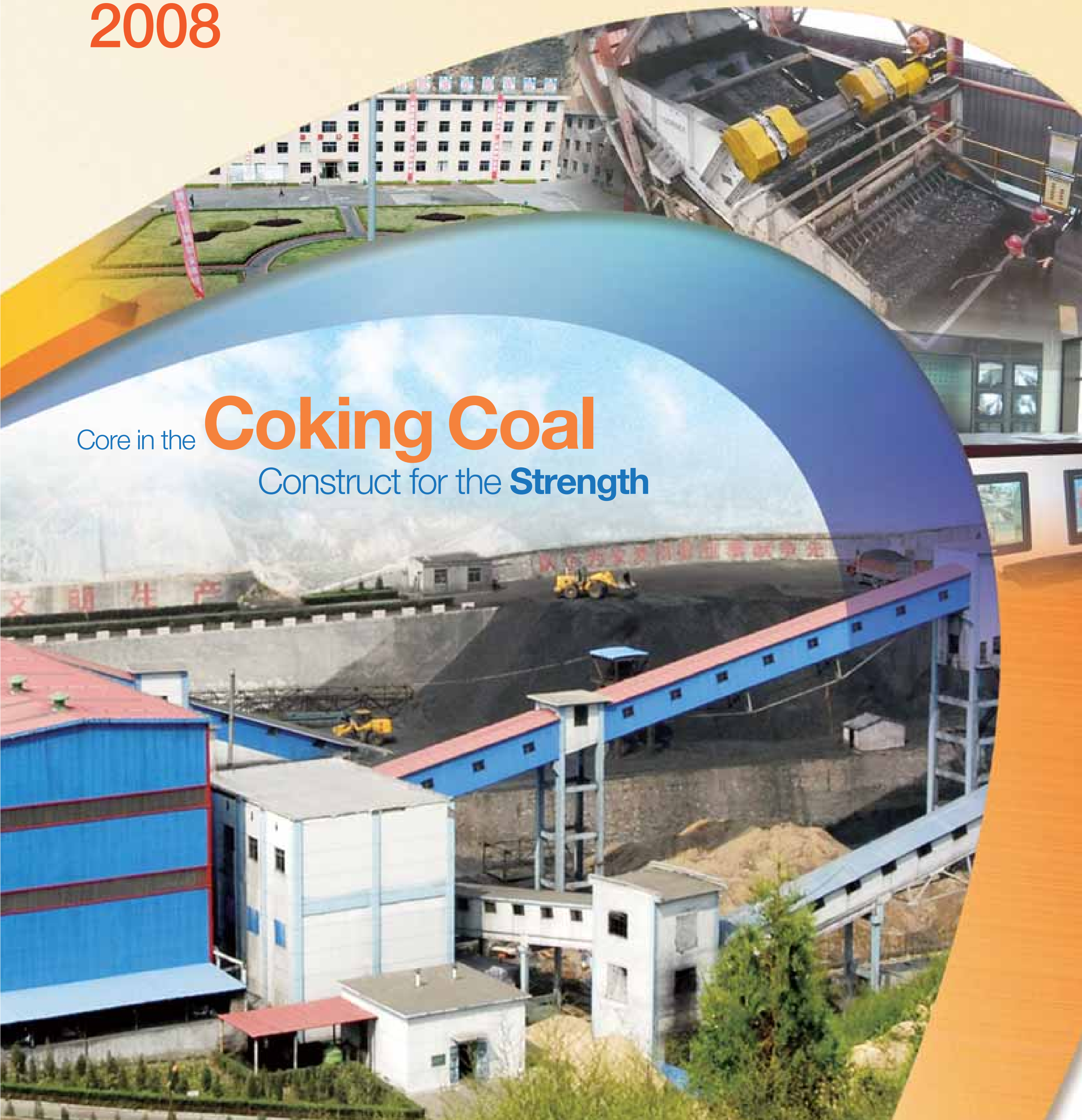
福山國際能源集團有限公司
Fushan International Energy Group Limited

Stock Code: 639

ANNUAL REPORT 2008

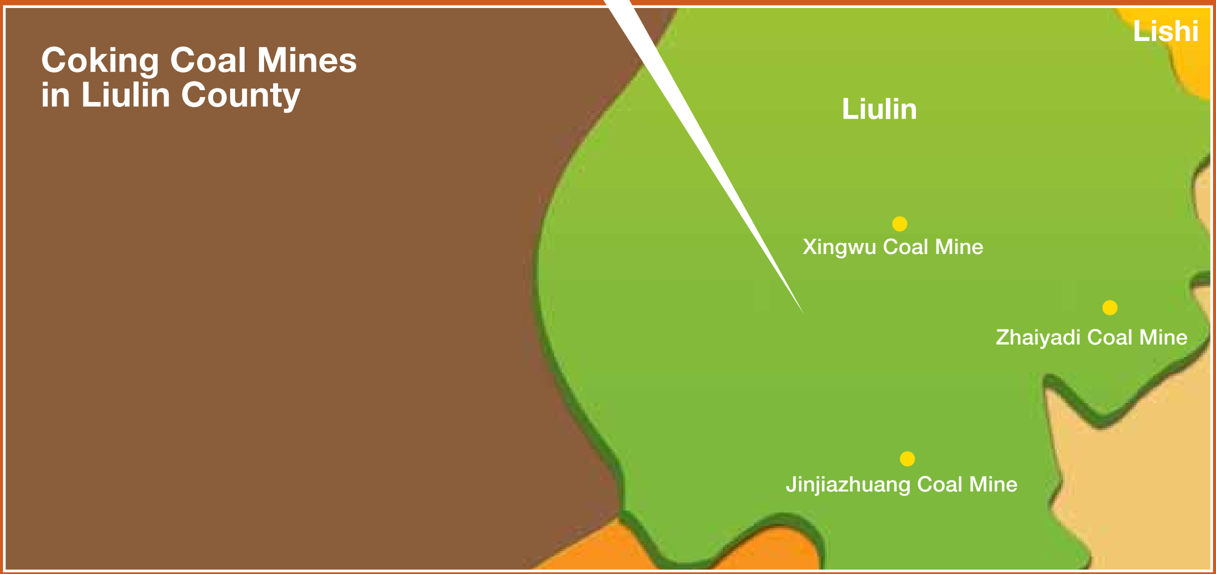


Core in the **Coking Coal**
Construct for the **Strength**

Contents

LOCATIONS OF THE GROUP'S COKING COAL MINES

CORPORATE PROFILE



Fushan International Energy Group Limited
is one of the most sizable integrated coking coal corporations in **central-western China.**

Taking Shanxi Province as its major investment base, it is principally engaged in **mining of coking coal and production and sales of raw and clean coking coal.**

Corporate Information

DIRECTORS

Executive directors:

CAO Zhong (Chairman)
WONG Lik Ping (Vice-chairman)
SO Kwok Hoo
XUE Kang
LIU Qiangshan

Non-executive directors:

CHEN Zhouping
LEUNG Shun Sang, Tony
SHI Jianping

Independent non-executive directors:

KEE Wah Sze
CHOI Wai Yin
CHAN Pat Lam

AUDIT COMMITTEE

CHOI Wai Yin (Chairman)
KEE Wah Sze
CHAN Pat Lam

REMUNERATION COMMITTEE

KEE Wah Sze (Chairman)
SO Kwok Hoo
CHOI Wai Yin
CHAN Pat Lam

STOCK CODE

639

PRINCIPAL BANKERS

Bank of China International Limited
Bank of China (Hong Kong) Limited
China Construction Bank (Asia) Corporation Limited
Hang Seng Bank Limited

SHARE REGISTRARS

Tricor Tengis Limited
26th Floor, Tesbury Centre
No. 28 Queen's Road East
Hong Kong

