories recognised as an expense	**1,093,479**	744,022
Fair value loss (gain) on held for trading investment	**5,225**	(16,421)

12. INCOME TAX EXPENSES

	2011 RMB'000	2010 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	**189,864**	135,546
Underprovision in prior years	**1,982**	1,906
	191,846	137,452
Deferred tax *(Note 36)*	**8,397**	8,736
	200,243	146,188

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the statutory tax rate of the PRC subsidiaries is 25% for 2011 and 2010.

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

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

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

	2011 RMB'000	2010 RMB'000
Profit before tax	**931,276**	822,230
Tax at applicable tax rate of 25% (2010: 25%)	**232,819**	205,558
Tax effect of tax exemption	**(2,198)**	(1,140)
Tax effect of concessionary tax rate granted	**(56,926)**	(86,393)
Tax effect of income not taxable for tax purpose	**(4,993)**	(6,717)
Tax effect of expenses not deductible for tax purpose	**4,927**	10,868
Tax effect of undistributed profit of subsidiaries in the PRC	**9,880**	9,452
Tax effect of tax losses not recognised	**14,752**	12,654
Underprovision in prior years	**1,982**	1,906
Income tax expense for the year	**200,243**	146,188

12. INCOME TAX EXPENSES *(Continued)*

The provision for EIT is based on a statutory rate of 25% (2010: 25%) of the assessable profit of the group entities as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain PRC subsidiaries of the Company which are exempted from EIT or entitled to concessionary tax rate in accordance with the approval from the respective tax bureau.

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

For Tiandaoqin, Yangfan, Sichuan Hidili and Yanjiang, they were also entitled to the tax incentives in connection with the development of the western part of the PRC in 2010. The tax incentives expired and the applicable tax rate for 2011 is 12.5% (2010: 7.5%).

According to the Taxpayer Exemption Application Form（納税人減免税申請審批表, "EIT Exemption Form") issued by the local tax bureau on 4 July 2007, Liupanshui Hidili Industry Company Limited ("Liupanshui Hidili") was entitled to a 2 years exemption from EIT from 2008 to 2009 and a 50% deduction of EIT for three years from 2010 to 2012. The applicable tax rate of Liupanshui Hidili for 2011 is 12.5% (2010: 12.5%).

The Tax Law of the PRC requires withholding tax upon distribution of profits earned by the PRC subsidiaries since 1 January 2008. Deferred tax of approximately RMB65,400,000 (2010: RMB55,520,000) has been provided for in the consolidated financial statements in respect of the temporary differences attributable to such profits.

13. DIRECTORS' EMOLUMENTS AND EMPLOYEE'S EMOLUMENTS

The emoluments paid or payable to each of the 6 (2010: 6) directors were as follows:

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

	2011 *RMB'000*	2010 *RMB'000*
Directors:		
Fees	**600**	600
Basic salaries and allowances	**2,316**	976
Retirement benefit scheme contributions	**21**	17
Share-based payment expenses	**48**	150
	2,985	1,743

For the year ended 31 December 2011

	Executive directors			Independent Non-executive directors			
	Xian Yang *RMB'000*	Wang Rong *RMB'000*	Sun Jiankun *RMB'000*	Chan Chi Hing *RMB'000*	Chen Limin *RMB'000*	Huang Rongsheng *RMB'000*	Total *RMB'000*
Directors' fees	—	—	—	200	200	200	600
Basic salaries and allowances	872	662	782	—	—	—	2,316
Retirement benefit scheme contributions	10	11	—	—	—	—	21
Share-based payment expenses	—	—	—	24	—	24	48
	882	673	782	224	200	224	2,985

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

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

For the year ended 31 December 2010

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

(B) FIVE HIGHEST EMPLOYEES' EMOLUMENTS

During the year, the five highest paid individuals do not include any directors (2010: Nil) of the Company. Their emoluments were as follows:

	2011	2010
	RMB'000	*RMB'000*
Basic salaries and allowances	**1,340**	564
Retirement benefit scheme contributions	**49**	43
Share-based payment expenses	**45,582**	4,910
	46,971	5,517

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

(B) FIVE HIGHEST EMPLOYEES' EMOLUMENTS *(Continued)*

Their emoluments were within the following bands:

	2011 No. of employees	2010 No. of employees
HK$1,000,001 to HK$1,500,000	**1**	5
HK$1,500,001 to HK$2,000,000	**2**	—
HK$16,000,001 to HK$17,000,000	**1**	—
HK$25,000,001 to HK$26,000,000	**1**	—

No emoluments were paid by the Group to any of the directors or the five highest paid individual as an inducement to join or upon joining the Group or as compensation for loss of office.

No director waived any emolument during the year 2011 and 2010.

14. DIVIDENDS

	2011 ***RMB'000***	2010 *RMB'000*
Dividends recognised as distribution during the year:		
Final for 2010, paid — RMB0.065 per share (2010: 2009 final dividend RMB0.1 per share)	**134,247**	206,000

The final dividend of RMB6.9 cents (2010: RMB6.5 cents) in respect of the year ended 31 December 2011 per share has been proposed by the directors and is subject to approval by the shareholders in general meeting. During the year ended 31 December 2011, the final dividend of RMB134,247,000 representing RMB6.5 cents for ordinary shares in respect of the year ended 31 December 2010 were declared by the Board and had been recognised and distributed during the year.

