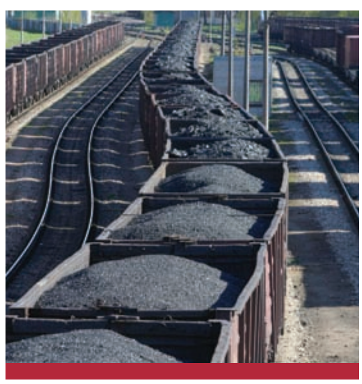
Hidili Industry International Development Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1393


2012 Annual Report

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Corporate Information

DIRECTORS

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway
Hong Kong

COMPANY SECRETARY

Ms. Chu Lai Kuen

AUTHORIZED REPRESENTATIVES

Mr. Xian Yang
Ms. Chu Lai Kuen

REGISTERED OFFICE

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KY1-1111
Cayman Islands

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People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Central
Hong Kong

Corporate Information *(Continued)*

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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4th Floor, Royal Bank House
24 Shedden Road, George Town
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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LEGAL ADVISER

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Central
Hong Kong

STOCK CODE

1393

WEBSITE

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PRINCIPAL BANKERS

China Minsheng Banking Corp., Ltd.
Chengdu Branch
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People's Republic of China

Shanghai Pudong Development Bank Co., Ltd.
Chengdu Branch
98-1 Shuangling Road
Chengdu, Sichuan
People's Republic of China

Panzhihua City Commercial Bank Ltd.
Zhuhuyuan Sub-branch
Floor 1, Ping Street, East District Laodong Building
Panzhihua
Sichuan
People's Republic of China

Bank of Communications Co., Ltd.
Panzhihua Branch
129 Bingcaogang Grand Street
Panzhihua, Sichuan
People's Republic of China

Chairman's Statement

To the respectful shareholders of Hidili Industry International Development Limited,

On behalf of the board (the "Board") of the directors (the "Directors") of Hidili Industry International Development Limited (the "Company"), I am pleased to present the 2012 Annual Report and the operating results of the Company and the subsidiaries (collectively the "Group") for the year ended 31 December 2012 to the shareholders as follows.

PERFORMANCE OF THE COMPANY'S SHARES

As at 31 December 2012, the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") was HK$2.04, a decrease of approximately 11.7% from the closing price of HK$2.31 as at 31 December 2011 while the Hang Seng Index has increased by approximately 22.9%.

THE COMPANY'S OPERATION

The Company recorded a revenue and a earning before interest, taxes, depreciation and amortization ("EBITDA") of approximately RMB1,924 million and RMB579 million, respectively, for the Year representing a decrease of approximately 32.8% and 58.9% respectively as compared to RMB2,862 million and RMB1,409 million for the year ended 31 December 2011. The decrease in both revenue and EBITDA was mainly attributable to the (i) decrease in both sales volume and average selling prices of our coal products; (ii) decrease in exchange gain of approximately RMB112.2 million incurred in 2011; (iii) the impairment loss recognized on receivables and property, plant and equipment of approximately RMB16.6 million and RMB22.0 million, respectively; (iv) net loss on derivatives and held-for-trading investments of approximately RMB8.6 million; and (v) increase in finance expenses of approximately RMB144.2 million of which approximately RMB74.7 million arising from the adjustment of interest calculated at market rate in relation to redemption of the convertible loan notes.

During the Year, the Company has produced approximately 3.5 million tonnes of raw coal, approximately 1.6 million tonnes of clean coal and approximately 0.2 million tonnes of coke. The production volume experienced a reduction resulting from the suspension of production safety check on all coal mines in Panzhihua since late August 2012 and all coal mines in Fuyuan county since early December 2012.

In 2012, the Company's coal mining cash cost amounted to RMB153 per tonne of raw coal production, maintained at similar level as compared to 2011. However, the sharing of fuel and power costs for the Year remained at relatively high level due to the suspension of production at coal mines in Sichuan and Yunnan provinces. The average production costs of clean coal and coke of the Company for the Year amounted to RMB444 and RMB652 per tonne respectively, representing an increase of 3.7% and 3.7% respectively as compared with 2011.

In 2012, our major customers for the Year composed of various stated-owned steel manufacturers including 攀鋼集團 (Panzhihua Steel Group*), 柳州鋼鐵股份有限公司 (Liuzhou Iron & Steel Company Limited*), 首鋼水城鋼鐵(集團)有限責任公司 (Shougang Shuicheng Iron & Steel (Group) Co., Ltd*), 寧波鋼鐵有限公司 (Ningbo Iron & Steel Co., Ltd*) and 盤縣煤炭開發總公司 (Panxian Coking Development Limited*) and accounting for approximately 22.4%, 14.7%, 7.0%, 5.4% and 4.9% of our total revenue, respectively.

EXTRACT OF THE SIGNIFICANT EVENTS OF THE YEAR

Significant events of the Group are as follows:

During the first quarter of 2012, two newly constructed coal mines in Guizhou province and one newly constructed coal mines in Yunnan province completed trial run and commenced production and one coal mine in Yunnan province entered into trial run stage.

In March 2012, the Company announced the annual results of 2011, distributing final dividend of RMB6.9 cents per share.

In August 2012, after the occurrence of the "8.29" Xiaojiawan Coal Mine (肖家灣煤礦) Incident in Panzhihua City, all the Company's coal mines in Panzhihua suspended for inspection.

In August 2012, certain subsidiaries of the Company entered into several capital injection agreements with Huaneng Guicheng Trust Co, Ltd. ("Huaneng Trust") to inject an aggregate of RMB1,500 million as share capital in cash to eight subsidiaries of the Company ("Target Subsidiaries") for equity interest ranging from 34% to 41%.

In third quarter of 2012, two integrated coal mines in Guizhou province completed trial run and commenced production and one coal mine in Guizhou province entered into trial run stage.

In December 2012, after the occurrence of the "12.5" Shangchang Coal Mine (上廠煤礦) Incident in Huangnihe Town, all the Company's coal mines in Fuyuan county suspended for inspection.

In January 2013, the Company's RMB1,707 million convertible loan notes have been substantially redeemed at 106.2687%.

At the end of March 2013, eight out of ten coal producing coal mines in Guizhou province and nine coal producing coal mines in Yunnan province have passed acceptance inspection on resumption of production and resumed normal production. Two out of five mining area, Tianbao and Dahegou, have passed acceptance inspection and received the notice on resumption of production.

ESTIMATED COAL RESERVES AND RESOURCES

The table below presents the estimated coal reserves and resources of our coal mines.

	Total coal reserves (in million tonnes)	Total coal resources
As of 31 December 2012	694.4	736.2

Remarks:

1. The estimated reserves and resources have taken into account the estimated raw coal reserves consisting of proved and probable reserves and the estimated raw coal resources by aggregating measured and indicated resources, respectively, under JORC equivalent ("JORC Eq").

2. As at 31 December 2012, total estimated JORC Eq raw coal reserves for the coal mines in Sichuan and Guizhou provinces amounted to approximately 548.2 million tonnes (representing the estimated JORC Eq raw coal reserves reported by Behre Dolbear Asia, Inc. ("BDB"), an independent minerals industry consultant, as of 1 October 2010 and after deduction of the raw coal production volume for the period from 1 October 2010 to 31 December 2012.

   As at 31 December 2012, total estimated JORC Eq raw coal resources for the coal mines in Sichuan and Guizhou provinces amounted to approximately 564.7 million tonnes (representing the estimated JORC Eq raw coal resources reported by BDB, as of 1 October 2010 and after deduction of the raw coal production volume for the period from 1 October 2010 to 31 December 2012.

3. For the coal mines in Yunnan province, total estimated JORC Eq raw coal reserves and resources of approximately 146.2 million tonnes and 171.5 million tonnes respectively were reported by Runge Asia Limited (trading as RungePincockMinarco) ("RMP") as of 31 December 2012.

4. The JORC Eq estimate cannot be regarded as compliant with the recommended guidelines of the JORC Code, but rather, the Chinese resources and reserves have been validated and reported under the confidence categories as outlined by the JORC Code. The Group is in the progress of updating the resources and resources of the coal mines in Sichuan, Guizhou and Yunnan provinces to meet the recommendations of the JORC Code.

COAL MINES

The Group's coal mines in Yunnan, Guizhou and Sichuan areas were managed by six subsidiaries according to the principle of territorial administration, for the purpose of further enhancing the coal mines' operation and management efficiency.

As at 31 December 2012, the Group owned 5 coal mines in Sichuan (Dahegou mining area, Banshan mining area, Huijiasuo mining area, Bainipo mining area and Tianbao mining area); 20 coal mines in Giuzhou (comprising 10 consolidated mines, 8 newly constructed mines and 2 expanded mines), of which 1 integrated coal mine and 1 expanded coal mine were under joint trial runs, while 5 newly constructed coal mines and 3 integrated coal mines had officially commenced production upon completion of trial runs); 10 coal mines in Yunnan province (comprising 5 integrated coal mines, 2 newly constructed coal mines, 2 expanded coal mines and 1 coal mine with exploration rights), of which 1 integrated coal mine was under joint trial runs and 1 newly constructed coal mine had officially commenced production upon completion of trial runs. At the beginning of 2013, the Group planned to integrate the 5 coal mines in Sichuan into 3 mines, while among the 20 coal mines in Guizhou, the Group planned to integrate 9 of them into 4 mines. Upon the completion of the integration, there will be a change of the total number of coal mines in Giuzhou owned by the Group from 20 to 15.

The approved production capacity under the licenses of 20 coal mines in Guizhou are 6.06 million tonnes per annum, while the approved production capacity under the existing licenses of 10 coal mines in Yunnan are 1.32 million tonnes per annum. Pursuant to Yunnan's plan for the integration of coal resources, the Company has filed an application to increase its approved production capacity to 3.45 million tonnes per annum. In accordance with Article 24 of Fa Gai Yun Xing [2006] No. 819, coal mines that propose to change their registered production capacity should file in a timely manner their applications for such change and complete relevant procedures with the administrative authorities in charge of the issuance of coal production permits. Upon the completion of coal mine construction, the Company plans to further increase the approved production capacities of the Guizhou region and the Yunnan region to 8.40 million tonnes per annum and 5.52 million tonnes per annum, respectively, in order the approved production capacity under the Company's coal mine licenses would be in consistent with its actual production capacity. By then, the production capacity of the Yunnan and Guizhou regions could reach approximately 13.92 million tonnes per annum.

WASHING PLANTS

The aggregate capacity washing plants owned by the Company, either in operation or under construction, is in line with our existing and projected additional production volume. The Company owns 3 operating washing plants in Sichuan with an aggregate raw coal processing capacity of 2.10 million tonnes per annum, 2 operating washing plants and 1 washing plant under construction in Guizhou with annual raw coal processing capacity of 1.80 million tonnes and 2.4 million tones (suspend future 3 years investments), respectively, and 5 operating washing plants in Yunnan with an annual raw coal processing capacity of 3.00 million tonnes.

LOGISTICS

The Company's coal products are delivered to customers mainly through railway transport (rail transportation to ports for onward shipment via marine freight). To ensure that the Company is supported by adequate transportation capacities, the Company has acquired equity interests in 5 railway logistic companies in Pan County and Fuyuan district controlled by the Kunming Railway Administration. In addition, the Huajiazhuang (花家莊) railway logistic station is under construction tones (suspend future 3 years investments) with a designed throughput of 6.50 million tonnes, while another, with a designed throughput of 5.00 million tonnes, is being built in Shuicheng region (水城區域) by way of joint venture.

OUTLOOK

2011 to 2013 were the toughest years for the Group. On the one hand, the investment in construction by the Group has been climbing peak during the period; on the other hand, given affected by frequent occurrence of coal mine incidents of other companies in the same area, effective production and construction schedule of the Group's coal mines could not be secured over the last two years and effective production schedule has been affected, to a larger extent, in 2013. The year will be the last year of such toughest period. With the commencement of merger, acquisition and restructuring of coal mines in Guizhou province, a large number of coal mines in the province that below safety standards will be shut down, and safety level of coal mines in the area will be enhanced significantly. The management anticipates that the operations will improve considerably and get back on track in 2014.

While the Company has been facing unprecedented difficulties in operations of raw coal production, the Group has always made production safety a priority. Death toll from safety incidents in coal mines with responsibility was zero in 2012, representing the best performance of safety management ever. The Company's safety target in 2013 set in terms of death toll from safety incidents in coal mines with responsibility is below the average level of China.

Looking back in 2011 and 2012, the average price of clean coal was RMB1,302.2 per tonne and RMB1,132.5 per tonne respectively. The management expects improvement in prices of coal market in 2013 as compared to last year. The Company's targeted production volume of raw coal for the Guizhou region is approximately 2 million tonnes. For the Sichuan and Yunnan regions, production volume planning is currently not feasible as production schedules cannot be ascertained due to the ongoing consolidation of coal mines in those regions.

The Company has plans to reduce its liabilities and improve its cash flow conditions in 2013, mainly through the implementation of key asset and capital strategies. First of all, we will seek to dispose of certain non-core assets, with a view to repaying a substantial portion of our short-term debts. Second, long-term capital will be sought through domestic financing with maturity of 5 years or above, to be used mainly to finance future capital expenditure. Last but not least, effective measures will be adopted to enhance the Company's medium- to long-term gearing ratio as well as short-term gearing ratio by adjusting and improving the Company's debt structure. As a result of the aforesaid measures, the aggregate amount of interest-bearing liabilities and the leverage ratio will be lowered as compared to 2012.

To ensure the release of its production capacities in 2013, the Company will gear up the construction of key coal mines while suspending that of certain coal washing projects, so as to keep capital expenditure within our budget.

The Company will improve its corporate management and control model to enhance efficiency and lower costs. First of all, a subsidiary system will be introduced, under which 6 regional parent companies will be established to be in charge of asset and production operations and management at 6 production bases, with a view to more accurate and distinctive manifestations of the management efficiencies of each management team. Second, delegation of management powers will be implemented to give more autonomy to the subsidiaries in dealing with their businesses and to assure that solutions and measures in response to day-to-day issues are adopted in the quickest possible manner. Third, short-term incentives linked to the Company's profitability will be introduced.

Hidili is seeking change in a stable and prudent manner. I believe that Hidili will deliver sound return to shareholders upon the fulfillment of its goals through the implementation of the aforesaid measures.

By order of the Board
Chairman
Xian Yang

Hong Kong
24 May 2013

* *for identification purpose only*

Management Discussion And Analysis

FINANCIAL REVIEW

TURNOVER

During the Year, turnover of the Group amounted to approximately RMB1,923.6 million, representing a decrease of approximately 32.8%, as compared with approximately RMB2,861.5 million in 2011. The decrease was primarily attributable to the decrease in sales volumes of clean coal and by-products and average selling prices (net of value added tax) of the principal products and coal tar and after setting off against the increase in sales volume of coke and average selling price of thermal coal. The sales volume recorded for clean coal and coke for the Year amounted to approximately 1,258,000 tonnes and 189,000 tonnes, respectively as compared to approximately 1,762,000 tonnes and 175,000 tonnes, respectively in 2011, representing a decrease in volume of clean coal of approximately 28.6% and an increase of 8.5%, respectively. The average selling price for the Year for both clean coal and coke decreased from RMB1,302.2 per tonne and RMB1,622.3 per tonne, respectively in 2011 to RMB1,132.5 per tonne and RMB1,469.4 per tonne for the Year, representing a decrease of approximately 13.0% and 9.4%, respectively.

The table below sets out the Group's turnover contribution, sales volume and average selling price by products for the Year, together with the comparative amounts for 2011:

	2012			2011		
	Turnover RMB'000	**Sales Volume (thousand Tones)**	**Average Selling Price (RMB/ Tonne)**	Turnover RMB'000	Sales Volume (thousand Tones)	Average selling price (RMB/ Tonne)
Principal products						
Clean coal	**1,424,816**	**1,258.1**	**1,132.5**	2,294,427	1,762.0	1,302.2
Coke	**278,253**	**189.4**	**1,469.4**	283,159	174.5	1,622.3
Principal products total	**1,703,069**			2,577,586		
By-products						
High-ash thermal coal	**179,101**	**543.5**	**329.5**	185,803	684.4	271.5
Coal tar	**9,469**	**5.2**	**1,815.8**	13,421	5.9	2,265.8
By-products total	**188,570**			199,224		
Other products						
Raw coal	**23,645**	**63.6**	**371.6**	65,763	202.0	325.5
Benzene	**4,534**	**1.1**	**4,275.9**	6,020	1.5	4,115.0
Others	**3,781**			12,939		
Other products total	**31,960**			84,722		
Total turnover	**1,923,599**			2,861,532		

COST OF SALES

Cost of sales for the Year was approximately RMB848.8 million, representing a decrease of approximately RMB244.7 million, or approximately 22.4%, as compared with approximately RMB1,093.5 million in 2011. During the Year, the Group recorded a reduction in production volume of raw coal and clean coal resulting from the suspension of production for comprehensive safety check on all coal mines imposed by the Panzhihua and Yunnan provincial governments since August and December 2012, respectively. Accordingly, the raw coal and clean coal production volume decreased from approximately 4,106,000 tonnes, and 1,846,000 tonnes, respectively in 2011 to approximately 3,522,000 tonnes and 1,578,000 tonnes, respectively in the Year. In order to meet the production needs and customers' demand, the Group further purchased approximately 3,000 tonnes of raw coal and approximately 109,000 tonnes of clean coal from external suppliers for the Year.

