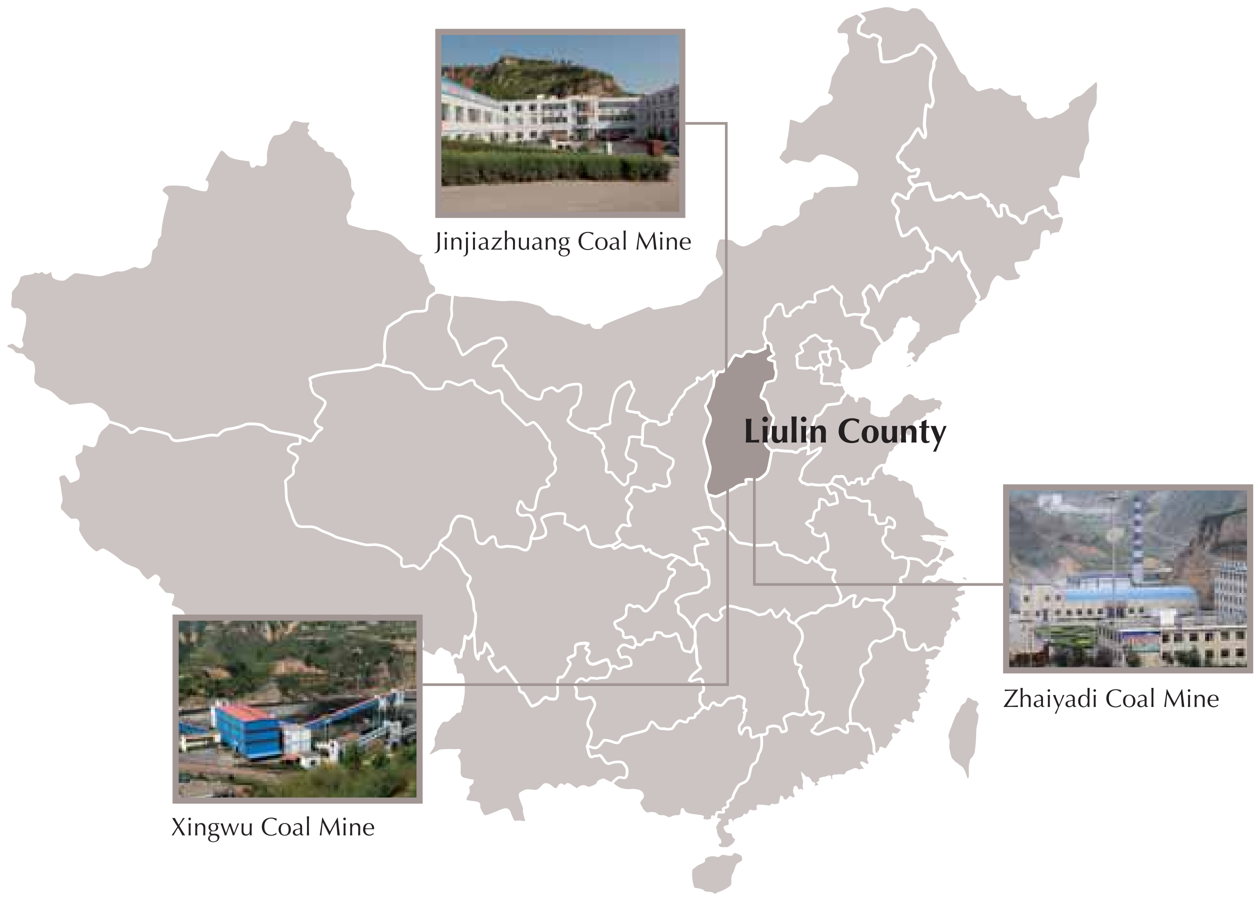
# Shougang Fushan Resources Group Limited

Stock Code : 639

# ANNUAL REPORT 2012

# LOCATIONS OF THE GROUP'S COKING COAL MINES




# CORPORATE PROFILE

**SHOUGANG FUSHAN RESOURCES GROUP LIMITED** is one of the most sizable integrated coking coal corporations in **CENTRAL-WESTERN CHINA.**

Taking Shanxi Province as its major investment base, it is principally engaged in **MINING OF COKING COAL, PRODUCTION AND SALES OF RAW AND CLEAN COKING COAL.**

The Group has three premium operating coking coal mines and three coal preparation plants.

# CONTENTS

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

Li Shaofeng *(Chairman)*
Chen Zhouping
*(Vice-chairman and Managing Director)*
Wong Lik Ping *(Vice-chairman)*
So Kwok Hoo *(Deputy Managing Director)*
Chen Zhaoqiang *(Deputy Managing Director)*
Liu Qingshan *(Deputy Managing Director)*
Leung Shun Sang, Tony *(Non-executive Director)*
Zhang Yaoping *(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

## 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

## 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

# DIRECTORS' BIOGRAPHIES

**Mr. Li Shaofeng**, aged 46, holds a bachelor degree in Automation from University of Science and Technology Beijing. Mr. Li was appointed an Executive Director and the Chairman of the Company in October 2011 and is the chairman of each of the Executive Committee and the Nomination Committee and a member of the Remuneration Committee of the Company. He joined Shougang Corporation, the ultimate holding company of Shougang Holding (Hong Kong) Limited ("Shougang Holding"), in 1989 and is the vice chairman and managing director of Shougang Holding, the managing director of Shougang Concord International Enterprises Company Limited ("Shougang International") and a director of each of Ultimate Capital Limited ("Ultimate Capital") and Fine Power Group Limited ("Fine Power"). Each of Shougang Holding, Shougang International, Ultimate Capital and Fine Power is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"). Mr. Li is the chairman of each of Shougang Concord Technology Holdings Limited ("Shougang Technology"), Shougang Concord Grand (Group) Limited ("Shougang Grand"), Global Digital Creations Holdings Limited ("GDC") and Shougang Concord Century Holdings Limited ("Shougang Century"). He is also a non-executive director of Sinocop Resources (Holdings) Limited ("Sinocop Resources"), a Hong Kong listed company. Mr. Li is a non-executive director of Mount Gibson Iron Limited ("Mount Gibson"), a company listed on the Australian Securities Exchange, and was an alternate director to Mr. Cao Zhong, an ex-director of Mount Gibson, from November 2011 to February 2012. He has extensive experience in management of, and investments in, listed companies, sino-foreign joint ventures and steel industry.

A service contract was entered into between Mr. Li and a wholly-owned subsidiary of the Company commencing on 20 October 2011. Under the service contract, Mr. Li is entitled to a monthly salary of HK$350,000 or such other salary and discretionary bonus as may be determined by the board of directors of the Company (the "Board") from time to time. For the financial year ended 31 December 2012, Mr. Li's monthly salary is HK$350,000 and his discretionary bonus is HK$5,000,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Li's individual performance.

# DIRECTORS' BIOGRAPHIES

**Mr. Chen Zhouping**, aged 47, graduated from the School of Economics and Management, Beijing Tsinghua University and is a member of the Chinese Institute of Certified Public Accountants. Mr. Chen was appointed a Non-executive Director of the Company in January 2009 and was re-designated as an Executive Director and the Vice-chairman and Managing Director of the Company in May 2010. He is a member of the Executive Committee of the Company. Mr. Chen is a deputy managing director of Shougang Holding, a non-executive director of Shougang International, and a director of each of Ultimate Capital and Fine Power. Each of Shougang Holding, Shougang International, Ultimate Capital and Fine Power is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Chen is also a non-executive director of Mount Gibson. He has extensive experience in steel industry, engineering design, human resources and management.

A service contract was entered into between Mr. Chen and a wholly-owned subsidiary of the Company commencing on 10 May 2010. Under the service contract, Mr. Chen is entitled to a monthly salary of HK$350,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2012, Mr. Chen's monthly salary is HK$350,000 and his discretionary bonus is HK$5,000,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Chen's individual performance.

**Mr. Wong Lik Ping**, aged 52. Mr. Wong was appointed an Executive Director and the Chairman of the Company in September 2001 and was re-designated as the Vice-chairman of the Company in March 2009. He is a member of each of the Executive Committee and the Nomination Committee of the Company. Mr. Wong is the chairman and an executive director of each of Theme International Holdings Limited ("Theme International") and PME Group Limited, both are listed companies in Hong Kong. He is also a member of the Shenzhen Committee of Chinese People's Political Consultative Conference. Mr. Wong has extensive experience in trading business, financial industry and investments in a wide range of businesses including mine industry in the People's Republic of China (the "PRC").

A service contract was entered into between Mr. Wong and a wholly-owned subsidiary of the Company commencing on 1 January 2010. Under the service contract, Mr. Wong is entitled to a monthly salary of HK$350,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2012, Mr. Wong's monthly salary is HK$350,000 and his discretionary bonus is HK$4,000,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Wong's individual performance.

# DIRECTORS' BIOGRAPHIES

**Mr. So Kwok Hoo**, aged 59, holds bachelor degrees in applied science with major in chemical engineering and business administration in Canada. Mr. So was appointed an Executive Director of the Company in March 1998 and was re-designated as a Deputy Managing Director of the Company in January 2010. He is a member of the Executive Committee of the Company. Mr. So is a non-executive director of APAC Resources Limited, a listed company in Hong Kong. He has extensive experience in marketing of electrochemical and industrial products sales in Asia Pacific Region together with property investment experience in Hong Kong.

A service contract was entered into between Mr. So and a wholly-owned subsidiary of the Company commencing on 1 January 2010. Under the service contract, Mr. So is entitled to a monthly salary of HK$250,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2012, Mr. So's monthly salary is HK$250,000 and his discretionary bonus is HK$2,650,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. So's individual performance.

**Mr. Chen Zhaoqiang**, aged 45, graduated from Jiaozuo Mining Institute with a bachelor degree majoring in mining engineering and obtained a master degree in management science from Huazhong University of Science & Technology and a finance executive masters of business administration degree from Shanghai Advanced Institute of Finance of Shanghai Jiao Tong University. Mr. Chen was appointed an Executive Director and Deputy Managing Director of the Company in January 2010. He is also a member of the Executive Committee of the Company. Mr. Chen had engaged in many important posts in coal mining industry, including in Pingdingshan Coal Co. Ltd., Henan Pingbao Coal Co. Ltd., and Henan Company for Coal Seam Gas Development & Application. He has extensive experience in coal mining industry including in the areas of production safety management for coal mining, purchase and logistics management, mineral resources development and coal trading.

A service contract was entered into between Mr. Chen and a wholly-owned subsidiary of the Company commencing on 1 January 2010. Under the service contract, Mr. Chen is entitled to a monthly salary of HK$220,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2012, Mr. Chen's monthly salary is HK$220,000 and his discretionary bonus is HK$3,300,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Chen's individual performance.

# DIRECTORS' BIOGRAPHIES

**Mr. Liu Qingshan**, aged 54, graduated from Shanxi University of Finance and Economics Department of Accounting and obtained a master of business administration from Capital University of Economics and Business. Mr. Liu was appointed an Executive Director of the Company in November 2008 and was re-designated as a Deputy Managing Director of the Company in January 2010. He is a member of the Executive Committee of the Company. Before joining the Group, Mr. Liu worked as chief financial controller in Fortune Dragon Group Limited and in other sizable energy resources companies in the PRC. He has extensive experience in the fields of accounting and finance in the mining industry in the PRC.

A service contract was entered into between Mr. Liu and a wholly-owned subsidiary of the Company commencing on 1 January 2010. Under the service contract, Mr. Liu is entitled to a monthly salary of HK$200,000 or such higher salary and discretionary bonus as may be determined by the Board from time to time. For the financial year ended 31 December 2012, Mr. Liu's monthly salary is HK$200,000 and his discretionary bonus is HK$3,000,000. Such salary and bonus were determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Liu's individual performance.

**Mr. Leung Shun Sang, Tony**, aged 70, holds a bachelor degree of commerce from The Chinese University of Hong Kong and a master degree in business administration from New York State University. Mr. Leung was appointed a Non-executive Director of the Company in March 2009 and is a member of the Remuneration Committee of the Company. He is a non-executive director of Shougang International, a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Leung is also a non-executive director of each of Shougang Century, Shougang Technology, Shougang Grand and GDC. Mr. Leung had worked in Citibank N.A. and W.I. Carr Sons & Co. (Overseas) in his early years and he was the managing director of CEF Group. He has over 40 years of experience in securities and banking business, investment, financial markets, corporate strategy and corporate management.

An engagement letter was entered into with Mr. Leung for a term of three years commencing on 1 January 2013. Under the engagement letter, Mr. Leung is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2012, the director's fee of Mr. Leung is HK$420,000. For the financial year ending 31 December 2013, the director's fee of Mr. Leung will be HK$420,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Leung. Such director's fees were determined with reference to Mr. Leung's experience and duties as well as the then prevailing market conditions.

# DIRECTORS' BIOGRAPHIES

**Mr. Zhang Yaoping**, aged 45, attended Party School of the Central Committee of C.P.C. in the PRC where he studied economic management. Mr. Zhang was appointed a Non-executive Director of the Company in January 2010. He was an officer of the board of directors' office of a coal mining company in Shanxi Province, the PRC and currently is the chairman of board of secretary as well as a member of the board of directors and the vice president of administration of such company. Mr. Zhang has extensive experience in the field of energy resources industries and steel trading in the PRC.

An engagement letter was entered into with Mr. Zhang for a term of three years commencing on 1 January 2013. Under the engagement letter, Mr. Zhang is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2012, the director's fee of Mr. Zhang is HK$420,000. For the financial year ending 31 December 2013, the director's fee of Mr. Zhang will be HK$420,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Zhang. Such director's fees were determined with reference to Mr. Zhang's experience and duties as well as the then prevailing market conditions.

**Mr. Kee Wah Sze**, aged 65, holds a Master Degree in Chinese and Comparative Law from the City University of Hong Kong and a Master Degree in Law from the People's University of the PRC. Mr. Kee was appointed an Independent Non-executive Director of the Company in April 1997 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. He is also an independent non-executive director of Theme International, a listed company in Hong Kong. Mr. Kee was an executive director of Goldbond Group Holdings Limited, a listed company in Hong Kong, during the period from January 2003 to December 2012. He is a partner of Messrs. Michael Cheuk, Wong & Kee and has been a practicing solicitor in Hong Kong for over 20 years specialized in both the commercial and conveyancing fields. Mr. Kee is a Notary Public of Hong Kong and a China Appointed Attesting Officer.

An engagement letter was entered into with Mr. Kee for a term of three years commencing on 1 January 2013. Under the engagement letter, Mr. Kee is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2012, the director's fee of Mr. Kee is HK$420,000. For the financial year ending 31 December 2013, the director's fee of Mr. Kee will be HK$420,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Kee. Such director's fees were determined with reference to Mr. Kee's experience and duties as well as the then prevailing market conditions.

# DIRECTORS' BIOGRAPHIES

**Mr. Choi Wai Yin**, aged 54, holds a Master Degree of Science in Finance from the City University of Hong Kong, a Bachelor Degree in Business Administration from The Chinese University of Hong Kong and a Bachelor Degree in Law from the Peking University. Mr. Choi was appointed an Independent Non-executive Director of the Company in July 2004 and is the Chairman of the Audit Committee and a member of each of the Nomination Committee and the Remuneration Committee of the Company. He was also appointed an executive director of a company which is the investment manager of a Hong Kong listed company. Mr. Choi is an investment adviser registered under the SFO. He has over 25 years of experience in the fields of finance and fund management.

An engagement letter was entered into with Mr. Choi for a term of three years commencing on 1 January 2013. Under the engagement letter, Mr. Choi is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2012, the director's fee of Mr. Choi is HK$420,000. For the financial year ending 31 December 2013, the director's fee of Mr. Choi will be HK$420,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Choi. Such director's fees were determined with reference to Mr. Choi's experience and duties as well as the then prevailing market conditions.

**Mr. Chan Pat Lam**, aged 64. Mr. Chan was appointed an Independent Non-executive Director of the Company in December 2004 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. He is also an independent non-executive director of Theme International, a listed company in Hong Kong. Currently, Mr. Chan is the assistant to the managing director of a private company, which is engaged in acting as an international container shipping agency in the Western region of Pearl River Delta. He is also the business advisor of a commercial bank in Macau and a partner of another private company which is engaged in trading and wholesaling of grocery items. Mr. Chan has over 35 years of experience in the field of international banking industry in Hong Kong, Macau and California.

An engagement letter was entered into with Mr. Chan for a term of three years commencing on 1 January 2013. Under the engagement letter, Mr. Chan is entitled to a director's fee as may be determined by the Board from time to time. For the financial year ended 31 December 2012, the director's fee of Mr. Chan is HK$420,000. For the financial year ending 31 December 2013, the director's fee of Mr. Chan will be HK$420,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Chan. Such director's fees were determined with reference to Mr. Chan's experience and duties as well as the then prevailing market conditions.

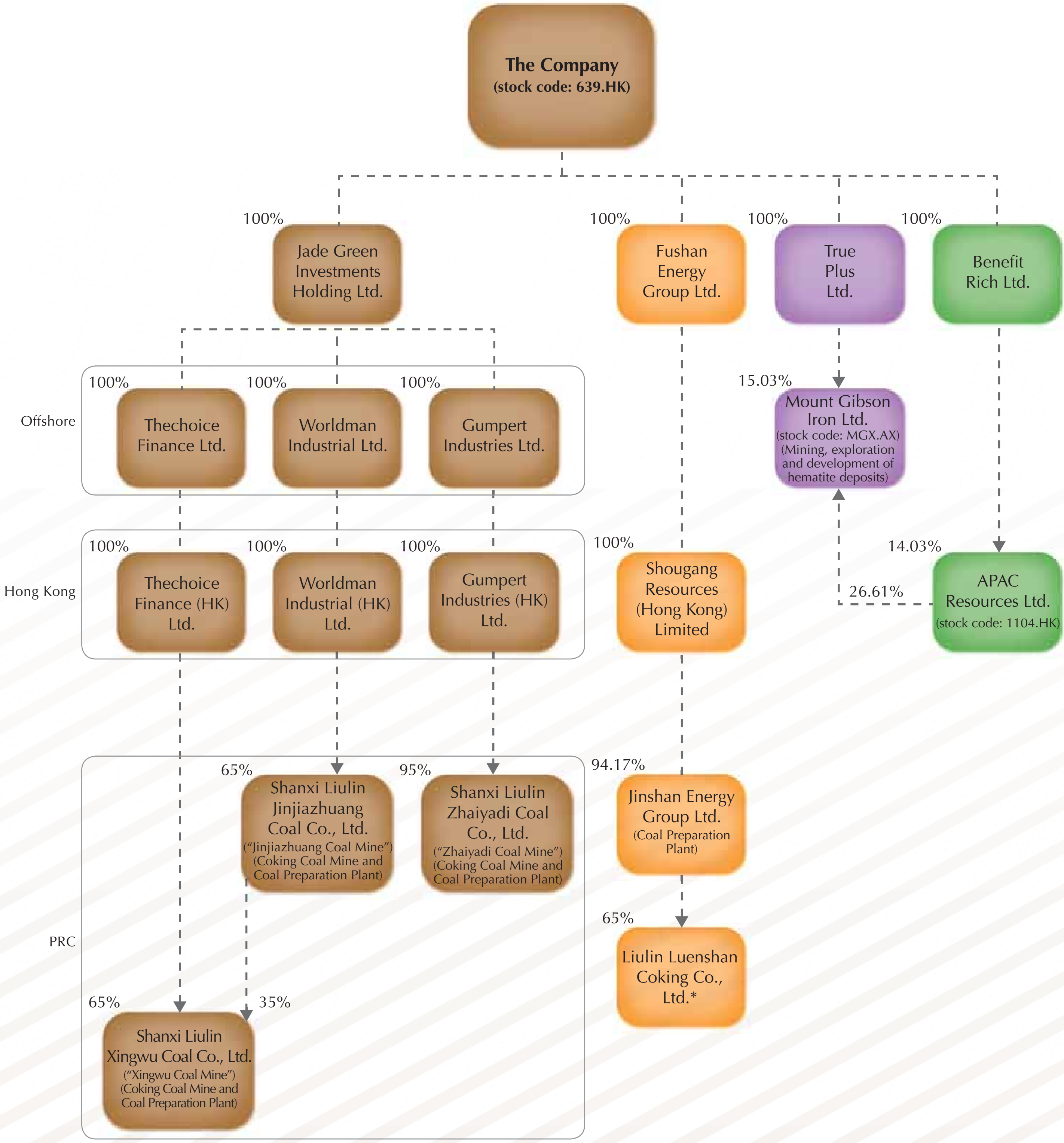
# DIRECTORS' BIOGRAPHIES

**Mr. Chan Chung Chun**, aged 53, holds a Bachelor Degree in Commerce from James Cook University of North Queensland and a Master Degree in Commerce from University of New South Wales in Australia. Mr. Chan is a fellow member of The Hong Kong Institute of Certified Public Accountants and an associate member of The Australian Society of Certified Practising Accountants. He was appointed an Independent Non-executive Director of the Company in July 2012 and is the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee of the Company. Mr. Chan is also an independent non-executive director of each of Shougang Century and GDC. Currently, he is the deputy chairman and executive director of Sinocop Resources, a listed company in Hong Kong. Mr. Chan had worked for the audit department of Ernst & Young for about 7 years and has extensive experience in the accounting and commercial fields, particularly in the manufacturing, marketing and retailing of consumer products in Hong Kong and the PRC.

An engagement letter was entered into with Mr. Chan for a term of three years commencing on 1 January 2013. Under the engagement letter, Mr. Chan is entitled to a director's fee as may be determined by the Board from time to time. For the period from 1 July 2012 (the date of appointment of Mr. Chan as an Independent Non-executive Director of the Company) to 31 December 2012, the director's fee of Mr. Chan is HK$210,000 which was based on the director's fee of HK$420,000 for a full year and was paid in proportion to Mr. Chan's actual length of services. For the financial year ending 31 December 2013, the director's fee of Mr. Chan will be HK$420,000 for a full year which will be paid in proportion to the actual length of services provided by Mr. Chan. Such director's fees were determined with reference to Mr. Chan's experience and duties as well as the then prevailing market conditions.

# MAIN OPERATIONAL STRUCTURE

## THE MAIN OPERATIONAL STRUCTURE OF THE GROUP AS AT 31 DECEMBER 2012 WAS AS FOLLOWS:




* The unofficial English translation is for identification purpose only.

# FINANCIAL HIGHLIGHTS

| (HK$'000) | For the year ended 31 December 2010 | 2011 | **2012** | **Percentage change** |
|---|---|---|---|---|
| Revenue | 5,543,285 | 7,138,643 | **5,650,590** | -21% |
| Gross profit | 4,091,525 | 5,028,935 | **3,585,802** | -29% |
| Gross profit margin | 74% | 70% | **63%** | |
| Operating profit | 2,976,588 | 3,948,085 | **2,975,573** | -25% |
| EBITDA[1] | 3,395,058 | 4,442,910 | **3,504,439** | -21% |
| Profit for the year | 2,215,067 | 2,649,619 | **2,150,240** | -19% |
| Profit attributable to Owners | 1,802,791 | 2,256,023 | **1,800,367** | -20% |
| Basic earnings per share (HK cents) | 33.52 | 41.93 | **33.80** | -19% |
| Dividend per share (HK cents) | 15 | 19 | **15** | -21% |
| – Interim (HK cents) | 5 | 6 | **5** | -17% |
| – Final (Proposed) (HK cents) | 10 | 13 | **10** | -23% |

| (HK$'000) | As at 31 December 2010 | 2011 | **2012** | **Percentage change** |
|---|---|---|---|---|
| Total assets | 26,119,627 | 27,000,297 | **26,820,521** | -1% |
| of which: Cash and cash equivalents and time deposits with original maturity over three months | 2,766,063 | 4,517,196 | **4,674,014** | +3% |
| Unpledged bill receivables | 1,223,109 | 2,224,366 | **1,165,620** | -48% |
| Total liabilities | (6,496,405) | (6,442,164) | **(5,958,538)** | -8% |
| of which: Total borrowings | (1,131,863) | (897,848) | **(1,075,448)** | +20% |
| Total borrowings (exclusive of asset-backed financing) | (1,131,863) | (897,848) | **(197,160)** | -78% |
| Gearing ratio[2] | 5.77% | 4.37% | **5.16%** | +18% |
| Adjusted gearing ratio[3] | 5.77% | 4.37% | **0.95%** | -78% |
| Total equity | 19,623,222 | 20,558,133 | **20,861,983** | +1% |
| of which: Equity attributable to Owners | 18,149,894 | 18,966,579 | **19,223,684** | +1% |
| Net assets per share attributable to Owners (HK$) | 3.37 | 3.53 | **3.63** | +3% |

Notes:

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

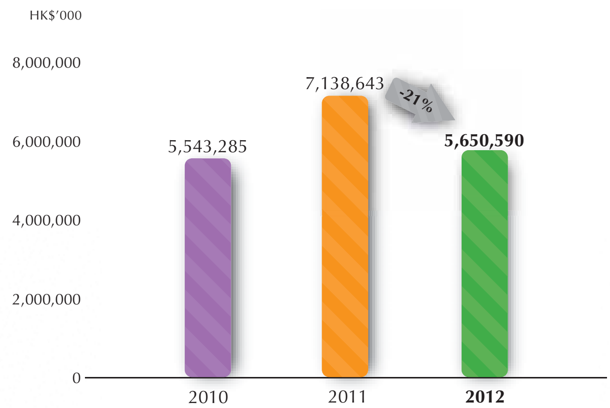
2. Gearing ratio is computed from total borrowings divided by total equity.