REGISTERED OFFICE

12th Floor Kwan Chart Tower
No. 6 Tonnochy Road
Wanchai
Hong Kong

COMPANY SECRETARY

LAM Lin Chu

AUDITORS

Grant Thornton
Certified Public Accountants

SOLICITORS

Sidley Austin
Clifford Chance
Tsun & Partners, Solicitors

COMPANY'S WEBSITE

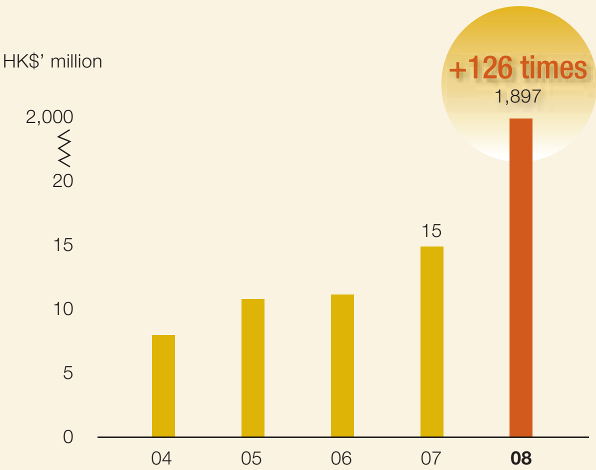
www.fushan.com.hk

FINANCIAL HIGHLIGHTS

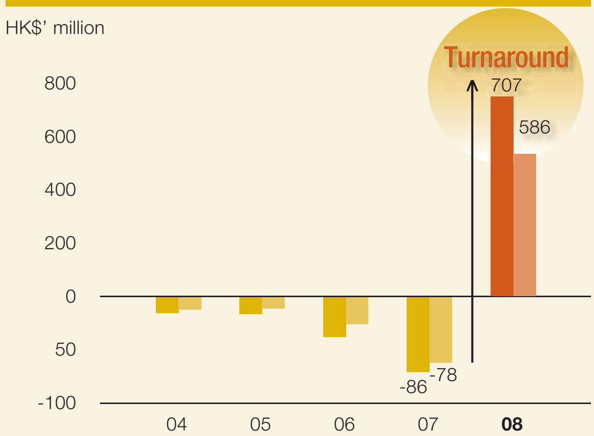
- The Group recorded a turnround in profitability and substantial net profit of approximately HK$707 million for the year ended 31 December 2008 when compared with the net loss of approximately HK$86 million for the year ended 31 December 2007. The substantial profit was solely attributable to the significant profit arising from three new acquired high quality coking coal mines, namely Xingwu Coal Mine, Jinjiazhuang Coal Mine and Zhaiyadi Coal Mine, during the period from 26 July 2008 to 31 December 2008.
- The Group recorded a turnover of approximately HK$1,897 million in 2008, representing a significant increase of 126 times over approximately HK$15 million in 2007.
- The net profit attributable to equity holders of the Company for the year ended 31 December 2008 was approximately HK$568 million.
- The basic earnings per share for profit attributable to the equity holders of the Company for the year ended 31 December 2008 was HK16.86 cents.
- Gross profit margin for the year ended 31 December 2008 achieved at 65%.
- EBITDA[1] for the year ended 31 December 2008 was approximately HK$1,186 million.

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

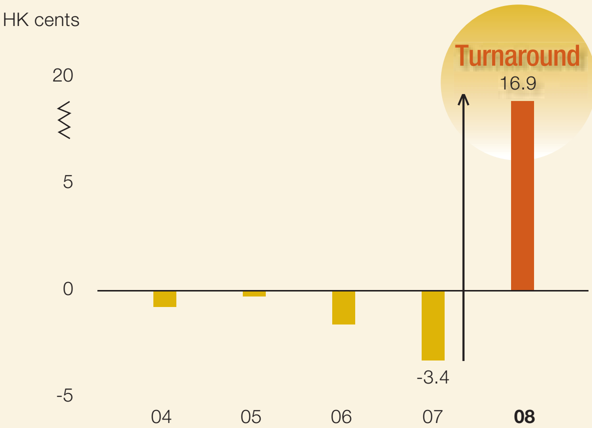
Revenue



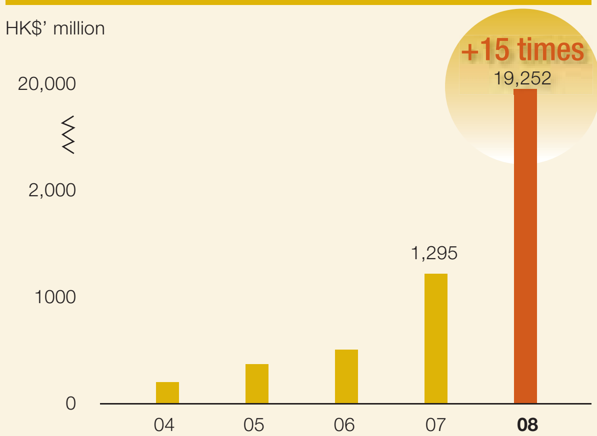
Profit/(Loss) for the year and Attributable to Equity Holders



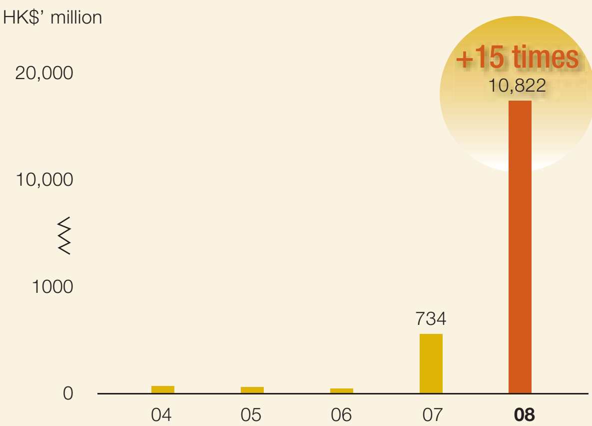
Basic Earnings/(Loss) per Share



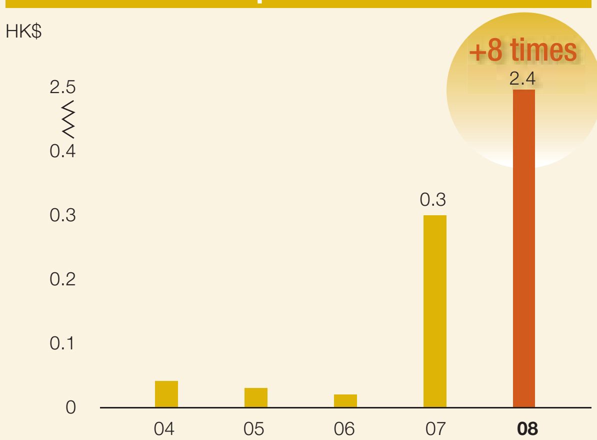
Total Assets



Equity Attributable to Equity Holders



Net Asset Value per Share



Milestone

Feb 2009

Following the latest quarterly review of Hang Seng Indexes Co. Ltd on 13 February 2009, the Company was included as a constituent stock of Hang Seng Composite Index by Hang Seng Indexes Company Limited. In terms of industries, the Company is classified under "Energy". In geographical terms, it is classified as a constituent stock of Hang Seng Mainland Composite Index or Hang Seng Mainland Freefloat Index. Such changes took effect on 9 March 2009.

July 2008

Successfully changed its focus to the coal business and duly completed the acquisition of three high quality coal mines in Liulin County (the "Acquisition"), Shanxi Province, namely Xingwu Coal Mine, Jinjiazhuang Coal Mine and Zhaiyadi Coal Mine. The Group is effectively interested in the mines as to 87.75%, 65% and 95% respectively. The total consideration of HK$10.53 billion was satisfied by cash of HK$4.86 billion and by issue and allotment of 1.26 billion new shares at the issue price of HK$4.5 per share.

Duly completed the Shougang Placing. The Shougang Group is interested in enlarged issued share capital of the Company as to 9.87% and is the third largest shareholder of the Group.

Duly completed the Second Placing.

Net proceeds of approximately HK$3.9 billion from the Shougang Placing and the Second Placing was used to settle the partial cash consideration for the Acquisition.

Increased equity interest in Shanxi Jinshan Energy Limited to 94.17% by a further capital contribution of RMB200 million. Upon completion, the Group's effective interest in Liulin Luenshan Coking Company Limited increased to 61.21%.

June 2008

Entered into a long-term strategic cooperation agreement with the Shougang Group, one of the largest iron and steel producer in the PRC. The Shougang Group will purchase no less than 2 million tons of quality clean coal from the Group each year commencing from 2009. The volume of purchase per year will be progressively increased in accordance with the Group's production capacity.

Entered into a placing agreement with Shougang (the "Shougang Placing") to place 450 million new shares at the placing price of HK4.6 per share, introducing Shougang as a strategic investor of the Group.

Entered into another placing agreement ("the Second Placing") to place up to 410 million new shares at the placing price of HK$4.8 per share.

Dec 2007

Increased equity interest in Jinshan Energy Group Limited to 91.25% by a capital contribution of RMB300 million to the company. Upon completion, the Group increased its effective equity interest in Liulin Luenshan Coking Company Limited from 42.25% to 59.31%.

Aug 2007

Increased equity interest in Shanxi Yao Zin Coal and Coking Company Limited to 66% by increasing capital contribution of RMB170.4 million to the company.

April 2007

Successfully raised a proceed as much as HK$460 million by placing 230 million new shares at a price of HK$2.0 per share.

