SHOUGANG FUSHAN RESOURCES GROUP LIMITED

Stock Code : 639

INTERIM REPORT 2012

CONTENTS

CORPORATE INFORMATION

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

CORPORATE INFORMATION (Continued)

Company Secretary	Cheng Man Ching
Auditor	BDO Limited
Share Registrars	Tricor Tengis Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Registered Office and Principal Place of Business	6th Floor Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong
Stock Code	639
Website	www.shougang-resources.com.hk

FINANCIAL HIGHLIGHTS

(HK$'000)	**For the six months ended 30 June 2012**	For the six months ended 30 June 2011	Percentage change
Revenue	**3,339,013**	3,898,544	–14%
Gross profit	**2,311,080**	2,904,684	–20%
Gross profit margin	**69%**	75%	
Operating profit	**1,800,934**	2,192,710	–18%
EBITDA[1]	**2,071,757**	2,454,106	–16%
Profit for the period	**1,251,315**	1,371,831	–9%
Profit attributable to owners of the Company ("Owners")	**1,005,539**	1,131,062	–11%
Earnings per share (HK cents)	**18.79**	21.02	–11%

(HK$'000)	**As at 30 June 2012**	As at 31 December 2011	Percentage change
Total assets	**25,210,449**	27,000,297	–7%
of which: Unpledged bank balances and cash	**3,644,859**	4,517,196	–19%
Unpledged bill receivables	**1,602,594**	2,224,366	–28%
Total liabilities	**(5,008,571)**	(6,442,164)	–22%
of which: Total borrowings	**(313,230)**	(897,848)	–65%
Gearing ratio[2]	**1.55%**	4.37%	
Current ratio[3]	**2.5 times**	2.0 times	+25%
Total equity/Net assets	**20,201,878**	20,558,133	–2%
of which: Equity attributable to Owners	**18,632,236**	18,966,579	–2%
Equity per share attributable to Owners (HK$)	**3.51**	3.53	–1%

The board of directors has declared an 2012 interim dividend of HK5 cents (2011 interim: HK6 cents) per ordinary share.

Notes:

1. EBITDA is defined as operating profit plus depreciation and amortisation.

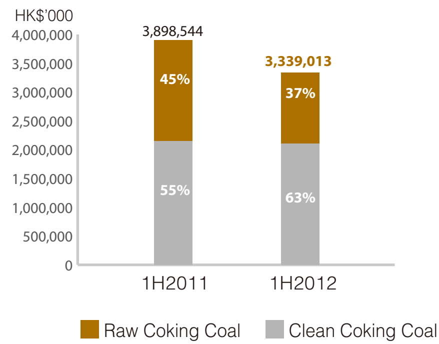
2. Gearing ratio is computed from total borrowings divided by total equity.

3. Current ratio is computed from current assets divided by current liabilities.

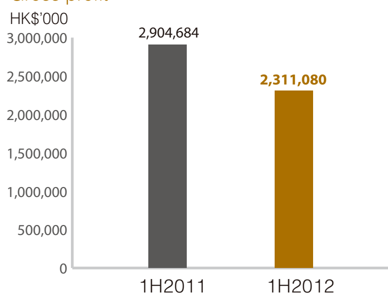
FINANCIAL HIGHLIGHTS (Continued)

Profit & Loss Summary

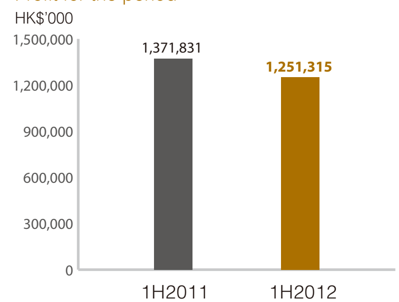
Revenue



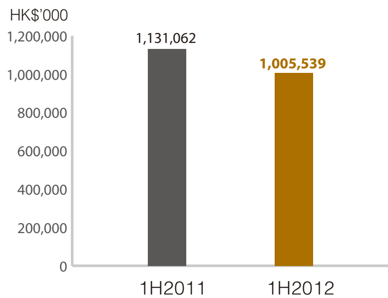
Gross profit



Profit for the period

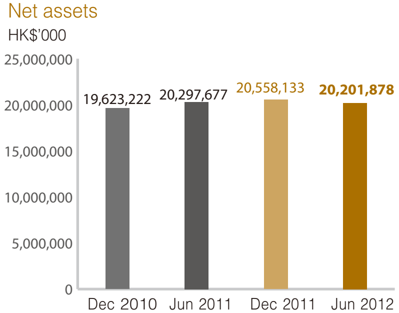


Profit attributable to Owners

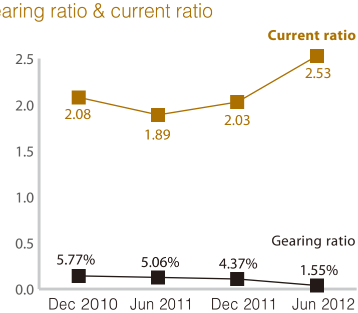


Healthy Financial Position

Net assets



Gearing ratio & current ratio



CHAIRMAN'S STATEMENT

Dear Honorable Shareholders,

On behalf of the Board of Directors of Shougang Fushan Resources Group Limited ("Shougang Resources" or the "Company"), I hereby present the consolidated interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2012 (the "period under review").

The economic growth was slowed down in China in the first half of 2012

The economy growth was slowed down in China in the first half of 2012, gross domestic product (GDP) still amounted to RMB22.7 trillion, a year-on-year growth by 7.8%. Nevertheless, it's still one of the fastest growing economy in terms of GDP growth as compared to other regions of the world. Fixed assets investment ("FAI") (excluding farmers) in the first half grew by 20.4% year-on-year; real estate investment increased by 22.1% year-on-year; rail transport in FAI decreased sharply by 36.9% year-on-year. In addition, heavy trucks and steel-made ship production volume decreased by 8.8% and 2.9% respectively in the first 5 months; industrial boiler production volume also decreased sharply by 25.4% year-on-year. As a result of slowdown in demand, domestic crude steel production volume reached 357 million tonnes in the first half of the year, increased by approximately 1.8% year-on-year, which directly affected the demand for coking coal, and explained why the price of coking coal was on a downward trend.

During the period under review, the Group produced 3.04 million tonnes of raw coking coal and 1.23 million tonnes of clean coking coal. Management had followed the objective set by the Group to strengthen the emphasis in developing the clean coking coal business and thus clean coking coal production volume was up 4% year-on-year.

The Group's average realised selling price of raw and clean coking coal (inclusive of VAT) was RMB1,064/tonne (a year-on-year increase of 5%) and RMB1,687/tonne (a year-on-year decrease of 7%) respectively. The Group's 2012 interim profit was HK$1,251 million, a year-on-year decrease of 9% and the Group's 2012 interim profit attributable to owners of the Company was HK$1,006 million, a year-on-year decrease by 11%.

The three premium operating coking coal mines at Shanxi Province operate well

The three premium operating coking coal mines of the Group situated in Liulin County, Shanxi Province, all possess their own individual preparation plants, these preparation plants have sufficient capacity to process all of raw coal produced by our three coal mines. Our strong fundamentals gave us the ability to capture any future opportunities in the clean coking coal business.

CHAIRMAN'S STATEMENT (Continued)

Outlook

On 22 March 2012, the National Energy Board released the "12th Five-Year Development Plan of Coal Industry", through implementing consolidation of the sector, and ultimately reducing the total number of the domestic coal mining enterprises to less than 4,000, the average annual production capacity will be more than 1 million tonnes per enterprise. In addition, a draft "Interim Provisions for Development and Utilisation for Special and Scarce Coal Class" proposed that special and scarce coal type will be strictly under production control, all new mines are not allowed to expand production capacity within 10 years. Thus, the total production volume of coking coal will decrease and have a positive support on the price of coking coal. Since Shougang Resources possesses three premium operating coking coal mines in Shanxi, the Group will be benefit from this.

Looking into the second half of the year, there are still many uncertainties within the global economy. The European economy is still troubled by the sovereign debt crisis; the U.S. unemployment rate is still high, the real estate market and consumer confidence index remained weak. As for China, since inflation rate had dropped, the Central Bank implements more easing monetary policy. At the same time the Government will continue to invest into FAI projects such as: continue to build more affordable housing to meet the housing needs of the citizens; Ministry of Housing set a target to build more than 7 million units in 2012, by July 2012 3.6 million units had been built and that accounted for 51% of the target. For the second half of 2012 ahead, the situation is expected to remain conservatively optimistic.

For the second half of the year, we will continue to operate based on "safety first, implementing precautionary measures, integrated management," and enhance staff training and provide a safe working environment for our employees. At the same time through the optimisation of underground management to improve the recovery rate and maximise the effectiveness of the operations. The Group will take advantage of the strong cash flow to actively look for acquisition opportunities both domestically and overseas to expand our resources reserve and production capacity. We will continue to access the situation and seize the opportunity to maximise shareholder value.

To reward the continual support of our shareholders, the Board of Directors of Shougang Resources declared 2012 interim dividend of HK5 cents per share.

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

Li Shaofeng
Chairman

Hong Kong, 28 August 2012

INDEPENDENT REVIEW REPORT

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111 Connaught Road Central
Hong Kong

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

INTRODUCTION

We have reviewed the interim financial report set out on pages 9 to 40 which comprise the consolidated statement of financial position of Shougang Fushan Resources Group Limited and its subsidiaries as of 30 June 2012 and the related consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of the interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with HKAS 34.