15. EARNINGS PER SHARE

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

	2011 RMB'000	2010 RMB'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share (Profit for the year attributable to owners of the Company)	**713,608**	669,505

	2011 '000	2010 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,064,424**	2,060,000
Effect of dilutive potential ordinary shares: Share options	**14,896**	22,778
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,079,320**	2,082,778

The computation of diluted earnings per share for the year ended 31 December 2011 and 2010 does not assume the conversion of the Company's convertible loan notes since its assumed conversion would result in an increase in earnings per share.

The computation of diluted earnings per share for the year ended 31 December 2011 does not assume the exercises of the Company's outstanding share options granted on 26 February 2011 as the exercise price of those options is higher than the average market price to shares.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Mining structures and mining rights	Machinery	Motor vehicles	Office and electronic equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST							
At 1 January 2010	374,613	6,345,523	553,613	66,482	21,198	905,748	8,267,177
Additions	4,217	565,055	119,834	19,843	9,333	1,212,623	1,930,905
Acquired on acquisition of subsidiaries	4,576	226,788	1,581	4,027	—	84,523	321,495
Transfer	41,493	59,990	13,285	—	145	(114,913)	—
Impairment	—	—	(26,350)	—	—	—	(26,350)
Disposals	(422)	—	(1,529)	(1,271)	(279)	—	(3,501)
At 31 December 2010	424,477	7,197,356	660,434	89,081	30,397	2,087,981	10,489,726
Additions	5,292	399,140	209,691	3,112	10,816	1,670,779	2,298,830
Transfer	47,517	203,165	55,683	—	128	(306,493)	—
Disposals	(3,566)	(11,971)	(2,891)	(1,757)	(18)	—	(20,203)
At 31 December 2011	473,720	7,787,690	922,917	90,436	41,323	3,452,267	12,768,353
DEPRECIATION AND AMORTISATION							
At 1 January 2010	30,412	160,600	77,437	24,992	4,931	—	298,372
Provided for the year	10,170	57,561	39,023	12,922	978	—	120,654
Eliminated on disposals	(144)	—	(569)	(827)	(121)	—	(1,661)
At 31 December 2010	40,438	218,161	115,891	37,087	5,788	—	417,365
Provided for the year	12,639	82,004	52,467	13,569	3,898	—	164,577
Eliminated on disposals	(475)	(7,379)	(916)	(1,166)	(1)	—	(9,937)
At 31 December 2011	52,602	292,786	167,442	49,490	9,685	—	572,005
NET BOOK VALUES							
At 31 December 2011	421,118	7,494,904	755,475	40,946	31,638	3,452,267	12,196,348
At 31 December 2010	384,039	6,979,195	544,543	51,994	24,609	2,087,981	10,072,361

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

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

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

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

The construction in progress comprise mainly the main and auxiliary mine shafts and underground tunnels in the course of construction.

Depreciation and amortisation are provided to write off the cost of the mining structures and mining rights using the units of production method over the total proven reserves of the coal mine. The mining structure and mining rights have average estimated useful lives of 45 years.

At 31 December 2011, the legal titles of the mining rights with carrying values of approximately RMB1,725,537,000 (2010: RMB4,031,970,000), have not been granted by the relevant government authorities and the relevant title transfers are still under application. In the opinion of the director, taking into account of the PRC lawyer's legal opinion, all the risks and rewards of ownership of mining rights have been transferred to the Group.

Included in construction in progress, mining structures and mining rights is interest capitalised of RMB213,656,000 (2010: RMB66,829,000).

During the year ended 31 December 2010, an impairment loss of RMB26,350,000 was recognised in respect of production machinery in a coking plant. In July 2010, the Group received notification from the local government authority to cease coking operations which the production did not meet the government requirement.

17. PREPAID LEASE PAYMENTS

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

	2011	2010
	RMB'000	*RMB'000*
Current assets included in other receivables and prepayments	**1,306**	675
Non-current asset	**29,707**	30,385
	31,013	31,060

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

18. DEPOSITS

As at 31 December 2011, the deposits of RMB35,960,000 (2010: RMB93,967,000) were paid for acquisition of mines in the PRC. Up to the date of these consolidated financial statements were authorised for issuance, the Group is still negotiating with the mine owners to agree the final amount of consideration.

As at 31 December 2010, the Group entered into a memorandum of understanding with an independent third party and a deposit of RMB158,271,000 was paid for acquisition of the 41.78% equity interest in a company engaged in provision of railway logistics service, 18% equity interest a company engaged in provision of railway logistics services and 20% equity interests in a company engaged in clean coal washing in the PRC. During the year ended 31 December 2011, the acquisition was completed, which became associates and available-for-sale investments of the Group.

As at 31 December 2010, deposit of RMB66,278,000 was paid for the purchase of convertible bond receivables. The purchase was completed during the year ended 31 December 2011.