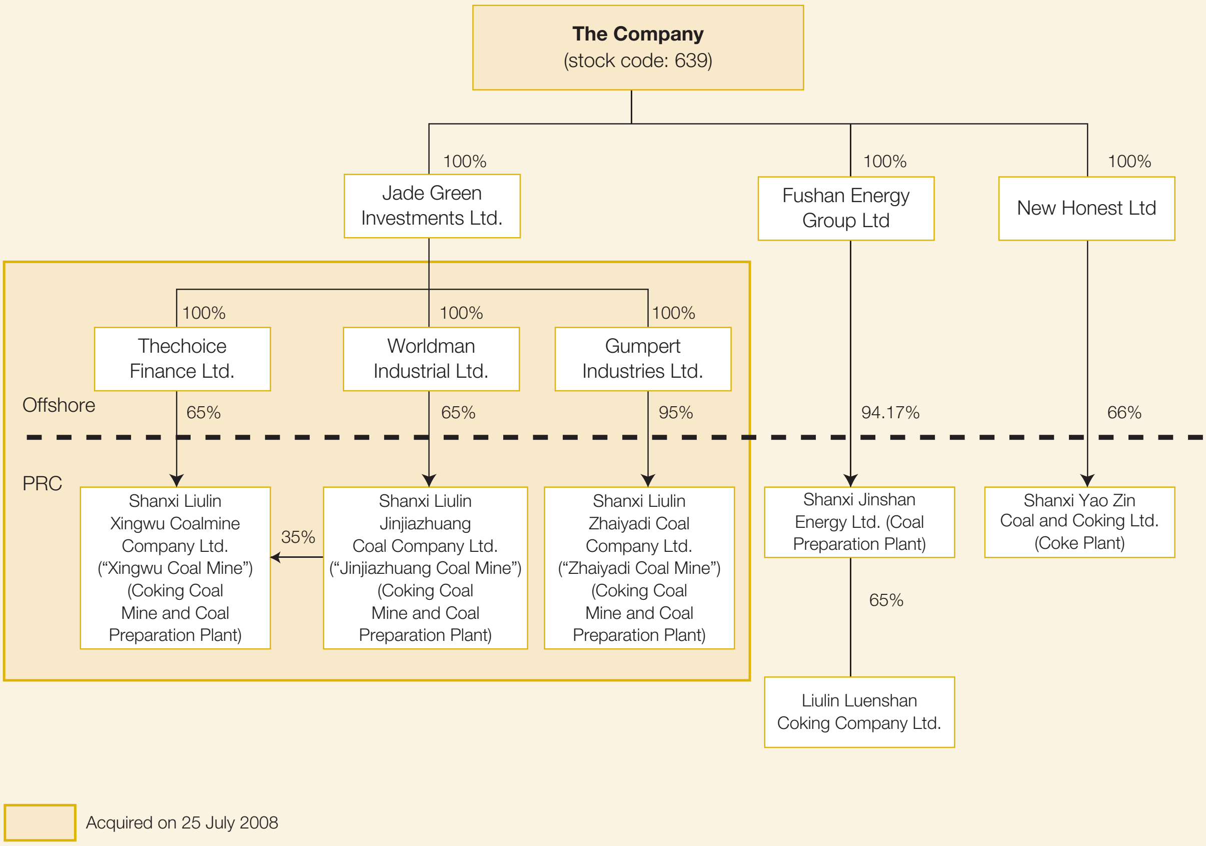
Issued convertible notes of a five-year term with a gross principal value of HK$300 million at a conversion price of HK$2.33 per share. As at 9 January 2008, all convertible notes were converted into 128,755,352 new shares.

June 2005

Invested in Shanxi Yao Zin Coal and Coking Limited and interested in the company as to 51%. The principal asset of the company is a coke plant with a planned production capacity of 1 million tons per annum. The coke plant has commenced partial production since July 2008.

Group Structure

The Group Structure with major subsidiaries as at 31 December 2008 is as follows:



OPERATING MINES ACQUIRED IN JULY 2008

Xingwu Coal Mine

- 6 km south of Liulin County and the mining right area extended over 11.6 sq. km and spans 4.5 km east to west and 4.5 km north to south
- Operation commenced in 1968
- Annual designed production capacity: 2.1 million tonnes
- Operate a coal preparation plant with annual processing capacity of 0.9 Mt per annum with processing yield of 71% depending on operating schedule
- Production of hard coking coal

Jinjiazhuang Coal Mine

- 14 km south of Liulin County and the mining right area extended over 6.35 sq. km and spans 6.8 km east to west and 3.4 km north to south
- Operation commenced in 1996
- Annual designed production capacity: 2.1 million tonnes
- A coal preparation plant adjacent to the mining site with a designed processing capacity of 3.0 Mtpa is currently under construction and is scheduled for completion in 2nd quarter of 2009
- Production of hard coking coal

Zhaiyadi Coal Mine

- 16 km southwest of Liulin County and the mining right area extended over 13.9 sq. km and spans 5.5 km east to west and 5.0 km north to south
- Operation commenced in 1988
- Annual designed production capacity: 2.1 million tonnes
- A coal preparation plant adjacent to the mining site with designed processing capacity of 2.1 Mtpa is currently under construction and is scheduled for completion in 4th quarter of 2009
- Production of semi-hard coking coal

COAL CHARACTERISTICS

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

Coal Quality Characteristic	Basic	Operating Mines Xingwu		Jinjiazhuang		Zhaiyadi
Seam		No. 4	No. 5	No. 3	No. 4	No. 09
Moisture (%)	Ad	0.9	0.3	0.6	0.7	0.7
Ash (%)	D	11.3	10.1	6.3	11.0	10.4
Sulfur Total (%)	D	0.36	0.85	0.32	0.47	1.65
Volatile Matter (%)	Daf	21.6	23.4	21.3	22.4	18.7
Fixed Carbon (%)	Ad	68.6	67.0	73.1	68.4	72.1
Calorific Value (Kcal./kg)	Gr.v.d	7,500	7,200	7,920	7,520	7,540
Caking Index (G)		86	75	49	77	72

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

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

OPERATING DATA
Reserves and output

	Operating Mines			
	XINGWU	JINJIAZHUANG	ZHAIYADI	TOTAL
Reserves				
In-Place Reserves as at 31 December 2007 (Mt)	63.23	64.18	78.34	205.75
Recoverable Reserves as at 31 December 2007 (Mt) – Proven reserves	11.11	20.78	13.32	45.21
Recoverable Reserves as at 31 December 2007 (Mt) – Probable reserves	35.23	23.02	38.89	97.14
Total proven and probable reserves as at 31 December 2007 (Mt)	46.34	43.80	52.21	142.35
Less : Raw coal output in 2008 (Mt)	(1.47)	(1.46)	(2.43)	(5.36)
As at 31 December 2008 (Mt)	**44.87**	**42.34**	**49.78**	**136.99**
Raw coal output				
Raw coal output in 2005 (Mt)	1.284	0.805	0.433	2.522
Raw coal output in 2006 (Mt)	1.514	1.201	1.425	4.140
Raw coal output in 2007 (Mt)	1.639	1.508	1.936	5.083
Raw coal output for the 7 months ended 31 July 2008 (Mt)	0.777	0.818	1.295	2.890
Raw coal output for the 5 months ended 31 December 2008 (Mt)	**0.695**	**0.639**	**1.133**	**2.467**
Total raw coal output in 2008 (Mt)	1.472	1.457	2.428	5.357
Expected raw coal output in 2009 (Mt)	1.400	1.600	2.400	5.400
Expected raw coal output in 2010 (Mt)	1.600	2.200	2.200	6.000
Current raw coal production capacity (Mt per annum)	2.100	2.100	2.100	6.300
Cleaned coal output				
Cleaned coal output in 2005 (Mt)	0.380	–	–	0.380
Cleaned coal output in 2006 (Mt)	0.560	–	–	0.560
Cleaned coal output in 2007 (Mt)	0.830	–	–	0.830
Cleaned coal output for the 7 months ended 31 July 2008 (Mt)	0.493	–	–	0.493
Cleaned coal output for the 5 months ended 31 December 2008 (Mt)	**0.273**	**–**	**–**	**0.273**
Total cleaned coal output in 2008 (Mt)	**0.766**	**–**	**–**	**0.766**
Expected cleaned coal output in 2009 (Mt)	0.800	1.500	0.300	2.600
Expected cleaned coal output in 2010 (Mt)	0.800	2.100	1.500	4.400

OPERATING DATA *(cont'd)*

Historical selling price and costs

	AVERAGE OF THREE OPERATING MINES
Average realized selling price of raw coal per tonne (inclusive VAT)	
For the year ended 31 December 2007	RMB355
For the 7 months ended 31 July 2008	RMB582
For the 5 months ended 31 December 2008	**RMB785**
For the year ended 31 December 2008	**RMB670**
Average realized selling price of cleaned coal per tonne (inclusive VAT)	
For the year ended 31 December 2007	RMB636
For the 7 months ended 31 July 2008	RMB984
For the 5 months ended 31 December 2008	**RMB1,544**
For the year ended 31 December 2008	**RMB1,178**
Raw coal production cost per tonne	
For the year ended 31 December 2005	RMB96.6
For the year ended 31 December 2006	RMB84.5
For the year ended 31 December 2007	RMB92.7
For the year ended 31 December 2008	**RMB131.3**
Raw coal mine cash cost per tonne*	
For the year ended 31 December 2005	RMB66.4
For the year ended 31 December 2006	RMB53.6
For the year ended 31 December 2007	RMB61.2
For the year ended 31 December 2008	**RMB94.7**

Sources: Data for the years from 2005 to 2007, for the period from 7 months ended 31 July 2008 and for the year ended 31 December 2008 are extracted from the Technical Review Report prepared by John T. Boyd Company dated 25 June 2008, the unaudited management accounts of the operating mines for the 7 months ended 31 July 2008 prepared in accordance with the accounting principles generally accepted in the PRC ("PRCGAAP") and the unaudited management accounts of three operating mines for the year ended 31 December 2008 prepared in accordance with the PRCGAAP respectively.