3. Adjusted gearing ratio is computed from total borrowings (exclusive of asset-backed financing) divided by total equity.

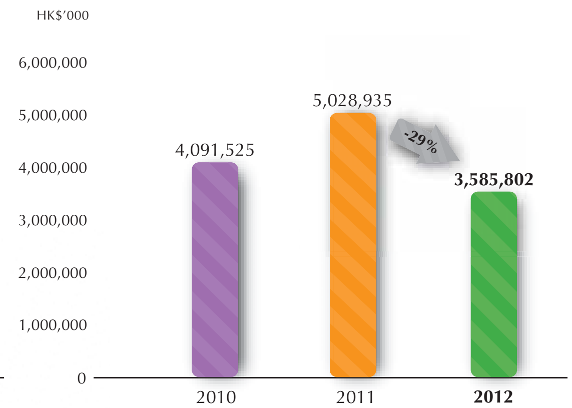
# FINANCIAL HIGHLIGHTS

## PROFIT & LOSS SUMMARY

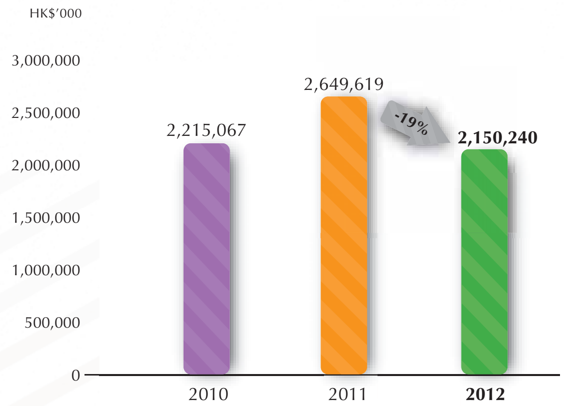
### Revenue



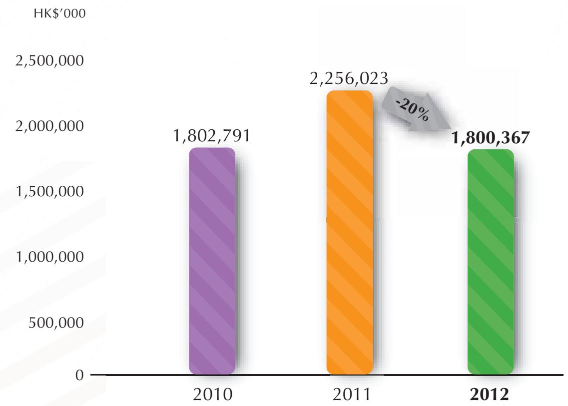

### Gross profit




### Profit for the year

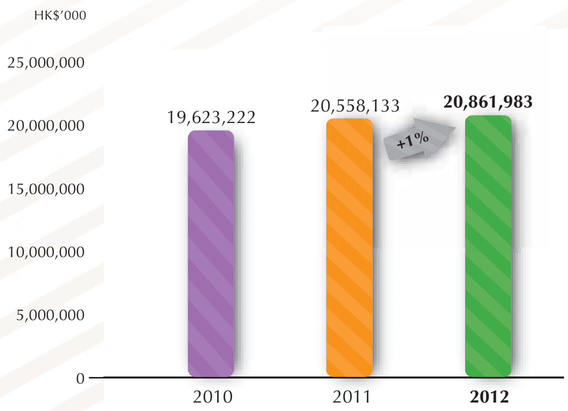



### Profit attributable to Owners

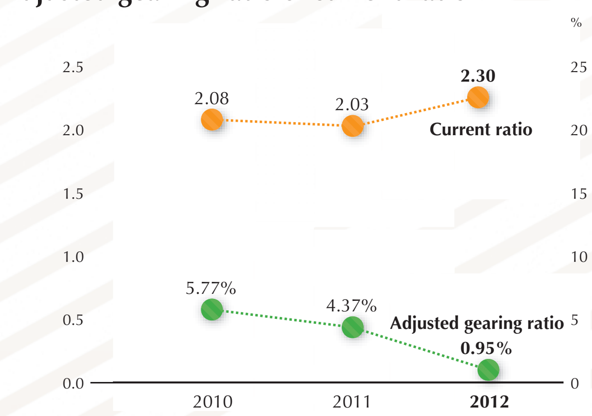



## HEALTHY FINANCIAL POSITION

### Net assets

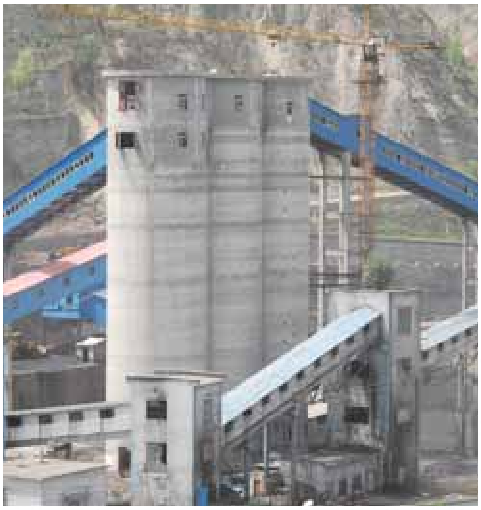



### Adjusted gearing ratio & current ratio



# OPERATING MINES

## XINGWU COAL MINE



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

## JINJIAZHUANG COAL MINE

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

## ZHAIYADI COAL MINE

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

# OPERATING MINES

## COAL CHARACTERISTICS

- Located within the Lishi-Liulin mining area of Hedong coalfield, one of China's key reserve areas for high-quality hard coking coal.
- Regarded as "panda coal" because of its scarcity and high economic value.
- The Group's coking coal is of particularly good quality due to its high calorific value and caking index but low ash and sulfur content, characteristics that are highly desirable for coke and steel making.

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

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

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

# OPERATING MINES

## OPERATING DATA

### Reserves and Resources/Output

| | Operating Mines | | | |
|---|---|---|---|---|
| | Xingwu | Jinjiazhuang | Zhaiyadi | Total |
| **Reserves and Resources** | | | | |
| In-Place Resources as of 31 December 2007 (Mt) | 63.23 | 64.18 | 78.34 | 205.75 |
| Recoverable Reserves as of 31 December 2007 (Mt) | | | | |
| – Proven reserves | 11.11 | 20.78 | 13.32 | 45.21 |
| – Probable reserves | 35.23 | 23.02 | 38.89 | 97.14 |
| Total proven and probable recoverable reserves as of 31 December 2007 (Mt) | 46.34 | 43.80 | 52.21 | 142.35 |
| *Less:* Total raw coking coal output in 2008 to 2012 (Mt) | (8.46) | (9.17) | (12.60) | (30.23) |
| **In-Place Resources as of 31 December 2012 (Mt) (NB)** | **54.77** | **55.01** | **65.74** | **175.52** |
| **Recoverable Reserves as of 31 December 2012 (Mt) (NB)** | **37.88** | **34.63** | **39.61** | **112.12** |

NB: Reserves and resources have taken into account the coal reserves prepared by John T. Boyd Company, an independent mining and geological consultant, as of 31 December 2007, in accordance with the JORC Code, after deduction of the total raw coking coal output for the period from 1 January 2008 to 31 December 2012.

| | Xingwu | Jinjiazhuang | Zhaiyadi | Total |
|---|---|---|---|---|
| **Raw coking coal output** | | | | |
| Total raw coking coal output in 2011 (Mt) | 1.569 | 2.045 | 2.745 | 6.359 |
| **Total raw coking coal output in 2012 (Mt)** | **1.963** | **1.767** | **2.370** | **6.100** |
| **Clean coking coal output** | | | | |
| Total clean coking coal output in 2011 (Mt) | 0.590 | 1.036 | 0.685 | 2.311 |
| **Total clean coking coal output in 2012 (Mt)** | **0.635** | **0.991** | **0.857** | **2.483** |

# CHAIRMAN'S STATEMENT

Dear Honorable Shareholders,

On behalf of the Board of Directors of Shougang Fushan Resources Group Limited ("Shougang Resources" or the "Company"), I hereby present the annual results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012 (the "Review Year").

In 2012, GDP in China was RMB51.93 trillion, crude steel production volume increased from 683 million tonnes in 2011 to 716 million tonnes in 2012, a year-on-year growth by 4.83%. As the steel producers had excessive capacity issue leading to lower profitability, the development of steel sector faced a bottleneck. Steel sector underwent a tough year. According to the "Twelfth Five-Year Plan", the total number of steel producers will decrease and the production volume from the top 10 producers in the country will reach 60% of the total production volume. Coking coal sector also faced its own challenges. As a result of high production costs and the weak market demand, selling prices dropped. Many coking coal producers had suspended their operations. Management responded in time with a proactive measure to continue developing clean coking coal business. As a result, the total sales volume of clean coking coal increased by approximately 0.15 million tonnes. Our 2012 annual realised production volume reached 6.10 million tonnes of raw coking coal and 2.48 million tonnes of clean coking coal. In terms of safety, we have managed to lower the methane gas level to less than 0.3% in our three premium operating coking coal mines, which is lower than the national standard of 0.75%. In the Review Year, our three premium operating coking coal mines continued to run smoothly.

In the Review Year, management actively developed the sales of clean coking coal, as a result the proportion of clean coking coal sales to total sales increased. However, due to the weak market demand, the selling prices were affected, the Group's average realised selling prices (inclusive of VAT) of raw coking coal and clean coking coal were RMB838/tonne and RMB1,423/tonne respectively, representing a year-on-year decrease of 18% and 21% respectively. As the average realised selling prices dropped, the Group's gross profit decreased from HK$5,029 million in 2011 to HK$3,586 million in the Review Year, gross profit margin was 63%. The Group's operating profit was HK$2,976 million, representing a year-on-year decrease of 25%. In the Review Year, the Group's net profit and profit attributable to the owners were HK$2,150 million and HK$1,800 million respectively, representing a year-on-year decrease of 19% and 20% respectively.

Steel industry plans to adjust the structure of production capacity as a long term main objective, how to control total production volume, implement the layout of mines planning, eliminate backward production capacity and reduce carbon emission are all the challenges that steel sector has to face under the "Twelfth Five-Year Plan". According to the country's policy to "Steel Industry Development Policy", for the purpose of implementation of policies on reducing carbon emission, blast furnaces that are below 1,000 cubic meters will be shut down gradually and all newly built ones must be large scale furnaces. These large blast furnaces must use coking coal with higher coal strength and resistance. On the other hand, "Provisional Regulations on Development and Utilisation of Special and Scarce Coal Class" puts more emphasis on protecting scarce resources, meaning the supply of high quality coking coal will be very tight in the foreseeable future. We believe, as the steel sector gradually improves and shortage of high quality coking coal supply continues, our three premium operating coal mines which located in Shanxi Province will benefit eventually.

As one of the leading coking coal producers in China, Shougang Resources will monitor the latest market situation, through economies of scale and quality management to expand our coking coal business in a steady manner. In the coming year, we will continue to strengthen the strategic relationships with our existing large scale steel producing customers such as Shougang Group, Hebei Iron and Steel Group and Inner Mongolia Baotou Steel Union Company Limited. At the same time, we will also actively develop business and supply high quality clean coking coal products to our new customers such as Bengang Steel Plates Company Limited and Shanxi Taigang Stainless Steel Company Limited etc.

## Outlook for 2013

Looking into 2013, global economy is still weak, many countries initiated quantitative easing (QE) to increase the liquidity of money supply. As the economies nearby are still weak, this sets a very challenging stage for the export from China and thus domestic consumption will be the main support to sustain economic growth. Urbanisation will be the main engine to stimulate domestic consumption, it is expected that approximately 6 million units of social housing begin construction and 4.6 million units completed by 2013. In line to support the urbanisation, the fixed asset investment in railway infrastructure will increase to RMB650 billion, we believe these policies will drive up the consumption of steel.

In the future, as in the past, the Group will continue to put more emphasis in internal training to strengthen the management capability and seise the opportunities to enhance production to achieve the production target and enforce production safety to maintain excellent operation track record. With solid financial strengths and competent staff team, these support the Group's future development and lay out a solid foundation for our continued growth. Aside from strengthening our internal control to secure growth, we are looking cautiously to source for possible acquisitions both in the Mainland China and abroad to enhance our resources reserve and expand production capacity, so as to maintain our leading position and influence in the coking coal industry. We are well prepared for the future development. We have great confidence in the future of the Group and will strive to create great investment return for our shareholders.

# CHAIRMAN'S STATEMENT

To reward the continual support of our shareholders, the Board of Directors of Shougang Resources had proposed a final dividend of HK10 cents per share. Thus, the annual dividend for 2012 amounted to HK15 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 all their continued support to the Group over the past years.

**Li Shaofeng**
*Chairman*

Hong Kong, 27 March 2013

# 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 year ended 31 December 2012 together with that of the same period of 2011 is summarised as follows:

| | | **For the year ended 31 December** | | **Change** | |
|---|---|---|---|---|---|
| | Unit | **2012** | 2011 | **Quantity/ Amount** | **Percentage** |
| *Production volume:* | | | | | |
| Raw coking coal | Mt | **6.10** | 6.36 | **-0.26** | **-4%** |
| Clean coking coal | Mt | **2.48** | 2.31 | **+0.17** | **+7%** |
| *Sales volume:* | | | | | |
| Raw coking coal | Mt | **2.33** | 2.77 | **-0.44** | **-16%** |
| Clean coking coal | Mt | **2.41** | 2.26 | **+0.15** | **+7%** |
| *Average realised selling price (inclusive of VAT):* | | | | | |
| Raw coking coal | RMB/tonne | **838** | 1,021 | **-183** | **-18%** |
| Clean coking coal | RMB/tonne | **1,423** | 1,812 | **-389** | **-21%** |

For the year ended 31 December 2012, the Group produced approximately 6.10 million tonnes ("Mt") (2011: approximately 6.36 million tonnes) of raw coking coal, representing a year-on-year decrease of 4% and also produced approximately 2.48 million tonnes (2011: approximately 2.31 million tonnes) of clean coking coal, representing a year-on-year increase of 7%. The decrease in raw coking coal production volume by 4% was due to the temporary reduction in demand of coking coal during the year under review. Operation of our three premium operating coking coal mines continued running smoothly throughout the year under review.

## BUSINESS REVIEW (continued)

For the year ended 31 December 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 7% while sales volume of raw coking coal dropped by 16% for the year ended 31 December 2012.

For the year ended 31 December 2012, the Group's average realised selling price (inclusive of value added tax "VAT") of raw coking coal decreased by 18% to Renminbi ("RMB") 838/tonne when compared with that of the same period of 2011 (2011: RMB1,021/tonne) and the Group's average realised selling price (inclusive of VAT) of clean coking coal decreased by 21% to RMB1,423/tonne when compared with that of the same period of 2011 (2011: RMB1,812/tonne). The decrease in average realised selling prices of raw and clean coking coal was in line with the drop of market prices. In addition, the decrease in average realised selling price of clean coking coal was also due to the increase in proportion of sales volume of clean coking coal at ex-factory prices for the year ended 31 December 2012. In terms of sales volume, ex-factory prices and C&F prices of clean coking coal accounted for 79% and 21% respectively for the year ended 31 December 2012 compared against 38% and 62% respectively for the year ended 31 December 2011.

## FINANCIAL REVIEW

For the year ended 31 December 2012, the Group recorded a turnover of approximately Hong Kong Dollars ("HK$") 5,651 million, representing a decrease of approximately HK$1,488 million or 21% as compared with that of approximately HK$7,139 million for the same period of 2011. The reduction in turnover was mainly attributable to the drop in average realised selling prices of raw and clean coking coal by 18% and 21% respectively for the year. In terms of turnover, sales of raw and clean coking coal accounted for 36% and 64% of the Group's turnover, respectively for the year ended 31 December 2012 compared against 41% and 59%, respectively for the year ended 31 December 2011.

For the year ended 31 December 2012, total turnover to the top five customers accounted for 67% of the Group's turnover. Of which, the turnover to the largest customer accounted for 22% of the Group's turnover.

For the year ended 31 December 2012, gross profit margin was 63% while 70% for the same period in 2011. Decrease in gross profit margin was mainly due to the drop in realised selling prices as explained above.

For the year ended 31 December 2012, the Group recorded net profit of approximately HK$2,150 million, representing a decrease of approximately HK$500 million or 19% as compared with that of approximately HK$2,650 million for the same period of 2011. For the year ended 31 December 2012, the Group also recorded profit attributable to the owners of the Company (the "Owners") of approximately HK$1,800 million, representing a decrease of approximately HK$456 million or 20% as compared with that of approximately HK$2,256 million for the same period of 2011. The decrease in net profit and profit attributable to the Owners in 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.

## FINANCIAL REVIEW (continued)

For the year ended 31 December 2012, no non-cash share-based compensation expense was incurred as this expense had been fully recognised since August 2011. The Group incurred a non-cash share-based compensation expense of approximately HK$177 million in last year. In addition, as a result of the completion of the disposal of discontinued operations (coke plant) in December 2011, no loss from the discontinued operations was recorded for the year ended 31 December 2012. The Group recorded loss of approximately HK$139 million from the discontinued operations last year.

During the year under review, basic earnings per share was HK33.80 cents (2011: HK41.93 cents), representing a year-on-year decrease of 19%.

### Cost of Sales

During the year under review, cost of sales was approximately HK$2,065 million, representing a decrease of approximately HK$45 million or 2%, as compared with that of approximately HK$2,110 million for the same period of 2011. The change was due to the following reasons:

(i) The decrease in production costs was resulted from the decrease in production of raw coking coal by 4% from 6.36 million tonnes for the year ended 31 December 2011 to 6.10 million tonnes for the year ended 31 December 2012; after offset by the effect on (a) the increase in unit production cost of raw coking coal by 1% as explained in below (ii); (b) the increase in sales volume of clean coking coal by 7% from 2.26 million tonnes for the year ended 31 December 2011 to 2.41 million tonnes for the year ended 31 December 2012; and (c) the appreciation of RMB for the year ended 31 December 2012 by approximately 2%.

## FINANCIAL REVIEW (continued)

### Cost of Sales (continued)

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

| | | For the year ended 31 December | | Change | |
|---|---|---|---|---|---|
| | Unit | **2012** | 2011 | **Amount** | **Percentage** |
| Production cost of raw coking coal | RMB/tonne | **260** | 258 | **+2** | **+1%** |
| *Less:* | | | | | |
| One-off relocation compensation expenses | RMB/tonne | **(7)** | (13) | | |
| One-off reversal of capitalised environmental restoration fund in prior years | RMB/tonne | **–** | (9) | | |
| | | **253** | 236 | **+17** | **+7%** |
| *of which, depreciation and amortisation* | RMB/tonne | **(61)** | (57) | **+4** | **+7%** |
| Processing cost for clean coking coal | RMB/tonne | **54** | 54 | **–** | **–** |
| *of which, depreciation* | RMB/tonne | **(11)** | (11) | **–** | **–** |

The increase in unit production cost (exclusion of one-off production costs) of raw coking coal by 7% was resulted from the decrease in production volume of raw coking coal by 4% during the year under review; the increase in uncontrollable costs such as (a) the increase in water resource related levies by approximately HK$17 million for the year ended 31 December 2012; (b) the increase in power charge by approximately HK$25 million for the year ended 31 December 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 usage maintenance fund by approximately HK$16 million for the year ended 31 December 2012.

Included in cost of sales, amortisation of mining rights was approximately HK$276 million for the year ended 31 December 2012, representing a decrease of approximately HK$10 million or 3%, as compared with that of approximately HK$286 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 4%, although the effect was partially offset by the appreciation of RMB by approximately 2% during the year under review.

## FINANCIAL REVIEW (continued)

### Gross Profit and Gross Profit Margin

As a result of the reasons above, gross profit for the year ended 31 December 2012 was approximately HK$3,586 million, representing a decrease of approximately HK$1,443 million or 29% as compared with that of approximately HK$5,029 million for the same period of 2011. During the year under review, gross profit margin was 63% whereas 70% for the same period of 2011. The drop in gross profit margin was mainly due to the decrease in average realised selling prices for the year ended 31 December 2012 when compared with that in the same period of 2011 as explained above.

### Other Operating Income

During the year under review, other operating income was approximately HK$324 million, representing a decrease of approximately HK$18 million or 5% as compared with approximately HK$342 million of the same period in 2011. Although (i) bank interest income was substantially increased by approximately HK$61 million from approximately HK$59 million for the same period of 2011 to approximately HK$120 million for the year ended 31 December 2012 as a result of the effective cash management; and (ii) the increase of income from sales of scrapped products generated from the process of clean coking coal by approximately HK$7 million to approximately HK$85 million which was increased with the production volume of clean coking coal for the year ended 31 December 2012, the effect was fully offset by the substantial decrease in net exchange gain of approximately HK$74 million during the year under review arising from re-translation of the Group's current assets denominated in RMB as at 31 December 2012. The reduction was the result of the appreciation of RMB by approximately 1% as at 31 December 2012 compared with that as at 31 December 2011 (2011: approximately 4%). As a result, the other operating income decreased by approximately HK$18 million.

### Selling and Distribution Expenses

During the year under review, selling and distribution expenses were approximately HK$270 million, representing a significant decrease of approximately HK$366 million or 58% as compared with that of approximately HK$636 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 approximately 64% from 1.39 million tonnes for the year ended 31 December 2011 to 0.50 million tonnes for the year ended 31 December 2012.

### General and Administrative Expenses

During the year under review, administrative expenses were approximately HK$370 million, representing a significant decrease of approximately HK$236 million or 39% as compared with approximately HK$606 million for the same period of 2011. The decrease was resulted from (i) the reduction of the non-cash share-based compensation expense by approximately HK$177 million during the year under review as this expense had been fully recognised since August 2011; (ii) the decrease in directors' remuneration by approximately HK$13 million during the year under review; (iii) the reduction in road maintenance fee by approximately HK$9 million during the year under review, which was payment on demand by the relevant authority; and (iv) the effective cost control during the year under review.

## FINANCIAL REVIEW (continued)

### Other Operating Expenses

During the year under review, other operating expenses were approximately HK$294 million, which mainly represented the committed annual payment of charitable donation for the year of 2012 of approximately HK$244 million paid by the Group to the Liulin Provincial Government, 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.

### Finance Costs

During the year under review, actual finance costs were approximately HK$41 million, representing a decrease of approximately HK$13 million or 24% as compared with that of approximately HK$54 million for the same period of 2011. During the year under review, approximately HK$14 million (2011: approximately HK$32 million) of borrowing costs were capitalised in the construction in progress. The decrease in actual finance costs was due to the decrease in bank borrowings by approximately HK$699 million from approximately HK$892 million as at 31 December 2011 to approximately HK$193 million as at 31 December 2012. The average annual interest rate charges on the bank borrowings were approximately 4% for the year ended 31 December 2012 and 2011. During the year under review, the Group adopted short term financing such as discounted bill receivables instead of long term bank borrowings. As a result, the actual finance costs were decreased by approximately HK$13 million during the year under review.

### Income Tax Expense

During the year under review, income tax expense was approximately HK$822 million (2011: approximately HK$1,141 million), of which approximately HK$76 million (2011: approximately HK$123 million) represented the provision of withholding tax of 5% on the dividend declared from the Group's major subsidiaries incorporated in the People's Republic of China ("PRC") ("major PRC Subsidiaries") in accordance with the tax regulations in the PRC. The substantial decrease in income tax expense was decrease in line with profits during the year under review. The enterprise income tax rate for the Group's major PRC subsidiaries is 25%.

### Owner's Attributable Profit

By reasons of the foregoing, profit attributable to the Owners during the year under review was approximately HK$1,800 million, representing a decrease of approximately HK$456 million or 20% as compared with that of approximately HK$2,256 million for the same period of 2011.

### Material Investments and Acquisitions

During the year ended 31 December 2012, the Group had no material investments and acquisitions.

### Material Disposals

During the year ended 31 December 2012, the Group had no material disposals.

## FINANCIAL REVIEW (continued)

### 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 to build itself into a safety-oriented and environment-friendly enterprise. During the year under review, all coal mines of the Group operated smoothly.

### Charges on Assets

As at 31 December 2012, save for disclosed below, none of the Group's assets was charged or subject to any encumbrance.

(i) bank deposits of approximately HK$172 million and bill receivables of approximately HK$414 million were used for securing bills facilities of approximately HK$535 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$") 25 million of bank loan for the Company.

### Contingent Liabilities

As at 31 December 2012, there were no guarantees given to any banks or financial institutions by the Group.

### Gearing Ratio

As at 31 December 2012, gearing ratio of the Group, computed from the Group's total borrowings divided by the total equity, was approximately 5%. Exclusion the effect on discounted bill receivables amounting to approximately HK$878 million, the Group's gearing ratio would be approximately 1%. The total borrowings (exclusive of the discounted bill receivables amounting to approximately HK$878 million) amounted to approximately HK$197 million as at 31 December 2012.