The table below sets out the production volume of the principal products in Sichuan, Guizhou and Yunnan provinces and the purchase volume of principal products for the Year, together with the comparative amounts for 2011:

	For the year ended 31 December					
Provinces	2012 Raw coal	2012 Clean coal	2012 Coke	2011 Raw coal	2011 Clean coal	2011 Coke
Production volume ('000 tonnes)						
Sichuan	**1,117**	**550**	**200**	1,671	840	175
Guizhou	**1,565**	**524**	**–**	1,234	440	–
Yunnan	**840**	**504**	**–**	1,201	566	–
	3,522	**1,578**	**200**	4,106	1,846	175
Purchase volume ('000 tonnes)	**3**	**109**	**–**	83	124	–

Material, fuel and power costs for the Year were approximately RMB340.8 million, representing a decrease of approximately RMB204.1 million, or approximately 37.5%, as compared with approximately RMB544.9 million in 2011. In general, the decrease of raw material usage was in line with the decrease in production volume in the coal mines. During the Year, the purchase costs of raw coal and clean coal from external suppliers amounted to approximately RMB127.1 million, representing a slight decrease in relation to the decrease in total purchase volume as compared to purchase costs of approximately RMB200.2 million in 2011. The sharing of fuel and power costs for the Year remained at relatively high level due to the suspension of production at coal mines in Sichuan and Yunnan provinces.

Staff costs for the Year were approximately RMB267.4 million, representing an increase of approximately RMB29.7 million or 12.5% as compared with approximately RMB237.7 million in 2011.

Depreciation and amortisation for the Year were approximately RMB142.7 million, representing an increase of approximately RMB9.1 million, or approximately 6.8% as compared with approximately RMB133.6 million in 2011. The increase was primarily attributable to the additional capital expenditure incurred in connection with the coal mines and coal washing in Guizhou and Yunnan provinces during the Year.

The table below sets out the unit production costs of the respective segment.

	2012 **RMB per tonne**	2011 RMB per tonne
Coal mining		
Cash cost	**153**	156
Depreciation and amortisation	**33**	25
Total raw coal production cost	**186**	181
Purchase cost of raw coal	**599**	646
Average cost of clean coal	**444**	428
Purchase cost of clean coal	**1,146**	1,178
Average cost of coke	**652**	629

GROSS PROFIT

As a result of the foregoing, the gross profit for the Year was approximately RMB1,074.8 million, representing a decrease of approximately RMB693.3 million or approximately 39.2% as compared with approximately RMB1,768.1 million in 2011. The gross profit margin was approximately 55.9% as compared with approximately 61.8% in 2011.

OTHER INCOME

Other income for the Year amounted to approximately RMB23.7 million, representing a decrease of approximately RMB110.3 million or approximately 82.3% as compared with approximately RMB134.0 million in 2011. The decrease was mainly attributable to the decrease in exchange gain of approximately RMB112.2 million recorded in 2011.

OTHER GAINS AND LOSSES

Other losses for the Year amounted to approximately RMB47.2 million, representing a decrease of approximately RMB57.2 million or 572.5% as compared with other gains of approximately RMB10.0 million in 2011. The decrease arose substantially from (i) the impairment loss recognised on receivables of approximately RMB16.6 million under careful consideration of certain outstanding receivables with long aging, (ii) the impairment loss recognised in respect of property, plant and equipment of approximately RMB22.0 million in relation to the coking plant in Panzhihua due to technology obsolescence, and (iii) the net loss on derivative and held-for-trading investments of approximately RMB8.6 million incurred for the Year as compared to a gain of approximately RMB9.4 million recorded in 2011, mainly in respect of decrease in fair value of the shares in a mining company listed on Australian Stock Exchange.

DISTRIBUTION EXPENSES

Distribution expenses for the Year were approximately RMB235.3 million, representing a decrease of approximately RMB29.3 million or approximately 11.1% as compared to approximately RMB264.6 million in 2011. The decrease was mainly attributable to (i) the decrease of transportation expenses from approximately RMB159.0 million in 2011 to RMB142.6 million for the Year in line with the decrease in the sales volume but was partly set-off by the decrease in saving of transportation costs as fewer customers arranged for their own delivery of goods during the Year, and (ii) the decrease in government levies from approximately RMB82.8 million in 2011 to RMB63.0 million for the Year as the sales volume of our coking coal products decreased.

ADMINISTRATIVE EXPENSES

Administrative expenses for the Year were approximately RMB415.1 million, representing an increase of approximately RMB7.7 million, or approximately 1.9% as compared with approximately RMB407.4 million in 2011. The increase was mainly attributable to the decrease of the share-based payment expenses from approximately RMB81.2 million in 2011 to approximately RMB42.2 million for the Year but was set-off by (i) the increase in loss on disposal of property, plant and equipment from approximately RMB1.2 million in 2011 to RMB6.8 million for the year, (ii) an increase of approximately RMB8.1 million in legal and professional expense, and (iii) an increase of approximately RMB10.4 million in exchange loss.

FINANCE COSTS

Finance costs for the Year amounted to approximately RMB452.9 million, representing an increase of approximately RMB144.2 million or approximately 46.7% as compared with approximately RMB308.7 million in 2011. The sharp increase was mainly attributable to (i) the increase in interests payable to bank and other borrowings of approximately RMB104.1 million since the borrowings increased from approximately RMB1,997.0 million in 2011 to approximately RMB4,383.9 million for the Year, (ii) an increase in interests expenses relating to discounted bills of RMB12.4 million, and (iii) an increase in the interest incurred from the convertible loan notes of approximately RMB74.7 million arising from the adjustment of interest calculated at market rate in relation to redemption of the convertible loan notes. The increase in bank borrowings together with the issuance of convertible loan notes and senior notes were mainly used to finance the Company's acquisitions and development of coal mines in Guizhou and Yunnan provinces. During the Year, interest capitalised in mining structure and mining rights amounted to approximately RMB190.6 million, representing an increase of approximately RMB43.8 million as compared with the amount capitalised of approximately RMB146.8 million in 2011.

INCOME TAX EXPENSES

Income tax expenses during the Year were approximately RMB89.4 million, representing a decrease of approximately RMB110.8 million or approximately 55.3% as compared with approximately RMB200.2 million in 2011. The amount of income tax expenses represented EIT of approximately RMB87.3 million and deferred tax of approximately RMB2.2 million arising from the withholding tax upon distribution of profits earned by the PRC subsidiaries since 1 January 2008. For the current year EIT, the effective tax rate is considered to be not comparable as there was significant tax effect of deferred tax assets not recognised resulting from loss incurred in certain subsidiaries of the Company.

(LOSS) PROFIT FOR THE YEAR

As a result of the foregoing, the loss attributable to the owners of the Company for the Year was approximately RMB147.4 million, representing a decrease of approximately RMB861.0 million or approximately 120.7%, as compared with profit of approximately RMB713.6 million in 2011.

EBITDA

The table below sets out the Group's EBITDA for the Year. The Group's EBITDA margin was 30.1% for the year as compared with 49.2% in 2011.

	2012 **RMB'000**	2011 RMB'000
(Loss) profit and total comprehensive (expense) income for the year	**(144,292)**	731,033
Finance costs	**452,902**	308,701
Income tax expenses	**89,435**	200,243
Depreciation and amortisation	**181,057**	169,055
	579,102	1,409,032

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2012, the Group incurred a net current liabilities of approximately RMB4,726.2 million.

During the Year, the certain subsidiaries of the Company has entered into eight capital injection agreements ("Capital Injection Agreements") with Huaneng Trust in respect of the increase in the registered capital ("Capital Injection") of eight subsidiaries of the Group ("Target Subsidiaries") for an aggregate of RMB1,500 million. Pursuant to the terms of the Capital Injection Agreements, the Group has agreed to buy back the Capital Injection within two years after the paid up of the Capital Injection. The proceeds from the Capital Injection were used to redeem the convertible loan notes due in January 2013. In order to improve the Group's financial position to provide liquidity and cash flows, the Group has been implementing a number of measures, including but not limited to: (i) raising further medium to long term banking facilities and (ii) rolling over short term banking facilities to medium term when they fall due.

As at 31 December 2012, the bank balances and cash of the Group amounted to approximately RMB1,554.4 million (2011: RMB597 million).

As at 31 December 2012, the total bank and other borrowings of the Group were approximately RMB4,383.9 million (2011: RMB1,997 million), of which RMB2,571 million is repayable within one year with effective interest rate on fixed rate borrowings and variable rate borrowings ranging from 6.04% to 12.11% per annum and 7.02% to 7.59% per annum, respectively.

The gearing ratio (calculated as the aggregate of total bank and other borrowings, convertible loan notes and senior notes divided by total assets) of the Group as at 31 December 2012 was 49.2% (2011: 38.9%).

PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2012, the Group pledged assets in an aggregate amount of approximately RMB2,003.3 million (2011: RMB1,449.8 million) to banks for credit facilities.

In connection with the Capital Injection, certain immediate holding companies ("Immediate Shareholders") of the Target Subsidiaries had pledged certain of their equity interests in the Target Subsidiaries to Huaneng Trust to secure the payment of the buy back consideration.

As at 31 December 2012, a director of the Company (the "Director"), Mr. Xian Yang, guaranteed the bank borrowings of approximately RMB2,380 million.

EMPLOYEES

As at 31 December 2012, the number of employees of the Group reached 13,230, representing a slight decrease as compared with 2011. During the Year, the staff costs (including directors' remuneration in the form of salaries and other allowances) amounted to approximately RMB432.6 million (2011: RMB429.5 million).

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

FINAL DIVIDEND

The Board does not recommend the payment of any final cash dividend for the Year.

RISK IN FOREIGN EXCHANGE

Since all of the Group's business activities are transacted in RMB, the Directors consider that the Group's risk in foreign exchange is insignificant. Accordingly, the Group was only exposed to exchange rate risk arising from the foreign currency bank balance of approximately USD5.6 million, HKD4.6 million and AUD0.1 million respectively.

SIGNIFICANT INVESTMENT HELD

The Group had invested in (i) shares of RMB52.8 million in a mining company listed on the Australian Stock Exchange, and; (ii) unlisted equity investments of RMB228.3 million, representing 18%, 15%, 5% and 4.41% equity interest in four entities, respectively. The principal activities of the investees are the provision of transportation services, the manufacturing of mining machinery, manufacturing of potassic fertiliser and manufacturing of herbicides and mining of potassium chloride, respectively.

MATERIAL ACQUISITION AND DISPOSAL

During the Year, the Group disposed of its 51% equity interest in 四川恒鼎金自天正信息工程有限公司, which engaged in provision of technology consultancy services and development of automated system.

Save as disclosed above, there was no material acquisition or disposal of subsidiaries and associated companies by the Group.

SUBSEQUENT EVENT

In January 2013, substantial portion of convertible loan notes issued in January 2010 had been redeemed. Bondholders holding an aggregate of RMB1,596.2 million convertible loan notes tendered their redemption notices to the Company. Redemption money of approximately RMB1,696.3 million had been fully paid on 21 January 2013 to the respective bondholders.

CONTINGENT LIABILITIES

On 28 January 2013, Blackrock Japan Co., Limited (the "First Plaintiff") and Blackrock (Singapore) Limited (the "Second Plaintiff") (collectively known as the "Plaintiffs"), commenced legal proceedings against the Company in the High Court of Hong Kong Special Administrative Region Court of First Instance (the "Action").

The First Plaintiff is the investment manager of two high yield bond funds (the "Funds"). It delegated the investment management of the Funds to the Second Plaintiff. The Funds are the holders of certain bonds issued by the Company in January 2010 (the "Bonds"). Under the terms of the Bonds, the Funds were entitled to require the Company to redeem some or all of the Bonds on 19 January 2013. Instead of issuing redemption notices on 18 and 19 December 2012, it is alleged that the Plaintiffs had issued by mistake notices (the "Notices") electing to convert the Bonds into shares in the Company. The Plaintiffs assert that the Company knew or ought to have known that the Notices were issued by mistake and therefore are void, or alternatively are voidable in equity, and are of no legal effect. A statement of claim was served on the Company on 25 February 2013 and the Company served the defence on 29 April 2013.

Save as disclosed above, as at 31 December 2012, the Group did not have any material contingent liabilities.

CONNECTED TRANSACTION

(i) During the Year, rental expenses amounting to RMB0.6 million were paid to Mr. Xian Jilun, father of Mr. Xian Yang, being the controlling shareholder of the Company and Director, for the lease of the Company's head office located at 16th Floor, Dingli Mansion, No. 185 Renmin Street, Panzhihua, Sichuan province, the PRC. The rent paid by the Company is determined with reference to the market rent of comparable properties in the market.

(ii) During the Year, an aggregate amount of transportation costs of approximately RMB15.7 million was paid to 盤縣盤實物流配送有限公司 (Panxian Panshi Logistic Distribution Company Limited*) ("Panxian Panshi"), 盤縣盤鷹物流配送有限公司 (Panxian Panying Logistic Distribution Company Limited*) ("Panxian Panying"), 富源金通煤焦有限公司 (Fuyuan Jintong Coking Company Limited*) ("Fuyuan Jintong") and 貴州威箐煤焦物流有限公司 (Guizhou Weiqing Coking Logistic Company Limited) ("Guizhou Weiqing"), respectively, for the provision of railway logistic services. In addition, coal washing sub-contracting charges of approximately RMB1.5 million were paid to 盤縣富源昆鐵選煤有限公司 (Panxian Fuyuan Kuntie Coal Washing Company Limited*) ("Fuyuan Kuntie"). Yunnan Kaijie, the holder of 57%, 51%, 51%, 33.18% and 80% equity interest in Panxian Panshi, Panxian Panying, Guizhou Weiqing Fuyuan Jintong and Fuyuan Kuntie, respectively, is a substantial shareholder of each of Panxin Coking and Panyi Coal Washing. As Panxian Panshi, Panxian Panying, Guizhou Weiqing and Fuyuan Jintong occupy a monopolistic position of the local railway logistic service in Boguozhen, no relevant market price could be obtained. The railway logistic charges and the sub-contracting charges for the coal washing service were determined with reference to (i) the price offered to other customers by Panxian Panshi, Panxian Panying, Guizhou Weiqing and Fuyuan Jintong, (ii) the price offered to Luipanshui Hidili, Panxin Coking and Panyi Coal Washing from 14 July 2008 to 31 December 2010, (iii) the volume of clean coal available for delivery with reference to the estimated production volumes of clean coal, (iv) the anticipated growth in demand of clean coal, and (v) the business plan of the Group.

(iii) During the Year, an aggregate amount of consulting service fee of RMB6 million was paid to Huaneng Trust by the Target Subsidiaries for the provision of financial consulting service rendered by Huaneng Trust to the Target Subsidiaries. Huaneng Trust is a substantial shareholder (as defined under the Listing Rules) of the Target Subsidiaries.

Profile of Directors and Senior Management

EXECUTIVE DIRECTORS

MR. XIAN YANG (鮮揚)

Mr. Xian, aged 40, is an Executive Director of the Company and our founder, Chairman and Chief Executive Officer. Mr. Xian graduated from The People's Police School of Sichuan (四川省人民警察學校) in 1994, studied law at Southwest University of Political Science and Law (西南政法大學) from 1994 to 1997 and did MBA courses at Sichuan University (四川大學) in 2005–2008 and was graduated with Master Degree. He worked in the police force and Customs Bureau of Panzhihua City prior to establishing our Group in May 2000. He was awarded a Grade Three Achievement (三等功) by the Ministry of Public Security for his distinguished service. He is responsible for the overall management and business development of the Group. He also chairs our Group's investment management committee. Mr. Xian is a cousin of Mr. Xian Qingping who is a member of our senior management. Mr. Xian is also a director of Sanlian Investment Holding Limited, a company which holds approximately 53.28% of the issued share capital of the Company.