19. INTANGIBLE ASSETS

	Transportation rights *RMB'000* *(Note a)*	Exploration right *RMB'000* *(Note b)*	Total *RMB'000*
COST			
At 1 January 2010, 31 December 2010 and 31 December 2011	114,000	8,200	122,200
AMORTISATION			
At 1 January 2010	5,384	5,125	10,509
Charge for the year	3,799	3,075	6,874
At 31 December 2011	9,183	8,200	17,383
Charge for the year	3,800	—	3,800
At 31 December 2011	12,983	8,200	21,183
CARRYING VALUES			
At 31 December 2011	101,017	—	101,017
At 31 December 2010	104,817	—	104,817

Notes:

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

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

20. INTERESTS IN ASSOCIATES

	2011 *RMB'000*	2010 *RMB'000*
Cost of investment in associates — unlisted	**146,850**	—
Share of post-acquisition profits and other comprehensive income	**—**	—

Details of the Group's associates at the end of the reporting period are as follows:

Name of associate	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Company 2011	2010	Principal activity
富源金通煤焦有限公司 Translated as Fuyuan Jintong Coking Company Limited ("Fuyuan Jintong")	The PRC	**47.38%**	—	Warehouse management and provision of railway logistics service
富源昆鐵選煤有限公司 Translated as Fuyuan Kuntie Coal Washing Company Limited ("Fuyuan Kunite")	The PRC	**20%**	—	Clean coal washing and processing
雲南淮海礦業機械製造有限責任公司 Translated as Yunnan Huaihai Mining Machinery Manufacturing Company Limited ("Yunnan Huaihai")	The PRC	**49%**	—	Manufacturing of mining machinery
六盤水鐵發物流有限公司 Translated as Liupanshui Tiefa Logistics Company Limited ("Tiefa Logistics")	The PRC	**25%**	—	Warehouse management and provision of railway logistics service

Included in the cost of investments in associates is goodwill of RMB55,395,000, RMB14,870,000 and RMB676,000 arising from acquisition of Fuyuan Jintong, Fuyuan Kuntie and Yunnan Huaihai respectively.

20. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information in respect of the Group's associates is set out below.

	2011 *RMB'000*
Total assets	259,980
Total liabilities	(51,182)
Net assets	208,798
Group's share of net assets of associates	75,909

	2011 *RMB'000*
Total revenue	—
Total profit for the year since acquisition	—
Group's share of profits of associates	—
Group's share of other comprehensive income	—

21. AVAILABLE-FOR-SALE INVESTMENTS

	2011 RMB'000
Available-for-sale investments comprise:	
Unlisted equity securities	228,330

The unlisted equity investments represent 18%, 15%, 4.41% equity interest in 3 entities established in the PRC, and 5% interest in company incorporated in Laos respectively. The principal activities of the investees are provision of transportation services, manufacture of mining machinery, manufacture of herbicides and mining of potassium chloride and manufacture of potassic fertilizer, respectively. Certain unlisted equity with carrying amount of approximately RMB75,699,000 are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

22. HELD-FOR-TRADING INVESTMENTS

	2011 RMB'000	2010 RMB'000
Held-for-trading investments include:		
Listed securities		
— Equity securities listed in the PRC, at market value	2,478	50,592
— Equity securities listed in Australia, at market value	62,063	46,777
	64,541	97,369

23. INVENTORIES

	2011 RMB'000	2010 RMB'000
Coke	2,495	9,544
Coal products	74,037	129,901
Alloy pig iron	5,117	10,753
Auxiliary materials and spare parts	65,760	92,776
	147,409	242,974

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

(A) BILLS AND TRADE RECEIVABLES

	2011	2010
	RMB'000	*RMB'000*
Trade receivables	**532,391**	600,747
Less: allowance for doubtful debts	**(3,025)**	(4,683)
	529,366	596,064
Bills receivables	**691,959**	342,911
	1,221,325	938,975

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

	2011	2010
	RMB'000	*RMB'000*
Aged:		
0 — 90 days	**1,059,725**	823,981
91 — 120 days	**33,175**	96,016
121 — 180 days	**119,403**	4,169
181 — 365 days	**5,048**	4,903
Over 365 days	**3,974**	9,906
	1,221,325	938,975

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

Included in the Group's bills and trade receivables balance as at 31 December 2011 are debtors aged over 120 days with a carrying amount of RMB128,425,000 (2010: RMB18,978,000) which are past due at the reporting date for which the Group has not recognised impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable as there are continuing settlement. The Group does not hold any collateral over these balances.

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

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

Aging of trade and bills receivables which are past due but no impaired

	2011 RMB'000	2010 RMB'000
121-180 days	**119,403**	4,169
181-365 days	**5,048**	4,903
Over 365 days	**3,974**	9,906
Total	**128,425**	18,978

Movement in allowance for doubtful debts

	2011 RMB'000	2010 RMB'000
Trade receivables		
Balance at beginning of the year	**4,683**	8,838
Impairment loss recognised on receivables	**1,726**	3,844
Amounts recovered during the year	**(3,384)**	(7,999)
Balance at end of the year	**3,025**	4,683

Included in the allowance for doubtful debts are individually impaired trade receivable with an aggregate balance of RMB3,025,000 (2010: RMB4,683,000) which have in severe financial difficulties. The Group does not held any collateral over those balances.