Our responsibility is to express a conclusion on this interim financial report based on our review and to report our conclusion 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.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the interim financial report.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report is not prepared, in all material respects, in accordance with HKAS 34.

BDO Limited
Certified Public Accountants
Au Yiu Kwan
Practising Certificate Number P05018

Hong Kong, 28 August 2012

INTERIM FINANCIAL REPORT

The board of directors (the "Board") of Shougang Fushan Resources Group Limited (the "Company") is pleased to report the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2012. These interim results have been reviewed by the Company's Audit Committee and its Auditor.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Notes	Six months ended 30 June **2012** ***HK$'000*** **(Unaudited)**	 2011 *HK$'000* (Unaudited and restated)
Continuing operations			
Revenue	*3*	**3,339,013**	3,898,544
Cost of sales		**(1,027,933)**	(993,860)
Gross profit		**2,311,080**	2,904,684
Other operating income	*4*	**143,519**	136,176
Selling and distribution expenses		**(196,332)**	(332,720)
General and administrative expenses		**(199,415)**	(358,164)
Other operating expenses		**(257,918)**	(157,266)
Operating profit		**1,800,934**	2,192,710
Finance costs	*5*	**(11,702)**	(26,062)
Change in fair value of derivative financial instruments		**(11,350)**	4,082
Share of loss of associate		**(203)**	(92)
Profit before income tax	*6*	**1,777,679**	2,170,638
Income tax expense	*7*	**(526,364)**	(663,132)
Profit for the period from continuing operations		**1,251,315**	1,507,506
Discontinued operations			
Loss for the period from discontinued operations	*8*	**–**	(135,675)
Profit for the period		**1,251,315**	1,371,831
Other comprehensive income for the period			
Exchange differences on translation of financial statements of foreign operations		**(91,876)**	240,713
Fair value loss on financial assets measured at fair value through other comprehensive income	*2.3*	**(372,392)**	(233,518)
Total comprehensive income for the period		**787,047**	1,379,026

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

For the six months ended 30 June 2012

	Notes	Six months ended 30 June 2012 HK$'000 (Unaudited)	2011 HK$'000 (Unaudited and restated)
Profit for the period attributable to:			
Owners of the Company		**1,005,539**	1,131,062
Non-controlling interests		**245,776**	240,769
Profit for the period		**1,251,315**	1,371,831
Total comprehensive income for the period attributable to:			
Owners of the Company		**552,431**	1,108,292
Non-controlling interests		**234,616**	270,734
Total comprehensive income for the period		**787,047**	1,379,026
		HK(Cents)	*HK(Cents)*
Earnings per share from continuing and discontinued operations	*10*		
– Basic		**18.79**	21.02
– Diluted		**18.78**	21.00
Earnings per share from continuing operations	*10*		
– Basic		**18.79**	22.69
– Diluted		**18.78**	22.67

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Notes	**At 30 June 2012 *HK$'000* (Unaudited)**	At 31 December 2011 *HK$'000* (Audited and restated)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*11*	**3,385,596**	3,103,343
Prepaid lease payments		**46,967**	48,068
Mining rights		**10,418,249**	10,563,452
Goodwill		**2,231,157**	2,246,812
Interests in an associate		**19,608**	19,950
Financial assets measured at fair value through other comprehensive income	*2.3*	**1,398,581**	1,771,034
Deposits, prepayments and other receivables		**368,764**	465,370
Deferred tax assets		**18,415**	17,806
Total non-current assets		**17,887,337**	18,235,835
Current assets			
Inventories		**198,074**	190,507
Trade and bill receivables	*12*	**2,805,701**	3,350,955
Deposits, prepayments and other receivables		**291,968**	98,216
Loan to a party	*13*	**–**	234,342
Amounts due from other parties		**20,753**	19,087
Derivative financial instruments		**21**	18
Pledged bank deposits	*14*	**361,736**	354,141
Time deposits with original maturity over three months		**1,620,121**	–
Cash and cash equivalents	*15*	**2,024,738**	4,517,196
Total current assets		**7,323,112**	8,764,462

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 30 June 2012

	Notes	**At 30 June 2012** ***HK$'000*** **(Unaudited)**	At 31 December 2011 *HK$'000* (Audited and restated)
Current liabilities			
Trade and bill payables	*16*	**953,870**	1,031,431
Other payables and accruals		**1,219,775**	1,647,612
Borrowings	*17*	**313,230**	897,848
Derivative financial instruments		**12,771**	991
Amounts due to other parties		**16,653**	14,545
Amounts due to non-controlling interests of subsidiaries		**19,891**	18,776
Tax payables		**360,222**	699,537
Total current liabilities		**2,896,412**	4,310,740
Net current assets		**4,426,700**	4,453,722
Total assets less current liabilities		**22,314,037**	22,689,557
Non-current liabilities			
Deferred tax liabilities		**2,112,159**	2,131,424
Total non-current liabilities		**2,112,159**	2,131,424
Net assets		**20,201,878**	20,558,133
EQUITY			
Equity attributable to owners of the Company			
Share capital	*18*	**530,184**	537,751
Reserves		**18,102,052**	18,428,828
Total equity attributable to owners of the Company		**18,632,236**	18,966,579
Non-controlling interests		**1,569,642**	1,591,554
Total equity		**20,201,878**	20,558,133

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Equity attributable to owners of the Company									Non-controlling interests	Total equity
	Share capital	Share premium	Statutory reserve	Other reserves	Retained profits	Share-based compensation reserve	Security investment reserve	Translation reserve	Total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011 (Audited)	538,056	14,618,903	260,455	271,331	972,786	387,081	670,402	430,880	18,149,894	1,473,328	19,623,222
Share-based compensation (Unaudited)	–	–	–	–	–	139,369	–	–	139,369	–	139,369
2010 final dividends approved (Unaudited)	–	–	–	–	(538,056)	–	–	–	(538,056)	–	(538,056)
Dividends paid to non-controlling interests of subsidiaries (Unaudited)	–	–	–	–	–	–	–	–	–	(305,884)	(305,884)
Transactions with owners of the Company (Unaudited)	–	–	–	–	(538,056)	139,369	–	–	(398,687)	(305,884)	(704,571)
Profit for the period (Unaudited)	–	–	–	–	1,131,062	–	–	–	1,131,062	240,769	1,371,831
Other comprehensive income:											
– Fair value loss on financial assets measured at fair value through other comprehensive income (Unaudited)	–	–	–	–	–	–	(233,518)	–	(233,518)	–	(233,518)
– Exchange differences on translation of financial statements of foreign operations (Unaudited)	–	–	–	–	–	–	–	210,748	210,748	29,965	240,713
Total comprehensive income for the period (Unaudited)	–	–	–	–	1,131,062	–	(233,518)	210,748	1,108,292	270,734	1,379,026
Appropriations to statutory reserve (Unaudited)	–	–	68,786	–	(68,786)	–	–	–	–	–	–
Appropriations to other reserves (Unaudited)	–	–	–	59,927	(59,927)	–	–	–	–	–	–
At 30 June 2011 (Unaudited)	538,056	14,618,903	329,241	331,258	1,437,079	526,450	436,884	641,628	18,859,499	1,438,178	20,297,677

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2012

	Equity attributable to owners of the Company										Non-controlling interests	Total equity
	Share capital	Share premium	Capital redemption reserve	Statutory reserve	Other reserves	Retained profits	Share-based compensation reserve	Security investment reserve	Translation reserve	Total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2012 (Audited)	537,751	14,618,903	305	383,099	331,725	2,176,977	564,179	(559,127)	912,767	18,966,579	1,591,554	20,558,133
Shares repurchased (Unaudited)	(7,567)	-	7,567	-	-	(197,535)	-	-	-	(197,535)	-	(197,535)
2011 final dividends approved (Unaudited)	-	-	-	-	-	(689,239)	-	-	-	(689,239)	-	(689,239)
Dividends paid to non-controlling interests of subsidiaries (Unaudited)	-	-	-	-	-	-	-	-	-	-	(256,528)	(256,528)
Transactions with owners of the Company (Unaudited)	(7,567)	-	7,567	-	-	(886,774)	-	-	-	(886,774)	(256,528)	(1,143,302)
Profit for the period (Unaudited)	-	-	-	-	-	1,005,539	-	-	-	1,005,539	245,776	1,251,315
Other comprehensive income:												
– Fair value loss on financial assets measured at fair value through other comprehensive income (Unaudited)	-	-	-	-	-	-	-	(372,392)	-	(372,392)	-	(372,392)
– Exchange differences on translation of financial statements of foreign operations (Unaudited)	-	-	-	-	-	-	-	-	(80,716)	(80,716)	(11,160)	(91,876)
Total comprehensive income for the period (Unaudited)	-	-	-	-	-	1,005,539	-	(372,392)	(80,716)	552,431	234,616	787,047
Appropriations to statutory reserve (Unaudited)	-	-	-	29,120	-	(29,120)	-	-	-	-	-	-
Appropriations to other reserves (Unaudited)	-	-	-	-	167,211	(167,211)	-	-	-	-	-	-
At 30 June 2012 (Unaudited)	530,184	14,618,903	7,872	412,219	498,936	2,099,411	564,179	(931,519)	832,051	18,632,236	1,569,642	20,201,878