### Exposure to Fluctuations in Exchange Rates

As at 31 December 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 31 December 2012, RMB was appreciated by approximately 1% while AUD was appreciated by approximately 2% respectively when compared to that as at 31 December 2011.

## FINANCIAL REVIEW (continued)

### Liquidity and Financial Resources

As at 31 December 2012, the Group's current ratio (current assets divided by current liabilities) was approximately 2.3 times and the Group's cash and bank deposits amounted to approximately HK$4,846 million, of which approximately HK$172 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$2,632 million (of which approximately HK$1,052 million was for discounted and endorsed bill receivables and approximately HK$414 million was used for securing bills facilities of approximately HK$363 million) as at 31 December 2012 that were readily convertible into cash, but would be subject to finance cost when conversion before the maturity. Taking into account for the free bill receivables of approximately HK$1,166 million, the Group's free cash resources would have approximately HK$5,840 million as at 31 December 2012.

### Capital Structure

Total equity, bank borrowings and other borrowings are classified as capital of the Group. As at 31 December 2012, the amount of capital was approximately HK$21,937 million.

During the year 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 year under review.

Save for disclosed above, there was no change in the issued capital of the Company during the year under review. As at 31 December 2012, the issued capital of the Company was approximately HK$530 million, represented approximately 5,302 million shares in number.

As at 31 December 2012, the total borrowings of approximately HK$1,075 million denominated in US$ and RMB. The US$ borrowing of approximately HK$193 million bears an interest calculated at LIBOR plus 1.85% per annum and is repayable by 3 installments from March 2013 to September 2013. The RMB borrowings of approximately HK$878 million are asset-backed financing. 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 31 December 2012.

## EMPLOYEES

As at 31 December 2012, the Group had 29 Hong Kong employees and 6,562 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 Group has a share option scheme. During the year under review, no share option was granted, exercised, cancelled or lapsed.

## FUTURE PROSPECTS

Global economy was still weak in 2012, developed countries such as Europe, USA and Japan all suffered from debt crisis as a result of the slow recovery, the central banks of these countries all initiated quantitative easing (QE) in the third quarter of 2012. The growth in developing countries such as India and China also slowed down. Thus, 2013 will be a year full of challenges. Although USA was able to escape from the "fiscal cliff", she still needs to accept budget-cut of US$85 billion eventually. Accordingly, the US government will have to cut down headcount, reduce spending on infrastructure, cutting benefits and reducing domestic consumption. In an environment where there are still many uncertainties in these foreign countries, export is affected and the development of China's economy will be relied on domestic consumption.

In the fourth quarter of 2012, National Development and Reform Commission approved investment projects amounting up to RMB7 trillion, mainly in large infrastructure projects such as railway, highway and airports. At the same time, spending on fixed asset investments on railways increased to RMB650 billion in 2013. In addition, urbanisation is another critical driving force that will drive up fixed asset investments. Urbanisation rate had surpassed 51% and 6 million units of social housing have been completed in 2012. The target is to be completed another 4.6 million units in 2013. To support the growth of urbanisation, investment in infrastructure will continue to be a backbone to support the growth of fixed asset investments. It is expected that RMB40 trillion will be spent in the next decade to drive up the growth of urbanisation. These investments will drive up the demand for steel and this will be a good factor for the steel sector. As the policy on cutting down on carbon emission and protection on scarcely resources has been implemented and Mongolia, the largest importer of coking coal to China in the past two years, had started to suspend export to China in January 2013, all of these factors will have a support to the coking coal prices.

We will seise the opportunity to continue to develop strategic cooperation with our major steel producers to expand our coal business. In addition, we shall take full advantage of our solid financial strength and competent staff team to look for quality merger and acquisition projects both domestically and internationally to expand our production capacity and resource reserve in order to maximise the return for our shareholders.

# CORPORATE GOVERNANCE REPORT

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

## CORPORATE GOVERNANCE PRACTICES

The Code on Corporate Governance Practices (the "Former Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") was revised to, and renamed as, Corporate Governance Code (the "Revised Code") from 1 April 2012 (collectively, the "CG Code"). 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 31 December 2012, except for the following deviation:

– Under the second part of 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.

  Two Independent Non-executive Directors of the Company did not attend the annual general meeting of the Company held on 25 May 2012 (the "2012 AGM") due to their other business engagements. The Company considers that the Non-executive Directors and the Independent Non-executive Director in attendance at the 2012 AGM were already of sufficient number and calibre of forming a balanced understanding of the views of the shareholders of the Company. Details of the Directors' attendances at the 2012 AGM are set out on page 46 of this report.

## BOARD OF DIRECTORS

### Composition

The Board currently comprises a total of twelve Directors, being six Executive Directors, two Non-executive Directors and four Independent Non-executive Directors. The list of Directors is set out in the section headed "Report of the Directors" of this annual report. In addition, an updated list of the Directors and their roles and functions is published on the websites of the Stock Exchange and the Company respectively.

In compliance with the new requirement under Rule 3.10A of the Listing Rules that the number of independent non-executive directors must represent at least one-third of the board, one additional Independent Non-executive Director was appointed and two Directors voluntarily resigned during the year.

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

## BOARD OF DIRECTORS (continued)

### Composition (continued)

The Directors give sufficient time and attention to the affairs of the Company and its subsidiaries (the "Group"). All Directors are required to disclose to the Company at the time of their appointment and annually the number and the nature of offices held in public companies or organizations and other significant commitments with an indication of the time involved.

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

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

The Non-executive Directors are of sufficient number and calibre for their views to carry weight. The functions of Non-executive Directors include:

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

The Non-executive Directors (including Independent Non-executive Directors) have made a positive contribution to the development of the Company's strategy and policies through independent, constructive and informed comments. They give the Board and the committees on which they serve the benefit of their skills, expertise, varied backgrounds and qualifications through regular attendance and active participation.

Composition of the Board is disclosed, and the Independent Non-executive Directors are identified, in all corporate communications to shareholders.

### Role and function of the Board and the management

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

## BOARD OF DIRECTORS (continued)

### Board meetings

The Board meets regularly and holds at least four Board meetings a year. Additional meetings will be arranged, if and when required. The Directors can attend meetings in person or through electronic means of communication in accordance with the articles of association of the Company (the "Articles").

The Company Secretary assists the Chairman in drawing up the agenda of each Board meeting and each Director may request inclusion of matters in the agenda. Generally, at least 14-day notice of a regular Board meeting is given and the Company aims at giving reasonable notice for all other Board meetings. The Company also aims at sending the agenda and the accompanying board papers, which are prepared in a form and quality sufficient to enable the Board to make informed decisions on matters placed before it, to all Directors at least 3 days before the intended date of a Board meeting. Where queries are raised by Directors, prompt and full responses will be given if possible.

There has been procedure in place to enable Directors to seek independent professional advice in appropriate circumstances at the Company's expenses. The Board shall resolve to, upon request, provide separate independent professional advice to Directors to assist them perform their duties to the Company.

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

If a substantial shareholder or a Director has a conflict of interest in a matter (including material transaction with connected persons) which the Board has determined to be material, the matter will be dealt with by a physical Board meeting, rather than a written resolution.

Except for those circumstances permitted by the Articles and all applicable laws, rules and regulations, a Director who has a material interest in any contract, transaction, arrangement or any other kind of proposal put forward to the Board for consideration must abstain from voting on the relevant resolution and such Director shall not be counted for quorum.

### Attendance records

During the financial year ended 31 December 2012, the Directors have made active contribution to the affairs of the Group and four physical Board meetings were held to consider, among other things, various projects contemplated by the Group and to review and approve the interim results and annual results of the Group.

## BOARD OF DIRECTORS (continued)

### Attendance records (continued)

Details of the Directors' attendances in 2012 are as follows:

| | Number of meeting(s) attended/eligible to attend |
|---|---|
| *Executive Directors* | |
| Li Shaofeng *(Chairman)* | 4/4 |
| Chen Zhouping | 4/4 |
| Wong Lik Ping | 2/4 |
| So Kwok Hoo | 4/4 |
| Chen Zhaoqiang | 4/4 |
| Liu Qingshan | 4/4 |
| Xue Kang *(resigned on 20 December 2012)* | 0/4 |
| *Non-executive Directors* | |
| Leung Shun Sang, Tony | 4/4 |
| Zhang Yaoping | 2/4 |
| Zhang Wenhui *(resigned on 20 December 2012)* | 4/4 |
| *Independent Non-executive Directors* | |
| Kee Wah Sze | 4/4 |
| Choi Wai Yin | 4/4 |
| Chan Pat Lam | 4/4 |
| Chan Chung Chun *(appointed on 1 July 2012)* | 3/3 |

### Access to information

The Board is supplied with sufficient explanation and information by the management to enable the Board to make an informed assessment of financial and other information put before it for approval. The management provides all Board members with monthly updates which give a balanced and understandable assessment of the Company's performance, position and prospects in sufficient details to enable the Board as a whole and each Director to discharge their duties. Where any Director requires more information than is volunteered by the management, each Director has the right to separately and independently access to the Company's senior management to make further enquiries if necessary.

### Appointment and re-election of Directors

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

## BOARD OF DIRECTORS (continued)

### Appointment and re-election of Directors (continued)

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

All Non-executive Directors have entered into letters of engagement with the Company for a term of not more than three years.

### Independent Non-executive Directors

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

Pursuant to Rule 3.10A of the Listing Rules, the number of Independent Non-executive Directors of the Company represents one-third of the Board.

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

Any re-election of an independent non-executive director who has served the board for more than nine years, his further appointment should be subject to a separate resolution to be approved by shareholders.

Mr. Kee Wah Sze, who will retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting of the Company, has served as an Independent Non-executive Director of the Company for more than 9 years. As an Independent Non-executive Director with extensive experience and knowledge and in-depth understanding of the Company's operations and business, Mr. Kee has expressed objective views and given independent guidance to the Company over the past years, and he continues demonstrating a firm commitment to his role. The Nomination Committee and the Board consider that the long service of Mr. Kee would not affect his exercise of independent judgement and are satisfied that Mr. Kee has the required character, integrity and experience to continue fulfilling the role of an Independent Non-executive Director. The Company will state in a circular which will contain, among other things, the notice convening the forthcoming annual general meeting of the Company the reason why the Nomination Committee and the Board consider Mr. Kee is still independent and the recommendation to shareholders to vote in favor of the re-election of Mr. Kee as a Director.

### Directors' and officers' liability

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

## BOARD OF DIRECTORS (continued)

### Directors' training and professional development

Every newly appointed Director will be given an introduction of regulatory requirements. Directors are continually updated on the latest development of the Listing Rules, legal and other regulatory requirements to ensure compliance and upkeep of good corporate governance practice. Directors are also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company Secretary facilitates induction and professional development of Directors.

In December 2012, the Company organized, at the cost of the Company, an in-house training session for the Directors on the following topics:

- disclosure obligations of listed corporations regarding insider information; and

- update on directors' roles and responsibilities in relation to the Revised Code and the Listing Rules.

All Directors have provided to the Company their records of training received during the period from 1 April 2012 (being the date of the Revised Code became effective) to 31 December 2012, a summary of which is as follows:

| | Continuous professional development | |
|---|---|---|
| **Directors** | **Type** *(Note I)* | **Subject** *(Note II)* |
| Li Shaofeng | A, B | 1 |
| Chen Zhouping | A, B | 1 |
| Wong Lik Ping | B | 1 |
| So Kwok Hoo | A | 1 |
| | B | 1, 2 |
| Chen Zhaoqiang | A, B | 1 |
| Liu Qingshan | A, B | 1 |
| Xue Kang | B | 1 |
| Leung Shun Sang, Tony | A, B | 1 |
| Zhang Yaoping | B | 1 |
| Zhang Wenhui | B | 1 |
| Kee Wah Sze | A, B | 1 |
| Choi Wai Yin | A, B | 1 |
| Chan Pat Lam | A, B | 1 |
| Chan Chung Chun | A, B | 1 |

*Note I:*

*A: Attending seminars, conferences, forums, in-house briefings or in-house training*

*B: Reading newspapers, journals and updates*

*Note II:*

*1: Laws, rules and regulations*

*2: Businesses relating to the Company*

## CHAIRMAN AND MANAGING DIRECTOR

The roles of Chairman and Managing Director are separate and exercised by different individuals to reinforce their independence and accountability. Mr. Li Shaofeng is the Chairman and Mr. Chen Zhouping serves as the Managing Director of the Company. The Chairman provides leadership for the Board and ensures that the Board works effectively and performs its responsibility. The Managing Director has overall chief executive responsibility for the Group's business development and day-to-day management generally. The division of responsibilities between the Chairman and the Managing Director is clearly established and set out in writing.

In performing the role of Chairman, Mr. Li Shaofeng's responsibilities include, amongst other things:

- taking primary responsibility for ensuring that good corporate governance practices and procedures are established;

- ensuring that all Directors are properly briefed on issues arising at Board meetings, and ensuring that Directors receive, in a timely manner, adequate information which must be accurate, clear, complete and reliable;

- encouraging all Directors to make a full and active contribution to the Board's affairs and taking the lead to ensure that the Board acts in the best interest of the Company;

- encouraging Directors with different views to voice their concerns, allowing sufficient time for discussion of issues and ensuring that Board decisions fairly reflect Board consensus;

- ensuring that appropriate steps are taken to provide effective communications with shareholders and that their views are communicated to the Board as a whole; and

- promoting a culture of openness and debate by facilitating the effective contribution of Non-executive Directors in particular and ensuring constructive relations between Executive and Non-executive Directors.

During the year, the Chairman met with the Non-executive Directors (including Independent Non-executive Directors) without the presence of the Executive Directors.

## BOARD COMMITTEES

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

### Executive Committee

An Executive Committee of the Board was established in May 2009 with specific written terms of reference which deal clearly with its authorities and duties.

The Executive Committee has been conferred with the general powers of the Board (except those matters specifically reserved for the Board) to manage and oversee the operations of the Group and has been assigned with the responsibilities to perform the corporate governance duties as follows:

- to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Group's employees and Directors;
- to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and
- to conform to any requirement, direction, regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by legislation.

The Executive Committee comprises all Executive Directors of the Company.

## BOARD COMMITTEES (continued)

### Executive Committee (continued)

During the year, eighteen physical meetings of the Executive Committee were held. Amongst those meetings, one meeting was held for the purpose of performing the corporate governance duties. The attendances of the members of the Executive Committee at that meeting are as follows:

| Committee members | Number of meeting(s) attended/eligible to attend |
|---|---|
| Li Shaofeng *(chairman of the committee)* | 1/1 |
| Chen Zhouping | 1/1 |
| Wong Lik Ping | 1/1 |
| So Kwok Hoo | 1/1 |
| Chen Zhaoqiang | 1/1 |
| Liu Qingshan | 1/1 |
| Xue Kang *(ceased to act as a member from 20 December 2012)* | 1/1 |

The major work in relation to the corporate governance of the Group performed by the Executive Committee during the year included, amongst other things, the following:

- reviewing the Company's policies and practices on corporate governance and making recommendations to the Board to adopt the procedures for directors to seek independent professional advice; and

- reviewing the Company's compliance with the CG Code.

### Audit Committee

An Audit Committee of the Board was established in October 1999 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Audit Committee are posted on the websites of the Stock Exchange and the Company respectively.

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

- overseeing the relationship with the Company's auditor;

- reviewing the interim and annual financial statements;

- reviewing the Company's financial reporting system and internal control procedures; and

- reviewing the arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters.

## BOARD COMMITTEES (continued)

### Audit Committee (continued)

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

The chairman of the Audit Committee is an Independent Non-executive Director and the Audit Committee comprised all Independent Non-executive Directors of the Company. None of the members of the Audit Committee are former partners of the auditor of the Company.

During the year, two physical meetings of the Audit Committee were held and the attendances of the members of the Audit Committee are as follows:

| **Committee members** | **Number of meeting(s) attended/eligible to attend** |
|---|---|
| Choi Wai Yin *(chairman of the committee)* | 2/2 |
| Kee Wah Sze | 2/2 |
| Chan Pat Lam | 2/2 |
| Chan Chung Chun *(appointed as a member on 1 July 2012)* | 1/1 |

The major work performed by the Audit Committee during the year included, amongst other things, the following:

- reviewing the final results of the Group for the financial year ended 31 December 2011; and
- reviewing the interim results of the Group for the six months ended 30 June 2012.

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

## BOARD COMMITTEES (continued)

### Nomination Committee

A Nomination Committee of the Board was established in May 2009 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Nomination Committee are posted on the websites of the Stock Exchange and the Company respectively.

The principal duties of the Nomination Committee include:

- reviewing the structure, size and composition of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

- identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board;

- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors; and

- assessing the independence of Independent Non-executive Directors.

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

The Nomination Committee has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice, at the Company's expense, to perform its responsibilities if it considers necessary.

The chairman of the Nomination Committee is the Chairman of the Board and the Independent Non-executive Directors of the Company constitute the majority of the Nomination Committee.

## BOARD COMMITTEES (continued)

### Nomination Committee (continued)

During the year, one physical meeting of the Nomination Committee was held and the attendances of the members of the Nomination Committee are as follows:

| Committee members | Number of meeting(s) attended/eligible to attend |
|---|---|
| Li Shaofeng *(chairman of the committee)* | 1/1 |
| Wong Lik Ping | 1/1 |
| Kee Wah Sze | 1/1 |
| Choi Wai Yin | 1/1 |
| Chan Pat Lam | 1/1 |
| Chan Chung Chun *(appointed as a member on 1 July 2012)* | 1/1 |

The major work performed by the Nomination Committee during the year included, amongst other things, the following:

- considering and making recommendations to the Board for the appointment of Mr. Chan Chung Chun as an Independent Non-executive Director of the Company; and

- reviewing the structure of the Board.

### Remuneration Committee

A Remuneration Committee of the Board was established in September 2005 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Remuneration Committee are posted on the websites of the Stock Exchange and the Company respectively.

The principal duties of the Remuneration Committee include:

- making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management of the Group;

- reviewing and approving the management's remuneration proposals with reference to the Company's goals and objectives;

- determining, with delegated responsibility, the remuneration packages of individual Executive Directors and senior management and making recommendations to the Board on the remuneration of Non-executive Directors;

## BOARD COMMITTEES (continued)

### Remuneration Committee (continued)

- reviewing and approving compensation payable to Executive Directors and senior management and compensation arrangements relating to dismissal or removal of Directors for misconduct; and

- ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration.

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

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

The chairman of the Remuneration Committee is an Independent Non-executive Director and the Independent Non-executive Directors of the Company constitute the majority of the Remuneration Committee.

During the year, two physical meetings of the Remuneration Committee were held and the attendances of the members of the Remuneration Committee are as follows:

| Committee members | Number of meeting(s) attended/eligible to attend |
|---|---|
| Chan Chung Chun *(chairman of the committee)* *(appointed as a member and the chairman of the committee on 1 July 2012)* | 1/1 |
| Li Shaofeng *(appointed as a member on 1 April 2012)* | 1/1 |
| So Kwok Hoo *(ceased to act as a member from 1 April 2012)* | 1/1 |
| Leung Shun Sang, Tony *(ceased to act as the chairman from 1 April 2012)* | 2/2 |
| Kee Wah Sze | 2/2 |
| Choi Wai Yin | 2/2 |
| Chan Pat Lam | 2/2 |

## BOARD COMMITTEES (continued)

### Remuneration Committee (continued)

The major work performed by the Remuneration Committee during the year included, amongst other things, the following:

- making recommendations to the Board on the terms of the engagement letter and director's fee of Mr. Chan Chung Chun;
- considering, reviewing and determining the remuneration of the Executive Directors of the Company for the year 2013;
- determining the bonuses of the Executive Directors of the Company for the year 2012; and
- making recommendations to the Board on the directors' fee of the Non-executive Directors of the Company for the year 2013.

Details of remuneration paid to Directors and senior management for the year are set out in note 16 to the financial statements.

## COMPANY SECRETARY

The Company Secretary supports the Board by ensuring good information flow within the Board and that board policy and procedures are followed. The Company Secretary is also responsible for advising the Board through the Chairman on corporate governance and the implementation of the CG Code. The Company Secretary is an employee of the Company and has day-to-day knowledge of the Group's affairs.

The Company Secretary reports to the Chairman and the Managing Director. All Directors also have access to the advice and services of the Company Secretary to ensure that all applicable laws, rules and regulations are followed. The selection, appointment and dismissal of the Company Secretary is subject to the Board approval.

The Company Secretary has confirmed that she has taken no less than 15 hours of relevant professional training during the year.

## INTERNAL CONTROL

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

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

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

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

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

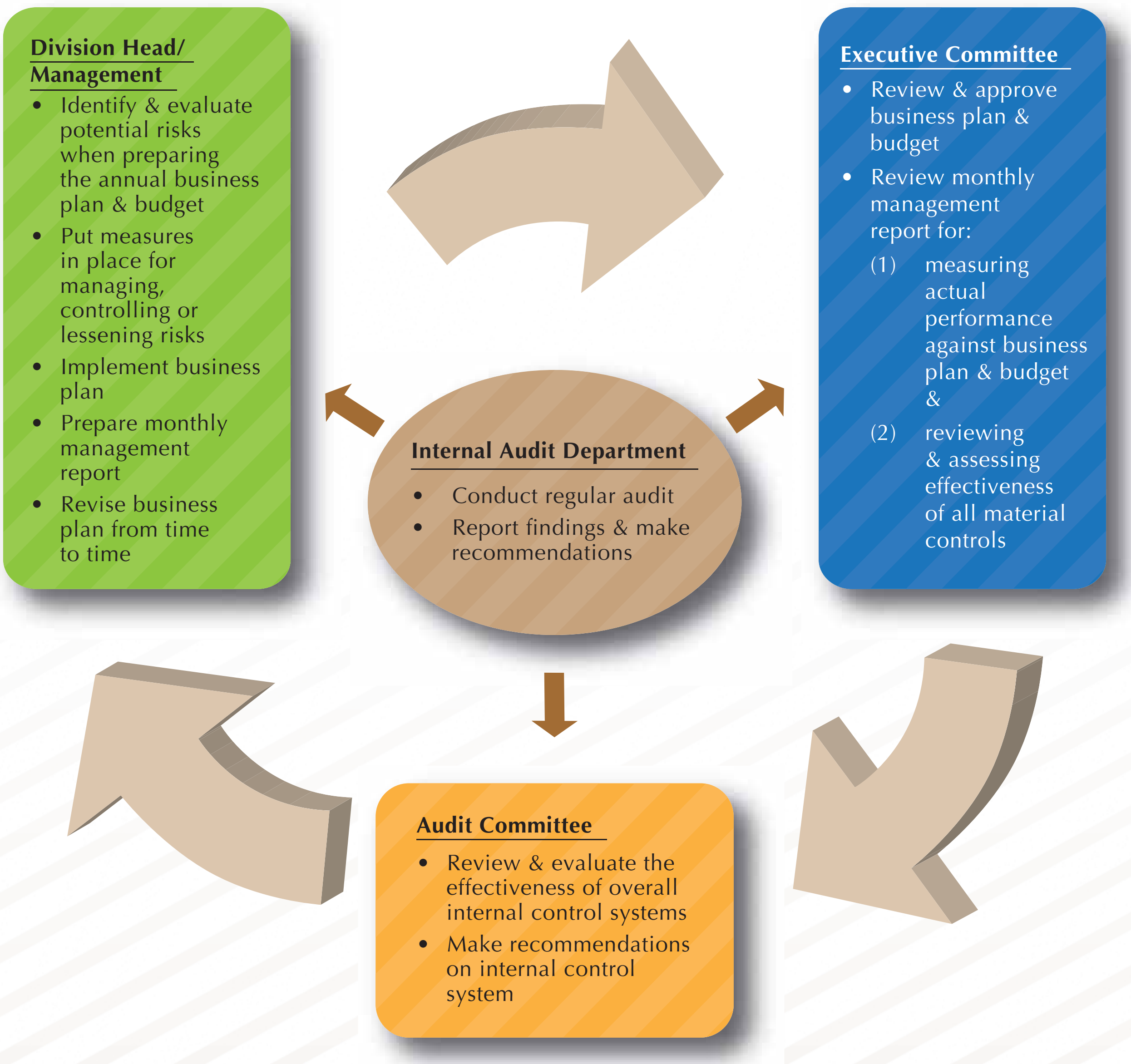
The internal control system is documented and if any revision is required, such information will be submitted to the Audit Committee for evaluation.

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

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

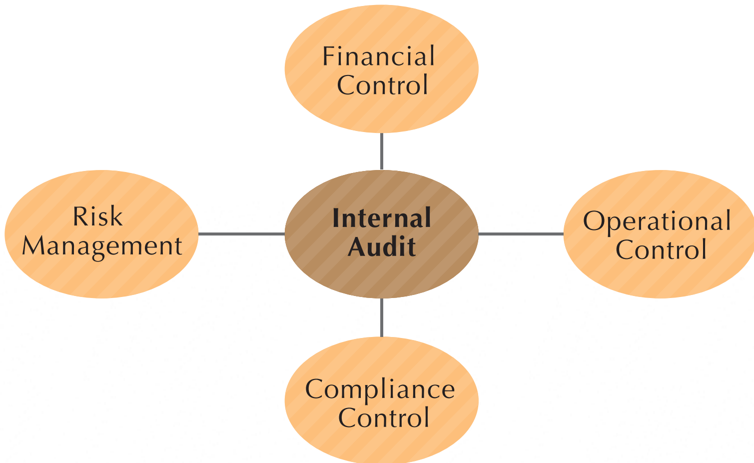
## INTERNAL CONTROL (continued)

### Internal Control System



## INTERNAL CONTROL (continued)

### Internal audit functions




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

## MODEL CODE FOR SECURITIES TRANSACTIONS

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

Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the year ended 31 December 2012.