(B) BILLS RECEIVABLES DISCOUNTED WITH RECOURSE

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

	2011 RMB'000	2010 RMB'000
Aged:		
0 — 90 days	**—**	148,390
91 — 120 days	**23,000**	93,343
	23,000	241,733

25. OTHER RECEIVABLES AND PREPAYMENTS

	2011 RMB'000	2010 RMB'000
Advance to suppliers	**166,373**	96,324
Prepayment of mining expenses	**61,006**	24,745
Prepayments	**11,006**	32,729
Transportation charges paid on behalf of customers	**32,996**	34,189
Staff advances	**41,831**	30,163
Deposits paid	**101,201**	87,302
Others	**246,905**	182,905
	661,318	488,357

Movement in allowance for doubtful debts

	2011 RMB'000	2010 RMB'000
Other receivables		
Balance at beginning of the year	**24,969**	15,467
Impairment loss recognised on receivables	**16,515**	9,502
Reversal during the year	**(15,417)**	—
Balance at end of the year	**26,067**	24,969

26. LOAN RECEIVABLE

The balances as at 31 December 2010 represented the loans advanced to an entity which was registered and operating in the PRC. The loan will be repayable in 2012 with an annual interest rate of 8%.

The amount is classified in other receivables and prepayment as at 31 December 2011.

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

27. AMOUNT DUE FROM AN ASSOCIATE/AMOUNTS DUE FROM (TO) RELATED PARTIES/AMOUNT DUE TO A NON-CONTROLLING INTEREST OF A SUBSIDIARY

(A) AMOUNT DUE FROM AN ASSOCIATE

Name of associate	**2011** ***RMB'000***	2010 *RMB'000*
Fuyuan Jintong	**1,535**	—

(B) AMOUNTS DUE FROM RELATED PARTIES

Name of related parties	**2011** ***RMB'000***	2010 *RMB'000*
Panxian Panshi *(note i)*	**16,504**	50,151
Panxian Panying *(note ii)*	**6,365**	9,694
攀枝花市恒為製鈦有限公司 (「恒為製鈦」) Translated as Hengwei Zhitai Company Limited ("Hengwei Zhitai") *(note iii)*	**6**	508
雲南凱捷實業有限公司 Translated as Yunnan Kaijie Company Limited ("Kaijie") *(note iv)*	**—**	46,589
	22,875	106,942

(C) AMOUNTS DUE TO RELATED PARTIES

Name of related parties	**2011** ***RMB'000***	2010 *RMB'000*
Mr. Xian Jilun (鮮繼倫) *(note v)*	**850**	1,200
Kaijie *(note iv)*	**26,727**	—
	27,577	1,200

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

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

27. AMOUNT DUE FROM AN ASSOCIATE/AMOUNTS DUE FROM (TO) RELATED PARTIES/AMOUNT DUE TO A NON-CONTROLLING INTEREST OF A SUBSIDIARY *(Continued)*

Notes:

(i) Panxian Panshi is an investee company in which the Group owned its 37% equity interest as explained in Note 19(a) but does not have any significant influence. The Group allows credit period of one year. The balance was of trade in nature with age within one year at 31 December 2011 and 2010.

(ii) Panxian Panying is an investee company in which the Group owned its 37% equity interest as explained in Note 19(a) but does not have any significant influence. The Group allows credit period of one year. The balance was of trade in nature with age within one year at 31 December 2011 and 2010.

(iii) Hengwei Zhitai is ultimately owned by Mr. Xian Fan, brother of Mr. Xian Yang who is a shareholder and a director of the Company. The Group allows credit period of one year. The balance was of trading in nature with age within one year at 31 December 2011 and 2010.

(iv) Kaijie is the non-controlling shareholder of the Group's subsidiaries Panxian Panxin Coke Co. Ltd and Panxian Panyi Coal Preparation Co. Ltd. The Group allows credit period of one year. The balance was of trade in nature with age within one year at 31 December 2011 and 2010.

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

All above balances are unsecured and interest free.

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

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

The pledged bank deposits of RMB165,254,000 (2010: RMB87,920,000) are used to secure the bills payable and bank borrowings which are repayable within one year. The restricted bank deposits of RMB19,603,000 (2010: RMB77,871,000) are short-term in nature and the amount is held in a bank under the requirement of the relevant government authority of the PRC. Accordingly, the pledged and restricted bank deposits are classified as current assets. Bank balances and cash comprise cash held by the Group with the original maturity of three months or less.

The average effective interest rate of the pledged and restricted bank deposits and bank balances as at 31 December 2011 is 0.71% (2010: 0.61%) per annum.

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

	2011 ***RMB'000***	2010 *RMB'000*
US$	**15,142**	12,788
HK$	**10,785**	563

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

(A) BILLS AND TRADE PAYABLES

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

	2011	2010
	RMB'000	*RMB'000*
Aged:		
0 — 90 days	**238,340**	228,850
91 — 180 days	**125,785**	19,730
181 — 365 days	**15,441**	8,763
Over 365 days	**18,852**	14,064
	398,418	271,407

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

(B) ADVANCES DRAWN ON BILLS RECEIVABLES DISCOUNTED WITH RECOURSE

	2011	2010
Effective interest rate	**4.13%**	4.38%

30. OTHER PAYABLES AND ACCRUED EXPENSES

	2011	2010
	RMB'000	*RMB'000*
Advance from customers	**244,514**	14,200
Accrued wages	**54,896**	48,090
Other tax payables	**146,282**	109,584
Accrued expenses	**44,095**	62,114
Welfare payables	**2,524**	1,100
Payables for acquisition of property, plant and equipment	**139,079**	108,262
Other long term payables — due within one year *(Note 35)*	**54,394**	58,934
Others	**83,884**	60,713
	769,668	462,997