MR. SUN JIANKUN (孫建坤)

Mr. Sun, aged 50, is our Executive Director and Administration President and in charge of our production safety. He is a senior engineer and graduated from East China University of Metallurgy (華東冶金學院) (now known as Anhui University of Technology (安徽工業大學)) in 1986 with a bachelor's degree in steel metallurgy. Prior to joining the Group in December 2006, Mr. Sun has worked at Panzhihua Steel Group since 1986 and accumulated broad experience in steel production, quality control and raw material procurement. He served as the vice general manager of Chengdu Steel Company, a subsidiary of Panzhihua Steel Group, from 2003 to 2006 and the vice general manager of Panzhihua New Steel & Vanadium Co., Ltd. (攀枝花新鋼釩股份有限公司), a Shenzhen Stock Exchange listed company, from 2002 to 2003. Mr. Sun is also a director of Able Accord Enterprises Limited, a company which holds approximately 0.94% of the issued share capital of the Company.

MR. WANG RONG (王榮)

Mr. Wang, aged 41, is our Executive Director and Operational President and responsible for the management of day-to-day operations. Since his joining in 2000, Mr. Wang, focused on expanding our business and market and connecting with administration department of government, has built a good relationship with big steel companies. Mr. Wang is also a director of Pavlova Investment Limited, a company which holds approximately 0.38% of the issued share capital of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR. CHAN CHI HING (陳志興)

Mr. Chan, aged 49, is an independent non-executive Director. He joined our Board in June 2007. He is currently the chief operating officer of Far East Consortium International Limited ("FECIL"), a company listed on the main board of the Hong Kong Stock Exchange, and a director of various subsidiaries of FECIL. Mr. Chan joined FECIL in 1990 as the chief accountant and served as the financial controller in 2002. From 1990 to 2003, he was in charge of FECIL's financial, treasury and accounting matters. Before joining FECIL, he was an audit manager in an international accounting firm for over 10 years. Mr. Chan has extensive experience in accounting and auditing of Hong Kong listed companies. Since May of 2003, Mr. Chan has been an alternate director to Mr. Deacon Te Ken Chiu, director of Far East Hotels and Entertainment Limited, a Hong Kong listed company. Mr. Chan holds approximately 0.004% of the issued share capital of the Company.

MR. CHEN LIMIN (陳利民)

Mr. Chen, aged 51, is an independent non-executive Director. He joined our Board on 1 October 2009. He graduated from South West University of Political Science and Law in 1985. Mr. Chen is currently the senior partner of Beijing Zhong Lun Law Firm and is responsible for the IPO, merger and acquisition and corporate restructuring. Mr. Chen has held no directorship in any public listed companies in the past three years.

MR. HUANG RONGSHENG (黃容生)

Mr. Huang, aged 67, is an independent non-executive Director. He joined our Board since June 2007. He graduated from Tsinghua University in 1970. He has over 30 years' experience in the steel industry. Prior to his retirement in December 2006, He served as the vice general manager and the vice president of Panzhihua Steel (Group) Company from 1993 to 2003. Then, he worked at Central Iron & Steel Research Institute (鋼鐵研究總院) as secretary of the Party committee and vice president from 2003 to 2006.

SENIOR MANAGEMENT

MS. CHU LAI KUEN (朱麗娟)

Ms. Chu, aged 45, is our Chief Financial Officer and Company Secretary. She is responsible for financial and accounting management of our Company. She is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Ms. Chu graduated from Hong Kong Polytechnic University with a bachelor's degree (Hons) in accountancy. Prior to joining the Group in October 2008, Ms. Chu has over 16 years of working experience in auditing and financial management.

MR. GUO LIHUA (郭禮華)

Mr. Guo, aged 53, is our Compliance Director. He is responsible for the compliance matters. He is a certified public accountant and a certified public valuer in the PRC. Mr. Guo graduated from Sichuan Normal College (四川師範學院). Prior to joining the Group in 2003, Mr. Guo has over 23 years of working experience in accounting and financial management.

MS. CHENG YUANYUN (程遠芸)

Ms. Cheng, aged 39, is an Executive Chairman and responsible for overseeing the internal financial affairs of the Company. She is a certified tax agent who graduated from Southwestern University of Finance and Economics with a major in accounting. Prior to joining the Group in 2008, she worked as the head of the National Tax Administration of Yanbian County, Panzhihua City and the chief of the international division at the National Tax Administration of Panzhihua City.

MR. CHEN SEN (陳森)

Mr. Chen, aged 41, is an Executive Chairman and responsible for overseeing the coal business of the company. He is a senior engineer. He graduated from Guizhou Technology Institute (now known as Guizhou University) with a bachelor's degree in industrial technical automation in 1992 and obtained a master degree in mine engineering in 2006. Prior to joining our Group in 2010, Mr. Chen had over 15 years' working experience in the mining technology area in Panjiang Coal and Electricity, which is one of the three major coking coal suppliers in Southwestern China.

MR. XIAN QINGPING (鮮清平)

Mr. Xian, aged 39, our general manager of marketing and sales. He is responsible for marketing and sales affairs. Prior to joining the Group in 2000, he worked at Panzhihua Medicines Group (攀枝花市藥業集團) over five years. Mr. Xian Qingping is a cousin of Mr. Xian Yang, our founder, chairman, president and executive Director.

MR. ZHUANG XIANWEI (莊顯偉)

Mr. Zhuang, aged 43, is our general manager of Yunnan Mining Region and is responsible for the operations of the Company's coal mines in Yunnan. Before transferred to Yunnan, he was responsible for our mining operations in Panzhihua. He is also a mining engineer. Prior to joining our Group in March of 2002, Mr. Zhuang worked for the production technology division at Panzhihua Coal Group over 10 years with extensive experience in management of coal mines.

MR. XU WENFA (徐文發)

Mr. Xu, aged 48, is our general manager of safe production and environmental protection. He is responsible for production safety, environmental protection issues and quality control of our mining operation. He obtained the title of assistant engineer in smelting in 1991. Prior to joining the Group in 2007, Mr. Xu worked for Pan Steel Group over 20 years as scheduling manager in the production department. As his excellence in work, he was awarded the title of Excellent Member of the Communist Party of China and parade guard by the Panzihua Steel Group from 1998 to 2006.

MR. ZHAN JUNJUN (詹軍軍)

Mr. Zhan, aged 48, is our chief executive of administration and human resources and is responsible for all the administrative and human resources affairs of the Company. He graduated from Sichuan University with a postgraduate degree in business management and obtained the title of Senior Economist. Prior to joining the Group in 2007, Mr. Zhan has accumulated extensive experience in management of human resources.

MR. XU HUI (徐輝)

Mr. Xu, aged 34, is our secretary to the Board and general manager of Board office. He graduated from Peking University with a bachelor's degree in mathematics and he joined the Group in 2005.

Directors' Report

The Directors present their annual report and the audited consolidated financial statement for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 40 of this report.

The Directors did not propose any payment of final dividend for the year ended 31 December 2012 to the shareholders (2011: dividend of RMB6.9 cents per share).

PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment of the Group for the year ended 31 December 2012 amounted to approximately RMB1,623 million. Details of the movements during the Year in the Group's property, plant and equipment are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the Year in the share capital of the Company are set out in note 31 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Details of the movements during the Year in the reserves of the Group are set out in the consolidated statement of changes in equity on pages 43 and 44 of this report.

As at 31 December 2012, the Company's reserves available for distribution to shareholders amounted to approximately RMB2.204 million (2011: approximately RMB2,705 million).

PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2012 are set out in note 48 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 116.

BORROWINGS

Details of the borrowings of the Group are set out in note 30 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2012, sales to the Group's five largest customers amounted to approximately RMB1,075.8 million, representing 54.4% of the total turnover of the Group. Sales to the single largest customers amounted to approximately RMB442.7 million, representing approximately 22.4% of the total turnover of the Group.

For the year ended 31 December 2012, the amount of purchases made from the Group's five largest suppliers amounted to approximately RMB238.9 million, representing 21.3% of the total purchases of the Group. Purchase from the single largest supplier amounted to approximately RMB99.3 million, representing approximately 8.0% of the total purchases of the Group.

For the year ended 31 December 2012, none of the Directors or any of their associates and any shareholders (which, to be best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's top five largest customers and suppliers.

DIRECTORS

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

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Biographical details of the above Directors are set out in the section headed "Profile of Directors and Senior Management" on pages 17 to 20 of this report.

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

DIRECTORS' SERVICE CONTRACTS

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

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

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

REMUNERATION OF THE DIRECTORS

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

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

As at 31 December 2012, the Directors and chief executive of the Company had the following interests and/or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (the "SFO")) which are required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in the Listing Rules, to be notified to the Company and the Stock Exchange:

Name	Name of the entity	Number of issued ordinary shares held	Nature of interest	Approximate percentage of the issued share capital of the Company/ percentage of shareholding
Mr. Xian Yang ("Mr. Xian") *(Note 1)*	The Company	1,100,674,000	Founder and beneficiary of trust	53.28%
Mr. Xian	Sanlian Investment Holding Limited ("Sanlian Investment")	1,000	Beneficial owner	100%
Mr. Sun Jiankun ("Mr. Sun") *(Note 2)*	The Company	19,380,000	Interest of controlled corporation	0.94%
Mr. Sun	Able Accord Enterprises Limited ("Able Accord")	1,000	Beneficial owner	100%
Mr. Wang Rong ("Mr. Wang") *(Note 3)*	The Company	7,887,000	Interest of controlled corporation	0.38%
Mr. Wang	Pavlova Investment Limited ("Pavlova Investment")	1,000	Beneficial owner	100%
Mr. Chan Chi Hing	The Company	80,000	Beneficial owner	0.004%

Notes:

1. The 1,100,674,000 shares of the Company are held by Sanlian Investment, the issued share capital of which is jointly held by Xian Yang No.1A Ltd. ("Xian Yang No.1A") and Sanlian No.1 Ltd. ("Sanlian No.1"). Mr. Xian is the only controlling shareholder of Xian Yang No.1A and Sanlian No.1. In 2011, Mr. Xian formed a discretionary trust, the Xian Yang Foundation 1, of which Sarasin Trust Company Guernsey Limited ("Sarasin Trust") was the trustee. Accordingly, Mr. Xian is deemed to be interested in the 1,100,674,000 shares held by Sanlian Investment by virtue of the SFO. Mr. Xian is also the sole director of Sanlian Investment.

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

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

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2012, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, the following persons, other than the Directors and chief executive of the Company, had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Number of issued ordinary shares held*	Nature of interest	Approximate percentage of the issued share capital of the Company*
Sarasin Trust *(Note 1)*	561,343,740 (L)	Trustee	27.18% (L)
Sanlian Investment *(Note 1)*	1,100,674,000 (L)	Beneficial owner	53.28% (L)
Mr. Xian *(Note 1)*	1,100,674,000 (L)	Interest of controlled corporation	53.28% (L)
Ms. Qiao Qian *(Note 2)*	1,100,674,000 (L)	Interest of spouse	53.28% (L)
Baring Private Equity Asia GP V, L.P. *(Note 3)*	400,000,000	Interest of controlled corporation	19.36% (L)
Jean Eric Salata *(Note 3)*	400,000,000	Interest of controlled corporation	19.36% (L)

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

Notes:

1. The entire issued share capital of Sanlian Investment is jointly owned by Xian Yang No.1A and Sanlian No.1. Mr. Xian is the only controlling shareholder of Xian Yang No.1A and Sanlian No.1. In 2011, Mr. Xian formed a discretionary trust, The Xian Yang Foundation 1, of which Sarasin Trust was the trustee. Accordingly, Mr. Xian is deemed to be interested in 1,100,674,000 shares of the Company held by Sanlian Investment by virtue of the SFO. Mr. Xian is the sole director of Sanlian Investment.

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

3. Baring Private Equity Asia GP V, L.P. was wholly controlled by Baring Private Equity Asia GP V Limited (as general partner), a company which wholly controlled The Baring Asia Private Equity Fund V, L.P. Baring Private Equity Asia GP V. Limited was wholly controlled by Mr. Jean Eric Salata. Baring Private Equity Asia V Holding (8) Limited was 99.35% controlled by The Baring Asia Private Equity Fund V, L.P. Accordingly, Baring Private Equity Asia GP V, L.P. and Jean Eric Salata by virtue of the SFO are deemed to be interested in 400,000,000 shares of the Company.

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

MANAGEMENT CONTRACTS

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

CONTRACTS OF SIGNIFICANCE

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

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

So far as the Directors were aware, one of the Directors or their associates had any interest in a business that competes or may compete with the business of the Group.

SHARE OPTIONS

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

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

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

No share option was cancelled during the Year.

CONNECTED TRANSACTION

1. During the Year, rental expenses amounting to RMB0.6 million were paid to Mr. Xian Jilun, father of Mr. Xian Yang, a controlling shareholder and a Director of the Company, for the leasing of the Company's head office located at 16th and 17th Floor, Dingli Mansion, No. 185 Renmin Street, Panzhihua, Sichuan province, the PRC. The rent paid by the Company is determined with reference to the market rent of comparable properties in the market.

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

2. (a) During the Year, an aggregate amount of transportation costs of approximately RMB15.7 million was paid to Panxian Panshi, Panxian Panying, Fuyuan Jintong and Guizhou Weiqing respectively, for the provision of railway logistic services. In addition, coal washing subcontracting charges of approximately RMB1.5 million was paid to Fuyuan Kuntie. Yunnan Kaijie, the holder of 57%, 51%, 51%, 33.18% and 80% equity interest in Panxian Panshi, Panxian Panying, Guizhou Weiqing Fuyuan Jintong and Fuyuan Kuntie, respectively, is a substantial shareholder of each of Panxin Coking and Panyi Coal Washing. As Panxian Panshi, Panxian Panying, Guizhou Weiqing and Fuyuan Jintong occupy a monopolistic position of the local railway logistic service in Boguozhen, no relevant market price could be obtained. The railway logistic charges and the subcontracting charges for the coal washing service were determined with reference to (i) the price offered to other customers by Panxian Panshi, Panxian Panying, Guizhou Weiqing and Fuyuan Jintong, (ii) the price offered to Luipanshui Hidili, Panxin Coking and Panyi Coal Washing from 14 July 2008 to 31 December 2010, (iii) the volume of clean coal available for delivery with reference to the estimated production volumes of clean coal, (iv) the anticipated growth in demand of clean coal, and (v) the business plan of the Group.

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

   (b) During the year, an aggregate amount of consulting service fee of RMB6 million was payable to Huaneng Trust for the provision of financial consulting service rendered by Huaneng Trust to the Target Subsidiaries. Huaneng Trust is a substantial shareholder of the Target Subsidiaries. The payment of the consulting service constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

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

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

AUDIT COMMITTEE

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

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

The audit committee has reviewed, together with the management of the Company, the scope of audit work, the accounting principles, accounting standards and methods adopted by the Company, discussed the matters concerning internal control, auditing and financial reporting matters and has reviewed the interim financial results and report for the six months ended 30 June 2012 and the consolidated financial statements of the Group for the year ended 31 December 2012.

PRE-EMPTIVE RIGHTS

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

MODEL CODE FOR SECURITIES TRANSLATIONS BY DIRECTORS OF THE COMPANY

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the Directors. All Directors have confirmed their compliance with the required standards set out in the Model Code throughout the period from the date of the listing of shares of the Company on the Main Board of the Stock Exchange to 31 December 2012.

CORPORATE GOVERNANCE

The Stock Exchange has made various amendments to the Code on Corporate Governance Practices (the "Former Code"), and the revised code, namely the "Corporate Governance Code and Corporate Governance Report" (the "Code"), became effective on 1 April 2012. In the opinion of the Directors, the Company has been in compliance with relevant provisions of the Former Code from 1 January 2012 to 31 March 2012 and the Code from 1 April 2012 to 31 December 2012, save for the deviations as mentioned below.

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

During the Year, the Company had been in deviation from A.6.7 and E.1.2 of the Code as the Chairman and some of the Directors were unable to attend the annual general meeting of the Company held on 29 June 2012 due to business engagements. They will use their best endeavours to attend all future shareholders' meetings of the Company.

Saved as disclosed above, the Board is of the view that the Company has complied with the provisions of the Former Code and the Code during the Year. No Director is aware of any information that reasonably reveals that there is any non-compliance with the Former Code or the Code (as the case may be) by the Company during any time of the Year.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

SUFFICIENCY OF PUBLIC FLOAT

On the basis of publicly available information and to the best of the Directors' knowledge, information and belief, the Company has maintained sufficient public float throughout the year ended 31 December 2012.