Employees who are likely to possess inside information in relation to the Company or its shares are required to prohibit from dealing in shares of the Company during the black-out period.

## AUDITOR'S REMUNERATION

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

| Services rendered | *HK$'000* |
|---|---|
| Statutory audit services for 2012 | 1,530 |
| Non-statutory audit services: | |
| Review on interim financial report | 280 |
| Other services | 149 |
| | 1,959 |

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

The statement of the auditor of the Company, BDO Limited, about its reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 65 to 66 of this annual report.

## COMMUNICATION WITH SHAREHOLDERS

On 22 March 2012, the Board adopted a Shareholders' Communication Policy reflecting the current practices of the Company for communication with its shareholders. Such policy aims at ensuring the shareholders of the Company are provided with ready, equal and timely access to balanced and understandable information about the Company, in order to enable shareholders to exercise their rights in an informed manner, and to allow shareholders to engage actively with the Company.

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

## COMMUNICATION WITH SHAREHOLDERS (continued)

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

The Chairman and the auditor of the Company, BDO Limited, attended the 2012 AGM held during the year. Details of the Directors' attendances at the 2012 AGM are as follows:

| Directors (as at the date of 2012 AGM) | Attendance |
|---|---|
| *Executive Directors* | |
| Li Shaofeng *(Chairman)* | ✓ |
| Chen Zhouping | ✓ |
| Wong Lik Ping | × |
| So Kwok Hoo | ✓ |
| Chen Zhaoqiang | ✓ |
| Liu Qingshan | ✓ |
| Xue Kang | × |
| *Non-executive Directors* | |
| Leung Shun Sang, Tony | ✓ |
| Zhang Yaoping | ✓ |
| Zhang Wenhui | ✓ |
| *Independent Non-executive Directors* | |
| Kee Wah Sze | × |
| Choi Wai Yin | ✓ |
| Chan Pat Lam | × |

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

## SHAREHOLDERS' RIGHTS

Shareholder(s) holding not less than one-twentieth (5%) of the paid up capital of the Company can make a requisition to convene an extraordinary general meeting pursuant to Section 113 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The requisition must state the objects of the meeting, and must be signed by the shareholder(s) concerned and deposited at the registered office of the Company for the attention of the Company Secretary.

Shareholder(s) representing not less than one-fortieth (2.5%) of the total voting rights of all shareholders of the Company having the right to vote at the meeting or of not less than 50 shareholders holding the shares in the Company on which there has been paid up an average sum of not less than HK$2,000 per shareholder may by requisition, at their own expense unless the Company otherwise resolves, to put forward proposals at general meeting of the Company pursuant to Section 115A of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). A written notice to that effect signed by the shareholder(s) concerned together with a sum reasonably sufficient to meet the expenses in giving effect thereto must be deposited at the registered office of the Company for the attention of the Company Secretary not less than six weeks before the meeting. The notice shall contain, inter alia, a description of the proposed resolution desired to be put forward at the general meeting, the reasons for such proposal and any material interest(s) of the proposing shareholder(s) in such proposal.

Specific enquiries and suggestions by shareholders can be sent in writing to the Board or the Company Secretary at our registered office or by email to our Company. In addition, shareholders can contact Tricor Tengis Limited, the share registrar of the Company, if they have any enquiries about their shareholdings and entitlement to dividend. Relevant contact details are set out on page 2 of this annual report.

## CONSTITUTIONAL DOCUMENTS

During the year, there is no change in the Company's constitutional documents.

# REPORT OF THE DIRECTORS

The Directors herein present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012.

## PRINCIPAL ACTIVITIES

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

## RESULTS

The results of the Group for the year ended 31 December 2012 and the state of affairs of the Group at that date are set out in the financial statements on pages 67 to 163 of this annual report.

The Board of Directors of the Company recommends a final dividend of HK10 cents per ordinary share for the year ended 31 December 2012 (2011: HK13 cents per ordinary share) payable to shareholders whose names appear on the register of members of the Company at the close of business on Monday, 24 June 2013. This dividend is subject to shareholders' approval at the Company's annual general meeting to be held on Tuesday, 18 June 2013. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 24 June 2013 for registration. The final dividend is expected to be paid on or about Tuesday, 9 July 2013.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on page 164 of this annual report.

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2012 are set out in note 33 to the financial statements.

## PROPERTY, PLANT AND EQUIPMENT

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

## SHARE CAPITAL

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

## RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on pages 73 to 74 of this annual report and in note 39 to the financial statements, respectively.

## DONATIONS

Charitable donations made by the Group during the year amounted to approximately HK$256,037,000.

## DIRECTORS

The Directors of the Company during the year were as follows:

| | |
|---|---|
| Li Shaofeng | |
| Chen Zhouping | |
| Wong Lik Ping | |
| So Kwok Hoo | |
| Chen Zhaoqiang | |
| Liu Qingshan | |
| Leung Shun Sang, Tony | |
| Zhang Yaoping | |
| Kee Wah Sze* | |
| Choi Wai Yin* | |
| Chan Pat Lam* | |
| Chan Chung Chun* | *(appointed on 1 July 2012)* |
| Xue Kang | *(resigned on 20 December 2012)* |
| Zhang Wenhui | *(resigned on 20 December 2012)* |

* *Independent Non-executive Directors*

In accordance with clauses 94 and 103(A) of the Company's articles of association, Messrs. Chen Zhaoqiang, Liu Qingshan, Kee Wah Sze, Chan Pat Lam and Chan Chung Chun will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

## DIRECTORS' SERVICE CONTRACTS

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

## MANAGEMENT CONTRACTS

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

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

The Directors of the Company who held office at 31 December 2012 had the following interests in the shares and underlying shares of the Company as at 31 December 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

### 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 31.12.2012** |
| 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% |
| 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 Option Schemes" below.*

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

Save as disclosed above, as at 31 December 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' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

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

* *Mr. Zhang Wenhui resigned as director of the Company on 20 December 2012.*

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

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

## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 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 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:

### Long positions in the shares and/or underlying shares of the Company

| Name of shareholder | Capacity in which interests were held | Number of shares/underlying shares in the Company: Interests in shares | Interests in underlying shares | Total interests | Total interests as to % of the issued share capital of the Company as at 31.12.2012 | *Note(s)* |
|---|---|---|---|---|---|---|
| Shougang Holding (Hong Kong) Limited ("Shougang Holding") | Beneficial owner, interests of controlled corporations | 1,582,864,490 | – | 1,582,864,490 | 29.85% | *1* |
| Shougang International | Beneficial owner, interests of controlled corporations | 1,463,962,490 | – | 1,463,962,490 | 27.61% | *1* |
| Fine Power Group Limited ("Fine Power") | Beneficial owner | 663,918,497 | – | 663,918,497 | 12.52% | *1* |
| Ultimate Capital Limited ("Ultimate Capital") | Beneficial owner | 650,000,000 | – | 650,000,000 | 12.25% | *1* |
| Xing Libin | Beneficial owner, interests of controlled corporation, interests of spouse | 589,157,240 | 4,500,000 | 593,657,240 | 11.19% | *2, 3* |
| Firstwealth Holdings Limited ("Firstwealth") | Beneficial owner | 449,978,000 | – | 449,978,000 | 8.48% | *2* |
| Sino Life Insurance Co., Ltd. | Beneficial owner | 275,411,000 | – | 275,411,000 | 5.19% | |

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

### Long positions in the shares and/or underlying shares of the Company (continued)

*Notes:*

1. Shougang Holding indicated in its disclosure form dated 8 December 2011 (being the latest disclosure form filed up to 31 December 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 31 December 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 3 December 2012 (being the latest disclosure form filed up to 31 December 2012) that as at 3 December 2012, his interests included the interests held by Firstwealth, a company which was wholly-owned by Mr. Xing Libin.

3. The relevant interests in underlying shares of the Company are unlisted physically settled options granted pursuant to 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 Mr. Xing Libin. Further details of the share options are set out in the section headed "Share Option Schemes" below.

Save as disclosed above, as at 31 December 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.

## PUBLIC FLOAT

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

## SHARE OPTION SCHEMES

On 25 May 2012, the shareholders of the Company approved the termination of the 2003 Scheme (to the effect that no further share option shall be granted under the 2003 Scheme) and the adoption of a new share option scheme (the "2012 Scheme"), which became effective on 29 May 2012 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.

A summary of the principal terms of each of the 2003 Scheme and the 2012 Scheme are set out below:

### (a) 2003 Scheme

The purpose of the 2003 Scheme is to enable the Company to grant share options to selected participants as incentives or rewards for their contribution to the Company and its subsidiaries. The 2003 Scheme was adopted on 20 June 2003 and terminated on 29 May 2012.

Under the 2003 Scheme, the Directors may, at their discretion, offer directors (including executive and non-executive directors), employees, suppliers, customers, research development or other technological support providers, shareholders, of any member of the Group or any entity in which any member of the Group holds any equity interest, share options to subscribe for shares of the Company.

As at 29 May 2012, being the termination date of the 2003 Scheme, options to subscribe for a total of 267,200,000 shares of the Company have been granted. Accordingly, the total number of shares of the Company which may be issued upon exercise of all outstanding share options granted under the 2003 Scheme is 267,200,000 which represents approximately 5.04% of the issued share capital of the Company as at the date of this annual report. Since the 2003 Scheme was terminated on 29 May 2012, no further options can be granted under the 2003 Scheme. 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.

Each of the grantees is not required to pay consideration for the grant of options in accordance with the 2003 Scheme. The offer shall not be open for acceptance after the expiry of the 2003 Scheme or the termination of the 2003 Scheme in accordance with the provisions of the 2003 Scheme.

Save as disclosed above, there is no material difference in the terms, which shall be disclosed pursuant to Rule 17.09 of the Listing Rules, between the 2003 Scheme and the 2012 Scheme.

## SHARE OPTION SCHEMES (continued)

### (a) 2003 Scheme (continued)

No share option was granted, exercised, cancelled or lapsed in accordance with the terms of the 2003 Scheme during the year. Details of movements in the share options under the 2003 Scheme during the year are as follows:

| | Options to subscribe for shares of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| Category or name of grantees | At the beginning of the year | Transferred to other category during the year | Transferred from other category during the year | At the end of the year | Date of grant | Exercise period | Exercise price per share |
| **Directors of the Company** | | | | | | | |
| Chen Zhouping | 6,000,000 | – | – | 6,000,000 | 19.08.2009 | 19.08.2011 – 19.08.2016 | HK$6.00 |
| Wong Lik Ping | 4,500,000 | – | – | 4,500,000 | 19.08.2009 | 19.08.2011 – 19.08.2016 | HK$6.00 |
| So Kwok Hoo | 3,500,000 | – | – | 3,500,000 | 19.08.2009 | 19.08.2011 – 19.08.2016 | HK$6.00 |
| Chen Zhaoqiang | 8,000,000 | – | – | 8,000,000 | 19.08.2009 | 19.08.2011 – 19.08.2016 | HK$6.00 |
| Liu Qingshan | 6,000,000 | – | – | 6,000,000 | 19.08.2009 | 19.08.2011 – 19.08.2016 | HK$6.00 |
| Xue Kang | 3,000,000 | (3,000,000)* | – | – | 19.08.2009 | 19.08.2011 – 19.08.2016 | HK$6.00 |
| Leung Shun Sang, Tony | 6,000,000 | – | – | 6,000,000 | 19.08.2009 | 19.08.2011 – 19.08.2016 | HK$6.00 |
| Zhang Yaoping | 4,500,000 | – | – | 4,500,000 | 19.08.2009 | 19.08.2011 – 19.08.2016 | HK$6.00 |

## SHARE OPTION SCHEMES (continued)

### (a) 2003 Scheme (continued)

| Category or name of grantees | Options to subscribe for shares of the Company: At the beginning of the year | Transferred to other category during the year | Transferred from other category during the year | At the end of the year | Date of grant | Exercise period | Exercise price per share |
|---|---|---|---|---|---|---|---|
| **Directors of the Company** (continued) | | | | | | | |
| Kee Wah Sze | 3,200,000 | – | – | 3,200,000 | 19.08.2009 | 19.08.2011 – 19.08.2016 | HK$6.00 |
| Choi Wai Yin | 3,200,000 | – | – | 3,200,000 | 19.08.2009 | 19.08.2011 – 19.08.2016 | HK$6.00 |
| Chan Pat Lam | 3,200,000 | – | – | 3,200,000 | 19.08.2009 | 19.08.2011 – 19.08.2016 | HK$6.00 |
| | 51,100,000 | (3,000,000) | – | 48,100,000 | | | |
| **Employees of the Group** | 6,000,000 | – | – | 6,000,000 | 26.04.2006 | 26.04.2008 – 25.04.2013 | HK$1.50 |
| | 94,100,000 | – | 3,000,000* | 97,100,000 | 19.08.2009 | 19.08.2011 – 19.08.2016 | HK$6.00 |
| | 100,100,000 | – | 3,000,000 | 103,100,000 | | | |
| **Other participants** | 116,000,000 | – | – | 116,000,000 | 19.08.2009 | 19.08.2011 – 19.08.2016 | HK$6.00 |
| | 116,000,000 | – | – | 116,000,000 | | | |
| | 267,200,000 | (3,000,000) | 3,000,000 | 267,200,000 | | | |

* *Mr. Xue Kang resigned as an Executive Director of the Company on 20 December 2012 but remains an employee of the Company. Such share options were re-classified from the category of "Directors of the Company" to "Employees of the Group" during the year.*

## SHARE OPTION SCHEMES (continued)

### (b) 2012 Scheme

The purpose of the 2012 Scheme is to replace the 2003 Scheme and to continue to enable the Company to grant share options to selected participants as incentives or rewards for their contribution or potential contribution to the Company and/or any of its subsidiaries and/or any entity in which any member of the Group holds any equity interest (the "Invested Entities"). The 2012 Scheme shall be valid and effective for a period of ten years commencing on 25 May 2012, being the date on which the 2012 Scheme was conditionally adopted by the shareholders of the Company, and ending on 25 May 2022 (both dates inclusive).

Under the 2012 Scheme, the Board may, at its discretion, offer full-time or part-time employees, executives, officers or directors (including executive and non-executive directors) of the Company or any of its subsidiaries or any of the Invested Entities, and any advisors, consultants, agents, suppliers, customers and distributors, who, in the sole opinion of the Board, will contribute or have contributed to the Company and/or any of its subsidiaries and/or any of the Invested Entities, share options to subscribe for shares of the Company.

No share option has been granted under the 2012 Scheme since its adoption. The maximum number of shares of the Company available for issue upon exercise of all share options which may be granted under the 2012 Scheme is 530,183,784, representing 10% of the issued share capital of the Company as at the date of this annual report. The total number of shares of the Company issued and which may fall to be issued upon the exercise of share options to be granted under the 2012 Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant. Any further grant of share options in excess of this 1% limit shall be subject to the issue of a circular by the Company and shareholders' approval in a general meeting. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, which would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of the offer of such grant (a) representing in aggregate over 0.1% of the shares of the Company in issue on the date of the grant; and (b) having an aggregate value of in excess of HK$5,000,000 (based on the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of each grant), such further grant of options shall be subject to the issue of a circular by the Company and shareholders' approval in a general meeting on a poll at which all connected persons of the Company shall abstain from voting in favour of the resolution concerning the grant of such options, and/or such other requirements prescribed under the Listing Rules from time to time. A connected person of the Company will be permitted to vote against the grant only if his intention to do so has been stated in the circular. Any grant of share options to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, is required to be approved by the Independent Non-executive Directors (excluding the Independent Non-executive Director who is the grantee of the options).

## SHARE OPTION SCHEMES (continued)

### (b) 2012 Scheme (continued)

The period during which a share option may be exercised will be determined by the Board at its absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the 2012 Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the Board is empowered to impose at its discretion any such minimum period at the time of offer of any share options.

The exercise price in relation to each share option will be determined by the Board at its absolute discretion and shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of offer of share options; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of the share of the Company on the date of offer of share options. Each of the grantees is required to pay HK$1.00 as a consideration for his acceptance of the grant of share options in accordance with the 2012 Scheme. The offer of share options must be accepted within 30 days from the date of the offer.

Share options to be granted under the 2012 Scheme do not confer rights on the holders to dividends or to vote at general meetings.

No share option has been granted under the 2012 Scheme since its adoption. Accordingly, as at 31 December 2012, there was no share option outstanding under the 2012 Scheme.

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

During the year, the Company repurchased a total of 75,670,000 ordinary shares of the Company on 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 year.

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

## DISTRIBUTION RESERVES

At the end of the reporting period, the Company had approximately HK$1,210,164,000 reserves available for distribution as calculated in accordance with the provisions of Section 79B of the Companies Ordinance, of which approximately HK$530,184,000 has been proposed as a final dividend for the year.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 67% of the total sales for the year and sales to the largest customer included therein amounted to approximately 22%. Purchases from the Group's five largest suppliers accounted for approximately 49% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 29%. None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's share capital) had any interest in the Group's five largest customers and suppliers.

## CONTINUING CONNECTED TRANSACTIONS

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

| | **For the financial year ended 31 December 2012** *RMB' million* | **For the financial year ending 31 December 2013** *RMB' million* | **For the financial year ending 31 December 2014** *RMB' million* |
|---|---|---|---|
| Cap amounts for the supply of premier clean coking coal | 100 | 150 | 200 |

The basis of determining the prices for the continuing connected transactions contemplated under the Coal Supply Agreement will be in accordance with: (1) a comparable market price, if the comparable market price is available; or (2) if no comparable market price can be taken as a reference, by agreement between the parties on an arm's length basis and such prices shall be no less favourable to the Company than that available from third parties.

As at the date of the Coal Supply Agreement, Shougang International was a substantial shareholder of the Company and thus was a connected person of the Company under the Listing Rules. Accordingly, the entering into of the Coal Supply Agreement constituted connected transaction for the Company. Details of the Coal Supply Agreement were disclosed in the announcement of the Company dated 30 December 2011. The Coal Supply Agreement and the continuing connected transactions contemplated thereunder were exempted from the approval of independent shareholders of the Company.

The Group has been supplying coal products to Shougang International in its ordinary and usual course of business in the past few years. The entering into of the Coal Supply Agreement can secure procurement of the coal produced by the Group.

During the year, no transaction was entered into between the Group and Shougang International and/or its associates under the Coal Supply Agreement.

## CONTINUING CONNECTED TRANSACTIONS (continued)

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

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

The basis of determining the prices for the continuing connected transactions contemplated under the Master Agreement will be in accordance with: (1) a comparable market price, if the comparable market price is available; or (2) if no comparable market price can be taken as a reference, by agreement between the parties on an arm's length basis and such prices shall be no less favourable to/from third parties.

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

The Group has conducted the Sales and the Purchases in its ordinary and usual course of business. The Sales and the Purchases will be cost efficient to the Group given the geographical proximity of the coal mines owned by the Group to those owned by Mr. Xing and Mr. Xing and his associates will be secured as suppliers or customers to the Group.

## CONTINUING CONNECTED TRANSACTIONS (continued)

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

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

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

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

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

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

The transactions set out in notes 44(ii) and 44(iii) to the financial statements did not constitute connected transactions of the Company under the Listing Rules.

The transactions set out in note 44(iv) to the financial statements which took place in year 2011 were continuing connected transactions which had been approved by the independent shareholders of the Company.

The transactions set out in note 44(v) to the financial statements were the remuneration of the Directors as determined pursuant to the service contracts entered into between the Directors and the Group and the securities issued and to be issued upon exercise of options granted to the Directors under the 2003 Scheme of the Company and were connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

## CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 28 to 47 of this annual report.

## EVENT AFTER THE REPORTING DATE

Details of significant event occurring after the reporting date are set out in note 49 to the financial statements.

## AUDITOR

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

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

By Order of the Board
**Li Shaofeng**
*Chairman*

Hong Kong, 27 March 2013

# INDEPENDENT AUDITOR'S REPORT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25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong


**To the shareholders of Shougang Fushan Resources Group Limited**

*(incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of Shougang Fushan Resources Group Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 67 to 163, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

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

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

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

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**BDO Limited**
*Certified Public Accountants*
**Au Yiu Kwan**

Practising Certificate Number : P05018

Hong Kong, 27 March 2013

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| **Revenue** | 5 | **5,650,590** | 7,138,643 |
| Cost of sales | | **(2,064,788)** | (2,109,708) |
| **Gross profit** | | **3,585,802** | 5,028,935 |
| Other operating income | 7 | **323,570** | 342,402 |
| Selling and distribution expenses | | **(270,039)** | (636,221) |
| General and administrative expenses | | **(370,173)** | (605,847) |
| Other operating expenses | | **(293,587)** | (181,184) |
| **Operating profit** | | **2,975,573** | 3,948,085 |
| Finance costs | 8 | **(26,891)** | (21,487) |
| Change in fair value of derivative financial instruments | | **24,097** | 3,441 |
| Share of loss of associate | | **(730)** | (265) |
| **Profit before income tax** | 9 | **2,972,049** | 3,929,774 |
| Income tax expense | 10 | **(821,809)** | (1,141,146) |
| **Profit for the year from continuing operations** | | **2,150,240** | 2,788,628 |
| **Discontinued operations** | | | |
| **Loss for the year from discontinued operations** | 11 | **–** | (139,009) |
| **Profit for the year** | | **2,150,240** | 2,649,619 |
| **Other comprehensive income for the year** | | | |
| Fair value loss on financial assets measured at fair value through other comprehensive income | | **(470,995)** | (1,229,529) |
| Exchange differences on translation of financial statements of foreign operations | | **92,365** | 559,692 |
| Release of translation reserve upon disposal of discontinued operations | | **–** | (18,748) |
| **Total comprehensive income for the year** | | **1,771,610** | 1,961,034 |
| **Profit for the year attributable to:** | | | |
| Owners of the Company | 12 | **1,800,367** | 2,256,023 |
| Non-controlling interests | | **349,873** | 393,596 |
| **Profit for the year** | | **2,150,240** | 2,649,619 |
| **Total comprehensive income for the year attributable to:** | | | |
| Owners of the Company | | **1,408,971** | 1,508,381 |
| Non-controlling interests | | **362,639** | 452,653 |
| **Total comprehensive income for the year** | | **1,771,610** | 1,961,034 |
| | | **HK (Cents)** | HK (Cents) |
| **Earnings per share from continuing and discontinued operations** | 14 | | |
| – Basic | | **33.80** | 41.93 |
| – Diluted | | **33.78** | 41.90 |
| **Earnings per share from continuing operations** | 14 | | |
| – Basic | | **33.80** | 42.74 |
| – Diluted | | **33.78** | 42.70 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

| | Notes | **31 December 2012 HK$'000** | 31 December 2011 HK$'000 (restated) | 1 January 2011 HK$'000 (restated) |
|---|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 17 | **3,599,184** | 3,103,343 | 2,732,027 |
| Prepaid lease payments | 18 | **60,785** | 48,068 | 47,323 |
| Mining rights | 19 | **10,440,937** | 10,563,452 | 10,413,660 |
| Goodwill | 20 | **2,264,910** | 2,246,812 | 2,156,320 |
| Interest in an associate | 23 | **19,376** | 19,950 | 19,398 |
| Financial assets measured at fair value through other comprehensive income | 24 | **1,300,109** | 1,771,034 | 3,161,097 |
| Deposits, prepayments and other receivables | 25 | **346,484** | 465,370 | 443,990 |
| Loan to a party | | **–** | – | 234,342 |
| Deferred tax assets | 37 | **31,592** | 17,806 | 16,193 |
| **Total non-current assets** | | **18,063,377** | 18,235,835 | 19,224,350 |
| **Current assets** | | | | |
| Inventories | 26 | **163,282** | 190,507 | 134,758 |
| Trade and bill receivables | 27 | **3,540,491** | 3,350,955 | 2,317,901 |
| Deposits, prepayments and other receivables | | **161,376** | 98,216 | 123,788 |
| Loan to a party | 28 | **–** | 234,342 | 703,025 |
| Amounts due from other parties | 28 | **21,481** | 19,087 | 292,876 |
| Derivative financial instruments | | **24,645** | 18 | 12,224 |
| Pledged bank deposits | 29 | **171,855** | 354,141 | 32,512 |
| Time deposits with original maturity over three months | | **1,692,681** | – | – |
| Cash and cash equivalents | 30 | **2,981,333** | 4,517,196 | 2,766,063 |
| | | **8,757,144** | 8,764,462 | 6,383,147 |
| Assets classified as held for sale | | **–** | – | 512,130 |
| **Total current assets** | | **8,757,144** | 8,764,462 | 6,895,277 |
| **Current liabilities** | | | | |
| Trade and bill payables | 31 | **717,908** | 1,031,431 | 537,808 |
| Other payables and accruals | 32 | **1,656,613** | 1,647,612 | 1,394,709 |
| Borrowings | 33 | **1,075,448** | 897,848 | 233,381 |
| Derivative financial instruments | | **241** | 991 | 11,597 |
| Amounts due to other parties | 35 | **18,690** | 14,545 | 22,878 |
| Amounts due to non-controlling interests of subsidiaries | 36 | **21,475** | 18,776 | 256,919 |
| Tax payables | | **325,252** | 699,537 | 344,369 |
| | | **3,815,627** | 4,310,740 | 2,801,661 |
| Liabilities classified as held for sale | | **–** | – | 515,894 |
| **Total current liabilities** | | **3,815,627** | 4,310,740 | 3,317,555 |
| **Net current assets** | | **4,941,517** | 4,453,722 | 3,577,722 |
| **Total assets less current liabilities** | | **23,004,894** | 22,689,557 | 22,802,072 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

| | Notes | **31 December 2012 HK$'000** | 31 December 2011 HK$'000 (restated) | 1 January 2011 HK$'000 (restated) |
|---|---|---|---|---|
| **Non-current liabilities** | | | | |
| Borrowings | | **–** | – | 898,482 |
| Deferred tax liabilities | 37 | **2,142,911** | 2,131,424 | 2,280,368 |
| **Total non-current liabilities** | | **2,142,911** | 2,131,424 | 3,178,850 |
| **Net assets** | | **20,861,983** | 20,558,133 | 19,623,222 |
| **EQUITY** | | | | |
| **Equity attributable to owners of the Company** | | | | |
| Share capital | 38 | **530,184** | 537,751 | 538,056 |
| Reserves | 39 | **18,693,500** | 18,428,828 | 17,611,838 |
| **Total equity attributable to owners of the Company** | | **19,223,684** | 18,966,579 | 18,149,894 |
| **Non-controlling interests** | | **1,638,299** | 1,591,554 | 1,473,328 |
| **Total equity** | | **20,861,983** | 20,558,133 | 19,623,222 |

| **Li Shaofeng** | **Chen Zhouping** |
|---|---|
| *Director* | *Director* |

# STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 17 | **1,161** | 1,720 |
| Interests in subsidiaries | 21 | **190,244** | 544,920 |
| **Total non-current assets** | | **191,405** | 546,640 |
| **Current assets** | | | |
| Amounts due from subsidiaries | 22 | **19,501,393** | 17,895,615 |
| Deposits, prepayments and other receivables | | **20,156** | 5,265 |
| Time deposits with original maturity over three months | | **1,444,205** | – |
| Cash and cash equivalents | 30 | **2,320,778** | 2,384,795 |
| **Total current assets** | | **23,286,532** | 20,285,675 |
| **Current liabilities** | | | |
| Amounts due to subsidiaries | 34 | **6,337,328** | 3,675,087 |
| Other payables and accruals | 32 | **16,207** | 19,296 |
| Borrowings | 33 | **193,100** | 424,516 |
| **Total current liabilities** | | **6,546,635** | 4,118,899 |
| **Net current assets** | | **16,739,897** | 16,166,776 |
| **Total assets less current liabilities** | | **16,931,302** | 16,713,416 |
| **Net assets** | | **16,931,302** | 16,713,416 |
| **EQUITY** | | | |
| Share capital | 38 | **530,184** | 537,751 |
| Reserves | 39 | **16,401,118** | 16,175,665 |
| **Total equity** | | **16,931,302** | 16,713,416 |