* *Mine Cash Cost means production cost less (1) production maintenance fee, (2) safety fund and (3) depreciation and amortisation*

Chairman's Statement

Honorable shareholders,

On behalf of Fushan International Energy Group Limited (the "Company"), together with its subsidiaries, "Fushan Energy" or the "Group"), I hereby present the annual results for the year ended 31 December 2008.

The year of 2008 was the first rewarding year for the Group since its entry into the coal mine business in 2003 and after years of investment. Attributed to the three quality coking coal mines duly acquired by the Group in July 2008, the Group is currently one of the most sizable coal corporations in central-western China. The results of the year saw a successful turnaround, recording a turnover of approximately HK$1,897 million, and profit attributable to equity holders was approximately HK$567 million. Such results are most encouraging to the Group.

Facing the global recession arising from the financial tsunami, it is expected that the estimated Gross National Product of the PRC in 2009 will still outperform countries from other major economies by posting an annual growth up to 8%. In order to stimulate its national economy, the central government spares effort to bring forth the 4 trillion yuan stimulus package to stabilize the economy, expands infrastructural development and boosts employment and domestic demand. The plan will spur growth in the iron and steel industry in line with the infrastructural expansion. Hence, as our coking coal products are the major raw materials in refining quality steels, the Group considers that its market demand and prices are set to sustain a stable momentum, leveraging on the overall infrastructural development and economic recovery in the PRC.

Fushan Energy takes Shanxi Province as its major investment base and is principally engaged in mining of coking coal as well as production and sales of raw and clean coking coal. Three quality coking coal mines in Liulin County of Shanxi Province, namely Xingwu Coal Mine, Jinjiazhuang Coal Mine and Zhaiyadi Coal Mine, with an aggregate mining area of approximately 31.89 sq.km and an aggregate raw coal production capacity of 6.3 million tons per annum. In 2008, the total annual production of the three mines operated by our newly acquired three quality coking coal mines in the PRC amounted to approximately 5.4 million tons, of which approximately 2.5 million tons were generated upon the completion of acquisition of these mines last July. In 2008, the pro-forma annual sales and profit after tax of the three mines totaled approximately HK$3,503 million and approximately HK$1,578 million respectively, among which approximately HK$1,808 million of sales and approximately HK$847 million of profit after tax had been accounted for in the annual consolidated results of the Group in 2008. Due to the sound operation of these three quality coking coal mines, the results for the year recorded a turnaround in profitability. These three quality coking coal mines will be the major driver of earnings of the Group in the future.

Fushan Energy has a broad and stable portfolio of clients. To further expand the premium client base of the Group, the Group entered into a long-term strategic cooperation agreement with Shougang Group (''Shougang''), its major customer and one of the largest iron and steel producers in the PRC, and invited Shougang as a substantial shareholder in July 2008. The Group is also extremely pleased to have gradually allured new customers including sizable iron and steel producers such as Tangshan Iron & Steel (唐山鋼鐵), Wuhan Iron & Steel (武漢鋼鐵) and Taiyuan Iron & Steel (太原鋼鐵), etc. Such an array of measures laid a solid foundation for the Group to consolidate its customer base, expand production and sales of clean coal and seek a new source of income.

In recent years, the coal industry of the PRC has been in the midst of shifting from industrial integration to capital integration, during which the PRC Central Government decided to foster integration in the coal industry and gradually close small coal mines. To the Company, challenges and opportunities coexist. We believe that the PRC Central Government integration policy of closing the small coal mines in the PRC before the end of 2010 will be favourable to the development of coking coal manufactures of such production scale as Fushan Energy. In light of the recovery and increase in market demand for coking coals under the PRC Central Government's economic stabilization strategy, the coking coal price is poised to surge.

Looking forward in 2009, despite the global economic downturn, the Group is actively expanding its sales network from coke plants to large-scale iron and steel producers. The Group will maintain stable development in its coking coal business by formulating effective business and pricing strategies to uphold the quality of the Group's products. Three new coal preparation plants of the Group, namely Jinjiazhuang Coal Preparation Plant, Zhaiyadi Coal Preparation Plant and Jinshan Coal Preparation Plant will commence production successively in 2009 in order to further diversify its product mix and increase the sales of clean coal which commands higher profit margin. It is estimated that the annual processing volume of the Group will then reach 8 million tons. Such plan has proven that the Group places its core presence in the coking coal realm, bringing Fushan an integrated production chain of coal mine resources and coal preparation plants.

Lastly, on behalf of all members of the Board of Fushan Energy, I would like to express my heartfelt gratitude to all shareholders, the Board members, management team and staff of the Group for their support and contributions to the Group throughout the years. Being one of the largest coking coal enterprises in central western China, the Company will proactively implement its merger and acquisition strategy, speed up the application procedures of mining rights certificate for the new coal mine, duly perform its social responsibility and put efforts in production safety and environmental protection. Besides, the Group will enhance investors' confidence by improving its corporate governance.

CAO Zhong
Chairman

Hong Kong, 16 April 2009

BUSINESS REVIEW

In 2008, the Company ("Fushan Energy") attained a significant breakthrough in its core businesses. In June 2008, the Group entered a long-term strategic cooperation agreement with Shougang Holding (Hong Kong) Limited ("Shougang"), the group company of Shougang Corporation, one of the largest iron and steel manufacturers in China. Such move introduced Shougang as the strategic investor of the Group, with whom a sales agreement was entered into. In order to build a closer rapport with customers and develop production and sales of clean coal as well as sources of sales, the Group also entered into sales agreements with a number of sizable national iron and steel manufacturers such as Tangshan Iron & Steel (唐山鋼鐵) and Inner Mongolia Baogang (內蒙包鋼).

In July 2008, Fushan Energy successfully acquired three quality coking coal mines located in Liulin County of Shanxi Province, namely Xingwu Coal Mine, Jinjiazhuang Coal Mine and Zhaiyadi Coal Mine, which encompass an aggregate mining area of 31.89 sq.km and an aggregate raw coal production capacity of 6.3 million tons per annum. Such move laid a keystone for the Group's business development in the coking coal realm, bringing Fushan Energy a production chain of coal mine resources and coal preparation plants.

Since completion of the above acquisition of the three PRC subsidiaries which operated three high quality coking coal mines mentioned above on 25 July 2008 ("Completion Date"), the Group has operated its coal mining business and the production of coal preparation plants in Shanxi Province. Mining activities of the three coking coal mines are mechanically automated and monitored by central computerized systems, resulting in a boost in capacity and compliance with the safety, environment and equipment requirements in the PRC. The three quality coking coal mines had brought a net aggregate profit of over approximately HK$847 million to the Group in mere five months after the completion of such acquisition.

Financial Review

As at 31 December 2008, the Group recorded a turnover of approximately HK$1,897 million, representing an significant increase of approximately 126 times over approximately HK$15 million in the same period of 2007. The substantial growth in turnover was attributable to the significant contribution of income to the Group from the three high quality coking coal mines acquired in July 2008. In addition, the Group has recorded a turnaround in profitability and substantial net profits of approximately HK$707 million for the year ended 31 December 2008 when compared with the net loss of approximately HK$86 million for the year ended 31 December 2007. For the year ended 31 December 2008, the Group recorded net profits attributable to the equity holders of the Company of HK$568 million.

BUSINESS REVIEW *(cont'd)*

Financial Review *(cont'd)*

Cost of Sales

During the period under review, cost of sales was approximately HK$660 million, representing an increase of approximately HK$647 million or approximately 51 times, as compared with approximately HK$13 million of the same period in 2007. The significant increase was due to increase in the turnover and was mainly attributable to significant contribution of cost of sales to the Group from the three quality coking coal mines acquired in July 2008 during the period under review.

Depreciation of property, plant and equipment in 2008 was approximately HK$63 million, representing an increase of approximately HK$60 million or approximately 21 times as compared with approximately HK$3 million of the same period in 2007. The increase was mainly attributable to the addition of property, plant and equipment through the acquisition of the three quality coking coal mines by approximately HK$1,323 million and through other additions by approximately HK$605 million during the period under review.

Amortisation of mining rights in 2008 was approximately HK$98 million, which was solely attributable to the addition of carrying amount of mining rights of approximately HK$10,690 million from the acquisition of the three quality coking coal mines.

Gross Profit and Gross Profit Margin

As a result of the reasons above, gross profit in 2008 was approximately HK$1,237 million, representing a significant increase of approximately HK$1,235 million or approximately 669 times as compared with approximately HK$1.85 million of the same period in 2007. During the period under review, the gross profit margin achieved at 65% compared with 12% in the same period of 2007.