AUDITORS

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

ANNUAL GENERAL MEETING

The annual general meeting (the "AGM") will be held on 26 June 2013. The notice of the AGM will be posted on the websites of the Company and the Stock Exchange respectively and despatched to the shareholders of the Company in due course.

The register of members of the Company will be closed from 20 June to 26 June 2013, both days inclusive, during which period no transfer of shares will be registered. In order to qualify to vote at the AGM, all transfer instruments accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited at shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by shareholders of the Company for registration no later than 4:30 p.m. on 19 June 2013.

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

Hong Kong
24 May 2013

Corporate Governance Report

The Company is committed to maintain a high level of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the success of the Group and for safeguarding and maximizing of the interests of shareholders of the Company (the "Shareholders"). The Company has complied with the provision of the Former Code and the Code (as the case may be) during the Year, except for the deviation from code provision A2.1, A6.7 and E1.2 under the Code.

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiry of all Directors, all Directors have confirmed their compliance with the required standards as set out in the Model Code throughout the year ended 31 December 2012.

BOARD OF DIRECTORS

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

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

The brief biographical details of the Directors are set out in the section headed "Profile of Directors and Senior Management" on pages 17 to 20 of this report.

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

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

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

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

ROLE OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

APPOINTMENT AND RE-ELECTION OF THE DIRECTORS

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

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

CONFIRMATION OF INDEPENDENCE

Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

The Directors are regularly briefed on the latest changes and development of the Listing Rules, corporate governance practices and other regulatory regime with written materials, as well as attending seminars on professional knowledge and latest development of regulatory requirements related to director's duties and responsibilities.

All Directors have provided record of training attendance and the Company will continue to arrange the training in accordance with paragraph A.6.5 of the Code Provisions.

BOARD MEETINGS

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

	Attendance of meetings
Executive Directors	
Mr. Xian Yang	4
Mr. Sun Jiankun	4
Mr. Wang Rong	4
Independent non-executive Directors	
Mr. Chan Chi Hing	4
Mr. Chen Limin	4
Mr. Huang Rongsheng	4

Appropriate notices are given to all Directors in advance for attending regular and other Board meetings. Meeting agendas and other relevant information are provided to the Directors in advance of Board meetings. All Directors are consulted to include additional matters in the agenda for Board meetings.

Directors have access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations, are followed. Both draft and final versions of the minutes are sent to all Directors for their comment and records.

Minutes of Board meetings are kept by the company secretary and such minutes are open for inspection at any reasonable time on reasonable prior notice by any Director.

ANNUAL GENERAL MEETING

During the Year, the Company had been in deviation from A.6.7 and E.1.2 of the Code as the Chairman and some of the Directors were unable to attend the annual general meeting of the Company held on 29 June 2012 due to business engagements. Mr. Xu Hui, the Secretary to the Board, was elected as the chairman of the annual general meeting to ensure effective communication with shareholders of the Company at the meeting.

REMUNERATION COMMITTEE

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

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

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

During the Year, one remuneration committee meeting was held to discuss, determine and approve the annual salary review for 2012 for the Directors, the senior management and the employees and the remuneration policy. All the members attended the meeting.

NOMINATION COMMITTEE

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

During the Year, the Nomination Committee had convened one meetings during which it considered, among other things, the Directors who should retire by rotation pursuant to the Company's Articles of Association and the Code. During the meetings of the Nomination Committee, it had also reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company and assessed the independence of all the independent non-executive directors of the Company.

AUDIT COMMITTEE

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

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

During the year, two meetings were held. Mr. Chan Chi Hing, Mr. Chen Limin and Mr. Huang Rongsheng of the Audit Committee attended the meetings. The Audit Committee has reviewed together with the management the accounting principles, accounting standards and methods adopted by the Company, discussed the matters concerning internal control, auditing and financial reporting matters and has review the combined financial statement of the Group for the year ended 31 December 2012.

AUDITORS' REMUNERATION

The external auditor of the Company is Deloitte Touche Tohmatsu. During the year ended 31 December 2012, the remuneration paid and payable to the auditors of the Company in respect of the audit services provided and non-audit services amounted to RMB3.1 million and RMB3.9 million respectively.

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

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENT

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

INTERNAL CONTROLS

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

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

COMPANY SECRETARY

Ms. Chu Lai Kuen, the Chief Financial Officer of the Company, is also appointed by the Board as the Company Secretary. She is a full time employee of the Company who has day-to-day knowledge of the Company and is responsible for advising the Board on corporate governance matters. Ms. Chu confirmed that she has complied with all the required qualifications, experience and training requirements of the Listing Rules.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Besides, pursuant to the Company's Articles of Association, shareholder(s) holding not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings may request the Company to convene an extraordinary general meeting by sending a written requisition to the Board or the Company Secretary. The objects of the meeting must be stated in the written requisition.

Shareholders may send written enquiries to the Company for putting forward any enquiries or proposals to the Board directly to its head office in Sichuan, PRC or principal place of business in Hong Kong by post or email to ir@hidili.com.cn. The Company will respond to all enquiries on a timely and proper basis.

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

An up-to-date version of the Company's Articles of Association is available on the Company's website and the Stock Exchange's website. Shareholders may refer to the Company's Articles of Association for further details of their rights.

All resolutions put forward at shareholders' meetings will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.hidili.com.cn) immediately after the relevant general meetings.

INVESTOR RELATIONS AND COMMUNICATION

The Company has established and maintained difference communication channels with its shareholders. The Company updates its shareholders on its latest business developments and financial performance through its corporate publications including annual reports and public announcements. Briefing and meetings with institutional investors and analysts are conducted regularly. The Company also maintains its website (http://www.hidili.com.cn) to provide an alternative communication channel for the public and its shareholders. All corporate communication and Company's latest updates are available on the Company's website for public's information.

During the Year, there has been no significant change in the Company's constitutional documents.

Independent Auditor's Report

Deloitte.
德勤

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

We have audited the consolidated financial statements of Hidili Industry International Development Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 40 to 115, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTOR'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

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

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which indicates that, as at 31 December 2012, the Group's current liabilities exceeded its current assets by approximately RMB4,726,246,000. In addition, the Group had capital commitments contracted for but not provided in the consolidated financial statements of approximately RMB540,684,000 as disclosed in note 42 to the consolidated financial statements. The Company is implementing several measures as disclosed in note 2 to the consolidated financial statements to improve the financial position of the Group and after taking into account these steps, the directors of the Company consider that the Group will have sufficient working capital to finance its operations and to pay its financial obligations as and when they fall due in the foreseeable future. The consolidated financial statements do not include any adjustments that would result from a failure to implement such measures as disclosed in note 2 to the consolidated financial statements.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
26 March 2013

Consolidated Statement Of Comprehensive Income

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Revenue	7	**1,923,599**	2,861,532
Cost of sales		**(848,785)**	(1,093,479)
Gross profit		**1,074,814**	1,768,053
Other income	8	**23,698**	133,984
Other gains and losses	9	**(47,204)**	9,990
Distribution expenses		**(235,291)**	(264,607)
Administrative expenses		**(415,145)**	(407,443)
Share of losses of associates		**(2,827)**	–
Finance costs	10	**(452,902)**	(308,701)
(Loss) profit before tax		**(54,857)**	931,276
Income tax expenses	11	**(89,435)**	(200,243)
(Loss) profit and total comprehensive (expense) income for the year	12	**(144,292)**	731,033
(Loss) profit and total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(147,396)**	713,608
Non-controlling interests		**3,104**	17,425
		(144,292)	731,033
(Loss) earnings per share	15		
Basic (RMB cents)		**(7.14)**	34.6
Diluted (RMB cents)		**(7.14)**	34.3

Consolidated Statement Of Financial Position

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**13,594,766**	12,196,348
Prepaid lease payments	17	**29,031**	29,707
Intangible assets	18	**108,282**	112,082
Interests in associates	19	**144,023**	146,850
Available-for-sale investments	20	**228,330**	228,330
Long term deposits and other receivables	21	**206,015**	250,684
Restricted bank deposits	27	**72,017**	58,603
		14,382,464	13,022,604
CURRENT ASSETS			
Inventories	22	**170,053**	147,409
Bills and trade receivables	23(a)	**887,662**	1,221,325
Bills receivables discounted with recourse	23(b)	**9,800**	23,000
Other receivables and prepayments	24	**461,597**	592,678
Amounts due from associates	25(a)	**9,935**	1,535
Amounts due from related parties	25(c)	**22,042**	22,875
Held-for-trading investments	26	**52,836**	64,541
Pledged bank deposits	27	**179,261**	126,254
Bank balances and cash	27	**1,554,368**	596,966
		3,347,554	2,796,583
CURRENT LIABILITIES			
Bills and trade payables	28(a)	**461,080**	398,418
Advances drawn on bills receivables discounted with recourse	28(b)	**9,800**	23,000
Other payables and accrued expenses	29	**535,583**	769,668
Amount due to an associate	25(b)	**444**	–
Amounts due to related parties	25(d)	**823**	27,577
Amount due to a non-controlling shareholder	25(e)	**14,765**	15,142
Tax payables		**142,204**	195,129
Senior notes	37	**2,518,094**	–
Convertible loan notes	38	**1,820,007**	–
Bank and other borrowings — due within one year	30	**2,571,000**	1,617,000
		8,073,800	3,045,934
NET CURRENT LIABILITIES		**(4,726,246)**	(249,351)
		9,656,218	12,773,253

Consolidated Statement Of Financial Position *(Continued)*

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CAPITAL AND RESERVES			
Share capital	31	**199,078**	199,078
Reserves	32	**7,085,719**	7,361,780
Equity attributable to owners of the Company		**7,284,797**	7,560,858
Non-controlling interests		**99,800**	182,834
TOTAL EQUITY		**7,384,597**	7,743,692
NON-CURRENT LIABILITIES			
Provision for restoration and environmental costs	33	**17,434**	14,807
Other long term payables	34	**123,704**	164,098
Deferred tax liabilities	35	**317,548**	315,386
Bank and other borrowings — due after one year	30	**1,812,935**	380,000
Senior notes	37	**–**	2,496,399
Convertible loan notes	38	**–**	1,658,871
		2,271,621	5,029,561
		9,656,218	12,773,253

The consolidated financial statements on pages 40 to 115 were approved and authorised for issue by the board of directors on 26 March 2013 and are signed on its behalf by:

Xian Yang
DIRECTOR

Sun Jiankun
DIRECTOR

Consolidated Statement Of Changes In Equity

For the year ended 31 December 2012

	Attributable to owners of the Company											
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note 32)	Statutory surplus reserve RMB'000 (Note 32)	Convertible loan notes reserve RMB'000 (Note iii)	Future development fund RMB'000 (Note 32)	Share options reserve RMB'000	Other reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2011	198,605	3,104,400	695,492	381,912	179,434	189,917	67,997	(43,402)	2,135,483	6,909,838	163,602	7,073,440
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	–	713,608	713,608	17,425	731,033
Issue of shares from share option scheme	473	24,417	–	–	–	–	(10,010)	–	–	14,880	–	14,880
Transfer	–	–	–	62,069	–	41,773	–	–	(103,842)	–	–	–
Recognition of equity-settled share based payment expenses (Note 44)	–	–	–	–	–	–	81,217	–	–	81,217	–	81,217
Capital contribution from non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	1,470	1,470
Acquisition of additional interest in non-wholly owned subsidiaries (note i)	–	–	–	–	–	–	–	(24,438)	–	(24,438)	87	(24,351)
Disposal of partial interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	250	250
Dividends (Note 14)	–	(134,247)	–	–	–	–	–	–	–	(134,247)	–	(134,247)
	473	(109,830)	–	62,069	–	41,773	71,207	(24,438)	(103,842)	(62,588)	1,807	(60,781)
At 31 December 2011	199,078	2,994,570	695,492	443,981	179,434	231,690	139,204	(67,840)	2,745,249	7,560,858	182,834	7,743,692

Consolidated Statement Of Changes In Equity *(Continued)*

For the year ended 31 December 2012

	Attributable to owners of the Company											
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note 32)	Statutory surplus reserve RMB'000 (Note 32)	Convertible loan notes reserve RMB'000 (Note iii)	Future development fund RMB'000 (Note 32)	Share options reserve RMB'000	Other reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2012	199,078	2,994,570	695,492	443,981	179,434	231,690	139,204	(67,840)	2,745,249	7,560,858	182,834	7,743,692
(Loss) profit and total comprehensive (expense) income for the year	–	–	–	–	–	–	–	–	(147,396)	(147,396)	3,104	(144,292)
Transfer	–	–	–	59,021	–	46,447	–	–	(105,468)	–	–	–
Recognition of equity-settled share based payment expenses (Note 44)	–	–	–	–	–	–	42,177	–	–	42,177	–	42,177
Capital contribution from non-controlling interest of a subsidiary	–	–	–	–	–	–	–	–	–	–	980	980
Acquisition of additional interest in non-wholly owned subsidiaries (note ii)	–	–	–	–	–	–	–	(28,312)	–	(28,312)	(84,188)	(112,500)
Disposal of a subsidiary (Note 36)	–	–	–	–	–	–	–	–	–	–	(2,930)	(2,930)
Dividends (Note 14)	–	(142,530)	–	–	–	–	–	–	–	(142,530)	–	(142,530)
	–	(142,530)	–	59,021	–	46,447	42,177	(28,312)	(105,468)	(128,665)	(86,138)	(214,803)
At 31 December 2012	199,078	2,852,040	695,492	503,002	179,434	278,137	181,381	(96,152)	2,492,385	7,284,797	99,800	7,384,597

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

Note ii: During the year ended 31 December 2012, the Group acquired the remaining equity interests of four of its subsidiaries from the non-controlling shareholders at an aggregate consideration of RMB112,500,000, of which RMB88,500,000 was satisfied by deposits paid in previous years (which recorded as deposit paid for acquisition of additional interests in a subsidiary and deposits for acquisition of mines of RMB60,000,000 and RMB28,500,000, respectively) and RMB24,000,000 paid in the form of cash. The excess of the fair value of the considerations paid over the carrying amount of the net assets acquired has been debited directly to equity.

Note iii: During the year, the Group has adjusted the equity component of convertible loan notes by RMB62,974,000 after taking into account the early redemption option of bondholders exercisable on 19 January 2013. In connection with this, the convertible loan notes reserve as at 1 January 2011 are adjusted from RMB242,408,000 to RMB179,434,000 accordingly (see Note 38).

Consolidated Statement Of Cash Flows

For the year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
OPERATING ACTIVITIES		
(Loss) profit before tax	**(54,857)**	931,276
Adjustments for:		
Amortisation of prepaid lease payments	**1,305**	678
Amortisation of intangible assets	**3,800**	3,800
Interest income	**(6,167)**	(9,583)
Gain on disposal of a subsidiary	**(1,360)**	–
Dividend income	**(4,019)**	(1,259)
Depreciation and amortisation of property, plant and equipment	**175,952**	164,577
Share-based payment expenses	**42,177**	81,217
Finance costs	**452,902**	308,701
Loss on disposal of property, plant and equipment	**6,822**	1,240
Impairment loss (reversed of impairment loss) recognised on financial assets	**16,636**	(560)
Impairment loss recognised in respect of property, plant and equipment	**22,000**	–
Share of losses of associates	**2,827**	–
Gain on change in fair value of derivative component in convertible bond	**–**	(14,656)
Operating cash flows before movements in working capital	**658,018**	1,465,431
Decrease (increase) in bills and trade receivables	**314,637**	(303,692)
Decrease (increase) in other receivables and prepayments	**120,711**	(161,386)
Increase in bills and trade payables	**62,692**	127,011
Decrease in held-for-trading investments	**11,705**	32,828
Provision for restoration and environmental costs	**2,627**	3,161
Decrease in amounts due from related parties	**833**	84,067
Decrease (increase) in amount due from an associate	**1,535**	(1,535)
Increase (decrease) in inventories	**(25,205)**	95,565
(Decrease) increase in amounts due to a related parties	**(26,754)**	26,377
(Decrease) increase in other payables and accrued expenses	**(322,873)**	280,394
Net cash generated from operations	**797,926**	1,648,221
Income taxes paid	**(140,198)**	(88,415)
NET CASH FROM OPERATING ACTIVITIES	**657,728**	1,559,806

Consolidated Statement Of Cash Flows *(Continued)*

For the year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(1,342,016)**	(2,121,186)
Placement of pledged and restricted bank deposits		**(210,838)**	(643,887)
Deposits paid for acquisition of land use right		**(18,396)**	(2,539)
Advance of loan receivables to a third party		**(15,000)**	–
Advance of loan to minority shareholder of subsidiary		**(11,033)**	–
Advance to associates		**(9,935)**	–
Deposit paid for acquisition of mine		**(900)**	–
Acquisition of available-for-sale investments		**–**	(20,998)
Acquisition of associates		**–**	(30,779)
Refund of deposit paid for acquisition of mines		**1,500**	–
Proceeds from disposal of a subsidiary	36	**4,155**	–
Interest received		**6,167**	4,690
Proceeds from disposal of property, plant and equipment		**18,539**	9,026
Withdrawal of pledged and restricted bank deposits		**144,417**	624,821
Dividend received		**4,019**	1,259
NET CASH USED IN INVESTING ACTIVITIES		**(1,429,321)**	(2,179,593)
FINANCING ACTIVITIES			
New bank and other borrowings raised		**4,403,935**	1,457,000
Advances drawn on bills receivables discounted with recourse		**9,800**	23,000
Capital contribution from non controlling interest		**980**	1,470
Advance from an associate		**444**	–
Proceeds from disposal of partial interest in a subsidiary		**–**	250
Deposit paid for acquisition of additional interests in subsidiaries		**–**	(10,000)
Decrease in amount due to non-controlling interest of a subsidiary		**(377)**	(313)
Acquisition of additional interest in non-wholly owned subsidiaries		**(24,000)**	(21,851)
Repayment of other long term payables		**(41,544)**	(63,232)
Dividend paid		**(142,530)**	(134,247)
Interest paid		**(460,713)**	(469,241)
Repayment of bank borrowings		**(2,017,000)**	(1,230,000)
Proceeds on issue of shares		**–**	14,880
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**1,728,995**	(432,284)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**957,402**	(1,052,071)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**596,966**	1,649,037
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash		**1,554,368**	596,966

1. GENERAL

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

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

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group as of 31 December 2012, the Group's current liabilities exceeded its current assets by approximately RMB4,726,246,000 and the Group had capital commitments contracted for but not provided in the consolidated financial statements of approximately RMB540,684,000 as stated in note 42.