31. BANK BORROWINGS

	2011 RMB'000	2010 RMB'000
Secured	**1,397,000**	1,770,000
Unsecured	**600,000**	—
Bank loans	**1,997,000**	1,770,000

The bank borrowings are repayable as follows:

	2011 RMB'000	2010 RMB'000
Carrying amount of bank borrowings repayable*:		
Within one year	**1,617,000**	596,000
More than one year, but not exceeding two years	**150,000**	336,000
More than two years, but not exceeding five years	**230,000**	758,000
	1,997,000	1,690,000
Carrying amount of bank loans that are not repayable one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	**—**	80,000
Total bank borrowings	**1,997,000**	1,770,000
Less: Amount due within one year shown under current liabilities	**(1,617,000)**	(676,000)
Amount due after one year	**380,000**	1,094,000

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

31. BANK BORROWINGS *(Continued)*

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

	2011	2010
	RMB'000	*RMB'000*
Within one year	**880,000**	676,000
More than one year, but not exceeding two years	**—**	276,000
More than two years, but not exceeding five years	**—**	378,000
	880,000	1,330,000

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

	2011	2010
Effective interest rates:		
Fixed-rate borrowings	**5.04% to 8.50%**	4.68% to 8.10%
Variable-rate borrowings	**6.34% to 7.87%**	5.76% to 7.02%

All of the Group's borrowings are denominated in functional currency of the relevant group entities.

During the year ended 31 December 2011, the Group obtained new loans in an aggregate amount of RMB1,457 million (2010: RMB1,845 million). These loans carry interest at prevailing market rates and are repayable over a period of one to five years. The proceeds were used to finance the acquisition of property, plant and equipment, repayment of existing debts and for general working capital purpose of the Group.

As at 31 December 2010, long-term secured bank loans of RMB594 million and short-term secured bank loans of RMB216 million were secured by the Group's 100% equity interests in Shenzhen Hengxin Dingli Commercial Trading Company Limited ("Shenzhen Hengxin"). The loan was repaid during the year ended 31 December 2011 and the pledges were released.

Details of the assets pledged for the secured bank borrowings are further set out in note 43.

32. SHARE CAPITAL

	Number of shares *(in thousand)*		Amount *HK$'000*		Equivalent to *RMB'000*	
	2011	2010	**2011**	2010	**2011**	2010
Ordinary shares of HK$0.1 each						
Authorised:						
At 1 January 2010, 31 December 2010 and 31 December 2011	**10,000,000**	10,000,000	**1,000,000**	1,000,000		
Issued and fully paid:						
At beginning of year	**2,060,000**	2,060,000	**206,000**	206,000	**198,605**	198,605
Exercise of share options *(Note)*	**5,653**	—	**565**	—	**473**	—
At end of year	**2,065,653**	2,060,000	**206,565**	206,000	**199,078**	198,605

Note:

During the year ended 31 December 2011, 5,653,000 share options were exercised by Directors, employees and consultants under the Group's share option scheme at exercise price of HK$3.15. The new shares rank pari passu in all respects with other shares in issue. Further details of the share option scheme are provided in note 44.

33. RESERVES

(A) STATUTORY SURPLUS RESERVE

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

(B) FUTURE DEVELOPMENT FUND

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

(C) SPECIAL RESERVE

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

34. PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

	RMB'000
At 1 January 2010	9,329
Provision for the year	2,317
At 31 December 2010	11,646
Provision for the year	3,161
At 31 December 2011	14,807

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

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

35. OTHER LONG TERM PAYABLES

	2011	2010
	RMB'000	*RMB'000*
Other long term payables comprise of:		
Consideration payable for mining right *(Note)*	**218,492**	281,724
Less: Amount due within one year shown under current liabilities (included in other payables and accrued expenses)	**(54,394)**	(58,934)
	164,098	222,790

Note:

Pursuant to the mining right agreements entered into between the Group and the relevant government authority of the PRC from 2008 to 2011, the consideration payable for the mining right in respect of the mining site located at Guizhou Province carried interest at prevailing market rates and is repayable in instalments over two to ten years. The effective interest rate is 5.31%.

36. DEFERRED TAX LIABILITIES

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

	Withholding tax on undistributed profits of PRC subsidiaries	Fair value adjustment on property, plant and equipment at acquisition	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2010	46,068	198,614	244,682
Arising from acquisition of subsidiaries *(Note 37)*	—	53,571	53,571
Charge (credit) to profit or loss	9,452	(716)	8,736
At 31 December 2010	55,520	251,469	306,989
Charge (credit) to profit or loss	9,880	(1,483)	8,397
At 31 December 2011	65,400	249,986	315,386

Under the New Law of PRC, withholding tax is imposed on dividend declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. At 31 December 2011, deferred tax has been provided in respect of temporary differences attributable to such retained profits.

At the end of the reporting period, the Group has unused tax losses of approximately RMB154,882,000 (2010: RMB95,874,000) available for offset against future profits. No deferred tax assets has been recognised in respect of such losses due to the unpredictability of future profit streams. All these tax losses will expire during 2012 to 2016.