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Profit before income tax from continuing operations	**1,777,679**	2,170,638
Loss before income tax from discontinued operations	**–**	(135,675)
Profit before income tax	**1,777,679**	2,034,963
Adjustments for:		
Amortisation of prepaid lease payments	**766**	741
Amortisation of mining rights	**140,032**	159,702
Depreciation of property, plant and equipment	**130,025**	125,515
Finance costs	**11,702**	36,128
Share-based compensation	**–**	139,369
Provision for impairment on trade receivables	**11,211**	–
Write-down of inventories to net realisable value	**–**	75,167
Share of loss of associate	**203**	92
Interest income	**(70,653)**	(30,337)
Dividend income on financial assets measured at fair value through other comprehensive income	**(27,463)**	–
Loss on disposals of property, plant and equipment	**–**	4,928
Change in fair value of derivative financial instruments	**11,350**	(4,082)
Net foreign exchange loss/(gain)	**18,004**	(63,752)
Operating profit before working capital changes	**2,002,856**	2,478,434
Increase in inventories	**(8,907)**	(117,446)
Decrease/(Increase) in trade and bill receivables	**510,528**	(1,148,736)
(Increase)/Decrease in deposits, prepayments and other receivables	**(180,622)**	26,798
(Increase)/Decrease in amounts due from other parties	**(1,800)**	282,351
(Decrease)/Increase in trade and bill payables	**(44,861)**	429,139
(Decrease)/Increase in other payables and accruals	**(417,892)**	141,102
Increase/(Decrease) in amounts due to other parties	**2,210**	(87)
Increase in amounts due to non-controlling interests of subsidiaries	**1,247**	–
Proceed from financial assets measured at fair value through profit or loss	**935**	4,709
Cash generated from operations	**1,863,694**	2,096,264
Income tax paid	**(865,769)**	(510,321)
Net cash generated from operating activities	**997,925**	1,585,943

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cash flows from investing activities		
Payments to acquire property, plant and equipment	**(357,037)**	(187,425)
Payments to acquire mining rights	**(68,797)**	–
Proceeds from disposals of property, plant and equipment	**–**	45
Receipts of the repayments on a loan to a party	**234,342**	–
Increase in pledged bank deposits	**(10,086)**	(233,550)
Increase in time deposits with original maturity over three months	**(1,620,121)**	–
Interest received	**57,204**	28,564
Dividend received	**27,463**	–
Net cash used in investing activities	**(1,737,032)**	(392,366)
Cash flows from financing activities		
Payments on shares repurchased	**(197,535)**	–
Repayments of bank borrowings	**(580,663)**	(116,873)
Proceeds from other borrowings	**–**	27,692
Repayments of other borrowings	**(1,891)**	–
Finance costs paid	**(19,929)**	(29,209)
Dividends paid to owners of the Company	**(689,095)**	(537,972)
Dividends paid to non-controlling interests of subsidiaries	**(256,528)**	(305,884)
Net cash used in financing activities	**(1,745,641)**	(962,246)
Net (decrease)/increase in cash and cash equivalents	**(2,484,748)**	231,331
Cash and cash equivalents at 1 January	**4,517,196**	2,766,063
Effect of foreign exchange rates changes	**(7,710)**	25,921
Cash and cash equivalents at 30 June	**2,024,738**	3,023,315
Cash and cash equivalents at 30 June, represented by:		
Bank balances and cash	**2,024,738**	3,023,196
Bank balances and cash included in assets classified as held for sale	**–**	119
	2,024,738	3,023,315

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT

1. GENERAL INFORMATION

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

The principal activities of the Group's subsidiaries comprise coking coal mining, production and sales of coking coal products and side products. There were no significant changes in the Group's operations during the six months ended 30 June 2012.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The Interim Financial Report has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure provisions in Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Interim Financial Report should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs").

The Interim Financial Report has been reviewed by our auditor in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The Interim Financial Report was approved for issue by the board of directors on 28 August 2012.

The Interim Financial Report has been prepared in accordance with the accounting policies adopted in the last financial statements for the year ended 31 December 2011, except for the adoption of the following standards as of 1 January 2012:

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred tax: Recovery of underlying assets
HKFRS 9	Financial Instruments

Other than as noted below, the adoption of these new or amended HKFRSs has had no material impact on the Interim Financial Report.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Adoption of amendments to HKFRS 7 Disclosure – Transfer of Financial Assets ("HKFRS 7")

The amendments to HKFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments require additional disclosures if a disproportionate amount of transfer transactions is undertaken around the end of a reporting period. The adoption of the amended standard did not have any impact on the presentation of the financial assets.

2.2 Adoption of amendments to HKAS 12 Deferred tax: Recovery of underlying assets ("HKAS 12")

The amendments to HKAS 12 introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. The adoption of the amended standard did not have any impact on the financial position and performance of the Group.

2.3 Early adoption of HKFRS 9 Financial Instruments ("HKFRS 9")

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.3 Early adoption of HKFRS 9 Financial Instruments ("HKFRS 9") (Continued)

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

Previously, financial assets of the Group were classified as financial assets at fair value through profit or loss, available-for-sale financial assets or loans and receivables. The early adoption of HKFRS 9 has resulted in a change in accounting policy, and financial assets are classified into financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income or financial assets measured at amortised cost. The HKFRS 9 was issued in November 2009, and the Group has retrospectively applied the requirements of HKFRS 9 on 1 January 2011, which was at the beginning of the previous reporting period. Details of the changes in measurement category of financial assets as at the date of initial application are disclosed under the caption below of "Adoption of HKFRS 9 – Re-designation of financial assets on 1 January 2012". Under the transitional provisions, HKFRS 9 was applied to financial assets existing at the earliest date reported on in the financial statements (i.e. 1 January 2011), comparative figures have been restated.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.3 Early adoption of HKFRS 9 Financial Instruments ("HKFRS 9") (Continued)

The estimated effect of this change in accounting policy is summarised below:

Consolidated statement of financial position

	At 30 June 2012	At 31 December 2011	At 1 January 2011
	HK$'000	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)	(Audited)
Increase in financial assets measured at fair value through other comprehensive income	**1,398,581**	1,771,034	3,161,097
Decrease in available-for-sale financial assets	**(1,398,581)**	(1,771,034)	(3,161,097)

Consolidated statement of comprehensive income

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Increase in fair value loss on financial assets measured at fair value through other comprehensive income	**372,392**	233,518
Decrease in fair value loss on available-for-sale financial assets	**(372,392)**	(233,518)
Decrease in impairment loss of available-for-sale financial assets recognised in profit or loss	**(931,519)**	–
Decrease in reclassification adjustment upon impairment of available-for-sale financial assets through other comprehensive income	**931,519**	–

Following the adoption of HKFRS 9, all existing available-for-sale financial assets were reclassified as financial assets measured at fair value through other comprehensive income and the Group's basic and diluted earnings per share increased by HK17.41 cents and HK17.40 cents respectively.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.3 Early adoption of HKFRS 9 Financial Instruments ("HKFRS 9") (Continued)

Under HKAS 39, fair value changes on the Group's available-for-sale financial assets were recognised in other comprehensive income and accumulated in security investment reserve. The amount accumulated in the security investment reserve was removed from equity and recognised in profit or loss on impairment or disposal. Under HKFRS 9, such financial assets are designated as fair value through other comprehensive income and the cumulative fair value changes previously accumulated in security investment reserve are not reclassified to profit or loss, but is reclassified directly to retained profits when such financial assets are disposed of.

Under HKAS 39, the Group's investments in unquoted equity instruments classified as available-for-sale financial assets were measured at cost. Under HKFRS 9, such investments have been designated as fair value through other comprehensive income and are measured at fair value. Any difference between cost and fair value at the date of initial application has been adjusted to security investment reserve at 1 January 2011.

Adoption of HKFRS 9 — Re-designation of financial assets on 1 January 2012

The tables below illustrate the classification and measurement of financial assets under HKFRS 9 and HKAS 39 on 1 January 2011, 31 December 2011 and 30 June 2012.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.3 Early adoption of HKFRS 9 Financial Instruments ("HKFRS 9") (Continued)

At 1 January 2011

	Original measurement category and carrying amount in accordance with HKAS 39	New measurement category and carrying amount in accordance with HKFRS 9		
Original measurement category	Original carrying amount	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets measured at fair value through profit or loss
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at fair value through profit or loss				
– Derivative financial instruments	12,224	–	–	12,224
Available-for-sale financial assets	3,161,097	–	3,161,097	–
Loans and receivables				
– Deposits and other receivables	199,888	199,888	–	–
– Loan to a party	937,367	937,367	–	–
– Trade and bill receivables	2,317,901	2,317,901	–	–
– Amounts due from other parties	292,876	292,876	–	–
– Pledged bank deposits	32,512	32,512	–	–
– Cash and cash equivalents	2,766,063	2,766,063	–	–
	9,719,928	6,546,607	3,161,097	12,224

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.3 Early adoption of HKFRS 9 Financial Instruments ("HKFRS 9") (Continued)

At 31 December 2011

	Original measurement category and carrying amount in accordance with HKAS 39	New measurement category and carrying amount in accordance with HKFRS 9		
Original measurement category	Original carrying amount *HK$'000*	Financial assets measured at amortised cost *HK$'000*	Financial assets measured at fair value through other comprehensive income *HK$'000*	Financial assets measured at fair value through profit or loss *HK$'000*
Financial assets at fair value through profit or loss				
– Derivative financial instruments	18	–	–	18
Available-for-sale financial assets	1,771,034	–	1,771,034	–
Loans and receivables				
– Deposits and other receivables	258,105	258,105	–	–
– Loan to a party	234,342	234,342	–	–
– Trade and bill receivables	3,350,955	3,350,955	–	–
– Amounts due from other parties	19,087	19,087	–	–
– Pledged bank deposits	354,141	354,141	–	–
– Cash and cash equivalents	4,517,196	4,517,196	–	–
	10,504,878	8,733,826	1,771,034	18

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.3 Early adoption of HKFRS 9 Financial Instruments ("HKFRS 9") (Continued)

At 30 June 2012

	Original measurement category and carrying amount in accordance with HKAS 39	New measurement category and carrying amount in accordance with HKFRS 9		
Original measurement category	**Original carrying amount**	**Financial assets measured at amortised cost**	**Financial assets measured at fair value through other comprehensive income**	**Financial assets measured at fair value through profit or loss**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at fair value through profit or loss				
– Derivative financial instruments	21	–	–	21
Available-for-sale financial assets	1,398,581	–	1,398,581	–
Loans and receivables				
– Deposits and other receivables	264,051	264,051	–	–
– Trade and bill receivables	2,805,701	2,805,701	–	–
– Amounts due from other parties	20,753	20,753	–	–
– Pledged bank deposits	361,736	361,736	–	–
– Time deposits with original maturity over three months	1,620,121	1,620,121	–	–
– Cash and cash equivalents	2,024,738	2,024,738	–	–
	8,495,702	7,097,100	1,398,581	21

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (Continued)

3. REVENUE AND SEGMENT INFORMATION

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

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

Each of these operating segments is managed separately as each of the product lines requires different resources as well as operating approaches.