In order to improve the Group's financial position, to provide liquidity and cash flows and to sustain the Group as a going concern, the Group has been implementing a number of measures, including but not limited to:

(1) The Group is approaching banks and independent third parties in the PRC to obtain new medium to long term notes of not less than RMB2.5 billion.

(2) The Group is negotiating with a bank to renew and roll over banking facilities repayable within 12 months from draw down to repayable after 12 months from draw down of not less than RMB400 million.

In addition, the directors are of the opinion that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due for the foreseeable future, taking into consideration of (i) additional funds to be raised as mentioned above; (ii) presently available unutilised banking facilities of approximately RMB2,150 million, including approximately RMB1,120 million and RMB1,030 million, which are repayable after 12 months from draw down and within 12 months from draw down, respectively; (iii) additional banking facilities of approximately RMB3,175 million obtained from 1 January 2013 up to the date of this report, including approximately RMB841 million and RMB2,334 million, which are repayable after 12 months from draw down and within 12 months from draw down, respectively; and (iv) cash flows from the Group's operations. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board.

Amendments to IAS 12	Deferred tax: Recovery of underlying assets
Amendments to IFRS 7	Financial instruments: Disclosures — Transfers of financial assets

Except as described below, the application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

AMENDMENTS TO IFRS 7 DISCLOSURES — TRANSFERS OF FINANCIAL ASSETS

The Group has applied for the first time the amendments to IFRS 7 "Disclosures — Transfers of financial assets" in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

The Group has arrangements with various banks to transfer to the banks its contractual rights to receive cash flows from certain bills receivables. The arrangements are made through discounting those bills receivables to banks on a full recourse basis. Specifically, if the bills receivables are not paid at maturity, the banks have the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these bills receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as advances drawn on bills receivables discounted with recourse (see note 28 (b)). The relevant disclosures have been made regarding the transfer of these bills receivables on application of the amendments to IFRS 7 (see note 40). In accordance with the transitional provisions set out in the amendments to IFRS 7, the Group has not provided comparative information for the disclosures required by the amendments.

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

NEW AND REVISED IFRSs ISSUED BUT NOT YET EFFECTIVE

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

Amendments to IFRSs	Annual improvements to IFRSs 2009–2011 cycle[1]
Amendments to IFRS 7	Disclosures — Offsetting financial assets and financial liabilities[1]
Amendments to IFRS 9 and IFRS 7	Mandatory effective date of IFRS 9 and transition disclosures[3]
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance[1]
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment entities[2]
IFRS 9	Financial instruments[3]
IFRS 10	Consolidated financial statements[1]
IFRS 11	Joint arrangements[1]
IFRS 12	Disclosure of interests in other entities[1]
IFRS 13	Fair value measurement[1]
IAS 19 (as revised in 2011)	Employee benefits[1]
IAS 27 (as revised in 2011)	Separate financial statements[1]
IAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]
Amendments to IAS 1	Presentation of items of other comprehensive income[4]
Amendments to IAS 32	Offsetting financial assets and financial liabilities[2]
IFRIC-INT 20	Stripping costs in the production phase of a surface mine[1]

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

IFRS 9 FINANCIAL INSTRUMENTS

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

Key requirements of IFRS 9 are described as follows:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

IFRS 9 FINANCIAL INSTRUMENTS *(Continued)*

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

The principal accounting policies are set out below.

BASIS OF CONSOLIDATION

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BASIS OF CONSOLIDATION *(Continued)*

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

ALLOCATION OF TOTAL COMPREHENSIVE INCOME TO NON-CONTROLLING INTERESTS

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

CHANGES IN THE GROUP'S OWNERSHIP INTERESTS IN EXISTING SUBSIDIARIES

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

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group.

INVESTMENT IN ASSOCIATES

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INVESTMENT IN ASSOCIATES *(Continued)*

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

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

GOODWILL

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

REVENUE RECOGNITION

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

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

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

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

PROPERTY, PLANT AND EQUIPMENT

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

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

LEASING

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

The Group as lessee

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

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

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FOREIGN CURRENCIES

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

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

BORROWING COSTS

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

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

GOVERNMENT GRANTS

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

RETIREMENT BENEFITS COSTS

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

TAXATION

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

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

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

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

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

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INTANGIBLE ASSETS

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

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

INVENTORIES

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

PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

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

FINANCIAL INSTRUMENTS

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets

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

Effective interest method

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

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

Financial assets at FVTPL

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

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

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

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the 'other income' line item in the consolidated statement of comprehensive income. Fair value is determined in the manner described in note 39.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

Financial assets (Continued)

AFS financial assets

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

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

Loans and receivables

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

Impairment of financial assets

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

For loans and receivables, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

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

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

Derecognition

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities and equity instruments

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

Equity instrument

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

Financial liabilities

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

Effective interest method

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

Convertible loan notes contains liability and equity components

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Convertible loan notes contains liability and equity components *(Continued)*

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

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

Derecognition

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

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL *(Continued)*

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

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

Share options granted to employee

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

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

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

Share options granted to consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or services or when the counterparties render services, unless the goods or services qualify for recognition as assets.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment other than mining rights and mining structures are depreciated on a straight-line basis over their useful lives, after taking into account their estimated residual value. Mining rights and mining structures are amortised using the units of production method based on the total proven reserves of the coal mines.

The Group assesses annually the residual value and the useful life of the property, plant and equipment, other than mining structures and mining rights, and assesses annually the reserves of the coal mines. If the expectation differs from the original estimate, such difference will impact the depreciation and the amortisation charged in the year in which such estimate is changed. As at 31 December 2012, the carrying amount of property, plant and equipment was RMB13,595 million (2011: RMB12,196 million). Details of property, plant and equipment are disclosed in note 16.

ESTIMATED IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the present value of estimated future cash flows. An impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. Where the future cash flows are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of future estimate cash flow, a material impairment loss may arise. The directors performed impairment assessment of the Group's property, plant and equipment and impairment loss of RMB22,000,000 (2011: nil) was recognised in profit or loss during the year.

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

RESERVE ESTIMATES

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

Engineering estimates of the Group's mineral reserves involved subjective judgements by mineral engineers in developing such information. There is a Chinese system, which is the national standard set by the PRC Government, regarding the engineering criteria that have to be met before estimated mineral reserves can be designated as "proven". Proven reserve estimates are updated on a regular basis and have taken into account as a change in estimate for accounting purposes and are reflected on a prospective basis in related depreciation and amortisation rates. If the expectation differs from the original reserve estimate, such difference will impact the depreciation and amortisation charge in the year in which such estimate is changed. As at 31 December 2012, the carrying amount of mining rights and mining structure was RMB8,834 million (2011: RMB7,495 million).

ESTIMATED IMPAIRMENT OF TRADE RECEIVABLES, OTHER RECEIVABLES AND OTHER LOAN RECEIVABLES

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

As at 31 December 2012, the carrying amounts of trade receivables, loan receivables and other receivables are RMB520.3 million (2011: RMB529.4 million), RMB55 million (2011: RMB55 million) and RMB345.7 million (2011: RMB465.7 million), respectively.

ESTIMATED IMPAIRMENT OF MINING STRUCTURES AND MINING RIGHTS

Determining whether an impairment loss on mining structure and mining rights requires an estimate of the recoverable amount of the cash-generating unit ("CGU") to which the asset belong. Management consider that the Group continues to use the relevant assets and the recoverable amount of the relevant CGUs are determined on the basis of value in use calculation which is higher than its fair value less costs to sell. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the future cash flows are less than expected or due to changes in estimates, a material impairment loss may arise. As at 31 December 2012, the carrying amount of mining structures and mining rights, was RMB8,834 million (2011: RMB7,495 million).

6. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which included bank and other borrowings, senior notes and convertible loan notes disclosed in notes 30, 37 and 38, respectively, cash and cash equivalents and equity attributable to owners of the company, comprised share capital and reserves, as disclosed in notes 31 and 32, respectively.

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

7. REVENUE AND SEGMENT INFORMATION

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

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

Principal activities are as follows:

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

7. REVENUE AND SEGMENT INFORMATION (Continued)

SEGMENTS REVENUES AND RESULTS

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

For the year ended 31 December 2012

	Coal mining RMB'000	Coking RMB'000	Others RMB'000	Inter-segment eliminations RMB'000	Total RMB'000
REVENUE					
External	1,627,562	287,722	8,315	–	1,923,599
Inter-segment	190,992	–	–	(190,992)	–
Total	1,818,554	287,722	8,315	(190,992)	1,923,599
RESULTS					
Segment profit	705,398	93,799	1,690	–	800,887
Other income					23,698
Administrative expenses					(415,145)
Net loss on held-for-trading investments					(8,568)
Share of losses of associates					(2,827)
Finance costs					(452,902)
Loss before tax					(54,857)

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 2011

	Coal mining RMB'000	Coking RMB'000	Others RMB'000	Inter-segment eliminations RMB'000	Total RMB'000
REVENUE					
External	2,545,993	296,580	18,959	–	2,861,532
Inter-segment	238,282	–	–	(238,282)	–
Total	2,784,275	296,580	18,959	(238,282)	2,861,532
RESULTS					
Segment profit	1,351,922	144,611	7,473	–	1,504,006
Other income					133,984
Administrative expenses					(407,443)
Net gain on derivatives and held-for-trading investments					9,430
Finance costs					(308,701)
Profit before tax					931,276

Segment profit represents profit earned by each segment and comprises mainly gross profit less distribution expenses. Other income, administrative expenses, finance costs and net gain (loss) on derivatives and held-for-trading investments are not allocated in arriving at segment profit. This is the measure reported to the chief operating decision makers (i.e. the executive directors) for the purpose of resource allocation and assessment of segment performance.

SEGMENT ASSETS AND LIABILITIES

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

7. REVENUE AND SEGMENT INFORMATION (Continued)

OTHER SEGMENT INFORMATION

For the year ended 31 December 2012

	Coal mining RMB'000	Coking RMB'000	Others RMB'000	Segment total RMB'000	Unallocated RMB'000 (Note)	Total RMB'000
Amounts included in the measure of segment profit or loss						
Impairment loss on financial assets	16,636	–	–	16,636	–	16,636
Impairment loss recognised in respect property, plant and equipment	–	22,000	–	22,000	–	22,000
Depreciation and amortisation	118,733	25,694	–	144,427	36,630	181,057
Provision for restoration and environmental costs	2,627	–	–	2,627	–	2,627

For the year ended 31 December 2011

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

Note: The reconciling item to adjust expenditures incurred for the corporate headquarters, which is not included in segment information.

7. REVENUE AND SEGMENT INFORMATION (Continued)

GEOGRAPHICAL INFORMATION

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

INFORMATION ABOUT MAJOR CUSTOMERS

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

	2012 RMB'000	2011 RMB'000
Customer A[1]	**442,700**	521,052
Customer B[2]	**291,215**	N/A[3]
Customer C[2]	**N/A[3]**	476,709

1 Revenue from sales of clean coal amounted to RMB419,586,000 (2011: RMB347,011,000) and coke amounted to RMB23,114,000 (2011: RMB174,041,000).
2 Revenue from sales of clean coal.
3 The corresponding revenue did not contribute over 10% of the total sales of the Group.

8. OTHER INCOME

	2012 RMB'000	2011 RMB'000
Bank interest income	**6,167**	4,690
Interest income from convertible bond receivable	**–**	4,893
Government grant	**4,549**	5,039
Dividend income from held-for-trading investments	**4,019**	1,259
Gain on disposal of a subsidiary (Note 36)	**1,360**	–
Exchange gain, net	**–**	112,244
Others	**7,603**	5,859
	23,698	133,984

9. OTHER GAINS AND LOSSES

	2012 **RMB'000**	2011 RMB'000
(Impairment loss) reversal of impairment loss recognised on		
— trade receivables	**(6,897)**	1,658
— other receivables	**(9,739)**	(1,098)
(Impairment loss) reversal of impairment loss recognised on financial assets	**(16,636)**	560
Net (loss) gain on derivatives and held-for-trading investments	**(8,568)**	9,430
Impairment loss recognised in respect of property, plant and equipment	**(22,000)**	–
	(47,204)	9,990

10. FINANCE COSTS

	2012 **RMB'000**	2011 RMB'000
Interest expenses on borrowings wholly repayable within five years:		
— bank and other borrowings	**178,857**	74,776
— advances drawn on bills receivable discounted	**60,320**	47,911
— convertible loan notes	**186,811**	112,107
— senior notes	**217,556**	220,734
	643,544	455,528
Less: Interest capitalised in construction in progress (Note 16)	**(190,642)**	(146,827)
	452,902	308,701

11. INCOME TAX EXPENSES

	2012 RMB'000	2011 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	**87,196**	189,864
Underprovision in prior years	**77**	1,982
	87,273	191,846
Deferred tax (Note 35)	**2,162**	8,397
	89,435	200,243

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for 2012 and 2011.

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

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

The charge for the year can be reconciled to the (loss) profit before tax in the consolidated statement of comprehensive income as follows:

	2012 RMB'000	2011 RMB'000
(Loss) profit before tax	**(54,857)**	931,276
Tax at applicable tax rate of 25% (2011: 25%)	**(13,714)**	232,819
Tax effect of concessionary tax rate granted	**(42,440)**	(56,926)
Tax effect of income not taxable for tax purpose	**(205)**	(4,993)
Tax effect of expenses not deductible for tax purpose	**12,711**	4,927
Tax effect of undistributed profit of subsidiaries in the PRC	**3,454**	9,880
Tax effect of deferred tax assets not recognised	**130,864**	14,752
Underprovision in prior years	**77**	1,982
Others	**(1,312)**	(2,198)
Income tax expenses for the year	**89,435**	200,243

The provision for EIT is based on a statutory rate of 25% (2011: 25%) of the assessable profit of the group entities as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain PRC subsidiaries of the Company which are exempted from or entitled to concessionary tax rate EIT in accordance with the approval from the respective tax bureau.

11. INCOME TAX EXPENSES *(Continued)*

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

Pursuant to the "Application of preferential tax treatment for Foreign Investment Enterprise", Panzhihua City Hidili Coke Company Limited ("Hidili Coke"), Panzhihua City Tiandaoqin Industry & Trading Company Limited ("Tiandaoqin"), Panzhihua Yanjiang Industrial Company Limited ("Yanjiang") and Panzhihua Yangfan Industry & Trading Company Limited ("Yangfan") were entitled to 2 years exemption from State EIT in 2007 and 2008 and a 50% deduction of EIT for three years (from 2009 to 2011). Therefore, the applicable tax rate of Hidili Coke for 2011 was 12.5%. For Tiandaoqin, Yangfan and Yanjiang, they were also entitled to the tax incentives for the year ended 31 December 2011 in connection with the development of the western part of the PRC in 2010. The applicable tax rate of Tiandaoqin, Yangfan and Yanjiang for 2011 was 12.5%. As these tax incentives expire, the applicable tax rate of Hidili Coke, Tiandaoqin, Yangfan and Yanjiang is 25% for 2012.