37. ACQUISITION OF SUBSIDIARIES AND GOODWILL

(A) ACQUISITION OF SUBSIDIARIES — 2010

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

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

	Fair value *RMB'000*
Net assets acquired:	
Property, plant and equipment	321,495
Inventories	1,557
Other receivables	21,999
Bank balances and cash	275
Other payable	(140,439)
Bank borrowings	(10,000)
Deferred tax liability	(53,571)
	141,316
Satisfied by:	
Deposit paid in 2009	141,316
Net cash inflow arising on acquisition:	
Bank balances and cash acquired	275

Fuyuan Fude and Sichuan Dexin contributed RMB8,888,000 and RMB579,000 to the Group's profit and loss respectively for the period between the date of acquisition and the year ended 31 December 2010.

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

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

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

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

For the purposes of impairment testing, the carrying amount of goodwill has been allocated to cash generating units ("CGUs") included in coking segment and coal mining segment. The recoverable amount of these units have been determined based on a value in use calculation which is based on financial budgets approved by management covering a period of 5 years and discount rate of 15% (2010: 15%). Cash flows beyond the period of 5 years are extrapolated using a zero growth rate. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development.

During the year ended 31 December 2011, management of the Group determined that there is no impairment in these CGUs containing goodwill as the recoverable amount is higher than its carrying amount.

38. SENIOR NOTES

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

The Notes are listed on the Singapore Exchange Securities Trading Limited. They are secured on the capital stock of , and guaranteed by, certain of the Company's existing subsidiaries at the date of issue other than those established under the laws of the PRC. The fair value of the senior notes as at 31 December 2011 was RMB2,052 million (2010: RMB2,597 million).

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

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

The fair value of the redemption right was insignificant as at 31 December 2011.

39. CONVERTIBLE LOAN NOTES

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

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

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

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

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

	RMB'000
Initial recognition, net of issue cost	1,422,260
Effective interest expenses	100,673
Interest paid	(13,538)
At 31 December 2010	1,509,395
Effective interest expenses	112,107
Interest paid	(25,605)
At 31 December 2011	1,595,897

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

(A) CONVERTIBLE BOND SUBSCRIBED IN 2011

During the year ended 31 December 2011, the Group subscribed an unlisted convertible bond with principal amount of US$10,000,000 (equivalent to RMB66,278,000) which carries 12% coupon interest issued by an independent third party which is a private company engaged in manufacture of potassic fertilizer in Laos. On maturity on 30 December 2013, the bond will be redeemed with 15% maturity premium. The bond entitle the Group to convert them into ordinary shares from the date of fulfilment of conversion condition at a conversion price of USD$2000 per convertible bond. The fair value at initial recognition of the receivable and derivative component, which amount to RMB59,415,000 and RMB6,863,000 respectively, are determined based on the valuation provided by an independent professionally qualified valuer not connected with the Group. Subsequent to initial recognition, the receivable component is carried at amortised cost using the effective interest method.

On 30 September 2011, the Group converted all the outstanding convertible bonds into unlisted ordinary shares and classified them as the available-for-sale investment with carrying value of RMB84,925,000 (Note 21), which was the sum of fair value of the derivative component of convertible bonds and the carrying value of debt component at the conversion date.

The convertible bond was recognised as follows:

	Debt component *RMB'000*	**Derivative component** *RMB'000*
At date of subscription	59,415	6,863
Fair value gain credited to profit or loss	—	13,754
Imputed interest income	4,893	—
Conversion	(64,308)	(20,617)
At 31 December 2011	—	—

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

(A) CONVERTIBLE BOND SUBSCRIBED IN 2011 *(Continued)*

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

(i) Valuation of receivable component

The fair value of receivable component was calculated based on the present value of contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the credit rating of the convertible bonds issuer and maturity term. The effective interest rate of the receivable component is 16.47%.

(ii) Valuation of derivative components

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

	(Date of subscription) 31 March 2011	**(Date of conversion) 30 September 2011**
Expected Volatility *(Note a)*	43.72%	44.53%
Dividend yield	0%	0%
Option life	2.75 years	2.25 years
Risk free rate *(Note b)*	1.46%	0.6742%
Probability of IPO	30%	80%

Notes:

a. The expected volatility was estimated based on the average derivations of the continuously compounded rates of return on the share price of industry average.

b. The risk-free interest rate was determined by reference to yield of 2-years US Zero Rate Curve as at valuation date.

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

(B) CONVERTIBLE BOND SUBSCRIBED IN 2010

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

On 12 March 2011, the Group converted all the outstanding convertible bonds into unlisted ordinary shares and classified them as available-for-sale investment with carrying value of RMB67,707,000 (Note 21), which was the sum of carrying value of the debt component and the fair value of the derivative component of convertible bonds at the conversion date.

The movement of the convertible bond for the year is set out as follows:

	Debt component *RMB'000*	**Derivative component** *RMB'000*
At date of subscription	63,356	2,538
Fair value gain credited to profit or loss	—	731
At 1 January 2011	63,536	3,269
Fair value gain credited to profit or loss	—	902
Conversion	(63,536)	(4,171)
At 31 December 2011	—	—

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

(B) CONVERTIBLE BOND SUBSCRIBED IN 2010

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

(i) Valuation of receivable component

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

(ii) Valuation of derivative components

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

	(Date of subscription) 20 December 2010	(Date of conversion) 12 March 2011
Conversion price	US$1.919	US$1.919
Expected volatility *(Note a)*	49.83%	45.26%
Dividend yield	0%	0%
Option life	2 years	1.8 years
Risk free rate *(Note b)*	0.69%	0.71%

Notes:

a. The expected volatility was estimated based on the average derivations of the continuously compounded rates of return on the share price of industry average.

b. The risk-free interest rate was determined by reference to yield of 2-years Hong Kong Government Bloomberg Fair Value Curve as at valuation date.