**Li Shaofeng**
*Director*

**Chen Zhouping**
*Director*

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

| | Notes | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax from continuing operations | | **2,972,049** | 3,929,774 |
| Loss before income tax from discontinued operations | | **–** | (138,950) |
| Profit before income tax | | **2,972,049** | 3,790,824 |
| Adjustments for: | | | |
| Amortisation of prepaid lease payments | | **1,536** | 1,484 |
| Amortisation of mining rights | | **275,690** | 285,778 |
| Depreciation of property, plant and equipment | | **251,640** | 256,760 |
| Finance costs | | **26,891** | 71,729 |
| Share-based compensation | | **–** | 177,098 |
| Provision for impairment on trade receivables | | **18,426** | – |
| Write-down of inventories to net realisable value | | **–** | 102,636 |
| Share of loss of associate | | **730** | 265 |
| Interest income | | **(122,731)** | (77,122) |
| Dividend income on financial assets measured at fair value through other comprehensive income | | **(53,986)** | (53,000) |
| Gain on disposal of discontinued operations | 11, 41 | **–** | (142,251) |
| Loss on disposals of property, plant and equipment | | **15,042** | 4,389 |
| Change in fair value of derivative financial instruments | | **(24,097)** | (3,441) |
| Net foreign exchange gain | | **(59,323)** | (133,040) |
| Operating profit before working capital changes | | **3,301,867** | 4,282,109 |
| Decrease/(Increase) in inventories | | **28,774** | (216,539) |
| Increase in trade and bill receivables | | **(180,869)** | (1,179,564) |
| (Increase)/Decrease in deposits, prepayments and other receivables | | **(52,520)** | 21,728 |
| (Increase)/Decrease in amounts due from other parties | | **(2,239)** | 286,199 |
| (Decrease)/Increase in trade and bill payables | | **(325,133)** | 490,610 |
| (Decrease)/Increase in other payables and accruals | | **(209,563)** | 322,829 |
| Increase in amounts due to non-controlling interests of subsidiaries | | **2,546** | 2,526 |
| Increase/(Decrease) in amounts due to other parties | | **4,027** | (9,302) |
| Proceed from financial assets measured at fair value through profit or loss | | **935** | 5,888 |
| Cash generated from operations | | **2,567,825** | 4,006,484 |
| Income tax paid | | **(1,221,106)** | (838,645) |
| *Net cash generated from operating activities* | | **1,346,719** | 3,167,839 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Payments to acquire property, plant and equipment | | **(404,093)** | (345,663) |
| Payments to acquire mining rights | | **(68,973)** | – |
| Payments to acquire prepaid lease payments | | **(982)** | – |
| Payments to acquire financial assets measured at fair value through other comprehensive income | | **–** | (38,404) |
| Proceeds from disposals of property, plant and equipment | | **2,317** | 1,266 |
| Proceeds from disposal of discontinued operations | 41 | **–** | 61,406 |
| Receipts of the repayments on a loan to a party | | **234,342** | 703,025 |
| Decrease/(Increase) in pledged bank deposits | | **185,165** | (320,251) |
| Increase in time deposits with original maturity over three months | | **(1,692,681)** | – |
| Interest received | | **112,460** | 75,349 |
| Dividend received | | **53,986** | 53,000 |
| *Net cash (used in)/generated from investing activities* | | **(1,578,459)** | 189,728 |
| **Cash flows from financing activities** | | | |
| Payments on share repurchased | | **(197,535)** | (7,904) |
| Repayments of bank borrowings | | **(697,213)** | (257,903) |
| Proceeds from other borrowings | | **–** | 27,738 |
| Repayments of other borrowings | | **(1,891)** | – |
| Proceeds from asset-backed financing | | **878,288** | – |
| Finance costs paid | | **(39,395)** | (63,553) |
| Dividends paid to owners of the Company | | **(954,285)** | (860,847) |
| Dividends paid to non-controlling interests of subsidiaries | | **(315,894)** | (563,051) |
| *Net cash used in financing activities* | | **(1,327,925)** | (1,725,520) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(1,559,665)** | 1,632,047 |
| **Cash and cash equivalents at 1 January** | | **4,517,196** | 2,766,223 |
| **Effect of foreign exchange rates changes** | | **23,802** | 118,926 |
| **Cash and cash equivalents at 31 December** | | **2,981,333** | 4,517,196 |
| **Cash and cash equivalents at 31 December, represented by:** | | | |
| **Bank balances and cash** | 30 | **2,981,333** | 4,517,196 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 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 | 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 |
| Share repurchased | (7,567) | – | 7,567 | – | – | (197,535) | – | – | – | (197,535) | – | (197,535) |
| 2011 final dividends approved (Note 13) | – | – | – | – | – | (689,239) | – | – | – | (689,239) | – | (689,239) |
| 2012 interim dividends declared (Note 13) | – | – | – | – | – | (265,092) | – | – | – | (265,092) | – | (265,092) |
| Dividends paid to non-controlling interests of subsidiaries | – | – | – | – | – | – | – | – | – | – | (315,894) | (315,894) |
| Transactions with owners of the Company | (7,567) | – | 7,567 | – | – | (1,151,866) | – | – | – | (1,151,866) | (315,894) | (1,467,760) |
| Profit for the year | – | – | – | – | – | 1,800,367 | – | – | – | 1,800,367 | 349,873 | 2,150,240 |
| Other comprehensive income: | | | | | | | | | | | | |
| – Fair value loss on financial assets measured at fair value through other comprehensive income | – | – | – | – | – | – | – | (470,995) | – | (470,995) | – | (470,995) |
| – Exchange differences on translation of financial statements of foreign operations | – | – | – | – | – | – | – | – | 79,599 | 79,599 | 12,766 | 92,365 |
| Total comprehensive income for the year | – | – | – | – | – | 1,800,367 | – | (470,995) | 79,599 | 1,408,971 | 362,639 | 1,771,610 |
| Appropriations to other reserves (Note 39) | – | – | – | – | 187,649 | (187,649) | – | – | – | – | – | – |
| Appropriations to statutory reserves (Note 39) | – | – | – | 64,969 | – | (64,969) | – | – | – | – | – | – |
| **At 31 December 2012** | 530,184 | 14,618,903 | 7,872 | 448,068 | 519,374 | 2,572,860 | 564,179 | (1,030,122) | 992,366 | 19,223,684 | 1,638,299 | 20,861,983 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

## 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 activity of the Company is investment holding. The principal activities of the Group's subsidiaries comprise coking coal mining, production and sales of coking coal products and side products. There were no significant changes in the Group's operations during the year. Details of the activities of the principal subsidiaries of the Group are set out in Note 21 to the financial statements.

The financial statements for the year ended 31 December 2012 were approved for issue by the board of directors on 27 March 2013.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The financial statements on pages 67 to 163 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretation issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Hong Kong Companies Ordinance. The financial statements also include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange (the "Listing Rules").

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

The financial statements are presented in Hong Kong dollars ("HK$") which is the same as the functional currency of the Company and all values are rounded to the nearest thousand except when otherwise indicated.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis of preparation (continued)

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

### 2.2 Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Business combination and basis of consolidation (continued)

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

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

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

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

### 2.3 Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

In the Company's statement of financial position, investments in subsidiaries are carried at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivables.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Associates are accounted for using equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate and the entire carrying amount of the investment is subject to impairment test, by comparing the carrying amount with its recoverable amount, which is higher of value in use and fair value less costs to sell.

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

### 2.5 Goodwill

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 Goodwill (continued)

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

### 2.6 Property, plant and equipment

Property, plant and equipment, other than construction in progress ("CIP"), are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset includes its purchase price and the costs directly attributable to the acquisition of the items.

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

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

| | |
|---|---|
| Buildings and plants | The shorter of the lease terms and 5% |
| Mining machinery and equipment | 10% |
| Leasehold improvements | The shorter of the lease terms and 33 $^{1}/_{3}$% |
| Office equipment | 20% |
| Furniture and fixtures | 20% |
| Motor vehicles | 25% |

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.6 Property, plant and equipment (continued)

CIP is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the CIP is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of CIP until it is completed and ready for its intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

Gain or loss arising on disposal of an item of property, plant and equipment is the difference between the sales proceeds and its carrying amount, and is recognised in profit or loss.

### 2.7 Mining rights

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

### 2.8 Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- goodwill arising on acquisition of subsidiaries;
- prepaid lease payments;
- mining rights;
- property, plant and equipment; and
- interests in subsidiaries and an associate.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.8 Impairment of non-financial assets (continued)

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

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

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.9 Foreign currency translation

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

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

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

### 2.10 Revenue recognition

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

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

Interest income is accrued on time basis on the principal outstanding at the applicable interest rate.

Dividend income is recognised when the right to receive the dividend is established.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.11 Borrowing costs

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

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

### 2.12 Leases

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

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

***Prepaid lease payments***

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

***Assets acquired under finance leases***

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. Interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.12 Leases (continued)

***Operating lease charges as the lessee***

The total rentals payable under operating leases are recognised in profit or loss on straight-line method over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease. Contingent rentals are charged to profit or loss in the year in which they are incurred.

### 2.13 Financial assets

Financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and de-recognised on trade date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. De-recognition of financial assets occurs when the contractual rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

Following the adoption of HKFRS 9 detailed in Note 3, investments and other financial assets of the Group at 1 January 2011 are classified under the following categories:

- financial assets measured at amortised cost;

- financial assets measured at fair value through profit or loss; and

- financial assets measured at fair value through other comprehensive income.

***Financial assets measured at amortised cost***

Financial assets are classified under this category if they satisfy both of the following conditions:

- assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows for managing liquidity and generating income on its investment, but not for the purpose of realising fair value gains; and

- contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, with interest being the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and are unleveraged.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.13 Financial assets (continued)

***Financial assets measured at amortised cost*** *(continued)*

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortised cost using effective interest method less any impairment. On de-recognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

***Financial assets measured at fair value through profit or loss***

Financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost. Investments in equity instruments are classified as at fair value through profit or loss, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income at initial recognition as described below.

Financial assets at fair value through profit or loss are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

Interest income on debt instruments and dividend income on investments in equity instruments at fair value through profit or loss is recognised in profit or loss. Fair value gain or loss does not include any dividend or interest earned on these financial assets.

***Financial assets measured at fair value through other comprehensive income***

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income. Investments in equity instruments that the Group intend to hold for the long-term strategic purpose are classified under this category. Designation at fair value through other comprehensive income is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.13 Financial assets (continued)

***Financial assets measured at fair value through other comprehensive income*** *(continued)*

Investments in equity instruments at fair value through other comprehensive income are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the security investment reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in security investment reserve is not reclassified to profit or loss, but is reclassified directly to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

***Impairment of financial assets***

At each reporting date, financial assets other than at fair value are reviewed to determine whether there is any objective evidence of impairment. Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; or
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.13 Financial assets (continued)

***Financial assets measured at amortised cost***

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

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

Impairment losses for doubtful receivables, whose recovery is considered doubtful but not remote, are recorded using an allowance account. When the Group considered that recovery of receivables is remote, the amount considered irrecoverable is written off against the receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

### 2.14 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using weighted average method, and in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value represented the estimated net selling prices in the ordinary course of business less the estimated costs necessary to make the sale.

### 2.15 Income taxes

Income tax comprises current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.15 Income taxes (continued)

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

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

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

### 2.16 Derivative financial instruments

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

### 2.17 Cash and cash equivalents

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.18 Share capital

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

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

### 2.19 Employee benefit

***Retirement benefits***

Retirement benefits to employees are provided through defined contribution plans.

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

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

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

***Short-term employee benefits***

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

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

***Share-based employee compensation***

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.19 Employee benefit (continued)

***Share-based employee compensation*** *(continued)*

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

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

### 2.20 Financial liabilities

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

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

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.20 Financial liabilities (continued)

***Borrowings***

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

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

***Finance lease liabilities***

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

***Other financial liabilities at amortised cost***

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

***Derivatives***

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

### 2.21 Provisions, contingent liabilities and contingent assets

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.21 Provisions, contingent liabilities and contingent assets (continued)

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

### 2.22 Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

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

(b) An entity is related to the Group if any of the following conditions apply:

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.22 Related parties (continued)

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

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

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

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

### 2.23 Segment reporting

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

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

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

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

Segment assets include property, plant and equipment, prepaid lease payments, mining rights, goodwill, inventories, receivables and operating cash and mainly exclude financial assets measured at fair value through other comprehensive income, derivative financial instruments, deferred tax assets, interest in an associate and corporate assets which are not directly attributable to the business activities of any operating segment.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.23 Segment reporting (continued)

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

### 2.24 Financial guarantees issued

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

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

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

### 2.25 Assets held for sale

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

### 2.26 Discontinued operations

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

## 3. ADOPTION OF NEW OR AMENDED HKFRSs

### 3.1 Adoption of new or amended HKFRSs

During the year, the Group has applied for the following new or amended HKFRSs issued by the HKICPA, which relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2012:

| | |
|---|---|
| Amendments to HKFRS 7 | Disclosures – Transfers of Financial Assets |
| HKFRS 9 | Financial Instruments |

Other than as noted below, the adoption of these new or amended HKFRSs has no material impact on the Group's financial statements.

***Amendments to HKFRS 7 Disclosures – Transfer of Financial Assets ("HKFRS 7")***

The amendments to HKFRS 7 expand the disclosure requirements for transfer transactions of financial assets, in particular where the reporting entity has continuing involvement in financial assets that it has derecognised. The newly required disclosures allow users of financial statements to better understand the risks to which reporting entity remains exposed. And such information is relevant in assessing the amount, timing and uncertainty of the entity's future cash flows.

The Group has discounted and endorsed certain of its bill receivables with recourse (Note 27) to financial institutions and creditors. As the Group retained the significant risks and rewards of ownership of the discounted and endorsed bill receivables, the transfer transactions did not meet the requirement of HKFRS 39 for de-recognition. These bill receivables remain as the Group's financial assets with the cash received being recongised as asset-backed borrowings (Note 33) and the debts offset being recognised as trade payables (Note 31) and other payables (Note 32). The financial statements for the current year include additional disclosures describing the nature of the relationship between the discounted and endorsed bill receivables and the associated financial liabilities, including restrictions on the Group's use of the debts arising from the discounting arrangements. In accordance with the transition requirements of the amendments, the disclosures for the comparative period have not been amended.

## 3. ADOPTION OF NEW OR AMENDED HKFRSs (continued)

### 3.1 Adoption of new or amended HKFRSs (continued)

***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.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current de-recognition 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.

## 3. ADOPTION OF NEW OR AMENDED HKFRSs (continued)

### 3.1 Adoption of new or amended HKFRSs (continued)

***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 31 December 2012 HK$'000** | At 31 December 2011 HK$'000 | At 1 January 2011 HK$'000 |
|---|---|---|---|
| Increase in financial assets measured at fair value through other comprehensive income | **1,300,109** | 1,771,034 | 3,161,097 |
| Decrease in available-for-sale financial assets | **(1,300,109)** | (1,771,034) | (3,161,097) |

Consolidated statement of comprehensive income

| | **2012 HK$'000** | 2011 HK$'000 |
|---|---|---|
| Increase in fair value loss on financial assets measured at fair value through other comprehensive income | **470,995** | 1,229,529 |
| Decrease in fair value loss on available-for-sale financial assets | **(470,995)** | (1,229,529) |
| Decrease in impairment loss of available-for-sale financial assets recognised in profit or loss | **(1,030,122)** | – |
| Decrease in reclassification adjustment upon impairment of available-for-sale financial assets through other comprehensive income | **1,030,122** | – |

Following the adoption of HKFRS 9, all available-for-sale financial assets were reclassified as financial assets measured at fair value through other comprehensive income. The Group's basic and diluted earnings per share would have reduced by HK19.34 cents and HK19.33 cents respectively if HKFRS 9 had not been adopted.

## 3. ADOPTION OF NEW OR AMENDED HKFRSs (continued)

### 3.1 Adoption of new or amended HKFRSs (continued)

***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 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 early adoption of HKFRS 9 has been applied retrospectively and the comparative figures have been restated. Accordingly, a third consolidated statement of financial position as at 1 January 2011 has been presented. No third statement of financial position as at 1 January 2011 has been presented for the Company as it does not differ materially from that previously published.

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 31 December 2012.

## 3. ADOPTION OF NEW OR AMENDED HKFRSs (continued)

### 3.1 Adoption of new or amended HKFRSs (continued)

***Early adoption of HKFRS 9 Financial Instruments ("HKFRS 9")*** *(continued)*

Consolidated statement of financial position – 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 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 | 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 |

## 3. ADOPTION OF NEW OR AMENDED HKFRSs (continued)

### 3.1 Adoption of new or amended HKFRSs (continued)

***Early adoption of HKFRS 9 Financial Instruments ("HKFRS 9")*** *(continued)*

Consolidated statement of financial position – 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 | 256,268 | 256,268 | – | – |
| – 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 | – | – |
| | 10,503,041 | 8,731,989 | 1,771,034 | 18 |

## 3. ADOPTION OF NEW OR AMENDED HKFRSs (continued)

### 3.1 Adoption of new or amended HKFRSs (continued)

*Early adoption of HKFRS 9 Financial Instruments ("HKFRS 9") (continued)*

**Consolidated statement of financial position – at 31 December 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 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 | 24,645 | – | – | 24,645 |
| Available-for-sale financial assets | 1,300,109 | – | 1,300,109 | – |
| Loans and receivables | | | | |
| – Deposits and other receivables | 280,597 | 280,597 | – | – |
| – Trade and bill receivables | 3,540,491 | 3,540,491 | – | – |
| – Amounts due from other parties | 21,481 | 21,481 | – | – |
| – Pledged bank deposits | 171,855 | 171,855 | – | – |
| – Time deposits with original maturity over three months | 1,692,681 | 1,692,681 | – | – |
| – Cash and cash equivalents | 2,981,333 | 2,981,333 | – | – |
| | 10,013,192 | 8,688,438 | 1,300,109 | 24,645 |

## 3. ADOPTION OF NEW OR AMENDED HKFRSs (continued)

### 3.1 Adoption of new or amended HKFRSs (continued)

***Early adoption of HKFRS 9 Financial Instruments ("HKFRS 9")*** *(continued)*

Statement of financial position

| | Original carrying amount in accordance with HKAS 39 and new measurement category and carrying amount in accordance with HKFRS 9 – Financial assets measured at amortised cost | | |
|---|---|---|---|
| **Original measurement category** | **31 December 2012 HK$'000** | 31 December 2011 HK$'000 | 1 January 2011 HK$'000 |
| Loans and receivables | | | |
| – Deposits and other receivables | **17,643** | 2,742 | 159 |
| – Amounts due from subsidiaries | **19,501,393** | 17,895,615 | 16,738,022 |
| – Time deposits with original maturity over three months | **1,444,205** | – | – |
| – Cash and cash equivalents | **2,320,778** | 2,384,795 | 793,122 |
| | **23,284,019** | 20,283,152 | 17,531,303 |

## 3. ADOPTION OF NEW OR AMENDED HKFRSs (continued)

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

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

| | |
|---|---|
| Amendments to HKAS 1 (Revised) | Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income[1] |
| Amendments to HKAS 32 | Presentation – Offsetting Financial Assets and Financial Liabilities[3] |
| Amendments to HKFRS 7 | Financial instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities[2] |
| HKFRS 10 | Consolidated Financial Statements[2] |
| HKFRS 12 | Disclosure of Interests in Other Entities[2] |
| HKFRS 13 | Fair Value Measurement[2] |
| HKAS 27 (2011) | Separate Financial Statements[2] |
| HKAS 28 (2011) | Investments in Associates and Joint ventures[2] |
| HKFRSs (Amendments) | Annual Improvements 2009–2011 Cycle[2] |

1 Effective for annual periods beginning on or after 1 July 2012

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

3 Effective for annual periods beginning on or after 1 January 2014

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

These amendments require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future and those that may not. Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

***Amendments to HKAS 32 Presentation – Offsetting Financial Assets and Financial Liabilities***

The amendments clarify the offsetting requirements by adding appliance guidance to HKAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement.

## 3. ADOPTION OF NEW OR AMENDED HKFRSs (continued)

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

***Amendments to HKFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities***

HKFRS 7 is amended to introduce disclosures for all recognised financial instruments that are set off under HKAS 32 and those that are subject to an enforceable master netting agreement or similar arrangement, irrespective of whether they are set off under HKAS 32.

***HKFRS 10 Consolidated Financial Statements***

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

***HKFRS 12 Disclosure of Interests in Other Entities***

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

## 3. ADOPTION OF NEW OR AMENDED HKFRSs (continued)

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

***HKFRS 13 Fair Value Measurements***

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

***HKFRSs (Amendments) Annual Improvements 2009 – 2011 Cycle***

The improvements made amendments to five standards in which four standards are relevant to the Group.

*(i) HKAS 1 Presentation of Financial Statements*

The amendments clarify that the requirement to present a third statement of financial position when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items in its financial statements is limited to circumstances where there is a material effect on the information in that statement of financial position. The date of the opening statement of financial position is the beginning of the preceding period and not, as at present, the beginning of the earliest comparative period. The amendments also clarify that, except for disclosures required by HKAS 1.41-44 and HKAS 8, the related notes to the third statement of financial position are not required to be presented. An entity may present additional voluntary comparative information as long as that information is prepared in accordance with HKFRS. This may include one or more statements and not a complete set of financial statements. Related notes are required for each additional statement presented.

*(ii) HKAS 16 Property, Plant and Equipment*

The amendments clarify that items such as spare parts, stand-by equipment and servicing equipment are recognised as property, plant and equipment when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

## 3. ADOPTION OF NEW OR AMENDED HKFRSs (continued)

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

***HKFRSs (Amendments) Annual Improvements 2009 – 2011 Cycle*** (continued)

*(iii) HKAS 32 Financial Instruments: Presentation*

The amendments clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. Depending on the circumstances these items of income tax might be recognised in equity, other comprehensive income or in profit or loss.