For the six months ended 30 June 2012, there has been no change from prior periods in the measurement methods used to determine operating segments and reported segment profit or loss.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (Continued)

3. REVENUE AND SEGMENT INFORMATION (Continued)

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

	Continuing operations				Discontinued operations (Note 8)			
	Coking coal mining		Total		Coke production		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2012 HK$'000 (Unaudited)	2011 HK$'000 (Unaudited)	**2012 HK$'000 (Unaudited)**	2011 HK$'000 (Unaudited)	**2012 HK$'000 (Unaudited)**	2011 HK$'000 (Unaudited)	**2012 HK$'000 (Unaudited)**	2011 HK$'000 (Unaudited)
Segment revenue:								
Sales to external parties	**3,339,013**	3,898,544	**3,339,013**	3,898,544	**–**	76,943	**3,339,013**	3,975,487
Segment operating profit/(loss)	**1,764,191**	2,357,858	**1,764,191**	2,357,858	**–**	(131,098)	**1,764,191**	2,226,760
Share-based compensation			**–**	(139,369)	**–**	–	**–**	(139,369)
Interest income			**70,653**	30,337	**–**	–	**70,653**	30,337
Other operating income not allocated			**27,463**	8,125	**–**	–	**27,463**	8,125
General and administrative expenses not allocated			**(61,373)**	(64,241)	**–**	–	**(61,373)**	(64,241)
Operating profit/(loss)			**1,800,934**	2,192,710	**–**	(131,098)	**1,800,934**	2,061,612
Finance costs			**(11,702)**	(26,062)	**–**	(4,577)	**(11,702)**	(30,639)
Change in fair value of derivative financial instruments			**(11,350)**	4,082	**–**	–	**(11,350)**	4,082
Share of loss of associate			**(203)**	(92)	**–**	–	**(203)**	(92)
Profit/(Loss) before income tax			**1,777,679**	2,170,638	**–**	(135,675)	**1,777,679**	2,034,963

	Continuing operations						Discontinued operations			
	Coking coal mining		Corporate		Total		Coke production		Consolidated	
	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)	**30 June 2012 HK$'000 (Unaudited)**	31 December 2011 HK$'000 (Audited)	**30 June 2012 HK$'000 (Unaudited)**	31 December 2011 HK$'000 (Audited)	**30 June 2012 HK$'000 (Unaudited)**	31 December 2011 HK$'000 (Audited)	**30 June 2012 HK$'000 (Unaudited)**	31 December 2011 HK$'000 (Audited)
Segment assets	**20,344,012**	22,028,353	**3,429,812**	3,163,136	**23,773,824**	25,191,489	**–**	–	**23,773,824**	25,191,489

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (Continued)

4. OTHER OPERATING INCOME

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Continuing operations		
Bank interest income	**67,986**	18,018
Other interest income	**2,667**	12,319
Dividend income on financial assets measured at fair value through other comprehensive income	**27,463**	–
Gain on disposals of property, plant and equipment	**–**	4
Gain on sales of scrapped products	**45,387**	42,083
Net foreign exchange gain	**–**	63,752
Others	**16**	–
	143,519	136,176

5. FINANCE COSTS

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Continuing operations		
Interest charged on:		
– bank borrowings repayable within five years	**12,097**	22,275
– early redemption of bill receivables	**8,545**	8,959
Finance charges on finance leases	**368**	317
	21,010	31,551
Less: interest capitalised in construction in progress* *(Note 11)*	**(9,308)**	(5,489)
Total finance costs	**11,702**	26,062

* *Borrowing costs were capitalised at the rates ranging from 2% to 7% (Six months ended 30 June 2011: 5% to 6%) per annum for the six months ended 30 June 2012.*

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (Continued)

6. PROFIT BEFORE INCOME TAX

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Continuing operations		
Profit before income tax is arrived at after charging/(crediting):		
Cost of inventories recognised as expenses	**1,027,933**	993,860
Amortisation of		
– prepaid lease payments	**766**	617
– mining rights	**140,032**	159,702
Depreciation of property, plant and equipment		
– owned assets	**129,139**	100,207
– leased assets	**886**	870
Employee benefit expenses *(including directors' remuneration, share-based compensation and retirement benefits scheme contributions)*	**333,237**	453,562
Net foreign exchange loss/(gain)	**18,004**	(63,752)
Provision for impairment on trade receivables	**11,211**	–
Operating lease charges in respect of land and buildings	**3,177**	3,095

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Continuing operations		
Current tax – PRC income tax	**531,396**	677,096
Deferred tax	**(5,032)**	(13,964)
	526,364	663,132

No provision for Hong Kong Profits Tax has been made in the Interim Financial Report as the Group had no assessable profit arising in Hong Kong for the six months ended 30 June 2012 and 2011.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (Continued)

7. INCOME TAX EXPENSE (Continued)

In accordance with the Income Tax Law of the PRC for Enterprises with Foreign Investment, the Group's certain major subsidiaries, namely Shanxi Liulin Xingwu Coal Co., Limited ("Xingwu"), Shanxi Liulin Jinjiazhuang Coal Co., Limited ("Jinjiazhuang") and Shanxi Liulin Zhaiyadi Coal Co., Limited ("Zhaiyadi"), all established in the PRC, were subject to 25% enterprise income tax in the PRC since the calendar year of 2011.

The Group is also subject to a withholding tax at the rate of 5% (Six months ended 30 June 2011: 5%) on the distributions of profits generated from the Group's major PRC subsidiaries which are directly owned by the Group's subsidiaries incorporated in Hong Kong.

8. DISCONTINUED OPERATIONS

In December 2010, one of the Group's wholly-owned subsidiaries, New Honest Limited ("New Honest") entered into a conditional sale and purchase agreement with an independent third party to dispose of its entire 66% equity interest in a subsidiary of the Group, namely Shanxi Yao Zin Coal and Coking Company Limited ("Shanxi Yao Zin"), for a cash consideration of Renminbi ("RMB") 211,200,000 (Hong Kong Dollars ("HK$") 249,216,000 equivalent) (the "Disposal"). In addition, the Group waived the shareholders' loans to Shanxi Yao Zin amounting to RMB124,900,000 (HK$147,400,000 equivalent) and the corresponding interest upon the completion of the Disposal. Shanxi Yao Zin was incorporated in the PRC and is principally engaged in production and sales of coke products in Shanxi, the PRC. The Disposal was completed on 31 December 2011. Since then, Shanxi Yao Zin ceased to be a subsidiary of the Company.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (Continued)

8. DISCONTINUED OPERATIONS (Continued)

As at 30 June 2011, loss for the period from discontinued operations is as follows:

	Six months ended 30 June 2011 *HK$'000* (Unaudited)
Loss for the period from discontinued operations	
Revenue	76,943
Expenses	(212,618)
Loss before income tax	(135,675)
Income tax expense	–
Loss for the period	(135,675)
Loss for the period from discontinued operations attributable to:	
Owners of the Company *(Note 10)*	(89,545)
Non-controlling interests	(46,130)
Loss for the period	(135,675)
Cash flows from discontinued operations:	
Operating cash outflows	(2,009)
Investing cash outflows	(23,089)
Financing cash inflows	25,213
Total cash inflows	115

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (Continued)

9. DIVIDENDS

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interim dividend of HK5 cents per ordinary share (Six months ended 30 June 2011: HK6 cents per ordinary share)	**265,092**	322,834

Interim dividend of HK5 cents (Six months ended 30 June 2011: HK6 cents) per ordinary share declared after 30 June 2012 (Six months ended 30 June 2011: 30 June 2011) has not been recognised as a liability as at the reporting date.

Interim dividend for the six months ended 30 June 2012 is expected to be paid on or about 25 September 2012 to all owners of the Company whose names appear on the register of members of the Company at the close of business on 12 September 2012. As at 30 June 2012, the number of the issued share capital of the Company is 5,301,837,842 (As at 30 June 2011: 5,380,563,842).

10. EARNINGS PER SHARE

From continuing and discontinued operations

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

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit used to determine basic and diluted earnings per share from continuing and discontinued operations	**1,005,539**	1,131,062
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,351,476**	5,380,563
Effect of dilutive potential ordinary shares:		
– Share options	**2,744**	4,325
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**5,354,220**	5,384,888

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (Continued)

10. EARNINGS PER SHARE (Continued)

From continuing operations

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

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit for the period attributable to owners of the Company	**1,005,539**	1,131,062
Add: Loss for the period attributable to owners of the Company from discontinued operations *(Note 8)*	**–**	89,545
Profit used to determine basic and diluted earnings per share from continuing operations	**1,005,539**	1,220,607

The weighted average number of ordinary shares used is the same as those disclosed above for both basic and diluted earnings per share.