The Tax Law of the PRC requires withholding tax upon distribution of profits earned by the PRC subsidiaries since 1 January 2008. Deferred tax of approximately RMB68,854,000 (2011: RMB65,400,000) has been provided for in the consolidated financial statements in respect of the temporary differences attributable to such profits.

12. (LOSS) PROFIT FOR THE YEAR

	2012 **RMB'000**	2011 RMB'000
(Loss) profit for the year has been arrived at after charging:		
Directors' remuneration (Note 13)	**3,214**	2,985
Salaries and other benefits	**363,481**	330,679
Retirement benefits scheme contribution	**23,782**	14,776
Share-based payment expense	**42,092**	81,021
Total staff costs	**432,569**	429,461
Auditors' remuneration	**3,115**	2,950
Amortisation of prepaid lease payments	**1,305**	678
Amortisation of intangible assets (included in distribution expenses)	**3,800**	3,800
Provision for restoration and environmental costs (Note 33)	**2,627**	3,161
Depreciation and amortisation of property, plant and equipment	**175,952**	164,577
Loss on disposal of property, plant and equipment	**6,822**	1,240
Cost of inventories recognised as an expense	**848,785**	1,093,479
Fair value loss on held-for-trading investment	**8,568**	5,225

13. DIRECTORS' EMOLUMENTS AND EMPLOYEE'S EMOLUMENTS

The emoluments paid or payable to each of the 6 (2011: 6) directors were as follows:

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

	2012 RMB'000	2011 RMB'000
Directors:		
Fees	**600**	600
Basic salaries and allowances	**2,583**	2,316
Retirement benefit scheme contributions	**23**	21
Share-based payment expenses	**8**	48
	3,214	2,985

For the year ended 31 December 2012

	Executive directors			Non-executive independent directors			
	Xian Yang (CEO) RMB'000	Wang Rong RMB'000	Sun Jiankun RMB'000	Chan Chi Hing RMB'000	Chen Limin RMB'000	Huang Rongsheng RMB'000	Total RMB'000
Directors' fee	–	–	–	200	200	200	600
Basic salaries and allowances	1,138	567	878	–	–	–	2,583
Retirement benefit scheme contributions	11	12	–	–	–	–	23
Share-based payment expenses	–	–	–	4	–	4	8
	1,149	579	878	204	200	204	3,214

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

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

For the year ended 31 December 2011

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

(B) FIVE HIGHEST EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2011: nil) was director of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining four (2011: five) individuals were as follows:

	2012 RMB'000	2011 RMB'000
Basic salaries and allowances	**1,910**	1,340
Retirement benefit scheme contributions	**39**	49
Share-based payment expenses	**24,794**	45,582
	26,743	46,971

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

(B) FIVE HIGHEST EMPLOYEES' EMOLUMENTS (Continued)

Their emoluments were within the following bands:

	2012 No. of employees	2011 No. of employees
HK$1,000,001 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$2,500,000	**–**	2
HK$11,500,001 to HK$12,000,000	**1**	–
HK$18,000,001 to HK$18,500,000	**1**	–
HK$20,000,001 to HK$20,500,000	**–**	1
HK$31,000,001 to HK$31,500,000	**–**	1

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

No director waived any emolument during the year 2012 and 2011.

14. DIVIDENDS

	2012 RMB'000	2011 RMB'000
Dividends recognised as distribution during the year:		
Final for 2011, RMB6.9 cents per share (2011: 2010 final dividend RMB6.5 cents per share)	**142,530**	134,247

During the year ended 31 December 2012, the final dividend of RMB142,530,000 representing RMB6.9 cents for ordinary shares in respect of the year ended 31 December 2011 were declared by the Board and had been recognised and distributed during the year.

No dividend was proposed for the year ended 31 December 2012 or since the end of the reporting period.

15. (LOSS) EARNINGS PER SHARE

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

	2012 RMB'000	2011 RMB'000
(Loss) earnings		
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share ((Loss) profit for the year attributable to owners of the Company)	**(147,396)**	713,608

	Number of shares	
	2012 '000	2011 '000
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**2,065,653**	2,064,424
Effect of dilutive potential ordinary shares: Share options	**–**	14,896
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**2,065,653**	2,079,320

The computation of diluted loss per share for the year ended 31 December 2012 does not assume the conversion of the Company's convertible loan notes and the exercise of the Company's share options since their assumed conversion and exercise would result in a decrease in loss per share.

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

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Mining structures and Mining rights RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office and electronic equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2011	424,477	7,197,356	660,434	89,081	30,397	2,087,981	10,489,726
Additions	5,292	399,140	209,691	3,112	10,816	1,670,779	2,298,830
Transfer	47,517	203,165	55,683	–	128	(306,493)	–
Disposals	(3,566)	(11,971)	(2,891)	(1,757)	(18)	–	(20,203)
At 31 December 2011	473,720	7,787,690	922,917	90,436	41,323	3,452,267	12,768,353
Additions	955	173,310	86,983	7,414	8,782	1,345,152	1,622,596
Transfer	48,659	1,244,234	58,106	–	1,567	(1,352,566)	–
Disposals	(15,718)	–	(37,734)	(7,373)	(115)	–	(60,940)
Disposal upon disposal of a subsidiary	–	–	–	(1,050)	(92)	–	(1,142)
At 31 December 2012	507,616	9,205,234	1,030,272	89,427	51,465	3,444,853	14,328,867
DEPRECIATION AND AMORTISATION AND IMPAIRMENT							
At 1 January 2011	40,438	218,161	115,891	37,087	5,788	–	417,365
Provided for the year	12,639	82,004	52,467	13,569	3,898	–	164,577
Eliminated on disposals	(475)	(7,379)	(916)	(1,166)	(1)	–	(9,937)
At 31 December 2011	52,602	292,786	167,442	49,490	9,685	–	572,005
Provided for the year	13,599	78,175	66,828	12,298	5,052	–	175,952
Impairment loss recognised in profit or loss	8,927	–	13,073	–	–	–	22,000
Eliminated on disposals	(5,112)	–	(26,598)	(3,824)	(45)	–	(35,579)
Eliminated upon disposal of a subsidiary	–	–	–	(243)	(34)	–	(277)
At 31 December 2012	70,016	370,961	220,745	57,721	14,658	–	734,101
CARRYING AMOUNTS							
At 31 December 2012	437,600	8,834,273	809,527	31,706	36,807	3,444,853	13,594,766
At 31 December 2011	421,118	7,494,904	755,475	40,946	31,638	3,452,267	12,196,348

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

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

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

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

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

Depreciation and amortisation are provided to write off the cost of the mining structures and mining rights using the units of production method over the total proven reserves of the coal mine.

At 31 December 2012, the legal titles of the mining rights with carrying values of approximately RMB1,392,783,000 (2011: RMB1,725,537,000), have not been granted by the relevant government authorities and the relevant title transfers are still under application. In the opinion of the director, taking into account of the PRC lawyer's legal opinion, all the risks and rewards of ownership of mining rights have been transferred to the Group.

During the year ended 31 December 2012, an impairment loss of RMB22,000,000 (2011: nil) was recognised in respect of two coke production plants, which were technological obsolescence and did not meet the government environmental protection requirement.

During the year ended 31 December 2012, the operations in certain mines of the Group have been suspended for safety inspection and government deliberations since the occurrence of accidents in the vicinity. At 31 December 2012, the carrying amounts of construction in progress and property, plant and equipment other than construction in progress, in respect of mines which were still suspended are RMB983,684,000 and RMB3,981,069,000, respectively.

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

For the purpose of the impairment testing of mining structures and mining rights of the mines being under suspension of production or construction for safety inspection and government deliberations, management considers that the Group will continue to use the relevant assets in the foreseeable future and the recoverable amount of the relevant CGUs are determined on the basis of value in use calculation which is higher than its fair value less costs to sell. Value in use calculation is based on the discount rates of 14.9% and cash flow projections prepared from financial forecasts approved by the directors for the next five years, taking into account the best estimates of management of the Group concerning the likely dates for resumption of mining operations and development. The CGUs cashflows beyond the 5-year period are extrapolated using a zero growth rate until the coal reserves have been mined based on existing production capacities. Other key assumptions for the value in use calculation related to the estimation of cash inflows/outflows which include future coal price and gross margin, such estimation is based on the estimation provided by management. Based on the assumptions applied, the recoverable amounts are above its carrying amounts of the relevant CGUs, accordingly, management of the Group has determined that there is no impairment of the mining structures and mining rights.

17. PREPAID LEASE PAYMENTS

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

	2012 **RMB'000**	2011 RMB'000
Non-current asset	**29,031**	29,707
Current assets included in other receivables and prepayments	**677**	1,306
	29,708	31,013

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

18. INTANGIBLE ASSETS

	Transportation rights RMB'000 (Note a)	Goodwill RMB'000 (Note b)	Total RMB'000
COST			
At 1 January 2011, 31 December 2011 and 31 December 2012	114,000	11,065	125,065
AMORTISATION			
At 1 January 2011	9,183	–	9,183
Charge for the year	3,800	–	3,800
At 31 December 2011	12,983	–	12,983
Charge for the year	3,800	–	3,800
At 31 December 2012	16,783	–	16,783
CARRYING VALUES			
At 31 December 2012	97,217	11,065	108,282
At 31 December 2011	101,017	11,065	112,082

Notes:

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

b. In July 2008, the Group acquired 70% interests in Panxian Panyi Coal Washing Company Limited ("Panyi Coal Washing") and Panxian Panxin Coking Company Limited ("Panxin Coking") at an aggregate consideration of RMB127,500,000. Panyi Coal Washing is engaged in the clean coal washing and Panxin Coking is engaged in manufacturing of coke. The goodwill arising on the acquisition is attributable to the anticipated profitability of the coking business in the new markets and the anticipated future operating synergies from the combination.

   During the year ended 31 December 2012, management of the Group determined that there is no impairment in these cash generating units containing goodwill as the recoverable amount is higher than its carrying amount.

19. INTERESTS IN ASSOCIATES

	2012 RMB'000	2011 RMB'000
Cost of investment in associates — unlisted	**146,850**	146,850
Share of post-acquisition losses	**(2,827)**	–
	144,023	146,850

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

Name of associates	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Company 2012	2011	Principal activity
富源金通煤焦有限公司 Translated as Fuyuan Jintong Coking Company Limited ("Fuyuan Jintong")	The PRC	**47.38%**	47.38%	Warehouse management and provision of railway logistics service
富源昆鐵選煤有限責任公司 Translated as Fuyan Kuntie Coal Washing Company Limited ("Fuyuan Kuntie")	The PRC	**20%**	20%	Clean coal processing
雲南淮海礦業機械製造有限責任公司 Translated as Yunnan Huaihai Mining Machinery Manufacturing Company Limited ("Yunnan Huaihai")	The PRC	**49%**	49%	Manufacturing of mining machinery
六盤水鐵發物流有限公司 Translated as Liupanshui Tiefa Logistics Company Limited ("Liupanshui Tiefa")	The PRC	**25%**	25%	Warehouse management and provision of railway logistics service

As at 31 December 2012 and 2011, included in the cost of investments in associates is goodwill of RMB55,395,000, RMB14,870,000 and RMB675,000 arising from acquisition of Fuyuan Jintong, Fuyuan Kuntie and Yunnan Huaihai respectively.

19. INTERESTS IN ASSOCIATES *(Continued)*

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

	2012 RMB'000	2011 RMB'000
Total assets	**338,936**	259,980
Total liabilities	**(134,046)**	(51,182)
Net assets	**204,890**	208,798
Group's share of net assets of associates	**73,083**	75,909
Total revenue	**245,754**	–
Total loss and other comprehensive expense for the year	**(5,465)**	–
Group's share of losses of associates for the year	**(2,827)**	–

20. AVAILABLE-FOR-SALE INVESTMENTS

	2012 RMB'000	2011 RMB'000
Available-for-sale investments comprise:		
Unlisted equity securities	**228,330**	228,330

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

21. LONG TERM DEPOSITS AND OTHER RECEIVABLES

	2012 RMB'000	2011 RMB'000
Deposits paid for acquisition of mines	**6,860**	35,960
Deposit paid for acquisition of land use rights	**104,480**	86,084
Deposits for environmental rehabilitation paid to the local government	**68,642**	68,640
Deposit paid for acquisition of additional interests in a subsidiary	**–**	60,000
Loan receivable	**15,000**	–
Amount due from a non-controlling shareholder of a subsidiary	**11,033**	–
	206,015	250,684

As at 31 December 2012, the deposit of RMB6,860,000 (2011: RMB35,960,000) were paid for acquisition of mines in the PRC. Up to the date of these consolidated financial statements were authorised for issuance, the Group is still negotiating with the mine owners to agree the final amount of consideration.

Deposits for environmental rehabilitation paid to the local government in the PRC carried interest at market rate determined by local government. The amounts will be refunded at the cessation of mining activities or closure of mines if and only if the environmental rehabilitation work of the relevant mines meets government's requirements. They are not expected to be refunded within the next twelve months.

Loan receivable and amount due from a non-controlling shareholder of a subsidiary represent advances to a non-controlling shareholder of a subsidiary and one of its shareholder ("Debtors"). Pursuant to the loan agreements with respective Debtors, the loans advance will be settled by the dividend of the a non-wholly owned subsidiary. Loan receivable and amount due from a non controlling interest of a subsidiary bear interest at 10% per annum and will be recovered after one year and are therefore classified as non-current assets.

22. INVENTORIES

	2012 RMB'000	2011 RMB'000
Coal products	**107,737**	74,037
Coke	**1,540**	2,495
Alloy pig iron	**17,204**	5,117
Auxiliary materials and spare parts	**43,572**	65,760
	170,053	147,409

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

(A) BILLS AND TRADE RECEIVABLES

	2012 RMB'000	2011 RMB'000
Trade receivables	**530,239**	532,391
Less: allowance for doubtful debts	**(9,922)**	(3,025)
	520,317	529,366
Bills receivables	**367,345**	691,959
	887,662	1,221,325

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

	2012 RMB'000	2011 RMB'000
Aged:		
0–90 days	**652,849**	1,059,725
91–120 days	**80,797**	33,175
121–180 days	**72,830**	119,403
181–365 days	**79,114**	5,048
Over 365 days	**2,072**	3,974
	887,662	1,221,325

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

Included in the Group's bills and trade receivables balance as at 31 December 2012 are debtors aged over 120 days with a carrying amount of RMB101,496,000 (2011: RMB128,425,000) which are past due at the reporting date for which the Group has not recognised impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable as there are continuing settlement. The Group does not hold any collateral over these balances.

23. BILLS AND TRADE RECEIVABLES AND BILLS RECEIVABLES DISCOUNTED WITH RECOURSE (Continued)

(A) BILLS AND TRADE RECEIVABLES (Continued)

Aging of bills and trade receivable which are past due but not impaired:

	2012 RMB'000	2011 RMB'000
Aged:		
121–180 days	**20,310**	119,403
181–365 days	**79,114**	5,048
Over 365 days	**2,072**	3,974
	101,496	128,425

Movement in allowance for doubtful debts

	2012 RMB'000	2011 RMB'000
Trade receivables		
Balance at beginning of the year	**3,025**	4,683
Impairment loss recognised on receivables	**6,901**	1,726
Amounts recovered during the year	**(4)**	(3,384)
Balance at end of the year	**9,922**	3,025

Included in the allowance for doubtful debts are individually impaired trade receivable with an aggregate balance of RMB9,922,000 (31 December 2011: RMB3,025,000) which have in severe financial difficulties. The Group does not held any collateral over those balances.

(B) BILLS RECEIVABLES DISCOUNTED WITH FULL RECOURSE

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

	2012 RMB'000	2011 RMB'000
Aged:		
91–120 days	**–**	23,000
121–180 days	**9,800**	–
	9,800	23,000

24. OTHER RECEIVABLES AND PREPAYMENTS

	2012 RMB'000	2011 RMB'000
Advance to suppliers	**77,440**	166,373
Prepayment of mining expenses	**80,171**	61,006
Prepayments	**6,785**	11,006
Transportation charges paid on behalf of customers	**5,312**	32,996
Staff advances	**47,149**	41,831
Deposits paid	**17,689**	32,561
Loan receivables (Note)	**40,000**	55,000
Others	**187,051**	191,905
	461,597	592,678

Note: Included in loan receivables as at 31 December 2011 and 2012 is loan of RMB30,000,000 to an independent party, which is interest free and secured by equity interests of two PRC enterprises and repayable on demand. Remaining amounts are loans advanced to two mine holders and these advances are interest free, unsecured and repayable on demand.