*(iv) HKAS 34 Interim Financial Reporting*

The amendments clarifies that in interim financial statements, a measure of total assets and liabilities for a particular reportable segment need to be disclosed when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total assets and liabilities for that segment from the amount disclosed in the last annual financial statements.

The Group is in the process of making an assessment of the potential impact of these new or revised HKFRSs and the directors anticipate that more disclosures would be made but are not yet in a position to state whether they would have material financial impact on the Group's financial statements.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

### 4.1 Impairment of non-financial assets

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

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### 4.2 Impairment of goodwill

The Group tests on an annual basis whether goodwill has suffered any impairment in accordance with the accounting policy as stated in Note 2.5. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of judgement and estimates about future cash flow expected to arise from the CGUs, the timeframe for the cash flows forecast and the suitable discount rates in order to calculate the present value. In the process of estimating expected future cash flows, management makes assumptions about future revenues and profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause a material adjustment to the carrying amount of goodwill within the next financial year. Determining the appropriate discount rate involves estimating the appropriate adjustment for market risk and for asset specific risk factors. In addition, since the cash flow projections are extrapolated beyond 5 years and the license period of the mining rights held by the Group ranges from 2 to 30 years, management is of the opinion that the Group is able to renew the license of the mining rights from the relevant authority continuously and at minimal charges. Details of impairment assessment are set out in Note 20.

### 4.3 Impairment of loans and receivables

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

### 4.4 Depreciation

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

### 4.5 Amortisation of mining rights

Mining rights are amortised over the estimated proven and probable reserves of the coal mines using units of production method. The Group assesses on an annual basis the estimated reserve of the coal mine. However, the license periods of the mining rights held by the Group range from 2 to 30 years which are shorter than the estimated useful lives of the coal mine estimated by the Group. Management is of the opinion that the Group is able to renew the license of the mining rights from the relevant authority continuously and at minimal charges. If the expectation differs from the original estimate, such differences will impact the amortisation charged in the period in which such estimate is changed.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### 4.5 Amortisation of mining rights (continued)

Engineering estimates of the Group's coal reserves involved subjective judgements by engineers in developing such information and reserves are estimated in accordance with national standard set by the PRC Government. Estimates of proven and probable coal reserves are involved in subjective judgements, because the estimating technology is inaccurate, so the proven and probable coal reserves are only approximate value. The recent production and technology documents shall be considered for the estimates of proven and probable coal reserves which will be updated regularly, the inherent inaccuracy of technical estimating exists. If the past estimates change significantly, the amortisation shall be adjusted during future periods.

### 4.6 Net realisable value of inventories

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

### 4.7 Valuation of share options granted

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

## 5. REVENUE

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

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Sales of raw coking coal | **2,050,244** | 2,917,656 |
| Sales of clean coking coal | **3,600,346** | 4,220,987 |
| | **5,650,590** | 7,138,643 |
| **Discontinued operations** | | |
| Sales of coke (Note 11) | **–** | 205,054 |
| | **5,650,590** | 7,343,697 |

## 6. SEGMENT INFORMATION

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

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

| | Continuing operations | | | | Discontinued operations (Note 11) | | | |
|---|---|---|---|---|---|---|---|---|
| | Coking coal mining | | Total | | Coke production | | Consolidated | |
| | **2012 HK$'000** | 2011 HK$'000 | **2012 HK$'000** | 2011 HK$'000 | **2012 HK$'000** | 2011 HK$'000 | **2012 HK$'000** | 2011 HK$'000 |
| Segment revenue: | | | | | | | | |
| Sales to external parties | **5,650,590** | 7,138,643 | **5,650,590** | 7,138,643 | **–** | 205,054 | **5,650,590** | 7,343,697 |
| Segment operating profit/(loss) | **2,843,045** | 4,101,582 | **2,843,045** | 4,101,582 | **–** | (263,327) | **2,843,045** | 3,838,255 |
| Share-based compensation | | | **–** | (177,098) | **–** | – | **–** | (177,098) |
| Interest income | | | **122,731** | 77,122 | **–** | – | **122,731** | 77,122 |
| Other operating income not allocated | | | **103,066** | 66,625 | **–** | – | **103,066** | 66,625 |
| General and administrative expenses not allocated | | | **(93,269)** | (120,146) | **–** | – | **(93,269)** | (120,146) |
| Operating profit/(loss) | | | **2,975,573** | 3,948,085 | **–** | (263,327) | **2,975,573** | 3,684,758 |
| Gain on disposal of discontinued operations | | | **–** | – | **–** | 142,251 | **–** | 142,251 |
| Finance costs | | | **(26,891)** | (21,487) | **–** | (17,874) | **(26,891)** | (39,361) |
| Change in fair value of derivative financial instruments | | | **24,097** | 3,441 | **–** | – | **24,097** | 3,441 |
| Share of loss of associate | | | **(730)** | (265) | **–** | – | **(730)** | (265) |
| Profit/(Loss) before income tax | | | **2,972,049** | 3,929,774 | **–** | (138,950) | **2,972,049** | 3,790,824 |

## 6. SEGMENT INFORMATION (continued)

| | Continuing operations | | | | | | Discontinued operations (Note 11) | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Coking coal mining | | Corporate | | Total | | Coke production | | Consolidated | |
| | **2012** | 2011 | **2012** | 2011 | **2012** | 2011 | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Depreciation | **250,809** | 206,954 | **831** | 857 | **251,640** | 207,811 | **–** | 48,949 | **251,640** | 256,760 |
| Amortisation of mining rights | **275,690** | 285,778 | **–** | – | **275,690** | 285,778 | **–** | – | **275,690** | 285,778 |
| Amortisation of prepaid lease payments | **1,536** | 1,236 | **–** | – | **1,536** | 1,236 | **–** | 248 | **1,536** | 1,484 |
| Write-down of inventories to net realisable value | **–** | – | **–** | – | **–** | – | **–** | 102,636 | **–** | 102,636 |
| Provision for impairment of trade receivables | **18,426** | – | **–** | – | **18,426** | – | **–** | – | **18,426** | – |

| | Continuing operations | | | | | |
|---|---|---|---|---|---|---|
| | Coking coal mining | | Corporate | | Consolidated | |
| | **2012** | 2011 | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Segment assets** | **20,895,453** | 22,028,353 | **4,549,346** | 3,163,136 | **25,444,799** | 25,191,489 |
| Interest in an associate | | | **19,376** | 19,950 | **19,376** | 19,950 |
| Deferred tax assets | | | **31,592** | 17,806 | **31,592** | 17,806 |
| Financial assets measured at fair value through other comprehensive income | | | **1,300,109** | 1,771,034 | **1,300,109** | 1,771,034 |
| Derivative financial instruments | | | **24,645** | 18 | **24,645** | 18 |
| **Group assets** | | | | | **26,820,521** | 27,000,297 |
| **Segment liabilities** | **2,338,365** | 2,620,256 | **76,321** | 92,108 | **2,414,686** | 2,712,364 |
| Deferred tax liabilities | | | **2,142,911** | 2,131,424 | **2,142,911** | 2,131,424 |
| Tax payables | | | **325,252** | 699,537 | **325,252** | 699,537 |
| Borrowings | **878,288** | – | **197,160** | 897,848 | **1,075,448** | 897,848 |
| Derivative financial instruments | | | **241** | 991 | **241** | 991 |
| **Group liabilities** | | | | | **5,958,538** | 6,442,164 |

## 6. SEGMENT INFORMATION (continued)

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

| | Revenue from external customers | | Non-current assets | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Principal markets** | | | | |
| PRC | **5,650,590** | 7,343,697 | **16,730,393** | 16,444,900 |
| Hong Kong | **–** | – | **1,283** | 2,095 |
| | **5,650,590** | 7,343,697 | **16,731,676** | 16,446,995 |

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

During the year, HK$1,223,631,000 or 22% (2011: HK$2,169,358,000 or 30%) of the Group's revenue is generated from a single customer under coking coal mining segment. At 31 December 2012, 2.3% (2011: 0.3%) of the Group's trade and bill receivables was due from this customer.

## 7. OTHER OPERATING INCOME

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Continuing operations** | | |
| Bank interest income | **119,879** | 58,833 |
| Other interest income | **2,852** | 18,289 |
| Dividend income on financial assets measured at fair value through other comprehensive income | **53,986** | 53,000 |
| Income from sales of scrapped products | **84,799** | 77,757 |
| Net foreign exchange gain (Note 9) | **59,323** | 133,040 |
| Others | **2,731** | 1,483 |
| | **323,570** | 342,402 |

## 8. FINANCE COSTS

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Continuing operations** | | |
| Interest charged on: | | |
| – borrowings repayable within five years | **15,893** | 44,245 |
| – discounted bill receivables | **24,664** | 8,973 |
| Finance charges on finance leases | **737** | 637 |
| | **41,294** | 53,855 |
| *Less:* interest capitalised in CIP * (Note 17) | **(14,403)** | (32,368) |
| Total finance costs | **26,891** | 21,487 |

* Borrowing costs were capitalised at the rates ranging from 2% to 7% (2011: 2% to 6%) per annum for the year ended 31 December 2012.

## 9. PROFIT BEFORE INCOME TAX

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Continuing operations** | | |
| Profit before income tax is arrived at after charging/(crediting): | | |
| Auditor's remuneration | | |
| – audit services | **1,530** | 1,530 |
| – other services | **429** | 1,350 |
| Cost of inventories recognised as expenses | **2,064,788** | 2,109,708 |
| Amortisation of: | | |
| – prepaid lease payments | **1,536** | 1,236 |
| – mining rights | **275,690** | 285,778 |
| Depreciation of property, plant and equipment | | |
| – owned assets | **249,863** | 206,068 |
| – leased assets | **1,777** | 1,743 |
| Employee benefit expenses (including directors' remuneration, share-based compensation and retirement benefits scheme contributions) (Note 15) | **665,798** | 807,643 |
| Net foreign exchange gain (Note 7) | **(59,323)** | (133,040) |
| Operating lease charges in respect of land and buildings | **6,376** | 9,902 |
| Provision for impairment on trade receivables (Note 27) | **18,426** | – |
| Loss on disposals of property, plant and equipment | **15,042** | 4,389 |

## 10. INCOME TAX EXPENSE

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Continuing operations** | | |
| Current tax – PRC income tax | | |
| – Current year | **838,513** | 1,183,930 |
| – Under/(Over) provision in respect of prior years | **2,621** | (4,774) |
| Deferred tax (Note 37) | | |
| – Current year | **(19,325)** | (38,010) |
| | **821,809** | 1,141,146 |

## 10. INCOME TAX EXPENSE (continued)

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit arising in Hong Kong in 2012 and 2011.

In accordance with the Income Tax Law of the PRC for Enterprises with Foreign Investment, enterprise income tax rate for 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, is subject to 25% enterprise income tax in the PRC since the calendar year of 2011.

The Group is also subject to withholding tax at the rate of 5% (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.

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

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Continuing operations** | | |
| Profit before income tax | **2,972,049** | 3,929,774 |
| Tax calculated at the rates applicable to the tax jurisdiction concerned | **717,822** | 980,366 |
| Tax effect of non-deductible expenses | **35,096** | 51,558 |
| Tax effect of non-taxable income | **(21,661)** | (26,537) |
| Tax effect of unused tax losses not recognised | **11,820** | 17,503 |
| Effect of withholding tax at 5% on distributable profits of the Group's major PRC subsidiaries | **76,111** | 123,030 |
| Under/(Over) provision in respect of prior years | **2,621** | (4,774) |
| Income tax expense | **821,809** | 1,141,146 |

## 11. DISCONTINUED OPERATIONS

On 31 December 2011, New Honest Limited ("New Honest"), one of the Group's wholly-owned subsidiaries, disposed of its entire 66% equity interest in a subsidiary of the Group, namely Shanxi Yao Zin Coal and Coking Company Limited ("Shanxi Yao Zin") (the "Disposal") for a cash consideration of RMB211,200,000 (HK$259,776,000 equivalent) to an independent third party (the "Purchaser"). As at 31 December 2011, the Group received cash consideration of RMB50,000,000 (HK$61,500,000 equivalent). Based on the credit history of the Purchaser, including the default in payments and current economic conditions, the recoverability on the remaining balance of RMB161,200,000 (HK$198,276,000 equivalent) from the Purchaser was uncertain and might be remote. The directors regarded the fair value of the consideration of the Disposal as RMB50,000,000 (HK$61,500,000 equivalent) as at 31 December 2011. In addition, as stipulated in the conditional sale and purchase agreement, the Group waived the shareholders' loans and the corresponding interest to Shanxi Yao Zin amounting to RMB142,015,000 (HK$174,679,000 equivalent). Loss for the year from the discontinued operations in 2011 is illustrated as follows:

| | HK$'000 |
|---|---|
| **Loss for the year from discontinued operations** | |
| Revenue (Note 5) | 205,054 |
| Expenses | (486,255) |
| Loss before income tax | (281,201) |
| Income tax expense | (59) |
| | (281,260) |
| Gain on disposal of discontinued operations (Note 41) | 142,251 |
| Loss for the year | (139,009) |
| **Loss for the year from discontinued operations attributable to:** | |
| Owners of the Company (Note 14) | (43,381) |
| Non-controlling interests | (95,628) |
| Loss for the year | (139,009) |
| **Cash flows from discontinued operations** | |
| Operating cash inflows | 34,693 |
| Investing cash outflows | (46,643) |
| Financing cash inflows | 11,771 |
| Total cash outflows | (179) |

## 11. DISCONTINUED OPERATIONS (continued)

The carrying amounts of the assets and liabilities of Shanxi Yao Zin at the date of the Disposal are disclosed in Note 41 to the financial statements. The Disposal contributed a gain of RMB117,953,000 (HK$142,251,000 equivalent) (Note 41) to the Group in 2011, which represented the proceeds of the Disposal less the carrying amount of the subsidiary's net liabilities and attributable goodwill. No tax charge or credit arose from the Disposal.

## 12. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated profit for the year attributable to the owners of the Company of HK$1,800,367,000 (2011: HK$2,256,023,000), a profit of HK$1,369,752,000 (2011: HK$990,932,000) (Note 39) has been dealt with in the financial statements of the Company.

## 13. DIVIDENDS

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Dividends recognised as distributions during the year: | | |
| 2011 final dividend of HK13 cents (2010: HK10 cents) per ordinary share | **689,239** | 538,056 |
| 2012 interim dividend of HK5 cents (2011: HK6 cents) per ordinary share | **265,092** | 322,834 |
| | **954,331** | 860,890 |

On 22 March 2012, the board of directors proposed a final dividend of HK13 cents per ordinary share to the owners of the Company in respect of the year ended 31 December 2011. This final dividend was approved by shareholders at the annual general meeting held on 25 May 2012 and total dividend of HK$689,239,000 was paid on 19 June 2012. This final dividend proposed after 31 December 2011 had not been recognised as a liability as at 31 December 2011.

On 27 March 2013, the board of directors proposed a final dividend of HK10 cents per ordinary share totalling HK$530,184,000 to the owners of the Company in respect of the year ended 31 December 2012. The final dividend is subject to the shareholder's approval at the forthcoming annual general meeting. The final dividend proposed after 31 December 2012 has not been recognised as a liability as at 31 December 2012.

## 14. EARNINGS PER SHARE

### From continuing and discontinued operations

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

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit used to determine basic and diluted earnings per share from continuing and discontinued operations | **1,800,367** | 2,256,023 |
| | **'000 shares** | '000 shares |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **5,326,522** | 5,380,488 |
| Effect of dilutive potential ordinary shares – share options | **2,526** | 3,935 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **5,329,048** | 5,384,423 |

### 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:

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit for the year attributable to owners of the Company | **1,800,367** | 2,256,023 |
| *Add:* Loss for the year attributable to owners of the Company from discontinued operations (Note 11) | **–** | 43,381 |
| Profit used to determine basic and diluted earnings per share from continuing operations | **1,800,367** | 2,299,404 |

## 14. EARNINGS PER SHARE (continued)

### From continuing operations (continued)

Basic earnings and diluted earnings per share for the continuing operations are HK33.80 cents (2011: HK42.74 cents) and HK33.78 cents (2011: HK42.70 cents) respectively, based on the profit for the year attributable to owners of the Company from the continuing operations of HK$1,800,367,000 (2011: HK$2,299,404,000) and weighted average number of ordinary shares as set out above for both basic and diluted earnings per share.

### From discontinued operations

Basic loss and diluted loss per share for the discontinued operations for the year ended 31 December 2011 were HK0.81 cents and HK0.81 cents respectively, based on the loss for the year attributable to owners of the Company from the discontinued operations of HK$43,381,000 for the year ended 31 December 2011 and weighted average number of ordinary shares as set out above for both basic and diluted losses per share.

## 15. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Salaries, wages and allowances | **612,748** | 612,606 |
| Share-based compensation | **–** | 177,098 |
| (Reversal of provision)/Provision for unused annual leaves | **(534)** | 143 |
| Retirement benefits scheme contributions | **53,584** | 17,796 |
| | **665,798** | 807,643 |
| **Discontinued operations** | | |
| Salaries, wages and allowances | **–** | 13,825 |
| | **665,798** | 821,468 |

## 16. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### Directors' emoluments

| | 2012 | | | | | 2011 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Fees | Salaries, allowances and benefits | Bonuses | Retirement benefits scheme contributions | Total | Fees | Salaries, allowances and benefits | Bonuses | Retirement benefits scheme contributions | Share-based compensation | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Executive directors** | | | | | | | | | | | |
| Mr. Li Shaofeng* | – | 4,200 | 5,000 | 460 | 9,660 | – | 875 | 2,000 | 142 | – | 3,017 |
| Mr. Wang Pingsheng** | – | – | – | – | – | – | 3,261 | 6,000 | 331 | – | 9,592 |
| Mr. Chen Zhouping | – | 4,101 | 5,000 | 460 | 9,561 | – | 4,363 | 8,000 | 577 | 4,331 | 17,271 |
| Mr. Wong Lik Ping | – | 3,990 | 4,000 | 615 | 8,605 | – | 4,340 | 8,000 | 803 | 3,248 | 16,391 |
| Mr. So Kwok Hoo | – | 2,896 | 2,650 | 424 | 5,970 | – | 3,054 | 3,500 | 452 | 2,526 | 9,532 |
| Mr. Chen Zhaoqiang | – | 2,655 | 3,300 | 297 | 6,252 | – | 2,684 | 3,740 | 299 | 5,805 | 12,528 |
| Mr. Xue Kang## | – | 2,229 | 2,000 | 216 | 4,445 | – | 2,494 | 2,800 | 240 | 2,165 | 7,699 |
| Mr. Liu Qingshan | – | 2,307 | 3,000 | 270 | 5,577 | – | 2,493 | 3,400 | 272 | 4,331 | 10,496 |
| **Non-executive directors** | | | | | | | | | | | |
| Mr. Leung Shun Sang, Tony | 420 | – | – | – | 420 | 300 | – | – | – | 4,331 | 4,631 |
| Mr. Zhang Wenhui## | 406 | – | – | – | 406 | 300 | – | – | – | – | 300 |
| Mr. Zhang Yaoping | 420 | – | – | – | 420 | 300 | – | – | – | 3,069 | 3,369 |
| **Independent non-executive directors** | | | | | | | | | | | |
| Mr. Kee Wah Sze | 420 | – | – | – | 420 | 300 | – | – | – | 2,310 | 2,610 |
| Mr. Choi Wai Yin | 420 | – | – | – | 420 | 300 | – | – | – | 2,310 | 2,610 |
| Mr. Chan Pat Lam | 420 | – | – | – | 420 | 300 | – | – | – | 2,310 | 2,610 |
| Mr. Chan Chung Chun# | 210 | – | – | – | 210 | – | – | – | – | – | – |
| | 2,716 | 22,378 | 24,950 | 2,742 | 52,786 | 1,800 | 23,564 | 37,440 | 3,116 | 36,736 | 102,656 |

# appointed on 1 July 2012
## resigned on 20 December 2012
* appointed on 20 October 2011
** resigned on 20 October 2011

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

### Directors' emoluments (continued)

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office (2011: Nil).

During the year, no share options were granted to the directors in respect of their services to the Group (2011: Nil). Share-based compensation represents the fair value of the options granted to the directors during the year ended 31 December 2009. The fair value of share options is measured according to the Group's accounting policy for share-based compensation set out in Note 2.19 and Note 40. Details of these benefits in kind including the principal terms and number of options granted are disclosed under the heading "Share Option Schemes" in the Report of the Directors.

### Five highest paid individuals

The five highest paid individuals in the Group in 2012 and 2011 were all directors of the Company and details of their emoluments are reflected in the analysis presented above.

During the year, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2011: Nil).

The emoluments paid or payable to members of senior management are include in the analysis presented above.

## 17. PROPERTY, PLANT AND EQUIPMENT

### Group

| | Buildings and plants HK$'000 | CIP HK$'000 | Mining structures HK$'000 | Mining machinery and equipment HK$'000 | Leasehold improvements HK$'000 | Office equipment, furniture and fixtures HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2011 | | | | | | | | |
| Cost | 944,352 | 716,413 | 467,119 | 840,419 | 2,965 | 41,874 | 47,192 | 3,060,334 |
| Accumulated depreciation | (70,416) | – | (64,390) | (161,174) | (674) | (14,786) | (16,867) | (328,307) |
| Net carrying amount | 873,936 | 716,413 | 402,729 | 679,245 | 2,291 | 27,088 | 30,325 | 2,732,027 |
| Year ended 31 December 2011 | | | | | | | | |
| Opening net carrying amount | 873,936 | 716,413 | 402,729 | 679,245 | 2,291 | 27,088 | 30,325 | 2,732,027 |
| Exchange retranslation | 37,581 | 32,635 | 16,657 | 30,296 | – | 1,457 | 1,192 | 119,818 |
| Additions | 35,555 | 244,498 | 213 | 156,256 | – | 22,691 | 5,751 | 464,964 |
| Transfers | 100,127 | (130,030) | 5,678 | 16,615 | – | 7,421 | 189 | – |
| Disposals | (1,138) | – | – | (2,727) | – | (1,745) | (45) | (5,655) |
| Depreciation | (56,580) | – | (26,387) | (99,167) | (638) | (15,237) | (9,802) | (207,811) |
| Closing net carrying amount | 989,481 | 863,516 | 398,890 | 780,518 | 1,653 | 41,675 | 27,610 | 3,103,343 |
| At 31 December 2011 | | | | | | | | |
| Cost | 1,120,217 | 863,516 | 492,920 | 1,047,746 | 2,965 | 71,413 | 54,514 | 3,653,291 |
| Accumulated depreciation | (130,736) | – | (94,030) | (267,228) | (1,312) | (29,738) | (26,904) | (549,948) |
| Net carrying amount | 989,481 | 863,516 | 398,890 | 780,518 | 1,653 | 41,675 | 27,610 | 3,103,343 |
| **Year ended 31 December 2012** | | | | | | | | |
| Opening net carrying amount | **989,481** | **863,516** | **398,890** | **780,518** | **1,653** | **41,675** | **27,610** | **3,103,343** |
| Exchange retranslation | **9,236** | **7,107** | **3,806** | **8,062** | **–** | **386** | **165** | **28,762** |
| Additions | **18,327** | **339,348** | **873** | **346,903** | **–** | **27,183** | **3,444** | **736,078** |
| Transfers | **226,886** | **(328,654)** | **94,702** | **6,900** | **–** | **166** | **–** | **–** |
| Disposals | **(4,747)** | **–** | **–** | **(12,575)** | **–** | **(12)** | **(25)** | **(17,359)** |
| Depreciation | **(62,503)** | **–** | **(26,387)** | **(130,005)** | **(609)** | **(21,309)** | **(10,827)** | **(251,640)** |
| **Closing net carrying amount** | **1,176,680** | **881,317** | **471,884** | **999,803** | **1,044** | **48,089** | **20,367** | **3,599,184** |
| **At 31 December 2012** | | | | | | | | |
| Cost | **1,369,358** | **881,317** | **593,279** | **1,387,872** | **2,965** | **99,528** | **57,921** | **4,392,240** |
| Accumulated depreciation | **(192,678)** | **–** | **(121,395)** | **(388,069)** | **(1,921)** | **(51,439)** | **(37,554)** | **(793,056)** |
| **Net carrying amount** | **1,176,680** | **881,317** | **471,884** | **999,803** | **1,044** | **48,089** | **20,367** | **3,599,184** |

## 17. PROPERTY, PLANT AND EQUIPMENT (continued)

During the year, interest expense amounting to approximately HK$14,403,000 (2011: HK$32,368,000) (Note 8) was capitalised in property, plant and equipment.

Net carrying amount of the Group's property, plant and equipment held under finance leases as at 31 December 2012 included in office equipment amounted to approximately HK$6,507,000 (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 31 December 2012, the Group is still in the process of obtaining the building ownership certificates for certain buildings with net carrying amount of approximately HK$146,550,000 (RMB118,185,000 equivalent) (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.