From discontinued operations

Basic loss and diluted loss per share for the discontinued operations are both HK1.66 cents per share for the six months ended 30 June 2011, based on the loss for the period attributable to owners of the Company from the discontinued operations of HK$89,545,000 for the six months ended 30 June 2011 and the weighted average number of ordinary shares as set out above for both basic and diluted loss per share.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (Continued)

11. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment at a total cost of HK$435,267,000 (Six months ended 30 June 2011: HK$196,376,000) mainly in relation to the addition of mining equipment and construction in progress for mining infrastructure and coal preparation plants. No property, plant and equipment was disposed during the six months ended 30 June 2012. Equipment with a net carrying amount of HK$4,973,000 was disposed during the six months ended 30 June 2011.

During the period, interest expense amounting to approximately HK$9,308,000 (Six months ended 30 June 2011: HK$5,489,000) (Note 5) was capitalised in property, plant and equipment.

Net carrying amount of the Group's property, plant and equipment held under finance leases amounted to approximately HK$7,291,000 as at 30 June 2012 (31 December 2011: HK$8,232,000). The Group's buildings are situated in the PRC and are held on leases of between 10 to 50 years.

As at 30 June 2012, the Group is still in the process of obtaining the building ownership certificates for certain buildings with net carrying amount of approximately HK$119,989,000 (RMB98,243,000 equivalent) (31 December 2011: HK$120,837,000 (RMB98,242,000 equivalent)). In the opinion of directors of the Company, the Group has obtained the rights to use the buildings.

12. TRADE AND BILL RECEIVABLES

	30 June 2012	31 December 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**980,142**	802,861
Less: Provision for impairment loss	**(176,050)**	(166,058)
	804,092	636,803
Bill receivables	**2,001,609**	2,714,152
	2,805,701	3,350,955

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (Continued)

12. TRADE AND BILL RECEIVABLES (Continued)

Ageing analysis of net trade and bill receivables, based on invoice dates, is as follows:

	30 June 2012 *HK$'000* **(Unaudited)**	31 December 2011 *HK$'000* (Audited)
0-90 days	**1,794,557**	1,555,026
91-180 days	**1,001,891**	1,787,034
181-365 days	**9,253**	8,895
	2,805,701	3,350,955

Trade receivables generally have credit terms ranging from 60 to 90 days (Six months ended 30 June 2011: 60 to 90 days) and no interest is charged.

As at 30 June 2012, included in bill receivables is an amount of RMB326,700,000 (HK$399,015,000 equivalent) (31 December 2011: RMB398,200,000 (HK$489,786,000 equivalent)) which was pledged for bill payables of RMB318,997,000 (HK$389,607,000 equivalent) (31 December 2011: RMB355,673,000 (HK$437,478,000 equivalent)) (Note 16).

13. LOAN TO A PARTY

Pursuant to the loan agreement dated 13 April 2010 entered into between Jade Green Investments Holding Limited ("Jade Green"), a wholly-owned subsidiary of the Group, and Mr. Xing Libin ("Mr. Xing"), Jade Green agreed to make the loan of HK$937,367,000 (RMB824,883,000 equivalent) (the "Loan Amount") to Mr. Xing to settle the outstanding liabilities owned by Mr. Xing. The Loan Amount and the transactions contemplated thereunder were approved at the extraordinary general meeting of the Company held on 8 June 2010. The Loan Amount was secured by 35% equity interest in Liulin Luenshan Coking Company Limited and dividend rights in respect of 35% equity interest in Jinjiazhuang and 5% equity interests in Zhaiyadi. The Loan Amount and interest accrued were repayable in three installments where (i) HK$468,683,000 repaid on 9 June 2011; (ii) HK$234,342,000 repaid on 9 December 2011; and (iii) the remaining HK$234,342,000 repaid on 8 June 2012. The Loan Amount was subject to floating interest of LIBOR plus 2.5% per annum. Details of the loan arrangement were disclosed in the circular of the Company dated 4 May 2010. During the period, all remaining balance of the Loan Amount amounting to HK$234,342,000 and the relevant interest of HK$3,262,000 were repaid by Mr. Xing on schedule.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (Continued)

14. PLEDGED BANK DEPOSITS

As at 30 June 2012, all pledged bank deposits of RMB296,177,000 (HK$361,736,000 equivalent) (31 December 2011: RMB287,919,000 (HK$354,141,000 equivalent)) were denominated in RMB and were pledged for bill payables of RMB296,177,000 (HK$361,736,000 equivalent) (31 December 2011: RMB287,919,000 (HK$354,141,000 equivalent)) (Note 16).

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

15. CASH AND CASH EQUIVALENTS

	30 June 2012	31 December 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Cash at banks and on hand	**111,398**	124,555
Short-term bank deposits	**1,913,340**	4,392,641
	2,024,738	4,517,196

16. TRADE AND BILL PAYABLES

The Group was granted by its suppliers credit periods ranging between 30 and 180 days (Six months ended 30 June 2011: 30 and 180 days) during the period. Based on the invoice dates, ageing analysis of trade and bill payables as at 30 June 2012 is as follows:

	30 June 2012	31 December 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0-90 days	**553,995**	519,028
91-180 days	**349,942**	471,479
181-365 days	**22,832**	14,706
Over 365 days	**27,101**	26,218
	953,870	1,031,431

As at 30 June 2012, bill payables of RMB615,174,000 (HK$751,343,000 equivalent) (31 December 2011: RMB643,592,000 (HK$791,619,000 equivalent)) were secured by the pledged bank deposits of RMB296,177,000 (HK$361,736,000 equivalent) (31 December 2011: RMB287,919,000 (HK$354,141,000 equivalent)) (Note 14) and bill receivables of RMB326,700,000 (HK$399,015,000 equivalent) (31 December 2011: RMB398,200,000 (HK$489,786,000 equivalent)) (Note 12).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (Continued)

17. BORROWINGS

	30 June 2012 ***HK$'000*** **(Unaudited)**	31 December 2011 *HK$'000* (Audited)
Current		
Bank loans – secured	**309,231**	891,916
Other borrowings	**2,198**	2,214
Finance lease payables	**1,801**	3,718
Total borrowings	**313,230**	897,848

As at 30 June 2012, bank loans of HK$309,231,000 (US$40,000,000 equivalent) (31 December 2011: HK$424,516,000 (US$55,000,000 equivalent)) are interest-bearing at LIBOR plus 1.85% per annum and secured by the undertaking by Shougang Holding (Hong Kong) Limited ("Shougang Holding"), guarantees, shares pledged and undertaking provided by Jade Green, Thechoice Finance Limited ("Thechoice"), Worldman Industrial Limited ("Worldman"), Gumpert Industries Limited ("Gumpert"), Thechoice Finance (HK) Limited, Worldman Industrial (HK) Limited and Gumpert Industries (HK) Limited, the negative share pledge of Xingwu, Jinjiazhuang and Zhaiyadi directly or indirectly owned by Thechoice, Worldman and Gumpert respectively.

As at 31 December 2011, bank loans of HK$467,400,000 (RMB380,000,000 equivalent) were charged at the floating lending rate adopted by the People's Bank of China. The Company provided guarantee to the bank for these bank borrowings. These two bank borrowings were fully repaid in March 2012.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (Continued)

18. SHARE CAPITAL

	Number of shares		Amount	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
	'000	*'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
Authorised:				
Ordinary shares of HK$0.10 each	**10,000,000**	10,000,000	**1,000,000**	1,000,000
Issued and fully paid:				
Ordinary shares of HK$0.10 each				
At 1 January	**5,377,507**	5,380,563	**537,751**	538,056
Shares repurchased	**(75,670)**	(3,056)	**(7,567)**	(305)
At 30 June/31 December	**5,301,837**	5,377,507	**530,184**	537,751

For the six months ended 30 June 2012, the Company repurchased 75,670,000 ordinary shares of the Company on the Stock Exchange for a total consideration of approximately HK$197,535,000. These 75,670,000 repurchased ordinary shares were cancelled during the period. For the year ended 31 December 2011, the Company repurchased 3,056,000 ordinary shares of the Company on the Stock Exchange for a total consideration of approximately HK$7,904,000. Of which, 2,216,000 repurchased ordinary shares were cancelled during the year while the balance of 840,000 repurchased ordinary shares were cancelled after 31 December 2011. The issued share capital of the Company has been reduced by the par value of the total repurchased ordinary shares.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (Continued)

19. COMMITMENTS

(a) Operating lease commitments

At 30 June 2012, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings payable by the Group are as follows:

	30 June 2012	31 December 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within one year	**4,579**	5,444
In the second to fifth years	**14,461**	14,564
After fifth years	**59,243**	61,483
	78,283	81,491

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

(b) Capital commitments

Capital commitments of the Group at 30 June 2012 are as follows:

	30 June 2012	31 December 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Contracted but not provided for:		
– Acquisition of property, plant and equipment	**259,385**	376,364
– Exploration and design fees for a potential mining project	**9,136**	9,200
	268,521	385,564

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (Continued)

19. COMMITMENTS (Continued)

(c) Other commitments

In accordance with notices issued by the Liulin County Government of Shanxi Province, certain mining companies in Liulin County, including Xingwu, Jinjiazhuang and Zhaiyadi, are obliged to pay subsidies for the improvement of educational infrastructure and facilities in the Liulin County including construction of modern schools and provision of educational facilities from 2012 to 2014. Such subsidies will be charged in consolidated statement of comprehensive income in the corresponding years accordingly. As at 30 June 2012, management expects that two (31 December 2011: three) further subsidies of RMB198,000,000 (HK$241,827,000 equivalent) (31 December 2011: RMB198,000,000 (HK$243,540,000 equivalent)) each are payable in 2013 to 2014 (31 December 2011: 2012 to 2014).

20. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in the Interim Financial Report, the following transactions for the periods ended 30 June 2012 and 2011 were carried out with related parties:

(a) During the period, the Group paid total of management fees and company secretarial service fees of HK$780,000 (Six months ended 30 June 2011: HK$780,000) to Shougang Concord International Enterprises Company Limited ("Shougang International"), which is the largest shareholder of the Company. During the period, the Group also paid office rental expenses of HK$931,000 (Six months ended 30 June 2011: HK$900,000) to a wholly-owned subsidiary of Shougang Holding, which is the controlling shareholder of Shougang International.

(b) During the period, the Group sold clean coking coal amounting to HK$708,611,000 (Six months ended 30 June 2011: HK$721,890,000) to Shougang Corporation, being Shougang Holding's ultimate holding company, and group companies of Shougang Corporation (collectively referred to as the "Shougang Group"). These sales are made at market prices with a maximum discount of 3%. As at 30 June 2012, amount due from Shougang Group was HK$207,915,000 (31 December 2011: HK$55,231,000).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (Continued)

20. RELATED PARTY TRANSACTIONS (Continued)

(c) Included in staff costs are key management personnel (including directors) compensation and comprises the following categories:

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Salaries, bonuses, allowance and benefits	**37,342**	37,080
Retirement benefits scheme contributions	**1,943**	505
Share-based compensation	**–**	41,586
	39,285	79,171

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The key operational data of our three premium operating coking coal mines in Liulin County, Shanxi (Xingwu Coal Mine, Jinjiazhuang Coal Mine and Zhaiyadi Coal Mine) for the six months ended 30 June 2012 ("the period under review") together with that of the same period of 2011 is summarised as follows:

		Six months ended 30 June		Change			Change
	Unit	**2012**	2011	Quantity/ Amount	%	2011 FY	%
Production volume:							
Raw coking coal	Mt	**3.04**	3.56	–0.52	–15%	6.36	
Clean coking coal	Mt	**1.23**	1.18	+0.05	+4%	2.31	
Sales volume:							
Raw coking coal	Mt	**1.12**	1.69	–0.57	–34%	2.77	
Clean coking coal	Mt	**1.18**	1.14	+0.04	+4%	2.26	
Average realised selling price (inclusive of VAT):							
Raw coking coal	RMB/tonne	**1,064**	1,012	+52	+5%	1,021	+4%
Clean coking coal	RMB/tonne	**1,687**	1,815	–128	–7%	1,812	–7%

For the six months ended 30 June 2012, the Group produced approximately 3.04 million tonnes ("Mt") (Six months ended 30 June 2011: approximately 3.56 million tonnes) of raw coking coal, representing a year-on-year decrease of 15% and also produced approximately 1.23 million tonnes (Six months ended 30 June 2011: approximately 1.18 million tonnes) of clean coking coal, representing a year-on-year increase of 4%. The decrease in raw coking coal production volume by 15% was due to the temporary reduction in demand of coking coal during the period under review. Operation of our three premium operating coking coal mines continued running smoothly throughout the period under review.

For the six months ended 30 June 2012, we continued to make effort to expand our clean coking coal business. This falls in line with the Group's long term strategy to shift our sales mix from raw coking coal to clean coking coal and hence both production and sales volume of clean coking coal increased by 4% while sales volume of raw coking coal dropped by 34% for the six months ended 30 June 2012.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

BUSINESS REVIEW (Continued)

For the six months ended 30 June 2012, the Group's average realised selling price (inclusive of value added tax "VAT") of raw coking coal increased by 5% to Renminbi ("RMB") 1,064/tonne when compared with that of the same period of 2011 (Six months ended 30 June 2011: RMB1,012/tonne) and the Group's average realised selling price (inclusive of VAT) of clean coking coal decreased by 7% to RMB1,687/tonne when compared with that of the same period of 2011 (Six months ended 30 June 2011: RMB1,815/tonne). The decrease in average realised selling price of clean coking coal was due to the increase in proportion of sales volume to sell clean coking coal at ex-factory prices for the six months ended 30 June 2012. In terms of sales volume, ex-factory prices and C&F prices of clean coking coal accounted for 60% and 40% respectively for the six months ended 30 June 2012 compared against 37% and 63% respectively for the six months ended 30 June 2011.

FINANCIAL REVIEW

For the six months ended 30 June 2012, the Group recorded a turnover of approximately Hong Kong Dollars ("HK$") 3,339 million, representing a decrease of approximately HK$560 million or 14% as compared with that of approximately HK$3,899 million for the same period of 2011. The reduction in turnover was mainly attributable to the decrease in production volume of raw coking coal by 15% resulting in the drop of overall sales volume during the period under review. In terms of turnover, sales of raw and clean coking coal accounted for 37% and 63%, respectively for the six months ended 30 June 2012 compared against 45% and 55%, respectively for the six months ended 30 June 2011.

For the six months ended 30 June 2012, total turnover to the top five customers accounted for 74% of the Group's turnover. Of which, the turnover to the largest customer accounted for 22% of the Group's turnover.

For the six months ended 30 June 2012, gross profit margin achieved 69% while 75% for the same period in 2011. Nevertheless, gross profit margin of 69% for the first half of 2012 maintained a similar level to that of the year of 2011 (70%).

For the six months ended 30 June 2012, the Group recorded net profit of approximately HK$1,251 million, representing a decrease of approximately HK$121 million or 9% as compared with that of approximately HK$1,372 million for the same period of 2011. For the six months ended 30 June 2012, the Group also recorded profit attributable to the owners of the Company (the "Owners") of approximately HK$1,006 million, representing a decrease of approximately HK$125 million or 11% as compared with that of approximately HK$1,131 million for the same period of 2011. The decrease in net profit and profit attributable to the Owners for the six months ended 30 June 2012 were mainly attributable to the decrease in turnover as explained above, although the effect on the decrease in turnover was partially offset by below two events.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

FINANCIAL REVIEW (Continued)

For the six months ended 30 June 2012, no non-cash share-based compensation expense was incurred as this expense has been fully recognised since August 2011. For the six months ended 30 June 2011, the Group incurred a non-cash share-based compensation expense of approximately HK$139 million. In addition, the completion of the disposal of discontinued operations (coke plant) in December 2011, no loss for the period from the discontinued operations was recorded for the six months ended 30 June 2012. For the six months ended 30 June 2011, the Group recorded loss of approximately HK$136 million from the discontinued operations.

During the period under review, earnings per share was HK18.79 cents (Six months ended 30 June 2011: HK21.02 cents), representing a year-on-year decrease of 11%.

Cost of Sales

During the period under review, cost of sales was approximately HK$1,028 million, representing an increase of approximately HK$34 million or 3%, as compared with that of approximately HK$994 million for the same period of 2011. The increase was due to the following reasons:

(i) The increase in production costs as a result of (a) the increase in unit production cost of raw coking coal by 27% as explained in below (ii); (b) the increase in sales volume of clean coking coal by 4% from 1.14 million tonnes for the six months ended 30 June 2011 to 1.18 million tonnes for the six months ended 30 June 2012; and (c) the appreciation of RMB for the six months ended 30 June 2012 by approximately 2%; after offset by the effect on the decrease in production volume of raw coking coal by 15% from 3.56 million tonnes for the six months ended 30 June 2011 to 3.04 million tonnes for the six months ended 30 June 2012;

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

FINANCIAL REVIEW (Continued)

Cost of Sales (Continued)

(ii) The unit production costs are summarised as follows:

	Unit	Six months ended 30 June 2012	2011	Change Amount	%	2011 FY	Change %
Production cost of raw coking coal	RMB/tonne	**270**	213	**+57**	**+27%**	258	+5%
Less:							
One-off relocation compensation expenses	RMB/tonne	**–**	–			(13)	
One-off reversal of capitalised environmental restoration fund	RMB/tonne	**–**	–			(9)	
		270	213	**+57**	**+27%**	236	+14%
of which, depreciation and amortisation	RMB/tonne	**(56)**	(54)	**(+2)**	**(+4%)**	(57)	(-2%)
Processing cost for clean coking coal	RMB/tonne	**53**	49	**+4**	**+8%**	54	–2%
of which, depreciation	RMB/tonne	**(11)**	(10)	**(+1)**	**(+10%)**	(11)	–

The increase in unit production cost of raw coking coal by 27% as a result of the decrease in production volume of raw coking coal by 15% during the period under review, the increase in uncontrollable costs such as (a) the increase in water resource related levies by approximately HK$13 million for the six months ended 30 June 2012; (b) the increase in power charge by approximately HK$10 million for the six months ended 30 June 2012 as a result of the hikes in national power tariffs and the increase in usage of basic charge volume by substation; and the increase in other costs such as (c) the increase in the usage of ancillary materials by HK$25 million for the six months ended 30 June 2012 as a result of the increase in material prices and material consumption when the mining proceeded further; and (d) the increase in staff costs by HK$30 million or 15% to HK$225 million for the six months ended 30 June 2012 due to the rising of wages in order to maintain the competitive advantages in the labour market and to retain quality management and staff and also due to the increase in the various staff insurance costs in accordance with the relevant rules and regulations.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

FINANCIAL REVIEW (Continued)

Cost of Sales (Continued)

Included in cost of sales, amortisation of mining rights was approximately HK$140 million for the six months ended 30 June 2012, representing a decrease of approximately HK$20 million or 13%, as compared with that of approximately HK$160 million for the same period of 2011. The decrease in amortisation of mining rights was mainly due to the decrease in production volume of raw coking coal by 15% during the period under review.