Other Operating Income

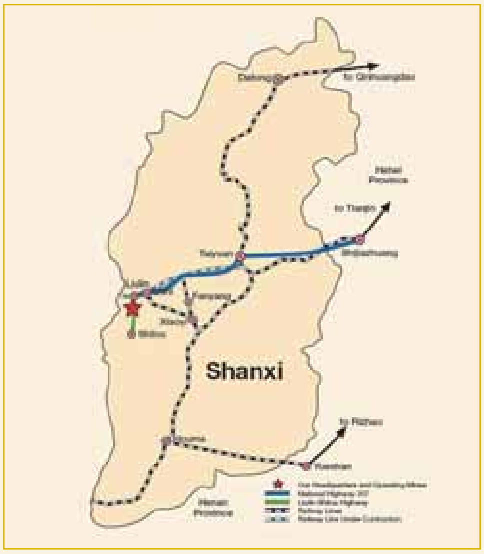
During the period under review, other operating income was approximately HK$48 million, representing an increase of approximately HK$33 million or approximately 3 times as compared with approximately HK$15 million of the same period in 2007. The increase was mainly attributable to the gain on sales of purchased coal and sales of scrapped products generated from the three quality coking coal mines and the coke plant.

BUSINESS REVIEW *(cont'd)*

Financial Review *(cont'd)*

Selling and distribution expenses

During the period under review, selling and distribution expenses was approximately HK$60 million which was mainly attributable to the three quality coking coal mines.



General and Administrative Expenses

During the period under review, administrative expenses were approximately HK$141 million, representing an increase of approximately HK$99 million or approximately 3 times as compared with approximately HK$42 million of the same period in 2007. The increase was mainly attributable to the three quality coking coal mines.

Other Operating Expenses

During the period under review, other operating expenses were approximately HK$43.9 million, representing an increase of approximately HK$26.4 million or approximately 2.5 times as compared with approximately HK$17.5 million of the same period in 2007. The increase was mainly attributable to the three quality coking coal mines and coke plant.

Finance costs

During the period under review, finance costs were approximately HK$91.3 million, representing an increase of approximately HK$68.8 million or approximately 4 times as compared with approximately HK$22.5 million of the same period in 2007. The increase in finance costs was due to the increase in total borrowings from approximately HK$218.6 million in 2007 to approximately HK$1,626 million in 2008, of which, approximately HK$1,110 million was solely for used to finance part of the consideration for the acquisition of three quality coking coal mines.

Taxation

During the period under review, taxation was approximately HK$226 million, of which approximately HK$73 million representing the provision of withholding tax on the attributable earnings arising from the three quality coking coal mines in accordance with the applicable PRC laws in the PRC, which was mainly attributable to the three quality coking coal mines.

The Company's Shareholder's Attributable Profits

By reason of the foregoing, the Company's shareholder's attributable profits in the period under review was approximately HK$568 million or approximately HK16.86 cents per share, as a result of the turnaround from the Company's shareholder's attributable net loss of approximately HK$78 million in 2007 to net profit of approximately HK$568 million in 2008.

Introduction of Substantial Shareholders and Other Shareholders

On 15 June 2008, the Company entered into a long term strategic cooperation agreement with Shougang, pursuant to which the Company placed 450 million shares to Shougang at the placing price of HK$4.6 per share and raised a total of HK$2.07 billion, representing 10.84% of the enlarged share capital in issue of the Company as at 15 June 2008. On 20 June 2008, the Company entered into the Second Placing Agreement, pursuant to which the Company placed 410 million placing shares, of which 100 million placing shares were placed to Mr. Wong Lik Ping ("Mr. Wong"), a controlling shareholder and Chairman of the Company as at the date of the above mentioned agreements, and 310 million to other independent professional and institutional investors.

BUSINESS REVIEW *(cont'd)*

Introduction of Substantial Shareholders and Other Shareholders *(cont'd)*

After completion of these two placings and the acquisition agreement (the "Acquisition Agreement") in relation to the acquisition of the three coking coal mine companies in the PRC on 25 July 2008 ("Completion Date"), shareholding of Mr. Wong was diluted from 50.83% to 31.01 % and shareholding of Mr. Xing Libin, the majority shareholder of acquired three coal mines, was 14.68%, while Shougang became the third largest shareholder with a shareholding of 9.87% as at the date of completion of the Acquisition Agreement .

Material acquisitions and disposals

The Group places a clear focus on the development of high quality coking coal business and make effort to complete industry chain to enhance its position in the coking coal industry. On Completion Date, the Company duly completed the acquisition of three quality coking coal mines in the PRC, namely Xingwu Coal Mine, Jinjiazhuang Coal Mine and Zhaiyadi Coal Mine, located in Liulin County of Shanxi Province. Pursuant to the Acquisition Agreement, the total consideration of such merger and acquisition was HK$10.53 billion, of which HK$5.67 billion was paid to the seller by issuing 1.26 billion new shares by the Company at a price determined at HK$4.50 per share; while the remaining sum of HK$4.86 billion was mainly paid by the net cash proceeds received from the placing 450 million shares at a price of HK$4.6 per share to Shougang and the placing 410 million new shares at a price of HK$4.8 per share to independent professional and institutional investors by the Company respectively as mentioned in the sub-section headed "**Introduction of Substantial Shareholders and Other Shareholders**" in this section. Since 25 July 2008, these three newly acquired mines companies in the PRC became the subsidiaries of the Company and their financial statements have been consolidated into the financial statements of the Group. The turnaround of financial results from net loss of HK$86 million for the year ended 31 December 2007 to net profit of HK$707 million for the year ended 31 December 2008 was mainly attributable to the significant net profits contributed from these three quality coking coal mines during the period from 25 July 2008 to 31 December 2008. Details of the transaction are set out in the announcement and the circular of the Company dated 21 May 2008 and 26 June 2008 respectively.

The total production volume of these three coking coal mines amounted to 5.4 million tons during the year ended 31 December 2008, of which 2.5 million tons of coal were produced from the Completion Date to 31 December 2008. These three quality coking coal mines would record an aggregate pro-forma profit of approximately HK$1,578 million for the full financial year ended 31 December 2008, of which an aggregate profit of approximately HK$847million generated from 25 July 2008 to 31 December 2008 was consolidated into the profits of the Group.

BUSINESS REVIEW *(cont'd)*

Material acquisitions and disposals *(cont'd)*

As the coke plant held by 太原西山日盛煤焦有限公司 (Taiyuan Xishan Risheng Coal and Coking Co., Limited) ("Risheng") located in Gujiao, Shanxi Province is relatively far away from the three newly acquired coking coal mines in July 2008, the Group entered into a conditional sales and purchase agreement with other shareholder of Risheng to sell, inter alia, its 70% equity interest in Risheng to such shareholder during the year at a consideration of approximately RMB110 million. Details of the transaction are set out in the announcement and the circular of the Company dated 23 April 2009 and 29 December 2008 respectively. As at 31 December 2008, the disposal had not yet completed.

In July 2008, the Group increased its shareholding in Shanxi Jinshan Energy Limited ("Jinshan") from 91.25% to 94.17% by its increasing its registered capital contribution of RMB200 million in the Jinshan. In turn, the Group's effective equity interest in Liulin Luenshan Coking Coal Limited, directly held by Jinshan, was increased to 61.21%.

Sales Agreement

Since the completion of the Acquisition Agreement, besides its existing customers, the Group has also entered into certain sales contracts of clean coking coals with two new sizeable iron and steel plants in the PRC. Pursuant to the sales contracts entered with such plants, the Group supplied 15,000 tons of clean coking coal to the one sizeable iron and steel plant per month since 1 September 2008 and supplied 30,000 tons of clean coking coal to the another iron and steel plant per month since 15 October 2008.

Safety Production

To ensure safe and smooth operation through utilization of large and small fixtures, a computer control room was set up to direct and oversees the operation program. A low concentration level of gas in air was maintained by large scale of ventilation system and large scale water pumps prevented accidents resulting from water leakage. During the period under review, coking coal mines owned and operated by the Group had no record of fatalities and there were rare occurrence of major injuries.

BUSINESS REVIEW *(cont'd)*

Environmental Protection

The Group realises its responsibility of environmental protection. Hence, the Group has actively fulfilled its obligation of environmental protection and adopted environmental-friendly measures in compliance with the applicable laws. During the period under review, the Group employed effective measures for environmental management, prevention of surface land subsidence, soil and water conservation, waste rock disposal control, water resource protection, air pollution control and noise abatement. Through on-site survey before the acquisition performed by professional technical advisor, namely John T. Boyd Company was satisfied with the performance of three new acquired coking coal mines in environmental protection.

Charges on Assets

As at 31 December 2008, save for the aggregate net carrying amount of approximately HK$11,054 million was pledged for a loan of approximately HK$1,110 million, none of the Group's assets was charged or subject to any encumbrance. The loan of approximately HK$1,110 million was solely used to finance part of the consideration for the acquisition of three quality coking coal mines.

Contingent Liabilities

As at 31 December 2008, save for the guarantees given by Shanxi Liulin Xingwu Coalmine Company Ltd. ("Xingwu") and Shanxi Liulin Zhaiyadi Coal Company Ltd. ("Zhaiyadi") amounting to approximately RMB872 million and RMB100 million respectively which were entered prior to the completion of the acquisition of Xingwu and Zhaiyadi, with respect to the bank loans and other loans to their independent third customers, there were no guarantees given to any banks or financial institutions by the Group. As at 31 December 2008, there was no default in the repayment of the respective loans. No new guarantees or renewal of these guarantees would be anticipated upon the expiry of the guarantees given by Xingwu and Zhaiyadi. As at the date of this report, guarantees of RMB100 million have been expired and released.