### Company

| | Leasehold improvements HK$'000 | Office equipment, furniture and fixtures HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January 2011 | | | |
| Cost | 2,704 | 311 | 3,015 |
| Accumulated depreciation | (643) | (87) | (730) |
| Net carrying amount | 2,061 | 224 | 2,285 |
| Year ended 31 December 2011 | | | |
| Opening net carrying amount | 2,061 | 224 | 2,285 |
| Additions | – | 9 | 9 |
| Depreciation | (515) | (59) | (574) |
| Closing net carrying amount | 1,546 | 174 | 1,720 |
| At 31 December 2011 | | | |
| Cost | 2,704 | 320 | 3,024 |
| Accumulated depreciation | (1,158) | (146) | (1,304) |
| Net carrying amount | 1,546 | 174 | 1,720 |
| **Year ended 31 December 2012** | | | |
| Opening net carrying amount | **1,546** | **174** | **1,720** |
| Additions | **–** | **19** | **19** |
| Depreciation | **(516)** | **(62)** | **(578)** |
| **Closing net carrying amount** | **1,030** | **131** | **1,161** |
| **At 31 December 2012** | | | |
| Cost | **2,704** | **339** | **3,043** |
| Accumulated depreciation | **(1,674)** | **(208)** | **(1,882)** |
| **Net carrying amount** | **1,030** | **131** | **1,161** |

## 18. PREPAID LEASE PAYMENTS – GROUP

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

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Opening net carrying amount | **48,068** | 47,323 |
| Exchange retranslation | **490** | 1,981 |
| Additions | **13,763** | – |
| Amortisation of prepaid lease payments | **(1,536)** | (1,236) |
| Closing net carrying amount | **60,785** | 48,068 |
| In the PRC held on: | | |
| – Lease of between 10 to 50 years | **60,785** | 48,068 |

## 19. MINING RIGHTS – GROUP

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Opening net carrying amount | **10,563,452** | 10,413,660 |
| Exchange retranslation | **84,202** | 435,570 |
| Additions | **68,973** | – |
| Amortisation charge | **(275,690)** | (285,778) |
| Closing net carrying amount | **10,440,937** | 10,563,452 |
| Gross carrying amount | **11,692,890** | 11,529,619 |
| Accumulated amortisation | **(1,251,953)** | (966,167) |
| Net carrying amount | **10,440,937** | 10,563,452 |

The estimated remaining useful lives of the mining rights range between 32 years and 40 years based on exploration reports prepared in accordance with the relevant PRC standards.

## 20. GOODWILL – GROUP

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Gross carrying amount at 1 January | **2,248,822** | 2,158,330 |
| Exchange retranslation | **18,098** | 90,492 |
| Gross carrying amount at 31 December | **2,266,920** | 2,248,822 |
| *Less:* Accumulated impairment loss | **(2,010)** | (2,010) |
| Net carrying amount at 31 December | **2,264,910** | 2,246,812 |

The carrying amount of goodwill was allocated as follows:

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Xingwu | **866,842** | 859,848 |
| Jinjiazhuang | **807,090** | 800,577 |
| Zhaiyadi | **569,051** | 564,460 |
| Jinshan Energy Group Limited ("Jinshan") | **21,927** | 21,927 |
| Net carrying amount at 31 December | **2,264,910** | 2,246,812 |

As described in Note 4.2, the recoverable amounts of goodwill totalling HK$2,264,910,000 (2011: HK$2,246,812,000) from each of the above CGUs were determined on the basis of value-in-use calculations, which are based on certain key assumptions on discount rates, growth rates, expected changes in selling prices and direct costs. All value-in-use calculations use cash flow projections based on the financial budgets prepared by management covering a 5-year period, using a growth rate of approximately 2% to 6% (2011: 2% to 20%) and with a discount rate of 14.55% (2011: 18.38%) per annum.

## 20. GOODWILL – GROUP (continued)

The cash flows beyond the 5-year period are extrapolated using a steady percentage growth rate of 2% (2011: 2%). Cash flow projections during the budget period for each of the above CGU are based on the budgeted revenue and expected gross margins during the budget period and the same raw materials price inflation during the budget period. Expected cash inflows/outflows, which include budgeted sales, gross margin and raw material price inflation, have been determined based on past performance and management's expectations for the market development.

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

## 21. INTERESTS IN SUBSIDIARIES – COMPANY

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Unlisted equity interest, at cost | **837,836** | 839,269 |
| *Less:* Provision for impairment | **(647,592)** | (294,349) |
| | **190,244** | 544,920 |

## 21. INTERESTS IN SUBSIDIARIES – COMPANY (continued)

Particulars of the principal subsidiaries at 31 December 2012 are as follows:

| Name | Place of incorporation and kind of legal entity | Principal activities and place of operations | Particulars of issued share capital/ registered capital | Effective interest held by the Group 2012 | 2011 |
|---|---|---|---|---|---|
| Xingwu * | PRC, limited liability company | Mining, production and sales of coal in the PRC | Registered capital of RMB250,000,000 | **88%** | 88% |
| Jinjiazhuang * | PRC, limited liability company | Mining, production and sales of coal in the PRC | Registered capital of RMB374,000,000 | **65%** | 65% |
| Zhaiyadi * | PRC, limited liability company | Mining, production and sales of coal in the PRC | Registered capital of RMB800,000,000 | **95%** | 95% |
| Jinshan * | PRC, limited liability company | Investment holding, production and sales of coal products in the PRC | Registered capital of RMB600,000,000 | **94%** | 94% |
| Liulin Luenshan Coking Company Limited ("Luenshan") *^ | PRC, limited liability company | Production and sales of coal products in the PRC | Registered capital of RMB120,000,000 | **61%** | 61% |
| Fu Hui Investments Limited | Hong Kong, limited liability company | Administration and investment vehicle of the Group (Hong Kong) | 100 ordinary shares of HK$1 each | **100%** | 100% |
| Fu Hui Jewellery & Goldsmith Company Limited | Hong Kong, limited liability company | Investment vehicle of the Group (Hong Kong) | 2,000,000 ordinary shares of HK$1 each | **100%** | 100% |
| Thechoice Finance (HK) Limited ("ThechoiceHK") | Hong Kong, limited liability company | Investment holding in Hong Kong | 1 ordinary shares of HK$1 | **100%** | 100% |
| Worldman Industrial (HK) Limited ("WorldmanHK") | Hong Kong, limited liability company | Investment holding in Hong Kong | 1 ordinary shares of HK$1 | **100%** | 100% |
| Gumpert Industries (HK) Limited ("GumpertHK") | Hong Kong, limited liability company | Investment holding in Hong Kong | 1 ordinary share of HK$1 | **100%** | 100% |
| Shougang Resources (Hong Kong) Limited (Formerly known as Fushan Energy Group (Hong Kong) Limited) | Hong Kong, limited liability company | Investment holding in Hong Kong | 1 ordinary share of HK$1 | **100%** | 100% |

## 21. INTERESTS IN SUBSIDIARIES – COMPANY (continued)

| Name | Place of incorporation and kind of legal entity | Principal activities and place of operations | Particulars of issued share capital/ registered capital | Effective interest held by the Group 2012 | 2011 |
|---|---|---|---|---|---|
| Jade Green Investments Holding Limited ("Jade Green") | BVI, limited liability company | Investment holding in Hong Kong | 1 ordinary share of US$1 | **100%** | 100% |
| Thechoice Finance Limited ("Thechoice") | BVI, limited liability company | Investment holding in Hong Kong | 1 ordinary share of US$1 | **100%** | 100% |
| Worldman Industrial Limited ("Worldman") | BVI, limited liability company | Investment holding in Hong Kong | 1 ordinary share of US$1 | **100%** | 100% |
| Gumpert Industries Limited ("Gumpert") | BVI, limited liability company | Investment holding in Hong Kong | 1 ordinary share of US$1 | **100%** | 100% |
| Fushan Energy Group Limited | BVI, limited liability company | Investment holding in Hong Kong | 1 ordinary share of US$1 | **100%** | 100% |
| New Honest | BVI, limited liability company | Investment holding in Hong Kong | 1 ordinary share of US$1 | **100%** | 100% |
| Maxease Limited | BVI, limited liability company | Investment vehicle in Hong Kong | 1 ordinary share of US$1 | **100%** | 100% |
| True Plus Limited | BVI, limited liability company | Investment holding in Hong Kong | 1 ordinary share of US$1 | **100%** | 100% |
| Benefit Rich Limited | Samoa, limited liability company | Investment holding in Hong Kong | 1 ordinary share of US$1 | **100%** | 100% |
| Shanxi Jinxinglong Energy Co., Ltd * ^ | PRC, limited liability company | Investment on coal projects in the PRC | Registered capital of RMB50,000,000 | **88%** | 88% |
| Shanxi Jinsheng Energy Co., Ltd * ^ | PRC, limited liability company | Investment on coal projects in the PRC | Registered capital of RMB50,000,000 | **65%** | 65% |
| Shanxi Jinfulong Energy Co., Ltd * ^ | PRC, limited liability company | Investment on coal projects in the PRC | Registered capital of RMB10,000,000 | **95%** | 95% |

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

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

## 21. INTERESTS IN SUBSIDIARIES – COMPANY (continued)

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

The entire equity interests in Jade Green, Thechoice, Worldman, Gumpert, ThechoiceHK, WorldmanHK, GumpertHK with a carrying amount of HK$9,329,352,000 (2011: HK$9,329,352,000) were pledged for the banking facilities of United States Dollars ("US$")25,000,000 (31 December 2011: US$55,000,000) granted to the Group as at 31 December 2012 (Note 33).

None of the subsidiaries had issued any debt securities during the year.

## 22. AMOUNTS DUE FROM SUBSIDIARIES – COMPANY

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Amounts due from subsidiaries | **19,581,204** | 18,154,656 |
| Loan to a subsidiary | **37,432** | 34,656 |
| *Less:* Provision for impairment | **(117,243)** | (293,697) |
| | **19,501,393** | 17,895,615 |

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

Loan to a subsidiary as at 31 December 2012 is unsecured, interest bearing at 7.5% per annum (2011: 7.5% per annum) and are repayable on demand. Included in the balance is interest receivable of HK$4,452,000 (2011: HK$1,676,000) which is repayable together with the principal debts.

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

## 23. INTEREST IN AN ASSOCIATE – GROUP

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Unlisted shares, at cost | 19,884 | 19,884 |
| Exchange retranslation | 904 | 748 |
| Share of net assets | (1,412) | (682) |
| | 19,376 | 19,950 |

Particulars of the associate at 31 December 2012 are as follows:

| Name | Place of incorporation | Principal activities and place of operations | Particulars of registered capital | Effective interest held by the Group 2012 | Effective interest held by the Group 2011 |
|---|---|---|---|---|---|
| Luliang Jin Yu Cangchu Company Limited# 呂梁晉煜倉儲有限公司 | PRC | Provision of coal storage services in the PRC | RMB42,000,000 | 35% | 35% |

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

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

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Assets | 51,323 | 56,184 |
| Liabilities | 3,580 | 6,745 |
| Revenue | 1,635 | 2,721 |
| Loss | (2,081) | (754) |

## 24. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME – GROUP

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Equity securities, at fair value | | |
| – listed in Australia (Note (a)) | **1,101,185** | 1,446,944 |
| – listed in Hong Kong (Note (b)) | **190,244** | 315,480 |
| | **1,291,429** | 1,762,424 |
| Unlisted equity interest (Note (c)) | **8,680** | 8,610 |
| | **1,300,109** | 1,771,034 |

Notes:

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

As at 31 December 2012, the Group directly held 15.03% (2011: 15.14%) interest in Mount Gibson and the fair value of the investment in Mount Gibson was HK$1,101,185,000 (2011: HK$1,446,944,000) which represented the market value with reference to its closing price as at that day in the Australian Securities Exchange. A fair value loss of HK$345,759,000 (2011: HK$1,275,856,000) was recognised in the security investment reserve during the year ended 31 December 2012.

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

As at 31 December 2012, the Group directly held 14.03% (2011: 13.96%) interest in APAC and the fair value of the investment in APAC was HK$190,244,000 (2011: HK$315,480,000) which represented the market value with reference to its closing price as at that day in The Stock Exchange. A fair value loss of HK$125,236,000 (2011: HK$152,960,000) was recognised in the security investment reserve during the year ended 31 December 2012.

(c) This represents the cost of 7% (2011: 7%) equity investment in an unlisted company incorporated in the PRC. The investee company has not yet commenced its business as at 31 December 2012 and will be engaged in transportation business in the PRC. In the opinion of directors of the Company, the cost represents the best estimate of fair value as there are no quoted market prices in active market and there is insufficient more recent information available to determine its fair value.

The fair value of the Group's investments in listed and unlisted equity securities has been measured as described in Note 47.

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

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Deposits for a potential mining project | **174,690** | 173,282 |
| Housing loans to PRC employees | **40,688** | 48,083 |
| Prepayments for CIP and property, plant and equipment | **69,711** | 187,548 |
| Prepayments for land-use rights | **61,395** | 56,457 |
| | **346,484** | 465,370 |

## 26. INVENTORIES – GROUP

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Spare parts and consumables | **130,667** | 178,607 |
| Coking coal | **32,615** | 11,900 |
| | **163,282** | 190,507 |

As at 31 December 2012 and 2011, no inventories were stated at net realisable value.

## 27. TRADE AND BILL RECEIVABLES – GROUP

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Trade receivables | **1,094,307** | 802,861 |
| *Less:* Provision for impairment losses | **(185,983)** | (166,058) |
| | **908,324** | 636,803 |
| Bill receivables | **2,632,167** | 2,714,152 |
| | **3,540,491** | 3,350,955 |

## 27. TRADE AND BILL RECEIVABLES – GROUP (continued)

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

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

As at 31 December 2012, bill receivables included an amount of RMB333,955,000 (HK$414,104,000 equivalent) (2011: RMB398,200,000 (HK$489,786,000 equivalent)) which was pledged for bill payables of RMB292,417,000 (HK$362,598,000 equivalent) (2011: RMB355,673,000 (HK$437,478,000 equivalent)) (Note 31).

As at 31 December 2012, the Group discounted and endorsed certain of its bill receivables with full recourse to financial institutions and creditors. In the event of default by the debtors, the Group is obliged to pay the financial institutions and creditors the amount in default. The Group is therefore exposed to the risks of credit losses and late payment in respect of its discounted and endorsed bill receivables.

The discounting and endorsement transactions do not meet the requirements in HKAS 39 for de-recognition of financial assets as the Group retains substantially all of the risks and rewards of ownership of the discounted and endorsed bill receivables. At 31 December 2012, bill receivables of RMB848,744,000 (HK$1,052,443,000 equivalent) (2011: nil) continue to be recognised in the Group's financial statements although they have been legally transferred to the financial institutions and creditors. The proceeds of the discounting and endorsement transactions are included in borrowings as asset-backed financing (Note 33), trade payables (Note 31) and other payables (Note 32) until the related bill receivables are collected or the Group settles any losses suffered by the financial institutions and creditors. At 31 December 2012, the asset-backed financing liabilities and bill receivables endorsed to trade creditors and other creditors amounted to RMB708,296,000 (HK$878,288,000 equivalent), RMB18,509,000 (HK$22,950,000 equivalent) and RMB121,939,000 (HK$151,205,000 equivalents) respectively (2011: nil).

As the bill receivables have been legally transferred to the financial institutions and creditors, the Group does not have the authority to determine the disposition of the bill receivables.

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

## 27. TRADE AND BILL RECEIVABLES – GROUP (continued)

Impairment losses in respect of trade and bill receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case impairment loss is written off against trade and bill receivables directly. As at 31 December 2012, ageing analysis of net trade and bill receivables, based on the invoice dates, is as follows:

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| 0 – 90 days | **2,591,068** | 1,555,026 |
| 91 – 180 days | **944,869** | 1,787,034 |
| 181 – 365 days | **4,554** | 8,895 |
| | **3,540,491** | 3,350,955 |

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

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| At 1 January | **166,058** | 159,308 |
| Exchange retranslation | **1,499** | 6,750 |
| Impairment loss recognised (Note 9) | **18,426** | – |
| At 31 December | **185,983** | 166,058 |

As at 31 December 2012, ageing analysis of trade and bill receivables that are not impaired is as follows:

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Neither past due nor impaired | **3,532,605** | 3,319,875 |
| 1 – 90 days past due | **5,820** | 22,185 |
| 91 – 180 days past due | **2,066** | 6,137 |
| 181 – 365 days past due | **–** | 2,758 |
| | **7,886** | 31,080 |
| | **3,540,491** | 3,350,955 |

## 27. TRADE AND BILL RECEIVABLES – GROUP (continued)

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

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

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

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Mr. Xing Libin ("Mr. Xing") (Note) | **–** | 234,342 |
| Liulin Xian Yongsheng Xuanmeichang # | **424** | 412 |
| Shanxi Fortune Dragon Coalification Company Limited # | **258** | 256 |
| Liulin Guojiashan Meiye Company Limited # | **14,722** | 9,863 |
| Liulin Xian Wangjiagou Meikuang # | **298** | 296 |
| Liulin Xian Longmenta Meikuang # | **17** | 668 |
| Mr. Xing Yanbin | **–** | 932 |
| Liulin Xian Nahagou Meiye Company Limited # | **3,672** | 3,028 |
| Liulin Xian Baicaoer Jiansing Xuanmei Company Limited # | **249** | 247 |
| Fortune Dragon Group Limited # | **186** | 185 |
| Shanxi Panlong Jianzhu Gongcheng Company Limited ("Panlong Gongcheng") # | **73** | 2,906 |
| Ms. Xing Xiaorui | **129** | 128 |
| Shanxi Liulin Xiasitou Meiye Company Limited ("Xiasitou Meiye") # | **153** | 151 |
| Liulin Xian Chenjiawan Meiye Company Limited ("Chenjiawan Meiye") # | **15** | 15 |
| Shanxi Liulin Zhuangshang Coal Mine Company Limited # | **1,285** | – |
| | **21,481** | 253,429 |
| *Less:* Loan to a party included under current assets (Note) | **–** | (234,342) |
| Amount included under current assets | **21,481** | 19,087 |

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

## 28. LOAN TO A PARTY/AMOUNTS DUE FROM OTHER PARTIES – GROUP (continued)

Note:

Pursuant to the loan agreement dated 13 April 2010 entered into between Jade Green and 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 owed by Mr. Xing. The Loan Amount and the transactions contemplated thereunder were approved at the extraordinary general meeting of the Company held on 8 June 2010. The Loan Amount was secured by 35% equity interest in Luenshan and dividend rights in respect of 35% equity interest in Jinjiazhuang and 5% equity interests in Zhaiyadi. The Loan Amount and interest accrued 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 rate 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 year, all remaining balance of the Loan Amount of HK$234,342,000 (2011: HK$703,025,000) and the relevant interest of HK$3,262,000 (2011: HK$33,023,000) were repaid by Mr. Xing on schedule.

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

## 29. PLEDGED BANK DEPOSITS – GROUP

As at 31 December 2012, all pledged bank deposits of RMB138,593,000 (HK$171,855,000 equivalent) (2011: RMB287,919,000 (HK$354,141,000 equivalent)) were denominated in RMB and were pledged for bill payables of RMB138,593,000 (HK$171,855,000 equivalent) (2011: RMB287,919,000 (HK$354,141,000 equivalent)) (Note 31).

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

## 30. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash at banks and on hand | **55,788** | 124,555 | **35,756** | 2,164 |
| Short-term bank deposits | **2,925,545** | 4,392,641 | **2,285,022** | 2,382,631 |
| | **2,981,333** | 4,517,196 | **2,320,778** | 2,384,795 |

Cash at banks generates interest at the floating rates based on the daily bank deposit rates. Short-term bank deposits were made for varying periods of one day to three months depending on the immediate cash requirements of the Group and earned interest at the respective short-term time deposit rates ranging from 0.005% to 5.14% (2011: 0.005% to 4.85%) per annum.

## 30. CASH AND CASH EQUIVALENTS (continued)

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

| | Group | | Company | |
|---|---|---|---|---|
| '000 | **2012** | 2011 | **2012** | 2011 |
| AUD | **10,556** | 5,465 | **10,555** | 318 |
| RMB | **1,190,552** | 3,281,846 | **760,974** | 1,869,440 |
| US$ | **170,400** | 32,162 | **154,022** | 10,549 |

## 31. TRADE AND BILL PAYABLES – GROUP

The Group was granted by its suppliers credit period ranging between 30 to 180 days (2011: 30 to 180 days) during the year. Based on the invoice dates, ageing analysis of trade and bill payables as at 31 December 2012 is as follows:

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| 0 – 90 days | **396,084** | 519,028 |
| 91 – 180 days | **282,908** | 471,479 |
| 181 – 365 days | **13,387** | 14,706 |
| Over 365 days | **25,529** | 26,218 |
| | **717,908** | 1,031,431 |

As at 31 December 2012, bill payables of RMB431,010,000 (HK$534,453,000 equivalent) (2011: RMB643,592,000 (HK$791,619,000 equivalent)) were secured by the pledged bank deposits of RMB138,593,000 (HK$171,855,000 equivalent) (2011: RMB287,919,000 (HK$354,141,000 equivalent)) (Note 29) and bill receivables of RMB333,955,000 (HK$414,104,000 equivalent) (2011: RMB398,200,000 (HK$489,786,000 equivalent)) (Note 27).

As at 31 December 2012, included in trade payables of RMB18,509,000 (HK$22,950,000 equivalent) represents the amount of bill receivables endorsed to trade creditors which do not meet the de-recognition requirements in HKAS 39. The corresponding financial assets are included in bill receivables (Note 27).

## 32. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Advances from customers | **364,283** | 486,010 | **–** | – |
| Accruals | **372,420** | 401,645 | **16,207** | 19,296 |
| Other payables | **919,910** | 759,957 | **–** | – |
| | **1,656,613** | 1,647,612 | **16,207** | 19,296 |

As at 31 December 2012, included in other payables of RMB121,939,000 (HK$151,205,000 equivalent) represents the amount of bill receivables endorsed to other creditors which do not meet the de-recognition requirements in HKAS 39. The corresponding financial assets are included in bill receivables (Note 27).

## 33. BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Current** | | | | |
| Bank borrowings – secured (Note (a)) | **193,100** | 891,916 | **193,100** | 424,516 |
| Other borrowings (Note (b)) | **2,232** | 2,214 | **–** | – |
| Finance lease payables (Note (c)) | **1,828** | 3,718 | **–** | – |
| Asset-backed financing (Note (d)) | **878,288** | – | **–** | – |
| Total borrowings | **1,075,448** | 897,848 | **193,100** | 424,516 |

The carrying amounts of bank borrowings, other borrowings and asset-backed financing approximate to their fair value.

## 33. BORROWINGS (continued)

Notes:

**(a) Bank borrowings – secured**

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within one year | **193,100** | 891,916 | **193,100** | 424,516 |

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

| | Group | | Company | |
|---|---|---|---|---|
| '000 | **2012** | 2011 | **2012** | 2011 |
| RMB (i) | **–** | 380,000 | **–** | – |
| US$ (ii) | **25,000** | 55,000 | **25,000** | 55,000 |

(i) In March 2010, two bank borrowings, each of RMB200,000,000 with a terms of 2 years, were drawn down from a bank and used as the working capital. Interest on these bank borrowings was charged at the floating lending rate adopted by the People's Bank of China. The Company had given guarantee to the bank for these bank borrowings. During the year, RMB380,000,000 (2011: RMB20,000,000) have been repaid.

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

**(b) Other borrowings**

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **2,232** | 2,214 |

Other borrowings at 31 December 2012 and 2011 are obtained from third parties, unsecured, interest-free and repayable on demand. All these other borrowings are due within one year and denominated in RMB.

## 33. BORROWINGS (continued)

Notes: (continued)

**(c) Finance lease payables**

Analysis of the obligations under finance leases is as follows:

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Total minimum lease payments: | | |
| Due within one year | **1,828** | 4,456 |
| Future finance charges on finance leases | **–** | (738) |
| Presents value of finance lease liabilities | **1,828** | 3,718 |

**(d) Asset-backed financing**

This represents the financing obtained in invoice discounting transactions which do not meet the de-recognition requirements in HKAS 39. The corresponding financial assets are included in bill receivables (Note 27).

## 34. AMOUNTS DUE TO SUBSIDIARIES – COMPANY

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

## 35. AMOUNTS DUE TO OTHER PARTIES – GROUP

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Luliang Fengfei Jingwei Intertexture Company Limited # | **5,220** | 7,108 |
| Shanxi Luensheng Energy Limited # | **5,154** | 3,848 |
| Panlong Gongcheng | **2,716** | – |
| Liulin Xian Liansheng Duozhong Jingying Company Limited # | **2,669** | 1,585 |
| Xiasitou Meiye | **895** | 888 |
| Chenjiawan Meiye | **878** | – |
| Shanxi Shengtelong Material Trading Co., Ltd # | **368** | 434 |
| Liulin Xian Longmenta Meikuang # | **155** | 154 |
| Lingshou Liansheng Coal Company Limited # | **43** | – |
| Liulin Haobo Coal Company Limited # | **60** | – |
| Mr. Li XingXing | **274** | 272 |
| Ms. Xing Xiaorui | **233** | 231 |
| Mr. Xing | **25** | 25 |
| | **18,690** | 14,545 |

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

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

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

The balance as at 31 December 2012 and 2011 is denominated in RMB and is unsecured, interest-free and repayable on demand.