Gross Profit and Gross Profit Margin

As a result of the reasons above, gross profit for the six months ended 30 June 2012 was approximately HK$2,311 million, representing a decrease of approximately HK$594 million or 20% as compared with that of approximately HK$2,905 million for the same period of 2011. During the period under review, gross profit margin achieved 69%. The gross profit margin dropped to 69% due to the increase in unit production costs of raw coal as explained above under **"Cost of Sales"**. Nevertheless, gross profit margin of 69% for the first half of 2012 maintained a similar level to that of the year of 2011 (70%).

Other Operating Income

During the period under review, other operating income was approximately HK$144 million, representing an increase of approximately HK$8 million or 6% as compared with approximately HK$136 million of the same period in 2011. Other operating income included:

(i) the substantial increase in bank interest income by approximately HK$50 million from approximately HK$18 million for the same period of 2011 to approximately HK$68 million for the six months ended 30 June 2012 as a result of the effective cash management;

(ii) the receipt of dividend income of HK$27 million arising from the equity securities listed in Australia for the six months ended 30 June 2012; and

(iii) the increase of income from sales of scrapped products generated from the process of clean coking coal by approximately HK$3 million to HK$45 million which was increased with the production volume of clean coking coal for the six months ended 30 June 2012.

Selling and Distribution Expenses

During the period under review, selling and distribution expenses were approximately HK$196 million, representing a substantial decrease of approximately HK$137 million or 41% as compared with that of approximately HK$333 million for the same period of 2011. The decrease was mainly as a result of the substantial decrease in transportation costs arising from the decrease in sales volume of clean coking coal at C&F prices by 35% from 0.72 million tonnes for the six months ended 30 June 2011 to 0.47 million tonnes for the six months ended 30 June 2012.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

FINANCIAL REVIEW (Continued)

General and Administrative Expenses

During the period under review, administrative expenses were approximately HK$199 million, representing a substantial decrease of approximately HK$159 million or 44% as compared with approximately HK$358 million for the same period of 2011. The substantial decrease was resulted from (i) the reduction of the non-cash share-based compensation expense by approximately HK$139 million during the period under review as this expense had been fully recognised since August 2011; and (ii) the reduction of road maintenance fees by approximately HK$22 million during the period under review.

Other Operating Expenses

During the period under review, other operating expenses were approximately HK$258 million, which mainly represented the committed annual payment of charitable donation for the year of 2012 of approximately HK$243 million paid by the Group to the Liulin Provincial Government during the period under review, for the construction of modern schools and provision of education facilities as disclosed in the financial statements of the Company for the year ended 31 December 2011. Accordingly, it is not expected to have the same charitable donation in the second half of 2012.

Finance Costs

During the period under review, actual finance costs were approximately HK$21 million, representing a substantial decrease of approximately HK$11 million or 34% as compared with that of approximately HK$32 million for the same period of 2011. During the period under review, approximately HK$9.3 million (Six months ended 30 June 2011: approximately HK$5.5 million) of borrowing costs were capitalised in the construction in progress. The decrease in actual finance costs were mainly due to the decrease in borrowings by approximately HK$585 million from approximately HK$898 million as at 31 December 2011 to approximately HK$313 million as at 30 June 2012.

Income Tax Expense

During the period under review, income tax expense was approximately HK$526 million (Six months ended 30 June 2011: approximately HK$663 million), of which approximately HK$61 million (Six months ended 30 June 2011: approximately HK$77 million) represented the provision of withholding tax of 5% on the dividend declared from the Group's major subsidiaries incorporated in the People's Republic of China (the "PRC") ("major PRC Subsidiaries") in accordance with the tax regulations in the PRC. Income tax expense was decreased in line with profits during the period under review. The enterprise income tax rate for the major PRC Subsidiaries is 25%.

Owner's Attributable Profit

By reasons of the foregoing, the profit attributable to the Owners during the period under review was approximately HK$1,006 million, representing a decrease of approximately HK$125 million or 11% as compared with that of approximately HK$1,131 million for the same period of 2011.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

FINANCIAL REVIEW (Continued)

Material Investments and Acquisitions

During the period under review, the Group has no material investments and acquisitions.

Material Disposals

During the period under review, the Group has no material disposals.

Safety Production and Environmental Protection

The Group has always been paying great attention to production safety and environmental protection while achieving stable coal production. Thus, the Group makes great efforts in promoting safety management and strengthening measures for environmental protection, aiming at building itself into a safety-oriented and environmentally-friendly enterprise. During the period under review, all coal mines of the Group operated smoothly.

Charges on Assets

As at 30 June 2012, save for disclosed below, none of the Group's assets was charged or subject to any encumbrance.

(i) bank deposits of approximately HK$362 million and bill receivables of approximately HK$399 million were used for securing bills facilities of approximately HK$751 million; and

(ii) the pledged of shares by certain subsidiaries of the Company namely Jade Green Investments Holding Limited, Thechoice Finance Limited, Worldman Industrial Limited, Gumpert Industries Limited, Thechoice Finance (HK) Limited, Worldman Industrial (HK) Limited and Gumpert Industries (HK) Limited that were used for securing United States Dollars ("US$") 40 million of bank loan for the Company.

Contingent Liabilities

As at 30 June 2012, there were no guarantees given to any banks or financial institutions by the Group.

Gearing Ratio

As at 30 June 2012, gearing ratio of the Group, computed from the Group's total borrowings divided by the total equity, was approximately 2%. The total borrowings amounted to approximately HK$313 million as at 30 June 2012.

Exposure to Fluctuations in Exchange Rates

As at 30 June 2012, other than assets and liabilities denominated in RMB and Australian Dollars ("AUD"), the Group had no material exposure to foreign exchange fluctuations. As at 30 June 2012, RMB was slightly depreciated by approximately 0.7% while AUD was slightly appreciated by approximately 0.6% respectively when compared to that as at 31 December 2011.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

FINANCIAL REVIEW (Continued)

Liquidity and Financial Resources

As at 30 June 2012, the Group's current ratio (current assets divided by current liabilities) was approximately 2.5 times and the Group's cash and bank deposits amounted to approximately HK$4,007 million, of which approximately HK$362 million was deposited to secure bills facilities of the same amount.

Included in trade and bill receivables, the Group has total bill receivables amounting to approximately HK$2,002 million (of which approximately HK$399 million was used for securing bills facilities of approximately HK$389 million) as at 30 June 2012 that were readily convertible into cash, but would be subject to finance costs when conversion before the maturity. Taking into account of free bill receivables of approximately HK$1,603 million, the Group's free cash resources would have approximately HK$5,248 million as at 30 June 2012.

Capital Structure

Total equity and borrowings are classified as capital of the Group. As at 30 June 2012, the amount of capital was approximately HK$20,515 million.

During the period under review, the Company repurchased a total of 75,670,000 ordinary shares of the Company on The Stock Exchange of Hong Kong Limited at an aggregate consideration of approximately HK$198 million. The share repurchases were made with a view to enhance shareholders' interests. All repurchased shares were cancelled during the period under review.

Save as disclosed above, there was no change in the issued capital of the Company during the period under review. As at 30 June 2012, the issued capital of the Company was approximately HK$530 million, represented approximately 5,302 million shares in number.

As at 30 June 2012, the total borrowings of approximately HK$313 million denominated in USD and RMB. The USD borrowing of approximately HK$309 million bears an interest calculated at LIBOR plus 1.85% per annum and is repayable by 13 installments from September 2010 to September 2013, and the remaining balances of RMB borrowings of approximately HK$4 million are subject to fixed interest rates or interest free and are repayable within 1 year from 30 June 2012.

EMPLOYEES

As at 30 June 2012, the Group had 28 Hong Kong employees and 6,679 PRC employees. The remuneration packages of the employees are subject to annual review. The Group provides a mandatory and voluntary provident fund scheme for its employees in Hong Kong and the state-sponsored retirement plan for its employees in the PRC. The Company also has adopted a share option scheme. During the period under review, no share option was granted, exercised, cancelled or lapsed.

FUTURE PROSPECTS

In the first half of 2012, global economy was still under great uncertainties. Under these circumstances, a slowdown of economy in China is inevitable, the GDP decreased from 8.9% in the fourth quarter of 2011 to 7.6% in the second quarter of 2012. China Steel Industry Association announced the domestic crude steel production volume grew by only 1.8% to 357 million tonnes in the first half of 2012, a year-on-year decrease by 7.8% due to a slower demand growth.

The CPC Central Committee Political Bureau held a party meeting on 31 July 2012 and reiterated that "Steady growth" is a top priority. The guidelines for economy in the second half of this year are: to strengthen and improve macroeconomic regulations, continue to implement prudent monetary policy, increase the structural tax reduction policy, moderately provide more liquidity in money credit to the market and promote domestic consumption to drive up the economy. Although the policies targeted towards the real estate market will still be strictly enforced, the plan to build more affordable housing will still be implemented to meet the housing needs of the citizens. In addition, policies towards supporting the railway investments will still be launched. According to the "2012 railway construction bonds prospectus" announced on 30 July 2012, the total size of railway fixed assets investment plan in 2012 will be RMB580 billion, of which RMB146.5 billion was expensed in the first half of 2012. All of these may boost demand for steel and thus benefit the coking coal sector as well. However, for the second half of 2012 ahead, the situation is expected to remain conservatively optimistic.