Gearing Ratio

As at 31 December 2008, the gearing ratio of the Group, which is computed from the Group's interest bearing liabilities divided by the total equity, was approximately 13.06%. The borrowings were mainly used to finance part of the consideration for the acquisition of three quality coking coal mines as mentioned above and certain construction and installation of coke plant and machinery of a subsidiary in the PRC.

Exposure to Fluctuations in Exchange Rates

As at 31 December 2008, other than assets and liabilities denominated in Renminbi, the Group had no material exposure to foreign exchange fluctuations.

Liquidity and Financial Resources

As at 31 December 2008, the Group's current ratio (current assets divided by current liabilities) was approximately 0.91 and the Group's cash and bank deposits amounted to approximately HK$929 million, of which approximately HK$169 million was deposited to secure loan facilities of HK$1,110 million.

On 25 July 2008, the Company raised approximately HK$4.04 billion by way of placing 450 million shares at a price of HK$4.6 per share to Shougang and placing 410 million new shares at a price of HK$4.8 per share to independent professional and institutional investors respectively. On the same date, the Company also issued 1.26 billion new shares at the issue price of HK$4.5 per share for the settlement of HK$5.67 billion, being part of the consideration of three quality coking coal mines as mentioned above.

BUSINESS REVIEW *(cont'd)*

Capital structure

The Group considers total equity, bank loans and other borrowings as capital. As at 31 December 2008, the amount of capital was approximately HK$14,075 million.

As at 31 December 2008, the issued capital of the Company was approximately HK$456 million. Apart from the issue of new placing shares and consideration shares as mentioned above, the Company also issued 17,167,381 shares and 5,000,000 shares of Company with par value of HK$0.1 each at a consideration of HK$2.33 per share upon the conversion of face value of HK$40,000,000 of the convertible notes and each at an exercise price of HK$1.5 per share upon the exercise of the granted options during the period under review.

During the period under review, the total borrowings denominated in RMB which are repayable within 5 years from the balance sheet date, amounted to approximately HK$1,626 million. All the borrowings were subject to fixed interest rates.

Employees

The Group had 9 Hong Kong employees and 5,987 PRC employees at 31 December 2008 with remuneration package to be reviewed annually. The Group provides a mandatory provident fund scheme for its Hong Kong employees and the state-sponsored retirement plan for its PRC employees (note 3.19 to the financial statements). The Group has also adopted share option scheme (note 3.18 and note 42 to the financial statements) since 20 June 2003. During the period under review, no share option was granted.

DIVIDEND

The Directors do not recommend payment of a dividend for the year ended 31 December 2008.

FUTURE PROSPECTS

Looking ahead, the world economy is expected to stay grim in 2009. The operation of the coal industry in the PRC will still be facing a difficult and challenging environment. A RMB4 trillion economic stimulus plan was launched by the PRC Government as boosters of the economy, the infrastructure project development and the employment and domestic demand. Support to the steel industry provided under such policy is also favourable to the coal industry which produces raw materials for steel. Meanwhile, consolidation of the coal industry will be fostered by the PRC government in 2009 by the further shut down of small mines and suspension of new applications for coal exploration rights until March 2011 in the PRC. As the supply of coking coal in the PRC is expected to be tightened through such resources integration, coking coal suppliers like Fushan Energy with established production scale will be benefited from such plan.

Facing year of 2009 where both opportunities and challenges coexist, the Group will continue to focus on the production and investment in Shanxi Province, the PRC. Taking advantage of the operating expertise, professional technology, extensive sales channels and support in infrastructure construction, coupled with the scale of economy enhanced by the Group, the Company's future development will accelerate and the operating efficiencies and competitiveness of the Company's existing business will elevate.

FUTURE PROSPECTS *(cont'd)*

In terms of business development, the Group will press ahead with its proactive expansion of production capacity. At present, the three new coal preparation facilities under construction in Shanxi Provinces namely the Jinjiazhuang Coal Preparation Plant, Zhaiyadi Coal Preparation Plant and Jinshan Coal Preparation Plant are still under the construction and expected to commence production in 2009 and till then, the Group's annual processing production capacity of clean coal is expected to increase to approximately 10 million tons. The construction of Jinjiazhuang Coal Preparation Plant which is in the proximity of the Jinjiazhuang Coal Mine and has an annual processing capacity of 3 million tons is expected to be completed in the first quarter of 2009. The construction of Zhaiyadi Coal Preparation plant which is also in the proximity of the Zhaiyadi Coal Mine and has an annual processing capacity of 2.1 million tons is expected to be completed in the forth quarter of 2009. The construction of Jinshan Coal Preparation Plant which is located in Guojiagou of the Liulin County and has an annual processing volume of 5 million tons is expected to be completed in the fourth quarter of 2009.

The Group is actively developing a sales network with sizable iron and steel manufactures apart from coke plants whilst formulating effective business and pricing strategies with reference to the excellent quality of the Company's products, with a view to facilitating a sustainable development in its coking coal business. Pursuant to the long-term strategic cooperation agreement entered into with Shougang in 2008 and the new sales agreements entered into with Tangshan Iron & Steel (唐山鋼鐵), Wuhan Iron & Steel (武漢鋼鐵), Inner Mongolia Baogang (內蒙包鋼) and Taiyuan Iron & Steel (太原鋼鐵), Fushan Energy is expected to change its customer bases to the sizable iron and steel manufactures in 2009. Such move will not only expand the premier customer base of the Company and bring new source of income to the Company's coking coal business but also increase the sales proportion of clean coal which commands a higher selling price, thereby enhancing the profitability of the Group.

In order to reinforce its transportation capacity, the Group plans to establish a railway which connects its coal mines with the national railways. Meanwhile, it is engaging in active discussion with the relevant PRC authorities for the possibility of reorganization of resources so as to expand its coal resources.

For the expansion of the production capacity of its existing coal mines and new coal mine resources, the Group has taken the initiative to negotiate with coal mine operations in relation to the merger and acquisition arrangement. It has also discussed the possibility of acquiring reorganized resources from the PRC relevant authorities. Meanwhile, it aspires to obtain new mining certificates for mining of new coal mines in order to enlarge the coal mine resources of the Group and strengthen its presence and long-term plans in the coal industry.

APPRECIATION

Since successfully acquired three quality coking coal mines, a turnaround of financial results from net loss to net profit for the year ended 31 December 2008 was achieved, which was mainly contributed from the significant net profits generated from three quality coking coal mines acquired on 25 July 2008. Our Group has made a significant progress to commit ourselves in the energy sector. We would like to express our appreciation to our fellow Directors and the colleagues for their contribution and commitment in bringing the Group into a unique and fast growth business.

The board of directors (the "Directors") have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are principally engaged in coking coal mining and production and sales of coking coal products (including raw coking coal, clean coking coal and coke) and side products. Particulars of the subsidiaries are set out in note 19 to the financial statements.

An analysis of the Group's performance for the year by business segments and geographical segments are set out in note 6 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 and the state of affairs of the Group and the Company as at that date are set out in the financial statements on pages 47 to 113.

The Directors do not recommend payment of a dividend for the year ended 31 December 2008.

CHARITABLE DONATIONS

Charitable donations made by the Company for the Sichuan Earthquake Relief during the year amounted to HK$1,000,000 (2007 : Nil).

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 40 to the financial statements.

On 25 July 2008, the Shougang Placing and the Second Placing (as defined and described in the announcements of the Company dated 17 June 2008 and 20 June 2008 respectively) in relation to the placing of 450,000,000 and 410,000,000 new shares of the Company at the placing price of HK$4.6 per share and HK$4.8 per share respectively were completed. Net proceeds of approximately HK$3.9 billion from these two placings were used to settle the partial cash consideration under the Agreement (as defined and described in the announcement of the Company dated 21 May 2008) in relation to the acquisition of the entire issued shares of three BVI companies, namely Thechoice Finance Limited ("Thechoice"), Worldman Industrial Limited ("Worldman") and Gumpert Industries Limited ("Gumpert") and their principal assets, which are three high quality coking coal mines and coal preparation plants located in Liulin County of Shanxi Province, namely Xingwu Coal Mine, Jinjiazhuang Coal Mine and Zhaiyadi Coal Mine (the "Acquisition"). In addition, 1,260,000,000 new shares of the Company ("Consideration Shares") were issued at the issue price of HK$4.5 per share for the settlement of part of the consideration under the Acquisition Agreement on the same date. During the year, 5,000,000 new shares were issued at an exercise price of HK$1.5 per share upon the exercise of granted share options and 17,167,000 new shares were issued at conversion price of HK$2.33 per share upon conversion of convertible notes.