MOVEMENT IN ALLOWANCE FOR DOUBTFUL DEBTS

	2012 RMB'000	2011 RMB'000
Other receivables		
Balance at beginning of the year	**26,067**	24,969
Impairment loss recognised on receivables	**12,595**	16,515
Amount recovered during the year	**(2,856)**	(15,417)
Balance at end of the year	**35,806**	26,067

25. AMOUNTS DUE FROM (TO) RELATED PARTIES

(A) AMOUNTS DUE FROM ASSOCIATES

Name of associate	2012 RMB'000	2011 RMB'000
Fuyuan Jintong	**–**	1,535
Liupanshui Tiefa	**7,000**	–
Fuyuan Kuntie	**2,935**	–
	9,935	1,535

25. AMOUNTS DUE FROM (TO) RELATED PARTIES (Continued)

(B) AMOUNT DUE TO AN ASSOCIATE

Name of associate	2012 RMB'000	2011 RMB'000
Fuyuan Jintong	**444**	–

(C) AMOUNTS DUE FROM RELATED PARTIES

Name of related parties	2012 RMB'000	2011 RMB'000
Panxian Panshi (note i)	**15,157**	16,504
Panxian Panying (note ii)	**6,885**	6,365
攀枝花市恒為製鈦有限公司 ("恒為製鈦") Translated as Hengwei Zhitai Company Limited ("Hengwei Zhitai") (note iii)	**–**	6
	22,042	22,875

(D) AMOUNTS DUE TO RELATED PARTIES

Name of related parties	2012 RMB'000	2011 RMB'000
Mr. Xian Jilun (鮮繼倫) (note v)	**250**	850
雲南凱捷實業有限公司 Translated as Yunnan Kaijie Company Limited ("Kaijie") (note iv)	**573**	26,727
	823	27,577

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

25. AMOUNTS DUE FROM (TO) RELATED PARTIES *(Continued)*

Notes:

(i) Panxian Panshi is an investee company in which the Group owned its 37% equity interest as explained in Note 18(a) but does not have any significant influence. The balance was advance payment at end of the reporting period.

(ii) Panxian Panying is an investee company in which the Group owned its 37% equity interest as explained in Note 18(a) but does not have any significant influence. The balance was advance payment at end of the reporting period.

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

(iv) Kaijie is the non-controlling shareholder of the Group's subsidiaries, Panxian Panxin Coke Co. Ltd. and Panxian Panyi Coal Preparation Co. Ltd. Kaijie is also controlling shareholder of Panxian Panshi and Panxian Panying. The Group allows credit period of one year. The balance was of trade in nature and aged within one year at 31 December 2012 and 2011.

(v) Mr. Xian Jilun is the father of Mr. Xian Yang, executive director of the Company. Balance represents rental expenses paid by Mr. Xian Jilun on behalf of the Group.

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

26. HELD-FOR-TRADING INVESTMENTS

	2012 RMB'000	2011 RMB'000
Held-for-trading investments include:		
Listed securities		
— Equity securities listed in the PRC, at market value	**–**	2,478
— Equity securities listed in the Australia, at market value	**52,836**	62,063
	52,836	64,541

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

The pledged bank deposits of RMB179,261,000 (2011: RMB126,254,000) are used to secure the bills payable and bank borrowings which are repayable within one year. Accordingly, the pledged bank deposits are classified as current assets.

The restricted bank deposits of RMB72,017,000 (2011: RMB58,603,000) are amounts held in a bank under the requirement of the relevant government authority of the PRC in respect of environmental rehabilitation. The amounts will be released at the cessation of mining activities or closure of mines if and only if the environmental rehabilitation work of the relevant mines meets government's requirements. Such deposits are classified as non-current assets.

27. PLEDGED AND RESTRICTED BANK DEPOSITS AND BANK BALANCES AND CASH *(Continued)*

Bank balances and cash comprise cash held by the Group with the original maturity of three months or less.

The average effective interest rate of the pledged and restricted bank deposits and bank balances as at 31 December 2012 is 0.76% (2011: 0.71%) per annum.

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

(A) BILLS AND TRADE PAYABLES

The aged analysis of the Group's bills and trade payables based on invoice date at the end of the reporting period is as follows:

	2012	2011
	RMB'000	RMB'000
Aged:		
0–90 days	**255,961**	238,340
91–180 days	**95,519**	125,785
181–365 days	**56,088**	15,441
Over 365 days	**53,512**	18,852
	461,080	398,418

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

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

	2012	2011
Effective interest rate	**5.81%**	4.13%

During the year, the advances drawn on bills receivables discounted with recourse of HK$23,000,000 (2011: HK$241,333,000) were settled by respective discounted bills receivables.

29. OTHER PAYABLES AND ACCRUED EXPENSES

	2012 **RMB'000**	2011 RMB'000
Advance from customers	**40,830**	244,514
Accrued wages	**55,151**	54,896
Other tax payables	**31,920**	146,282
Accrued expenses	**19,978**	44,095
Welfare payables	**2,000**	2,524
Payables for acquisition of property, plant and equipment	**229,017**	139,079
Other long term payables — due within one year (Note 34)	**53,244**	54,394
Others	**103,443**	83,884
	535,583	769,668

30. BANK AND OTHER BORROWINGS

	2012 **RMB'000**	2011 RMB'000
Bank loans		
— Secured	**1,781,000**	1,397,000
— Unsecured	**130,000**	–
Other loans		
— Secured (Note)	**1,472,935**	–
— Unsecured	**1,000,000**	600,000
Bank loans	**4,383,935**	1,997,000

Note: Pursuant to capital injection agreements ("Capital Injection Agreements") dated 28 August 2012 entered between Huaneng Guicheng Trust Co., Ltd. ("Huaneng") and certain subsidiaries of the Company, Huaneng injected an aggregate of RMB1,500 million to certain subsidiaries of the Company for equity interest of these subsidiaries ranging from 34% to 41%. On the same date, Huaneng and certain subsidiaries entered into share transfer agreements, pursuant to which the Group agreed to buy back all aforesaid equity interest held by Huaneng under the Capital Injection Agreements in two years from capital injection date ("Capital Injection Period") at a premium, of which premium is paid in advance quarterly from capital injection date. Huaneng is not entitled to any dividend from these subsidiaries and will not involve in its management decision or its daily operation over the Capital Injection Period. In addition, on 28 August 2012, Huaneng and the Group entered into agreements for a term of two years at an aggregate consulting fee of RMB36 million. Details of the transaction are set out in the Company's announcement dated 28 August 2012.

At initial recognition, the capital injection of RMB1,500 million is accounted for as borrowings of the Group and carried at amortised cost using the effective interest method. Transaction costs, including consulting fee, and premium on buying back the equity interest, are included in determination of the effective interest rate and the carrying amount of the loan and amortised over the Capital Injection Period. The effective interest of secured other loan is 12.11% per annum.

The amount is secured by equity interest of certain subsidiaries of the Company.

30. BANK AND OTHER BORROWINGS *(Continued)*

The bank and other borrowings are repayable as follows*:

	2012 RMB'000	2011 RMB'000
Bank and other borrowings		
Within one year	**2,571,000**	1,617,000
More than one year, but not exceeding two years	**1,732,935**	150,000
More than two years, but not exceeding five years	**80,000**	230,000
	4,383,935	1,997,000
Less: Amount due within one year shown under current liabilities	**(2,571,000)**	(1,617,000)
Amount due after one year	**1,812,935**	380,000

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

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

	2012 RMB'000	2011 RMB'000
Within one year	**1,400,000**	880,000
More than one year, but not exceeding two years	**1,472,935**	–

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

	2012	2011
Effective interest rates:		
Fixed-rate bank borrowings	**6.04% to 8.63%**	5.04% to 7.87%
Fixed-rate other borrowings	**5.4% to 12.11%**	8.50%
Variable-rate bank borrowings	**7.02% to 7.59%**	6.34% to 7.87%

During the year, the Group obtained new loans in an aggregate amount of RMB4,404 million (2011: RMB1,457 million). These loans carry interest at prevailing market rates and are repayable over a period of one to five years. The proceeds were used to finance the acquisition of property, plant and equipment, repayment of existing debts and for general working capital purpose of the Group.

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

31. SHARE CAPITAL

	Number of shares (in thousand)		Amount HK$'000		Equivalent to RMB'000	
	2012	2011	**2012**	2011	**2012**	2011
Ordinary of HK$0.1 each						
Authorised:						
At 1 January 2011, 31 December 2011 and 31 December 2012	**10,000,000**	10,000,000	**1,000,000**	1,000,000		
Issued and fully paid:						
At beginning of year	**2,065,653**	2,060,000	**206,565**	206,000	**199,078**	198,605
Exercise of share options	**–**	5,653	**–**	565	**–**	473
At end of year	**2,065,653**	2,065,653	**206,565**	206,565	**199,078**	199,078

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

32. RESERVES

(A) STATUTORY SURPLUS RESERVE

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

(B) FUTURE DEVELOPMENT FUND

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

(C) SPECIAL RESERVE

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

33. PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

	RMB'000
At 1 January 2011	11,646
Provision for the year	3,161
At 31 December 2011	14,807
Provision for the year	2,627
At 31 December 2012	17,434

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

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

34. OTHER LONG TERM PAYABLES

	2012 **RMB'000**	2011 RMB'000
Other long term payables comprise of:		
Consideration payable for mining right (Note)	**176,948**	218,492
Less: Amount due within one year shown under current liabilities (included in other payables and accrued expenses)	**(53,244)**	(54,394)
	123,704	164,098

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

35. DEFERRED TAX LIABILITIES

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

	Withholding tax on undistributed profits of PRC subsidiaries RMB'000	Fair value adjustment on property, plant and equipment at acquisition RMB'000	Total RMB'000
At 1 January 2011	55,520	251,469	306,989
Charge (credit) to profit or loss	9,880	(1,483)	8,397
At 31 December 2011	65,400	249,986	315,386
Charge (credit) to profit or loss	3,454	(1,292)	2,162
At 31 December 2012	68,854	248,694	317,548

Under the New Law of PRC, withholding tax is imposed on dividend declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. At 31 December 2012, deferred tax has been provided in respect of temporary differences attributable to such retained profits.

At the end of the reporting period, the Group has unused tax losses of approximately RMB640,338,000 (2011: RMB154,882,000), available for offset against future profits. No deferred tax assets has been recognised in respect of such losses due to the unpredictability of future profit streams. All these tax losses will expire during 2013 to 2017 (2011: 2012 to 2016).

36. DISPOSAL OF A SUBSIDIARY

During the year ended 31 December 2012, the Group entered into a sale agreement to dispose of its 51% equity interest in 四川恒鼎金自天正信息工程有限公司, which engaged in provision of technology consultancy services and development of automated system. The purpose of this disposal is to generate cash for the expansion of the Group's main businesses. The net assets of 四川恒鼎金自天正信息工程有限公司 at 9 March 2012, being the date of disposals were as follows:

	RMB'000
CONSIDERATION RECEIVED	
Cash received	4,409
ANALYSIS OF ASSETS AND LIABILITIES OVER WHICH CONTROL WAS LOST	
Property, plant and equipment	865
Inventories	2,561
Trade receivables	2,329
Bank balances and cash	254
Trade payables	(30)
Net assets disposed of	5,979
GAIN ON DISPOSAL OF A SUBSIDIARY	
Consideration received	4,409
Net assets disposed of	(5,979)
Non-controlling interests	2,930
Gain on disposal of a subsidiary	1,360
NET CASH INFLOW ON DISPOSAL OF A SUBSIDIARY	
Net cash inflow arising from disposal:	
Consideration received in cash	4,409
Less: bank balances and cash disposed of	(254)
	4,155

37. SENIOR NOTES

On 28 October 2010, the Company issued guaranteed senior fixed rate notes at par with aggregate nominal value of US$400,000,000 (equivalent to RMB2,596,614,000) (the "Notes") which carry fixed interest of 8.625% per annum (interest payable semi-annually in arrear) and will be fully repayable by 4 November 2015.

The Notes are listed on the Singapore Exchange Securities Trading Limited. They are secured on the capital stock of, and guaranteed by, certain of the Company's existing subsidiaries at the date of issue other than those established under the laws of the PRC. The fair value of the senior notes at the end of the reporting period was RMB2,042 million (2011: RMB2,052 million).

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

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

The fair value of the redemption right was insignificant as at 31 December 2012 and 2011.

During the year ended 31 December 2012, the Group breached certain of the terms of the Notes, which are primarily related to the fixed charge coverage ratio of the Group. Since the lenders have not agreed to waive the right to demand immediate payment as at the end of the reporting period, the loan has been classified as current liability as at 31 December 2012. In any event, should the lender calls for immediate repayment of the loan, the directors of the Company believe that adequate alternative sources of finance are available to ensure that there is no threat to the continuing operations of the Group.

38. CONVERTIBLE LOAN NOTES

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

The bondholders may, at their option, require the Company to redeem all or some of the convertible loan notes on 19 January 2013 at 106.2687% of their principal amount. Accordingly, the liability component of the convertible loan notes was classified as non-current liability as at 31 December 2011 and as current liability as at 31 December 2012.

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

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

During the year ended 31 December 2012, adjustments were made to the carrying amounts of the equity component and liability component of the convertible loan notes as at 1 January 2011 by RMB62,974,000 in order to take into account the early redemption option of bondholders exercisable on 19 January 2013. In connection with this, the convertible loan notes reserve as at 1 January 2011 is adjusted from RMB242,408,000 to RMB179,434,000 and the carrying amount of the liability component of the convertible loan notes as at 1 January 2012 are adjusted from RMB1,509,395,000 to RMB1,572,369,000 accordingly.

The movements of the liability component of the convertible loan notes is set out below:

	RMB'000
At 1 January 2011 (as restated)	1,572,369
Effective interest expenses	112,107
Interest paid	(25,605)
At 31 December 2011	1,658,871
Effective interest expenses	186,811
Interest paid	(25,675)
At 31 December 2012	1,820,007

39. FINANCIAL INSTRUMENTS

A. CATEGORIES OF FINANCIAL INSTRUMENTS

	2012 RMB'000	2011 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**2,912,421**	2,151,759
Held-for-trading investments	**52,836**	64,541
Available-for-sale financial assets	**228,330**	228,330
Financial liabilities		
Amortised cost	**9,667,556**	7,075,527

B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

39. FINANCIAL INSTRUMENTS (Continued)

B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk

(i) Currency risk

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

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

	Liabilities		Assets	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
United States Dollars ("US$")	**2,518,094**	2,496,399	**33,217**	15,142
Hong Kong Dollars ("HK$")	**–**	–	**4,284**	10,785

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

Sensitivity analysis

Non-derivative financial instruments

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

The following table details the Group's sensitivity to a 5% (2011: 5%) increase and decrease in RMB against the relevant foreign currency. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes bank balances and senior notes denominated in US$ and HK$. A positive/negative number below indicates an decrease/increase in post-tax loss (2011: increase/decrease in post-tax profit) where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the results.

	2012	2011
	RMB'000	RMB'000
(Loss) profit for the year		
— US$	**93,183**	93,047
— HK$	**(161)**	(404)

39. FINANCIAL INSTRUMENTS (Continued)

B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk *(Continued)*

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk related to loan receivable and loan from a non-controlling shareholder of a subsidiary, fixed-rate bank and other borrowings, convertible loan notes and senior notes. The Group is also exposed to cash flow interest rate risk related to variable-rate bank borrowings and bank balances.

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point (2011: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2011: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax loss would decrease/increase by HK$158,000 (2011: post-tax profit decrease/increase by HK$1,963,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances and bank borrowings.

(iii) Other price risk

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

Sensitivity analysis

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

If the prices of the respective equity investments had been 5% higher/lower, the Group's post-tax loss (2011: post-tax profit) would decrease/increase (2011: increase/decrease) by RMB1,981,000 (2011: RMB2,420,000) as a result of the changes in fair value of held-for-trading investments.

39. FINANCIAL INSTRUMENTS (Continued)

B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

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

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

The Group is exposed to concentration of credit risk on trade receivables, loan receivables and amount due from a non-controlling shareholder of a subsidiary. At 31 December 2012, the five largest debtors accounted for approximately 58% (2011: 65%) of the Group's total trade receivables. The five largest debtors are well established steel manufacturers in Sichuan province which have good internal credit rating by the Group. In addition, management of the Company reviewed the credit worthiness of respective borrowers of loan receivables and non-controlling shareholder to mitigate the credit risk. The Group has no significant credit risk with any of these customers since the Group maintains long-term and stable business relationship. Apart from delegating a team for determining the credit limits, credit approval and other monitoring procedures on these customers, the Group had also explored new customers in order to minimise the concentration of credit risk.