41. OPERATING LEASE

THE GROUP AS LESSEE

Minimum lease payments paid under operating leases during the year:

	2011 RMB'000	2010 RMB'000
Premises	**23,224**	19,193

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

	2011 RMB'000	2010 RMB'000
Within one year	**19,626**	4,104
Between two and five years	**5,245**	5,443
Over five years	**226**	487
	25,097	10,034

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

42. CAPITAL COMMITMENTS

	2011 RMB'000	2010 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**611,311**	302,549

43. PLEDGE OF ASSETS

Other than as disclosed in notes 28, 31 and 38, at the end of respective reporting period, the Group pledged the following assets to banks for credit facilities granted to the Group:

	2011	2010
	RMB'000	*RMB'000*
Property, plant and equipment	**1,142,252**	1,585,642
Bank deposits	**165,254**	87,920
Bills receivable	**142,320**	80,000
Prepaid lease payments	**—**	5,718
	1,449,826	1,759,280

44. SHARE OPTION SCHEME

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

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

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

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

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

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

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

44. SHARE OPTION SCHEME *(Continued)*

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

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

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

At 31 December 2011, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 92,447,000 (2010: 43,100,000), representing 4.48% (2010: 2.09%) of the shares of the Company in issue at that date. The directors and employees should be remained in office or employed by the Group for the options to be vested.

44. SHARE OPTION SCHEME *(Continued)*

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

DIRECTORS

Date of grant	Exercisable period	Remaining life	Exercise price	Outstanding at 1.1.2011	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2011
		years	*HK$*					
30.4.2009	30.4.2010-24.8.2017	5.56	3.15	80,000	—	(40,000)	—	40,000
30.4.2009	30.4.2011-24.8.2017	5.56	3.15	80,000	—	(40,000)	—	40,000
30.4.2009	30.4.2012-24.8.2017	5.56	3.15	40,000	—	—	—	40,000
				200,000	—	(80,000)	—	120,000
Exercisable as at 31 December 2011								80,000

EMPLOYEES

Date of grant	Exercisable period	Remaining life	Exercise price	Outstanding at 1.1.2011	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2011
		years	*HK$*					
30.4.2009	30.4.2010-24.8.2017	5.56	3.15	17,128,000	—	(5,541,000)	—	11,587,000
30.4.2009	30.4.2011-24.8.2017	5.56	3.15	17,128,000	—	—	—	17,128,000
30.4.2009	30.4.2012-24.8.2017	5.56	3.15	8,564,000	—	—	—	8,564,000
26.2.2011	27.2.2012-24.8.2017	5.56	6.604	—	21,960,000	—	—	21,960,000
26.2.2011	27.2.2013-24.8.2017	5.56	6.604	—	21,960,000	—	—	21,960,000
26.2.2011	27.2.2014-24.8.2017	5.56	6.604	—	10,980,000	—	—	10,980,000
				42,820,000	54,900,000	(5,541,000)	—	92,179,000
								28,715,000

44. SHARE OPTION SCHEME *(Continued)*

CONSULTANT

Date of grant	Exercisable period	Remaining life *years*	Exercise price *HK$*	Outstanding at 1.1.2011	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2011
30.4.2009	30.4.2010-24.8.2017	5.56	3.15	32,000	—	(32,000)	—	—
30.4.2009	30.4.2011-24.8.2017	5.56	3.15	32,000	—	—	—	32,000
30.4.2009	30.4.2012-24.8.2017	5.56	3.15	16,000	—	—	—	16,000
26.2.2011	27.2.2012-24.8.2017	5.56	6.604	—	40,000	—	—	40,000
26.2.2011	27.2.2013-24.8.2017	5.56	6.604	—	40,000	—	—	40,000
26.2.2011	27.2.2014-24.8.2017	5.56	6.604	—	20,000	—	—	20,000
				80,000	100,000	(32,000)	—	148,000
Exercisable as at 31 December 2011								32,000
Total				43,100,000	55,000,000	(5,653,000)	—	92,447,000

DIRECTORS

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

44. SHARE OPTION SCHEME *(Continued)*

EMPLOYEES

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

CONSULTANT

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

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$6.96.

44. SHARE OPTION SCHEME *(Continued)*

During the year, 55,000,000 (2010: Nil) options were granted on 26 February 2011. The estimated fair values of the options granted on 26 February 2011 with vesting date on 27 February 2012, 27 February 2013 and 27 February 2014 are HK$63,811,000 (equivalent to approximately RMB53,833,000), HK$67,661,000 (equivalent to approximately RMB57,081,000) and HK$32,968,000 (equivalent to approximately RMB27,813,000) respectively.