Upon the completion of the Shougang Placing, the Second Placing and the issue of Consideration Shares, new shares issued upon the exercise of granted share options and conversion of convertible notes, the issued share capital of the Company was increased by approximately HK$214,217,000 by allotting 2,142,167,000 shares of par value of HK$0.1 each during the year.

RESERVES

Details of the movements in reserves of the Group and of the Company during the year are set out in note 41 to the financial statements and in the consolidated statement of changes in equity respectively.

As calculated under section 79B of the Hong Kong Companies Ordinance, the Company did not have any reserves available for distribution as at 31 December 2008.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company during the year are set out in note 15 to the financial statements.

During the year, the Group acquired certain property, plant and equipment with net carrying amount of approximately HK$1,323,227,000 through the Acquisition.

CONVERTIBLE NOTES

Details of the convertible notes are set out in note 37 to the financial statements.

During the year, all remaining convertible notes with total face value of HK$40,000,000 were converted into 17,167,000 new shares of the Company at the conversion price of HK$2.33 per share and thus the Group did not have any outstanding face value of the convertible notes as at 31 December 2008.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2008 are set out in notes 32 to 37 to the financial statements.

CONNECTED TRANSACTIONS

During the year ended 31 December 2008, the Group had entered into the following connected transactions and continuing connected transactions, details of which are disclosed in compliance with the requirement of Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

(A) Connected transactions falling under Rule 14A.16(5) of the Listing Rules

(a) Disposal of the 70% equity interest of 太原西山日盛煤焦有限公司 (Taiyuan Xishan Risheng Coal and Coking Co., Limited) ("Risheng")

Reference is made to the announcement of the Company dated 23 April 2008 (the "Announcement dated 23 April 2008"). On 19 April 2008, 山西金山能源有限責任公司 (Shanxi Jinshan Energy Group Limited) ("Jinshan"), a sino-foreign equity joint venture incorporated in the PRC with limited liability and a subsidiary owned as to 91.25% as at 19 April 2008 by the Company, and 山西焦煤集團有限責任公司 (Xishan Coal and Electricity (Group) Co., Limited) ("Xishan") as vendors entered into a sale and purchase agreement ("the Disposal Agreement") with 山西西山煤電股份有限公司 (Shanxi Xishan Coal and Electricity Power Co., Limited) ("the Purchaser") as purchaser, pursuant to which the Purchaser agreed to acquire 70% equity interest of Risheng from Jinshan at a consideration of RMB21,000,000 (approximately HK$23,848,000) and 30% equity interest of Risheng from Xishan at a consideration of RMB9,000,000 (approximately HK$10,220,000) (the "Disposal"). Pursuant to the Disposal Agreement, Jinshan has agreed to assume the Risheng Loans (as defined and described in the Announcement dated 23 April 2008) amounting to RMB119,278,000 (approximately HK$135,452,000) as at 31 March 2008 due by Risheng to various creditors. On the same date, Jinshan and Mr. Wong Lik Ping ("Mr. Wong"), a controlling shareholder and director of the Company as at 19 April 2008, also entered into the Loan Novation Agreements (as defined and described in the Annnouncement dated 23 April 2008) with two creditors respectively, pursuant to which Mr. Wong agreed to assume the liabilities in the aggregate amount of RMB35,000,000 (approximately HK$39,746,000) owed by Jinshan to two creditors upon completion of the Disposal Agreement for nil consideration.

CONNECTED TRANSACTIONS *(cont'd)*

(A) Connected transactions falling under Rule 14A.16(5) of the Listing Rules *(cont'd)*

(a) Disposal of the 70% equity interest of 太原西山日盛煤焦有限公司 (Taiyuan Xishan Risheng Coal and Coking Co., Limited) ("Risheng") *(cont'd)*

As Xishan is the substantial shareholder of Risheng and the Purchaser (being a non-wholly owned subsidiary of Xishan) is an associate of Xishan, the Purchaser is a connected person (as defined in the Listing Rules) of the Company under the Listing Rules and thus the Disposal constituted a connected transaction for the Company. The assumption of liabilities, to be taken up by Jinshan upon the completion of the Disposal Agreement, by Mr. Wong, being a financial assistance, also constituted a connected transaction under Rule 14A.13 (2)(b)(i) of the Listing Rules. Accordingly, the Disposal Agreement, the Loan Novation Agreements and the transactions thereunder constituted connected transactions of the Company under the Listing Rules and were duly passed by the independent shareholders of the Company at the extraordinary general meeting held on 15 December 2008. The Disposal Agreement and the Loan Novation Agreements were completed in January 2009. Since then, Risheng ceased to be a subsidiary of the Company.

(b) Acquisition of the entire issued shares of three BVI companies (the "Acquisition"), namely Thechoice, Worldman and Gumpert

Reference is made to the announcement of the Company dated 21 May 2008 (the "Announcement dated 21 May 2008"). On 9 May 2008, Jade Green Investments Limited ("Jade Green") (a wholly owned subsidiary of the Company) and Mr. Wong entered into an agreement (the "Agreement") with Fortune Dragon Group Limited (the "Seller") and Mr. Xing Libin ("Mr. Xing") (being the controlling shareholder of the Seller), pursuant to which Jade Green agreed to acquire the entire issued share capital of Thechoice, Worldman and Gumpert and their respective shareholders' loans at an aggregate consideration of HK$10,530,000,000 (subject to adjustments), of which HK$4,860,000,000 (subject to adjustments) was satisfied in cash and HK$5,670,000,000 was satisfied by the issue and allotment of 1,260,000,000 Consideration Shares at the issue price of HK$4.5 per share.

Thechoice, Worldman and Gumpert are engaged in coking coal mining and production and sales of raw and clean coking coal in the People's Republic of China ("PRC") through their non wholly-owned PRC subsidiaries, namely Shanxi Liulin Xingwu Coalmine Company Limited (山西柳林興無煤礦有限責任公司) ("Xingwu"), Shanxi Liulin Jinjiazhuang Coal Company Limited (山西柳林金家莊煤業有限公司) ("Jinjiazhuang"), Shanxi Liulin Zhaiyadi Coal Company Limited (山西柳林寨崖底煤業有限公司) ("Zhaiyadi") respectively.

The Seller is effectively owned as to approximately 56.92% by Mr. Xing, as to approximately 7.50% by Mr. Wong and as to approximately 35.58% by the other owners who are independent third parties to the Group. Mr. Xing is a substantial shareholder of 柳林縣聯山煤化有限公司 (Liulin Luenshan Coking Co., Ltd), a non-wholly owned subsidiary of the Company, and is therefore a connected person of the Company. Based on Mr. Xing's shareholding in the Seller, the Seller is an associate of Mr. Xing and is therefore a connected person of the Company. As such, the Acquisition constituted a connected transaction for the Company under the Listing Rules and was duly passed by the independent shareholders at the extraordinary general meeting of the Company held on 18 July 2008.

The Acquisition was completed on 25 July 2008. Pursuant to the Agreement, the consideration of HK$10,530,000,000 was settled as to HK$4,860,000,000 in cash and the remaining balance by the issue and allotment of 1,260,000,000 Consideration Shares at HK$4.5 per share. Upon completion of the Acquisition, Thechoice, Worldman and Gumpert, which in aggregate have a raw coking coal production capability of 6.3Mt per annum, became wholly-owned subsidiaries of the Group and their financial statements are consolidated into the Group starting from 25 July 2008.

CONNECTED TRANSACTIONS *(cont'd)*

(A) Connected transactions falling under Rule 14A.16(5) of the Listing Rules *(cont'd)*

(c) Placement of 410,000,000 new shares, of which 100,000,000 new shares was placed to Mr. Wong

Reference is made to the announcement of the Company dated 20 June 2008 (the "Announcement dated 20 June 2008"). On 20 June 2008, the Company entered into the Second Placing Agreement (as defined and described in the Announcement dated 20 June 2008) with BOCI Asia Limited ("BOCI"), pursuant to which BOCI agreed to act as placing agent for the Company on a fully underwritten basis to procure placees to purchase, or subscribe for 410,000,000 placing shares of the Company at the placing price of HK$4.8 per placing share. On the same date, China Merit (being a company wholly owned by Mr. Wong, who is the controlling Shareholder and director of the Company as at 20 June 2008) as one of placees entered a placing letter with BOCI pursuant to which BOCI agreed to place 100,000,000 placing shares to Mr. Wong. As Mr. Wong is a connected person of the Company, China Merit Limited is an associate of Mr. Wong and is therefore a connected person of the Company. As such, the transaction constituted a connected transaction for the Company under the Listing Rules and was duly passed by the independent shareholders at the extraordinary general meeting of the Company held on 18 July 2008. The transaction was completed on 25 July 2008. The net proceed of approximately HK$1,922,000,000 received from this placing was used to settle a portion of the cash consideration for the Acquisition.