We believe that it is a good timing to actively look for merger and acquisition projects both domestically and overseas now, we will be able to fully utilise our financial strength to expand our resources and production capacity; at the same time we continue to expand new customer base and formulate strategic co-operations with the major steel producers to maximise the returns for our shareholders.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK5 cents per ordinary share for the six months ended 30 June 2012 (2011: HK6 cents per ordinary share) payable to shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 12 September 2012. In order to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the share registrars of the Company, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 12 September 2012 for registration. The interim dividend is expected to be paid on or about Tuesday, 25 September 2012.

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

During the six months ended 30 June 2012, the Company repurchased a total of 75,670,000 ordinary shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of HK$196,982,940 (expenses excluded). The share repurchases were made with a view to enhance shareholders' interests. Details of the share repurchases are as follows:

Month of share repurchases	**Total number of the ordinary shares repurchased**	**Highest price paid per share**	**Lowest price paid per share**	**Aggregate consideration** *(expenses excluded)*
		HK$	*HK$*	*HK$*
January 2012	110,000	2.73	2.64	291,300
April 2012	46,716,000	2.71	2.53	124,590,340
May 2012	28,844,000	2.60	2.39	72,101,300
	75,670,000			196,982,940

All of the above repurchased shares were cancelled during the period under review.

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

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

The Directors of the Company who held office at 30 June 2012 had the following interests in the shares and underlying shares of the Company as at 30 June 2012 as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance (the "SFO") or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

Long positions in the shares and underlying shares of the Company

		Number of shares/underlying shares in the Company			
Name of Director	Capacity in which interests were held	Interests in shares	Interests in underlying shares*	Total interests	Total interests as to % of the issued share capital of the Company as at 30.06.2012
Chen Zhouping	Beneficial owner	–	6,000,000	6,000,000	0.11%
Wong Lik Ping	Beneficial owner	–	4,500,000	4,500,000	0.08%
So Kwok Hoo	Beneficial owner	4,000,000	3,500,000	7,500,000	0.14%
Chen Zhaoqiang	Beneficial owner	280,000	8,000,000	8,280,000	0.15%
Liu Qingshan	Beneficial owner	–	6,000,000	6,000,000	0.11%
Xue Kang	Beneficial owner	–	3,000,000	3,000,000	0.05%
Leung Shun Sang, Tony	Beneficial owner	–	6,000,000	6,000,000	0.11%
Zhang Yaoping	Beneficial owner	–	4,500,000	4,500,000	0.08%
Kee Wah Sze	Beneficial owner	700,000	3,200,000	3,900,000	0.07%
Choi Wai Yin	Beneficial owner	350,000	3,200,000	3,550,000	0.06%
Chan Pat Lam	Beneficial owner	200,000	3,200,000	3,400,000	0.06%

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

Save as disclosed above, as at 30 June 2012, none of the Company's Directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

Other than those disclosed in this section and the section headed "Share Options", no right to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any Directors or chief executives (including their spouses or children under 18 years of age) during the six months ended 30 June 2012.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2012, according to the register kept by the Company under Section 336 of the SFO, the following companies and persons had interests or short positions in the shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

(a) Long positions in the shares of the Company

Name of shareholder	Capacity in which interests were held	Number of shares	Interests as to % of the issued share capital of the Company as at 30.06.2012	*Note(s)*
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Beneficial owner, interests of controlled corporations	1,582,864,490	29.85%	*1*
Shougang Concord International Enterprises Company Limited ("Shougang International")	Beneficial owner, interests of controlled corporations	1,463,962,490	27.61%	*1*
Fine Power Group Limited ("Fine Power")	Beneficial owner	663,918,497	12.52%	*1*
Ultimate Capital Limited ("Ultimate Capital")	Beneficial owner	650,000,000	12.25%	*1*
Xing Libin	Beneficial owner, interests of controlled corporation, interests of spouse	566,277,240	10.68%	*2*
Firstwealth Holdings Limited ("Firstwealth")	Beneficial owner	400,000,000	7.54%	*2*

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

(b) Short positions in the shares of the Company

Name of shareholder	Capacity in which interests were held	Number of shares	Interests as to % of the issued share capital of the Company as at 30.06.2012	*Note(s)*
Xing Libin	Interests of controlled corporation	400,000,000	7.54%	*2*
Firstwealth	Beneficial owner	400,000,000	7.54%	*2*

Notes:

1. Shougang Holding indicated in its disclosure form dated 8 December 2011 (being the latest disclosure form filed up to 30 June 2012) that as at 6 December 2011, its interests included the interests held by Shougang International, a company which was held as to 47.80% by Shougang Holding, as well as Fine Power and Ultimate Capital, each of which was a wholly-owned subsidiary of Shougang International.

   Shougang International indicated in its disclosure form dated 9 May 2011 (being the latest disclosure form filed up to 30 June 2012) that as at 5 May 2011, its interests included the interests held by Fine Power and Ultimate Capital.

2. Mr. Xing Libin indicated in his disclosure form dated 28 June 2012 (being the latest disclosure form filed up to 30 June 2012) that as at 28 June 2012, his interests included the interests held by Firstwealth, a company which was wholly-owned by Mr. Xing Libin.

Save as disclosed above, as at 30 June 2012, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTIONS

On 20 June 2003, the 2003 Scheme was adopted by the shareholders of the Company. No share option was granted, exercised, cancelled or lapsed in accordance with the terms of the 2003 Scheme during the six months ended 30 June 2012. Details of the outstanding share options under the 2003 Scheme during the period are as follows:

Category or name of grantees	Options to subscribe for shares of the Company at the beginning and at the end of the period	Date of grant	Exercise period	Exercise price per share
Directors of the Company				
Chen Zhouping	6,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Wong Lik Ping	4,500,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
So Kwok Hoo	3,500,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Chen Zhaoqiang	8,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Liu Qingshan	6,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Xue Kang	3,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Leung Shun Sang, Tony	6,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Zhang Yaoping	4,500,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Kee Wah Sze	3,200,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Choi Wai Yin	3,200,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
Chan Pat Lam	3,200,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
	51,100,000			

SHARE OPTIONS (Continued)

Category or name of grantees	Options to subscribe for shares of the Company at the beginning and at the end of the period	Date of grant	Exercise period	Exercise price per share
Employees of the Group	6,000,000	26.04.2006	26.04.2008 – 25.04.2013	HK$1.50
	94,100,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
	100,100,000			
Other participants	116,000,000	19.08.2009	19.08.2011 – 19.08.2016	HK$6.00
	116,000,000			
	267,200,000			

On 25 May 2012, a new share option scheme (the "2012 Scheme") was adopted by the shareholders of the Company, which was conditional upon the Listing Committee of the Stock Exchange granting its approval to the listing of, and permission to deal in, the shares of the Company which may fall to be issued upon exercise of the options to be granted under the 2012 Scheme (the "Listing Approval"). The Listing Approval was granted on 29 May 2012. Accordingly, the 2012 Scheme became effective on 29 May 2012. The 2003 Scheme was terminated from the date on which the 2012 Scheme became effective. However, the share options granted under the 2003 Scheme prior to its termination shall continue to be valid and exercisable in accordance with the 2003 Scheme. No share options have been granted under the 2012 Scheme.

AUDIT COMMITTEE

The Company has engaged the Auditor to assist the Audit Committee to review the 2012 interim results of the Group. A meeting of the Audit Committee was held with the Auditor and the management of the Company on 22 August 2012 for, amongst other things, reviewing the interim results of the Group for the six months ended 30 June 2012.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES AND CORPORATE GOVERNANCE CODE

The Code on Corporate Governance Practices (the "Former Code") as set out in Appendix 14 of the Listing Rules was revised to, and renamed as, Corporate Governance Code (the "Revised Code") from 1 April 2012. The Company has complied with the code provisions of the Former Code during the period from 1 January 2012 to 31 March 2012 and the Revised Code during the period from 1 April 2012 to 30 June 2012, except for the following deviation:

– Under code provision A.6.7 of the Revised Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders.

  All of the three Non-executive Directors and one of the Independent Non-executive Directors of the Company attended the annual general meeting of the Company held on 25 May 2012 (the "Meeting"). Two out of the three Independent Non-executive Directors of the Company did not attend the Meeting due to other business engagements. The Company considers that the Non-executive Directors and the Independent Non-executive Director in attendance at the Meeting were already of sufficient number and calibre of forming a balanced understanding of the views of the shareholders of the Company.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as a code of conduct of the Company for Directors' securities transactions. Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the six months ended 30 June 2012.

DISCLOSURE OF DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

The following are the changes in the information of Directors since the date of the 2011 Annual Report of the Company, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

(1) Mr. Leung Shun Sang, Tony ceased to serve as the chairman of the Remuneration Committee of the Company with effect from 1 April 2012 but remains a member of the Remuneration Committee;

(2) Mr. So Kwok Hoo ceased to act as a member of the Remuneration Committee of the Company with effect from 1 April 2012; and

(3) Mr. Li Shaofeng was appointed as a member of the Remuneration Committee of the Company with effect from 1 April 2012.

APPRECIATION

On behalf of the Board, I would like to extend our sincere thanks to our customers, suppliers and shareholders for their continuous support to the Group. I would also extend my gratitude and appreciation to all management and staff for their hard work and dedication throughout the period.

By Order of the Board
Li Shaofeng
Chairman

Hong Kong, 28 August 2012