## 37. DEFERRED TAX ASSETS AND LIABILITIES – GROUP

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

| | Tax deductible expense | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| At 1 January | **17,806** | 16,193 |
| Exchange retranslation | **255** | 704 |
| Credited to profit or loss (Note 10) | **13,531** | 909 |
| At 31 December | **31,592** | 17,806 |

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

| | Withholding tax | Fair value adjustments of property, plant and equipment and mining rights | Mining funds | Total |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| | (Note a) | | (Note b) | |
| At 1 January 2011 | 199,287 | 2,021,612 | 59,469 | 2,280,368 |
| Exchange retranslation | – | 84,726 | 2,718 | 87,444 |
| Charged to security investment reserve | (199,287) | – | – | (199,287) |
| (Credited)/Charged to profit or loss (Note 10) | – | (46,944) | 9,843 | (37,101) |
| At 31 December 2011 and 1 January 2012 | **–** | **2,059,394** | **72,030** | **2,131,424** |
| Exchange retranslation | **–** | **16,359** | **922** | **17,281** |
| (Credited)/Charged to profit or loss (Note 10) | **–** | **(47,286)** | **41,492** | **(5,794)** |
| **At 31 December 2012** | **–** | **2,028,467** | **114,444** | **2,142,911** |

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

Notes:

(a) In accordance with Australian Capital Gains Tax laws, the Group's net capital gains on the listed Australia equity investments is subject to capital gain tax at 30%. During the year of 2011, HK$199,287,000 were reversed from security investment reserve as the fair value of these listed Australian equity investments was below the cost.

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

As at 31 December 2012 and 2011, no deferred tax assets has been recognised in respect of the deductible temporary differences and unused tax losses arising from certain subsidiaries incorporated in Hong Kong and PRC as it is uncertain whether future taxable profit is available against which the deductible temporary differences and tax losses can be utilised. Deferred tax assets have not been recognised in respect of the following items:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Deductible temporary differences | **2,503** | 2,379 | **–** | – |
| Tax losses | **277,755** | 288,978 | **231,219** | 258,071 |
| | **280,258** | 291,357 | **231,219** | 258,071 |

The Group has tax losses of approximately HK$4,849,000 (2011: HK$4,810,000) which shall expire in one to two years (2011: two to three years) and tax losses of approximately HK$272,906,000 (2011: HK$284,168,000) which are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

## 38. SHARE CAPITAL

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

During the year ended 31 December 2012, the Company repurchased 75,670,000 ordinary shares of the Company on The Stock Exchange for a total consideration of HK$197,535,000. These 75,670,000 repurchased ordinary shares were cancelled during the year.

During 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 HK$7,904,000. Out of the 3,056,000 repurchased ordinary shares, 2,216,000 repurchased ordinary shares were cancelled during the year ended 31 December 2011 and the remaining 840,000 repurchased ordinary shares were cancelled subsequent to 31 December 2011.

The issued share capital of the Company has been reduced by the par value of the total repurchased ordinary shares.

## 39. RESERVES

### Group

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

***Share premium***

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

***Statutory reserve***

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

***Other reserves***

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

## 39. RESERVES (continued)

### Company

| | Share premium HK$'000 | Capital redemption reserve HK'000 | Retained profits HK$'000 | Share-based compensation reserve HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2011 | 14,618,903 | – | 870,140 | 387,081 | 15,876,124 |
| Share-based compensation | – | – | – | 177,098 | 177,098 |
| Share repurchased | – | 305 | (7,904) | – | (7,599) |
| Profit for the year (Note 12) | – | – | 990,932 | – | 990,932 |
| 2010 final dividend approved | – | – | (538,056) | – | (538,056) |
| 2011 interim dividend declared | – | – | (322,834) | – | (322,834) |
| At 31 December 2011 and 1 January 2012 | **14,618,903** | **305** | **992,278** | **564,179** | **16,175,665** |
| Share repurchased | **–** | **7,567** | **(197,535)** | **–** | **(189,968)** |
| Profit for the year (Note 12) | **–** | **–** | **1,369,752** | **–** | **1,369,752** |
| 2011 final dividend approved | **–** | **–** | **(689,239)** | **–** | **(689,239)** |
| 2012 interim dividend declared | **–** | **–** | **(265,092)** | **–** | **(265,092)** |
| **At 31 December 2012** | **14,618,903** | **7,872** | **1,210,164** | **564,179** | **16,401,118** |

## 40. SHARE OPTION SCHEMES

At the Company's annual general meeting held on 20 June 2003, an option scheme (the "2003 Scheme") was approved which empowered the directors to implement and administer the 2003 Scheme with effect from the date of the resolution. The 2003 Scheme is enforceable for a period of 10 years ending on 19 June 2013. On 25 May 2012, a new share option scheme (the "2012 Scheme") was adopted by the shareholders of the Company and the 2012 Scheme became effective on 29 May 2012. The 2003 Scheme was terminated from the date on which the 2012 Scheme became effective on 29 May 2012. 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 2003 Scheme and 2012 Scheme during the year.

Both of the 2003 Scheme and 2012 Scheme were designed to reward and provide incentives to, and strengthen the Group's business relationship with the prescribed classes of participants, including but not limited to eligible employees and directors of any member of the Group, who contributed to the development of the Group.

## 40. SHARE OPTION SCHEMES (continued)

Under the 2012 Scheme, the exercise price of the options is to be determined by the directors and is at least the highest of (i) the closing price of the Company's shares (the "Shares") as stated in The Stock Exchange's daily quotations sheet on the date of grant; (ii) average closing price of the Shares as stated in The Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Shares on the date of grant. Each of the grantees of the 2012 Scheme is required to pay HK$1 as consideration for the grant of share options. An option may generally be exercised during the period commencing on the date of grant and expiring on the date as determined by the directors, but in any event not more than 10 years from the date of grant.

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

Details of the principal terms of the 2003 Scheme and the 2012 Scheme are disclosed under the heading "Share Option Schemes" in the Report of the Directors.

By a resolution passed at the annual general meeting held on 2 June 2009 (the "2009 AGM"), 10% limit under the 2003 Scheme was refreshed by the shareholders of the Company such that the directors may grant share options to eligible participants to subscribe up to 457,475,535 shares, representing 10% of the shares in issue as at the date of the 2009 AGM.

On 19 August 2009, the Company granted 281,050,000 options to certain of its directors, employees and other eligible participants with exercise price of HK$6.00 per share under the 2003 Scheme. The closing share price at date of grant on 19 August 2009 was HK$5.22.

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

## 40. SHARE OPTION SCHEMES (continued)

The fair value of the options granted in 2009, measured at the date of grant on 19 August 2009, is totaled approximately HK$596,460,000. As the options vest after two years from the date of grant on 19 August 2009, the amount is recognised as share-based compensation in profit or loss over 2 years from 19 August 2009 to 18 August 2011. An amount of HK$177,098,000 was charged as share compensation expense in profit or loss during the year ended 31 December 2011. The corresponding amount has been credited share option reserve. No liabilities were recognised due to share-based payment transactions.

The total number of option exercisable under the 2003 Scheme as at 31 December 2012 was 267,200,000 (2011: 267,200,000) which represents approximately 5.04% (2011: 4.97%) of the Company's issued shares as at 31 December 2012. All share-based compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options other than by issuing the Company's ordinary shares.

All share options granted under the 2003 Scheme are accounted for under HKFRS 2. Share options and weighted average exercise price for the years ended 31 December 2012 and 2011 are as follows:

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | | **Weighted average exercise price** | | Weighted average exercise price |
| | **'000 shares** | **HK$** | '000 shares | HK$ |
| Outstanding at 1 January and 31 December | **267,200** | **5.90** | 267,200 | 5.90 |
| Exercisable at 31 December | **267,200** | **5.90** | 267,200 | 5.90 |

The exercise prices of the 6,000,000 options and 261,200,000 options outstanding as at 31 December 2012 were HK$1.50 and HK$6.0 (2011: HK$1.50 and HK$6.0) respectively and a weighted average remaining contractual life of 3.6 years (2011: 4.6 years).

No options were exercised, granted or cancelled during 2012 and 2011.

## 41. GAIN ON DISPOSAL OF DISCONTINUED OPERATIONS

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

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

## 42. COMMITMENTS

### (a) Operating lease commitments

*Group*

At 31 December 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:

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **7,252** | 5,444 |
| In the second to fifth years | **19,360** | 14,564 |
| After the fifth years | **58,315** | 61,483 |
| | **84,927** | 81,491 |

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

*Company*

The Company did not have any significant operating lease commitments as at 31 December 2012 and 2011.

### (b) Capital commitments

*Group*

| | **2012** | 2011 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Contracted but not provided for: | | |
| – Acquisition of property, plant and equipment | **194,803** | 376,364 |
| – Exploration and design fees for a potential mining project | **9,275** | 9,200 |
| | **204,078** | 385,564 |

*Company*

The Company did not have any capital commitments as at 31 December 2012 and 2011.

## 42. COMMITMENTS

### (c) Other commitments

*Group*

In accordance with notices issued by the Liulin County Government of Shanxi Province, certain mining companies in Liulin County, including Xingwu, Jinjiazhuang and Zhaiyadi, are obliged to pay subsidies for the improvement of educational infrastructure and facilities in the Liulin County including construction of modern schools and provision of educational facilities from 2012 to 2014 (31 December 2011: 2012 to 2014). Such subsidies will be charged in the consolidated statement of comprehensive income in the corresponding years accordingly. As at 31 December 2012, management expects that two (31 December 2011: three) further payments of RMB198,000,000 (HK$245,520,000 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).

## 43. FINANCIAL GUARANTEE CONTRACTS

As at 31 December 2012 and 2011, the Group has no outstanding financial guarantee contracts.

As at 31 December 2012, the Company has given below financial guarantees to banks in respect of treasury facilities available to its wholly-owned subsidiaries:

(a) a guarantee with US$3,500,000 given to a bank in respect of a treasury facility; and

(b) two guarantees with unlimited amounts given to another two banks in respect of treasury facilities.

As at 31 December 2012, the wholly-owned subsidiaries have utilised the treasury facilities of US$127,199,000 (HK$985,791,000 equivalent). At 31 December 2012, no provision for the Company's obligation under the guarantee contracts was required as the directors considered that it was not probable that the repayment of such treasury facilities would be in default.

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

## 44. RELATED PARTY TRANSACTIONS – GROUP

Except as disclosed elsewhere in the financial statements, the following transactions for the years ended 31 December 2012 and 2011 were carried out with related parties:

(i) During the year ended 31 December 2012, the Group paid management fees and company secretarial service fees of HK$1,560,000 (2011: HK$1,560,000) to Shougang Concord International Enterprises Company Limited ("Shougang International"), which is the largest shareholder of the Company. As at 31 December 2012, no amounts were outstanding (2011: nil).

(ii) During the year ended 31 December 2012, the Group paid rental expenses of HK$1,892,000 (2011: HK$1,800,000) to a wholly-owned subsidiary of Shougang Holding, which is the controlling shareholder of Shougang International. As at 31 December 2012, no amounts were outstanding (2011: nil).

(iii) During the year ended 31 December 2012, the Group sold clean coking coal amounted to HK$1,150,454,000 (2011: HK$1,395,492,000) to Shougang Corporation, being Shougang Holding's ultimate holding company, and its group companies of Shougang Corporation (collectively referred to as the "Shougang Group"). These sales were made at market prices with a maximum discount of 3%. As at 31 December 2012, amount due from the Shougang Group was HK$372,660,000 (2011: HK$55,231,000).

(iv) During the year ended 31 December 2011, the Group sold clean coking coal amounted to HK$34,352,000 to a wholly-owned subsidiary of Shougang International. These sales were made at market price with a maximum discount at 3%.

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

The related party transactions in (i) and (iv) above constitute connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules. The related party transaction in (i) above was connected transaction which was exempt from any disclosure and shareholders' approval requirements under the Listing Rules. Except these, none of the above related party transactions falls under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

## 45. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

### Major non-cash transactions

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

## 46. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

### (i) Foreign currency risk

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

## 46. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### (i) Foreign currency risk (continued)

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

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2012** | | 2011 | | **2012** | | 2011 | |
| | **Expressed in HK$'000** | | Expressed in HK$'000 | | **Expressed in HK$'000** | | Expressed in HK$'000 | |
| | **AUD** | **US$** | AUD | US$ | **AUD** | **US$** | AUD | US$ |
| Financial assets measured at fair value through other comprehensive income | **1,101,185** | **–** | 1,446,944 | – | **–** | **–** | – | – |
| Derivative financial instruments – assets | **–** | **24,645** | – | 18 | **–** | **–** | – | – |
| Time deposit with original maturity over three months | **–** | **760,077** | – | – | **–** | **511,601** | – | – |
| Cash and bank balances | **85,001** | **1,320,588** | 43,066 | 249,898 | **84,986** | **1,193,665** | 2,507 | 81,967 |
| Derivative financial instruments – liabilities | **–** | **(241)** | – | (991) | **–** | **–** | – | – |
| Bank borrowings | **–** | **(193,100)** | – | (424,516) | **–** | **(193,100)** | – | (424,516) |
| Overall net exposure | **1,186,186** | **1,911,969** | 1,490,010 | (175,591) | **84,986** | **1,512,166** | 2,507 | (342,549) |

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

## 46. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### (i) Foreign currency risk (continued)

| | Group | | | | | | Company | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | | 2012 | | | 2011 | | |
| | Increase/ (Decrease) in foreign exchange rates | Effect on profit for the year HK$'000 | Effect on equity HK$'000 | Increase/ (Decrease) in foreign exchange rates | Effect on profit for the year HK$'000 | Effect on equity HK$'000 | Increase/ (Decrease) in foreign exchange rates | Effect on profit for the year HK$'000 | Effect on equity HK$'000 | Increase/ (Decrease) in foreign exchange rates | Effect on profit for the year HK$'000 | Effect on equity HK$'000 |
| AUD | +5% | 4,250 | 55,018 | +5% | 2,152 | 70,856 | +5% | 4,249 | – | +5% | 125 | – |
| AUD | -5% | (4,250) | (55,018) | -5% | (2,152) | (70,856) | -5% | (4,249) | – | -5% | (125) | – |

### (ii) Credit risk

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

Financial assets carrying significant credit risk exposures are the trade receivables over 90 days past due amounting to HK$2,066,000 (2011: HK$8,895,000) (Note 27). Management is of the opinion that reasonable actions and mitigations have been carried out to minimise the exposure to credit risk and details of such mitigations are set out in respective notes to the financial statements. In this regards, the directors consider that the Group's credit risk is sufficiently managed.

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

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

## 46. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### (iii) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Group's/Company's major exposure to interest rate risk relates primarily to the bank borrowings and cash and cash equivalents. The Group's/Company's remaining borrowings are charged at floating interest rates or interest-free. Interest rates and terms of pledged bank deposits, cash and cash equivalents, borrowings, loan to a party, amounts due from/(to) other parties/non-controlling interests of subsidiaries, are disclosed in Notes 29, 30, 33, 28, 35 and 36 respectively.

The following table illustrates the sensitivity of profit after income tax for the year and retained profits to a change in interest rates of +25 basis points and -25 basis points (2011: +25 basis points and -25 basis points) with effect from the beginning of the year. The calculations are based on the bank borrowings and cash and cash equivalents at 31 December 2012 and 2011. All other variables are held constant.

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| If interest rates were 25 basis point (2011: 25 basis point) higher | | | | |
| Profit for the year decrease by | **(364)** | (1,927) | **(399)** | (1,056) |
| If interest rates were 25 basis point (2011: 25 basis point) lower | | | | |
| Profit for the year increase by | **364** | 1,927 | **399** | 1,056 |

## 46. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### (iv) Price risk

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

For listed equity securities, an average volatility of 16.88% and 12% was observed in Hang Seng Index in Hong Kong and All Ordinary Index in Australia in 2012 respectively (2011: 19.08% and 25.73%). Had the quoted stock price for these securities increased or decreased by that amount, the Group's security investment reserve under equity would have been increased or decreased by approximately HK$164,230,000 (2011: HK$357,180,000).

The Company does not expose to the price risk.

### (v) Liquidity risk

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

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

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

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

## 46. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### (v) Liquidity risk (continued)

| | Group | | |
|---|---|---|---|
| | Carrying amount HK$'000 | Total contractual undiscounted cash flow HK$'000 | Within one year or on demand HK$'000 |
| **As at 31 December 2012** | | | |
| **Non-derivative financial liabilities** | | | |
| Trade and bill payables | 717,908 | 717,908 | 717,908 |
| Other payables and accruals | 989,968 | 989,968 | 989,968 |
| Borrowings | 1,075,448 | 1,078,230 | 1,078,230 |
| Amounts due to other parties | 18,690 | 18,690 | 18,690 |
| Amounts due to non-controlling interests of subsidiaries | 21,475 | 21,475 | 21,475 |
| | 2,823,489 | 2,826,271 | 2,826,271 |
| **Derivative financial liabilities** | | | |
| Net settled forward foreign exchange contracts – Cash outflow | 241 | 241 | 241 |

| | Company | | |
|---|---|---|---|
| | Carrying amount HK$'000 | Total contractual undiscounted cash flow HK$'000 | Within one year or on demand HK$'000 |
| **As at 31 December 2012** | | | |
| **Non-derivative financial liabilities** | | | |
| Amounts due to subsidiaries | 6,337,328 | 6,337,328 | 6,337,328 |
| Other payables and accruals | 15,462 | 15,462 | 15,462 |
| Borrowings | 193,100 | 195,881 | 195,881 |
| | 6,545,890 | 6,548,671 | 6,548,671 |
| Financial guarantees issued Maximum amount guaranteed | – | 985,791 | 985,791 |

## 46. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### (v) Liquidity risk (continued)

| | | Group | |
|---|---|---|---|
| | Carrying amount HK$'000 | Total contractual undiscounted cash flow HK$'000 | Within one year or on demand HK$'000 |
| As at 31 December 2011 | | | |
| Non-derivative financial liabilities | | | |
| Trade and bill payables | 1,031,431 | 1,031,431 | 1,031,431 |
| Other payables and accruals | 755,428 | 755,428 | 755,428 |
| Borrowings | 897,848 | 935,924 | 935,924 |
| Amounts due to other parties | 14,545 | 14,545 | 14,545 |
| Amounts due to non-controlling interests of subsidiaries | 18,776 | 18,776 | 18,776 |
| | 2,718,028 | 2,756,104 | 2,756,104 |
| Derivative financial liabilities | | | |
| Net settled forward foreign exchange contracts – Cash outflow | 991 | 991 | 991 |

| | | Company | |
|---|---|---|---|
| | Carrying amount HK$'000 | Total contractual undiscounted cash flow HK$'000 | Within one year or on demand HK$'000 |
| As at 31 December 2011 | | | |
| Non-derivative financial liabilities | | | |
| Amounts due to subsidiaries | 3,675,087 | 3,675,087 | 3,675,087 |
| Other payables and accruals | 18,569 | 18,569 | 18,569 |
| Borrowings | 424,516 | 433,237 | 433,237 |
| | 4,118,172 | 4,126,893 | 4,126,893 |
| Financial guarantees issued | | | |
| Maximum amount guaranteed | – | 467,400 | 467,400 |

## 47. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

The following table shows the carrying amount and fair value of financial assets and liabilities as defined in Notes 2.13 and 2.20:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Non-current assets** | | | | |
| Financial assets measured at amortised cost: | | | | |
| – Deposits and other receivables | **215,378** | 221,365 | **–** | – |
| Financial assets measured at fair value through other comprehensive income | **1,300,109** | 1,771,034 | **–** | – |
| | **1,515,487** | 1,992,399 | **–** | – |
| **Current assets** | | | | |
| Financial assets measured at amortised cost: | | | | |
| – Trade and bill receivables | **3,540,491** | 3,350,955 | **–** | – |
| – Deposits and other receivables | **65,219** | 34,903 | **17,643** | 2,742 |
| – Amounts due from subsidiaries | **–** | – | **19,501,393** | 17,895,615 |
| – Loan to a party | **–** | 234,342 | **–** | – |
| – Amounts due from other parties | **21,481** | 19,087 | **–** | – |
| – Pledged bank deposits | **171,855** | 354,141 | **–** | – |
| – Time deposit with original maturity over three months | **1,692,681** | – | **1,444,205** | – |
| – Cash and cash equivalents | **2,981,333** | 4,517,196 | **2,320,778** | 2,384,795 |
| Financial assets measured at fair value through profit or loss: | | | | |
| – Derivatives financial instruments | **24,645** | 18 | **–** | – |
| | **8,497,705** | 8,510,642 | **23,284,019** | 20,283,152 |
| | **10,013,192** | 10,503,041 | **23,284,019** | 20,283,152 |

## 47. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Current liabilities** | | | | |
| Financial liabilities measured at amortised cost: | | | | |
| – Trade and bill payables | **717,908** | 1,031,431 | **–** | – |
| – Other payables and accruals | **989,968** | 755,428 | **15,462** | 18,569 |
| – Borrowings | **1,075,448** | 897,848 | **193,100** | 424,516 |
| – Amounts due to other parties | **18,690** | 14,545 | **–** | – |
| – Amounts due to non-controlling interests of subsidiaries | **21,475** | 18,776 | **–** | – |
| – Amounts due to subsidiaries | **–** | – | **6,337,328** | 3,675,087 |
| Financial liabilities measured at fair value through profit or loss: | | | | |
| – Derivative financial instruments | **241** | 991 | **–** | – |
| | **2,823,730** | 2,719,019 | **6,545,890** | 4,118,172 |

*Fair value measurement recognised in the consolidated statement of financial position*

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

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

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

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

## 47. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY (continued)

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

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

| | | 2012 | | | |
|---|---|---|---|---|---|
| | | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | Notes | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** |
| Financial assets measured at fair value through other comprehensive income | | | | | |
| – Listed equity securities | (a) | **1,291,429** | **–** | **–** | **1,291,429** |
| – Unlisted equity securities | (b) | **–** | **–** | **8,680** | **8,680** |
| Financial assets measured at fair value through profit or loss | | | | | |
| – Derivative financial assets | (c) | **–** | **24,645** | **–** | **24,645** |
| Total fair value | | **1,291,429** | **24,645** | **8,680** | **1,324,754** |
| Financial liabilities measured at fair value through profit or loss | | | | | |
| – Derivative financial liabilities | (c) | **–** | **(241)** | **–** | **(241)** |

## 47. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY (continued)

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

| | | 2011 | | | |
|---|---|---|---|---|---|
| | Notes | Level 1 HK$'000 | Level 2 HK$'000 | Level 3 HK$'000 | Total HK$'000 |
| Financial assets measured at fair value through other comprehensive income | | | | | |
| – Listed equity securities | (a) | 1,762,424 | – | – | 1,762,424 |
| – Unlisted equity securities | (b) | – | – | 8,610 | 8,610 |
| Financial assets measured at fair value through profit or loss | | | | | |
| – Derivative financial assets | (c) | – | 18 | – | 18 |
| Total fair value | | 1,762,424 | 18 | 8,610 | 1,771,052 |
| Financial liabilities measured at fair value through profit or loss | | | | | |
| – Derivative financial liabilities | (c) | – | (991) | – | (991) |

There were no transfers between Level 1 and 2 of the fair value hierarchy during both years.

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

### (a) Listed securities

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

### (b) Unlisted securities

The fair value of unlisted securities is determined by reference to the cost of the investments.

## 47. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY (continued)

### (c) Derivative financial assets

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

Of the total gains or losses for the year included in profit or loss, profit of approximately HK$24,097,000 (2011: HK$3,441,000) relates to forward contracts are included in "change in fair value of derivative financial instruments" in the consolidated statement of comprehensive income.

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

## 48. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

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

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

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

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

## 49. EVENT AFTER THE REPORTING DATE

On 18 February 2013, Mount Gibson, which is accounted for as a financial assets measured at fair value through other comprehensive income of the Group and its shares are listed in Australia, declared a fully franked interim dividend of AUD2 cents per ordinary share to its shareholders for the period ended 31 December 2012. As at 31 December 2012, the Group held 163,866,874 ordinary shares of Mount Gibson and is entitled to the dividend of AUD3,277,337 from Mount Gibson. Such dividend will be received on 15 April 2013. Accordingly, the Group will recognise such dividend income of AUD3,277,337 (HK$26,390,000 equivalent) in the consolidated statement of comprehensive income in the first half of 2013.

# FIVE-YEAR FINANCIAL SUMMARY

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

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 | 2010<br>HK$'000 | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|---|---|
| **Results** | | | | | |
| Revenue | **5,650,590** | 7,138,643 | 5,543,285 | 4,470,131 | 1,896,577 |
| Profit attributable to owners of the Company | **1,800,367** | 2,256,023 | 1,802,791 | 1,126,274 | 567,649 |
| **Assets and liabilities** | | | | | |
| Total assets | **26,820,521** | 27,000,297 | 26,119,627 | 22,557,408 | 19,252,268 |
| Total liabilities | **(5,958,538)** | (6,442,164) | (6,496,405) | (5,227,644) | (6,803,271) |
| **Net assets** | **20,861,983** | 20,558,133 | 19,623,222 | 17,329,764 | 12,448,997 |
| Non-controlling interests | **(1,638,299)** | (1,591,554) | (1,473,328) | (1,504,570) | (1,627,258) |
| Equity attributable to owners of the Company | **19,223,684** | 18,966,579 | 18,149,894 | 15,825,194 | 10,821,739 |