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

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

Liquidity risk

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

The Group relies on bank and other borrowings, senior notes and convertible loan notes as a significant source of liquidity. As at 31 December 2012, the Group has bank and other borrowings of approximately RMB4,384 million (2011: RMB1,997 million), senior notes of approximately RMB2,518 million (2011: RMB2,496 million) and convertible loan notes of RMB1,820 million (2011: RMB1,659 million).

39. FINANCIAL INSTRUMENTS (Continued)

B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk *(Continued)*

In order to mitigate the liquidity risk, management regularly monitors the operating cash flow of the Group to meet its liquidity requirements in short and long term. The directors are of the opinion that, taking into consideration of the Group are in the process of raising additional funds from banks and independent third parties through banks in the PRC, cash inflow from transaction under negotiation in respect of disposal of certain assets and the presently available banking facilities, the Group has sufficient working capital for its present requirements.

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

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

2012

	Weighted average effective interest rate %	On demand or less than 1 month RMB'000	1-3 months RMB'000	4 months to 1 year RMB'000	1-5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31.12.2012 RMB'000
Non-derivative financial liabilities							
Bills and trade payables	–	280,794	28,679	151,607	–	461,080	461,080
Advances drawn on bills receivables discounted with recourse	5.81	–	–	10,156	–	10,156	9,800
Other payables	–	226,932	4,104	50,624	–	281,660	281,660
Amount due to non-controlling shareholder of a subsidiary	–	14,765	–	–	–	14,765	14,765
Amounts due to related companies	–	673	50	100	–	823	823
Amount due to an associate	–	444	–	–	–	444	444
Other payable — consideration payable for mining right	6.1	14,457	16,648	26,579	120,204	177,888	176,948
Bank and other borrowings							
— floating rate	7.31	–	–	1,210,214	358,217	1,568,431	1,511,000
— fixed rate	9.13	–	–	1,645,174	1,643,790	3,288,964	2,872,935
Senior notes	8.625	2,518,094	–	–	–	2,518,094	2,518,094
Convertible loan notes	7.51	1,827,121	–	–	–	1,827,121	1,820,007
		4,883,280	49,481	3,094,454	2,122,211	10,149,426	9,667,556

39. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

2011

	Weighted average effective interest rate %	On demand or less than 1 month RMB'000	1-3 months RMB'000	4 months to 1 year RMB'000	1-5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31.12.2011 RMB'000
Non-derivative financial liabilities							
Bills and trade payables	–	103,458	290,560	4,400	–	398,418	398,418
Advances drawn on bills receivables discounted with recourse	4.13	–	–	23,594	–	23,594	23,000
Other payables	–	95,984	144,644	–	–	240,628	240,628
Amount due to non-controlling shareholder	–	15,142	–	–	–	15,142	15,142
Amount due to related companies	–	27,577	–	–	–	27,577	27,577
Other payable — consideration payable for mining right	5.40	14,457	16,648	24,427	174,108	229,640	218,492
Bank and other borrowings							
— floating rate	7.21	–	50,601	717,958	407,398	1,175,957	1,117,000
— fixed rate	7.14	–	–	919,270	–	919,270	880,000
Senior notes	8.625	–	–	–	2,711,089	2,711,089	2,496,399
Convertible loan notes	7.51	12,908	–	12,767	1,839,682	1,865,357	1,658,871
		269,526	502,453	1,702,416	5,132,277	7,606,672	7,075,527

39. FINANCIAL INSTRUMENTS *(Continued)*

C. FAIR VALUE

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

As at 31 December 2012, the fair value of the senior notes and convertible loan notes with carrying value of RMB2,518 million (2011: RMB2,496 million) and RMB1,820 million (2011: RMB1,659 million) respectively amounted to RMB2,042 million (2011: RMB2,052 million) and RMB1,750 million (2011: RMB1,396 million). The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Fair value measurements recognised in the consolidated statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31.12.2012			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at FVTPL				
Held-for-trading investments	**52,836**	–	–	**52,836**

39. FINANCIAL INSTRUMENTS *(Continued)*

C. FAIR VALUE *(Continued)*

Fair value measurements recognised in the consolidated statement of financial position *(Continued)*

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

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

Reconciliation of Level 3 fair value measurements of financial asset

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

Included in consolidated statement of comprehensive income for 2011 was a fair value gain of approximately RMB14,656,000 related to derivative component in convertible bond receivable. After the conversion, the amount is accounted for available-for-sale investments. At 31 December 2011, the available-for-sale investments carried at fair value, while at 31 December 2012, it carried at cost less impairment, as in the opinion of directors, the ranges of reasonable fair value estimations is so significant and their fair values cannot be measured reliably.

40. TRANSFER OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2012 that were transferred to banks by discounting those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as advances drawn on bills receivables discounted with recourse (see note 23 (b)). These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

	Bills receivable discounted to banks with full recourse RMB'000
Carrying amount of transferred assets	9,800
Carrying amount of associated liabilities	(9,800)
Net position	–

41. OPERATING LEASE

THE GROUP AS LESSEE

Minimum lease payments paid under operating leases during the year:

	2012 RMB'000	2011 RMB'000
Premises	**24,399**	23,224

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

	2012 RMB'000	2011 RMB'000
Within one year	**2,809**	19,626
Between two and five years	**1,957**	5,245
Over five years	**132**	226
	4,898	25,097

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

42. CAPITAL COMMITMENTS

	2012 RMB'000	2011 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**540,684**	611,311

43. PLEDGE OF ASSETS

Other than as disclosed in notes 27, 30 and 37, at the end of respective reporting period, the Group pledged the following assets to banks for credit facilities granted to the Group:

	2012 RMB'000	2011 RMB'000
Property, plant and equipment	**1,718,855**	1,142,252
Bank deposits	**179,261**	165,254
Bills receivable	**99,762**	142,320
Prepaid lease payments	**5,448**	–
	2,003,326	1,449,826

44. SHARE OPTION SCHEME

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

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

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

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

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

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

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

44. SHARE OPTION SCHEME *(Continued)*

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

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

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

At 31 December 2012, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 92,447,000 (2011: 92,447,000), representing 4.48% (2011: 4.48%) of the shares of the Company in issue at that date. The directors and employees should be remained in office or employed by the Group for the options to be vested.

44. SHARE OPTION SCHEME (Continued)

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

DIRECTORS

Date of grant	Exercisable period	Exercise price HK$	Outstanding at 1.1.2011	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2011 and 31.12.2012
30.4.2009	30.4.2010–24.8.2017	3.15	80,000	–	(40,000)	–	40,000
30.4.2009	30.4.2011–24.8.2017	3.15	80,000	–	(40,000)	–	40,000
30.4.2009	30.4.2012–24.8.2017	3.15	40,000	–	–	–	40,000
			200,000	–	(80,000)	–	120,000
Exercisable as at 31 December 2012							120,000
Exercisable as at 31 December 2011							80,000

EMPLOYEES

Date of grant	Exercisable period	Exercise price HK$	Outstanding at 1.1.2011	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2011 and 31.12.2012
30.4.2009	30.4.2010–24.8.2017	3.15	17,128,000	–	(5,541,000)	–	11,587,000
30.4.2009	30.4.2011–24.8.2017	3.15	17,128,000	–	–	–	17,128,000
30.4.2009	30.4.2012–24.8.2017	3.15	8,564,000	–	–	–	8,564,000
26.2.2011	27.2.2012–24.8.2017	6.604	–	21,960,000	–	–	21,960,000
26.2.2011	27.2.2013–24.8.2017	6.604	–	21,960,000	–	–	21,960,000
26.2.2011	27.2.2014–24.8.2017	6.604	–	10,980,000	–	–	10,980,000
			42,820,000	54,900,000	(5,541,000)	–	92,179,000
Exercisable as at 31 December 2012							59,239,000
Exercisable as at 31 December 2011							28,715,000

44. SHARE OPTION SCHEME *(Continued)*

CONSULTANT

Date of grant	Exercisable period	Exercise price HK$	Outstanding at 1.1.2011	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2011 and 31.12.2012
30.4.2009	30.4.2010–24.8.2017	3.15	32,000	–	(32,000)	–	–
30.4.2009	30.4.2011–24.8.2017	3.15	32,000	–	–	–	32,000
30.4.2009	30.4.2012–24.8.2017	3.15	16,000	–	–	–	16,000
26.2.2011	27.2.2012–24.8.2017	6.604	–	40,000	–	–	40,000
26.2.2011	27.2.2013–24.8.2017	6.604	–	20,000	–	–	20,000
26.2.2011	27.2.2014–24.8.2017	6.604	–	40,000	–	–	40,000
			80,000	100,000	(32,000)	–	148,000
Exercisable as at 31 December 2012							88,000
Exercisable as at 31 December 2011							32,000
Total			43,100,000	55,000,000	(5,653,000)	–	92,447,000

During the year ended 31 December 2011, 55,000,000 options were granted on 26 February 2011. The estimated fair values of the options granted on 26 February 2011 with vesting date on 27 February 2012, 27 February 2013 and 27 February 2014 are HK$63,811,000 (equivalent to approximately RMB53,833,000), HK$67,661,000 (equivalent to approximately RMB57,081,000) and HK$32,968,000 (equivalent to approximately RMB27,813,000), respectively.

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

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

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

44. SHARE OPTION SCHEME *(Continued)*

The Company used the Model to value the share options granted during the year ended 31 December 2011. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any charge in the variables so adopted may materially affect the estimation of the fair value of an option.

The Group recognised the total expense of RMB42,177,000 (2011: RMB81,217,000) for the year ended 31 December 2012 in relation to the share options granted by the Company of which RMB42,092,000 (2011: RMB81,021,000) was related to options granted to the Group's employees, RMB8,000 (2011: RMB48,000) was related to options granted to directors and RMB77,000 (2011: RMB148,000) was related to options granted by the Company to the consultant.

During both years, no share options have been cancelled or lapsed under the Scheme.

45. RELATED PARTY TRANSACTIONS

(a) During the year, the Group entered into the following transactions with related parties:

Name of Company	Relationship	Nature of transactions	2012 RMB'000	2011 RMB'000
Fuyuan Jintong	An associate	Transportation costs	**1,586**	3,832
Panxian Panshi	An investee company	Transportation costs	**9,143**	4,461
Panxian Panying	An investee company	Transportation costs	**785**	3,814
Guizhou Weiqing Coking Logistic Company Limited	An investee company	Transportation costs	**4,154**	–
Kaijie	Controlling shareholder of Panxian Panshi and Panxian Panying and non-controlling shareholder of certain subsidiaries of the Company	Transportation costs	**–**	6,781
Hengwei Zhitai	A company ultimately owned by Mr. Xian Fan, brother of Mr. Xian Yang	Sales	**–**	499
Fuyuan Kuntie	An associate	Processing charge	**1,469**	–
Huaneng	A minority shareholder of certain subsidiaries	Consultancy fee#	**6,000**	–
Mr. Xian Jilun	Father of Mr. Xian Yang	Rental expense	**600**	850

Consultancy fee is accounted for part of the effective interest on other borrowing. Please refer to note 30 for details.

As at 31 December 2012, the director, Mr. Xian Yang guaranteed the bank borrowings of approximately RMB2,470 million (2011: RMB946 million).

45. RELATED PARTY TRANSACTIONS (Continued)

(b) The remuneration of directors and other members of key management during the year was as follows:

	2012 RMB'000	2011 RMB'000
Short-term benefits	**5,390**	4,256
Post-employment benefits	**81**	70
Share-based payments	**25,588**	45,630
	31,059	49,956

46. RETIREMENT BENEFITS SCHEME

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

As at 31 December 2012 and 2011, the Group had no significant obligation apart from the contribution as stated above.

47. EVENTS AFTER THE REPORTING PERIOD

(a) On 19 January 2013, convertible loan notes holders which held in aggregate principal amount of approximately RMB1,596 million convertible loan notes tendered their redemption notices to the Company and redemption money of approximately RMB1,696 million has been fully paid on 21 January 2013.

On 28 January 2013, other convertible loan notes holders which held aggregate principal amount of RMB104,600,000 of the convertible loan notes (the "Plaintiffs") have issued a writ of summons (the "Writ") against the Company with the High Court of the Hong Kong Special Administrative Region. The Plaintiffs alleged in the Writ that instead of issuing redemption notices as intended, notices electing to convert the convertible loan notes into shares of the Company (the "Notices") were issued by mistake; and the Company knew or ought to have known that the Notices were issued by mistake and therefore are void, or alternatively are voidable in equity, and are of no legal effect. The Company is yet to verify as to whether the Writ has been served on the Company and is considering its legal position. The Company is seeking legal advice in respect of the Writ and at this stage is unable to determine the amount of its obligations with sufficient reliability.

(b) On 4 February 2013, 50,000,000 share options to subscribe for the ordinary shares of HK$0.10 each in the share capital of the Company were granted to certain eligible persons under the Scheme, subject to acceptance of the grantees. As approved by the board of directors and agreed between the Company and the grantees, the grant of 5,300,000 share options to the directors of the Company have been revoked on 6 February 2013.

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries as at 31 December 2012 and 2011 are as follows:

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Hidili Investment Holding Limited	British Virgin Islands	HKD1,250,000	100%	–	Investment holding
Sichuan Hidili Industry Co., Ltd(1)	The PRC	RMB1,800,000,000	–	100%	Manufacture and sale of clean coal
Panzhihua City Tiandaoqin Industry & Trading Co., Ltd(1)	The PRC	RMB10,000,000	–	100%	Sale of coal and coal products
Panzhihua Yanjiang Industry Co., Ltd(1)	The PRC	RMB7,812,500	–	100%	Coal mining and development
Panzhihua City Hidili Coke Co., Ltd(1)	The PRC	RMB600,000,000	–	100%	Coal mining, manufacture and sale of coke and clean coal
Panzhihua City Yangfan Industry & Trading Co., Ltd(1)	The PRC	RMB10,000,000	–	100%	Sale of coal and coal products
Panzhihua City Sanlian Transportation Co., Ltd(1)	The PRC	RMB6,800,000	–	100%	Provision of transportation services
Liupanshui Hidili Industry Co., Ltd(1)	The PRC	RMB660,000,000	–	100%	Mine holding and development
Panxian Ciaozi Industry & Trading Company Limited(2)	The PRC	RMB5,000,000	–	100%	Mine holding and development
Panxian Panxin Coke Co., Ltd(2)	The PRC	RMB70,000,000	–	70%	Manufacture of coke
Panxian Panyi Coal Preparation Co., Ltd(2)	The PRC	RMB15,000,000	–	70%	Clean coal washing
Panxian Xinyuan Industry and Trade Company Limited(2)	The PRC	RMB5,000,000	–	100%	Coal mining and sale of coal

Notes:

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

(2) Domestic enterprise established in the PRC.

The above companies are limited liabilities companies.

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

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

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

49. COMPARATIVE FINANCIAL INFORMATION

Certain comparative financial information presented in the consolidated statement of financial position and consolidated statement of changes in equity are reclassified for consistent presentation with the financial information for the current period.

Financial Summary

	2012 **RMB'000**	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
Turnover	**1,923,599**	2,861,532	2,437,319	1,495,396	2,488,449
(Loss) Profit attributable to owners of the Company	**(147,396)**	713,608	669,505	403,509	1,003,350

	2012 **RMB'000**	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
Non-current assets	**14,382,464**	13,022,604	10,707,160	8,403,847	5,291,630
Current assets	**3,347,554**	2,796,583	3,931,178	2,497,090	1,994,337
Current liabilities	**(8,073,800)**	(3,045,934)	(1,760,490)	(3,586,319)	(1,358,705)
Non-current liabilities	**(2,271,621)**	(5,029,561)	(5,741,434)	(891,535)	(52,708)
Total equity	**7,384,597**	7,743,692	7,136,414	6,423,083	5,874,554
Minority interests	**(99,800)**	(182,834)	(163,602)	(145,087)	(35,759)
Equity attributable to owners of the Company	**7,284,797**	7,560,858	6,972,812	6,277,996	5,838,795

SEGMENT ANALYSIS

	2012 **RMB'000**	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
Turnover					
Coal mining	**1,627,562**	2,545,993	1,730,141	614,522	1,234,831
Coking	**287,722**	296,580	696,556	871,702	1,242,423
Others	**8,315**	18,959	10,622	9,172	11,195
Segment results					
Coal mining	**705,398**	1,361,362	983,662	256,483	627,715
Coking	**93,799**	144,611	364,772	458,683	708,425
Others	**1,690**	7,473	3,209	2,255	995

Hidili 恒鼎
Hidili Industry International
Development Limited