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

	26 February 2011	**26 February 2011**	**26 February 2011**
Vesting date	26 February 2012	26 February 2013	26 February 2014
Grant date share price	HK$6.45	HK$6.45	HK$6.45
Exercise price	HK$6.604	HK$6.604	HK$6.604
Expected volatility	57.52%	57.52%	57.52%
Risk-free interest rate	2.334%	2.334%	2.334%

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

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

The Group recognised the total expense of RMB81,217,000 (2010: RMB32,305,000) for the year ended 31 December 2011 in relation to the share options granted by the Company in which approximately RMB81,021,000 (2010: RMB32,086,000) was related to options granted to the Group's employees, RMB48,000 (2010: RMB150,000) was related to options granted to directors and RMB148,000 (2010: RMB69,000) was related to options granted by the Company to the consultant.

During the year ended 31 December 2011, no share options have been cancelled or lapsed under the Scheme.

45. RELATED PARTY TRANSACTIONS

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

Name of Company	Relationship	Nature of transactions	2011 RMB'000	2010 RMB'000
Fuyuan Jintong	An associate	Transportation costs payable by the Group	**3,832**	—
Panxian Panshi	An investee company	Transportation costs payable by the Group	**4,461**	18,402
Panxian Panying	An investee company	Transportation costs payable by the Group	**3,814**	3,127
Kaijie	Controlling shareholder of Panxian Panshi and Panxian Panying	Transportation costs payable by the Group	**6,781**	6,207
Hengwei Zhitai	A company ultimately owned by Mr. Xian Fan, brother of Mr. Xian Yang	Technical support income receivable by the Group	**—**	740
		Sales	**499**	43
Mr. Xian Jilun	Father of Mr. Xian Yang	Rental payable by the Group	**850**	1,200

As at 31 December 2011, the director, Mr. Xian Yang guaranteed the bank borrowings of approximately RMB946 million (2010: RMB1,353 million).

45. RELATED PARTY TRANSACTIONS *(Continued)*

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

	2011	2010
	RMB'000	*RMB'000*
Short-term benefits	**4,256**	2,140
Post-employment benefits	**70**	60
Share-based payments	**45,630**	5,060
	49,956	7,260

46. RETIREMENT BENEFITS SCHEME

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

As at 31 December 2011 and 2010, the Group had no significant obligation apart from the contribution as stated above.

47. MAJOR NON-CASH TRANSACTION

During the year end 31 December 2011, the consideration for the purchase of convertible bond receivables was satisfied by the deposit of RMB66,278,000 paid in the year ended 31 December 2010. On 12 March 2011 and 30 September 2011, the Group converted its convertible bond receivables into unlisted ordinary shares and classified them as available-for-sale investments at RMB152,631,000.

During the year ended 31 December 2011, the consideration for the purchase of associates and available-for-sale investment was settled by the deposits of RMB103,571,000 and RMB54,700,000 respectively paid in the year ended 31 December 2010.

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2011	2010
	RMB'000	*RMB'000*
NON-CURRENT ASSETS		
Investments in subsidiaries	**1,074,424**	1,074,424
CURRENT ASSETS		
Other receivables and prepayments	**16,970**	35,666
Amounts due from subsidiaries	**6,301,423**	6,915,884
Bank balances and cash	**7,160**	31,546
	6,325,553	6,983,096
CURRENT LIABILITY		
Other payables and accrued expenses	**22,298**	22,298
NET CURRENT ASSETS	**6,303,255**	6,960,798
TOTAL ASSETS LESS CURRENT LIABILITY	**7,377,679**	8,035,222
CAPITAL AND RESERVES		
Share capital *(note 32)*	**199,078**	198,605
Reserves	**3,086,305**	3,730,608
	3,285,383	3,929,213
NON-CURRENT LIABILITIES		
Convertible loan notes	**1,595,897**	1,509,395
Senior notes	**2,496,399**	2,596,614
	7,377,679	8,035,222

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries as at 31 December 2011 and 2010 are as follows:

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

Notes:

(1) Sino-foreign owned enterprise established in the PRC.

(2) Domestic enterprise established in the PRC.

The above companies are limited liabilities companies.

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

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

Financial Summary

	2011	2010	2009	2008	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**2,861,532**	2,437,319	1,495,396	2,488,449	1,042,541
Profit attributable to owners of the Company	**713,608**	669,505	403,509	1,003,350	570,289

	2011	2010	2009	2008	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	**12,895,361**	10,707,160	8,403,847	5,291,630	2,689,235
Current assets	**2,923,826**	3,931,178	2,497,090	1,994,337	4,352,264
Current liabilities	**(3,045,934)**	(1,760,490)	(3,586,319)	(1,358,705)	(2,019,916)
Non-current liabilities	**(4,966,587)**	(5,741,434)	(891,535)	(52,708)	(6,116)
Total equity	**7,806,666**	7,136,414	6,423,083	5,874,554	5,015,467
Minority interests	**(182,834)**	(163,602)	(145,087)	(35,759)	(6,982)
Equity attributable to owners of the Company	**7,623,832**	6,972,812	6,277,996	5,838,795	5,008,485

SEGMENT ANALYSIS

	2011	2010	2009	2008	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover					
Coal mining	**2,545,993**	1,730,141	614,522	1,234,831	434,553
Coking	**296,580**	696,556	871,702	1,242,423	537,580
Others	**18,959**	10,622	9,172	11,195	70,408
Segment results					
Coal mining	**1,351,362**	983,662	256,483	627,715	256,142
Coking	**144,611**	364,772	458,683	708,425	341,361
Others	**7,473**	3,209	2,255	995	33,693

Hidili 恒鼎