(B) Continuing Connected Transactions falling under Rule 14A.34 of the Listing Rules

(a) The Tenancy Agreement entered with 山西聯盛能源有限公司 (Shanxi Luensheng Energy Limited) ("Luensheng")

Reference is made to the announcement of the Company dated 4 June 2008. Before the completion of the Acquisition, Xingwu, Jinjiazhuang and Zhaiyadi leased the office from Luensheng, a company controlled by Mrs. Xing, an associate of Mr. Xing, a substantial shareholder of the Company and Luensheng is therefore a connected person of the Company, for operational purpose. After completion of the Acquisition on 25 July 2008, Xingwu, Jinjiazhuang and Zhaiyadi continued to lease the office from Luensheng and therefore these companies entered into a tenancy agreement with Luensheng with effect from 25 July 2008, being the date of completion of the Acquisition. The rental fee under the tenancy agreement is RMB1,866,975 (approximately HK$2,099,000) per annum. As Luensheng is a connected person of the Company, the tenancy agreement constitutes a continuing connected transaction for the Company under the Listing Rules and is subject to reporting and announcement requirements but exempt from the independent shareholders' approval requirement under the Listing Rules. For the year ended 31 December 2008, each of Xingwu, Jinjiazhuang and Zhaiyadi has paid RMB271,095 (approximately HK$305,000) and in total RMB813,285 (approximately HK$915,000) to Luensheng pursuant to the tenancy agreement.

(b) Sub-contract transactions entered between Xingwu and Mr. Xing and his associates

In 2008, due to the better-than-expected sales for certain coking coal products processed by Xingwu and the fact that the capacity of the coal preparation plant of Xingwu had been fully utilized, Xingwu entered into certain sub-contract transactions with Mr. Xing and his associates, pursuant to which Xingwu sub-contracted the processing of certain raw coking coal to clean coking coal to Mr. Xing and his associates at a fixed rate of RMB18.5 per tonne. For the year ended 31 December 2008, an aggregate amount of RMB1,841,844 was paid to Mr. Xing and his associates for such processing services. The rate for the sub-contract processing contracts was determined with reference to the comparable cost for processing raw coking coal to clean coking coal. The sub-contract transactions were contracted between 25 July 2008 and 31 December 2008 and an individual agreement was signed between Mr.Xing and his associates and Xingwu for each of these transactions. No master agreement has been entered into between Mr. Xing and his associates and Xingwu. Mr. Xing is a substantial shareholder of the Company and a connected person of the Company. Accordingly, the sub-contract transactions constitute continuing connected transactions for the Company under the Listing Rules and are subject to the reporting and announcement requirements but exempt from independent shareholders' approval requirement under the Listing Rules. Details of these sub-contract transactions have been disclosed in the announcement of the Company dated 24 April 2009.

CONNECTED TRANSACTIONS *(cont'd)*

(B) Continuing Connected Transactions falling under Rule 14A.34 of the Listing Rules *(cont'd)*

(c) Lease Transactions

In 2008, due to the urgent need of Zhaiyadi, Zhaiyadi entered into the lease transactions with Mr. Xing and his associates to ensure that Zhaiyadi would be able to secure available warehouse space for the storage of coking coal in the fourth quarter of 2008. The warehouse of Mr. Xing and his associates is located in close proximity to the plant of Zhaiyadi, and therefore it would be more cost-efficient for Zhaiyadi to lease the warehouse of Mr. Xing and his associates.

Mr. Xing and his associates have charged the Group in the rate of RMB2 per tonne per month for storage of coking coal in 2008. The rate for these lease transactions was determined with reference to the rate agreed between the parties based on a rate no less favorable than that to/from third parties. For the year ended 31 December 2008, the total amount of lease charge paid to Mr. Xing and his associates was RMB676,321. The lease transactions were contracted between 25 July 2008 and 31 December 2008 and an individual agreement was signed between Mr. Xing and his associates and Zhaiyadi for each of these transactions. No master agreement has been entered into between Mr. Xing and his associates and Zhaiyadi. Mr. Xing is a substantial shareholder of the Company and a connected person of the Company. Accordingly, the lease transactions constitute continuing connected transactions for the Company under the Listing Rules and are subject to the reporting and announcement requirements but exempt from independent shareholders' approval requirement under the Listing Rules. Details of these lease transactions have been disclosed in the announcement of the Company dated 24 April 2009.

(C) Non-exempted Continuing Connected Transactions falling under Rule 14A.35 of the Listing Rules

The following table sets out details of annual caps and actual transaction amounts during the year ended 31 December 2008, in respect of certain continuing connected transactions of the Group which were subject to the reporting, announcement and independent shareholders' approval requirements.

	Revenue		Expenses/Purchases	
Connected transactions and parties	**Amount incurred** RMB'000	**Amount cap** RMB'000	**Amount incurred** RMB'000	**Amount cap** RMB'000
The Coal Supply Contract dated 24 December 2007 with 山西柳林興無煤礦有限責任公司 (Shanxi Liulin Xingwu Coalmine Company Limited) **(Note 1)**	*30,000	*252,007	*30,000	*252,007
The Supply Contract dated 2 June 2008 with Mr. Xing and his associates **(Note 2)**				
– raw coking coal	280,700	68,267	10,949	96,212
– electricity	1,346	1,155	–	–
– accessories and small tools	–	–	5,689	1,307

CONNECTED TRANSACTIONS *(cont'd)*

(C) Non-exempted Continuing Connected Transactions falling under Rule 14A.35 of the Listing Rules *(cont'd)*

Connected transactions and parties	Revenue Amount incurred RMB'000	Revenue Amount cap RMB'000	Expenses/Purchases Amount incurred RMB'000	Expenses/Purchases Amount cap RMB'000
The Mutual Coal Supply Contract dated 2 June 2008 among Xingwu, Jinjiazhuang and Zhaiyadi **(Note 3)**	17,611	41,641	17,611	41,641
The Revised Supply Contract dated 3 November 2008 with Mr. Xing and his associates **(Note 4)**				
– raw coking coal	343,559	445,000	1,852	47,300
– electricity	–	1,100	–	–
– accessories and small tools	–	–	1,605	7,100
The Shi Supply Contract dated 3 November 2008 with Mr. Shi Jianping **(Note 5)**	–	49,500	–	–

* *inclusive of VAT*

Note 1: The Coal Supply Contract dated 24 December 2007

Reference is made to the announcement of the Company dated 31 December 2007. As the coke plant of 山西曜鑫煤焦有限公司 (Shanxi Yao Zin Coal and Coking Company Limited) ("Yao Zin"), a non-wholly owned subsidiary of the Company, completed construction and commenced production in July 2008, Yao Zin needs to purchase coal as it is a raw material used for production. Yao Zin entered into the Coal Supply Contract with Xingwu on 24 December 2007 for the purchase of coal from Xingwu. The term of this Coal Supply Contract is for the period from 4 February 2008 to 31 December 2010. Mr. Xing was a substantial shareholder of 柳林縣聯山煤化有限公司 (Liulin Luenshan Coking Company Limited), a non-wholly owned subsidiary of the Company, and Xingwu was an associate of Mr. Xing and hence a connected person of the Company at the time of signing of the Coal Supply Contract. Accordingly, the transactions contemplated under the Coal Supply Contract constitute non-exempt continuing connected transactions for the Company under the Listing Rules and are subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. The transactions were duly passed by the independent shareholders at the extraordinary general meeting of the Company held on 4 February 2008.

CONNECTED TRANSACTIONS *(cont'd)*

(C) Non-exempted Continuing Connected Transactions falling under Rule 14A.35 of the Listing Rules *(cont'd)*

Note 2: The Supply Contract dated 2 June 2008

Reference is made to the announcement of the Company dated 4 June 2008. Xingwu, Jinjiazhuang and Zhaiyadi entered into the Supply Contract with Mr. Xing and his associates on 2 June 2008, which took effect on 25 July 2008, for the mutual supply of coal, supply of electricity and purchase of accessories and small tools. The term of this Supply Contract is for a period from 25 July 2008 to 31 December 2010. Mr. Xing is a substantial shareholder of the Company and a connected person of the Company. Accordingly, the transactions contemplated under the Supply Contract constitute non-exempt continuing connected transactions for the Company under the Listing Rules and are subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. The transactions were duly passed by the independent shareholders at the extraordinary general meeting of the Company held on 18 July 2008. However, as the actual monetary value of the transactions carried out and to be carried out under this Supply Contract for the year ended 31 December 2008 and both of the two financial years ending 31 December 2010 has exceeded and will exceed the relevant caps respectively, Xingwu, Jinjiazhuang and Zhaiyadi entered into the Revised Supply Contract, which took effect on 15 December 2008, with Mr. Xing and his associates on 3 November 2008 and this Supply Contract was subsequently cancelled.

Note 3: The Mutual Coal Supply Contract dated 2 June 2008

Xingwu, Jinjiazhuang and Zhaiyadi entered into the Mutual Coal Supply Contract on 2 June 2008, which took effect on 25 July 2008, for the mutual supply of coal. The term of this Mutual Supply Contract is for a period from 25 July 2008 to 31 December 2010. Mr. Xing is a substantial Shareholder and a connected person of the Company. Jinjiazhuang is an associate of Mr. Xing and hence a connected person of the Company. Xingwu is an associate of Jinjiazhuang and is therefore a connected person of the Company. Accordingly, the transactions contemplated under the Mutual Coal Supply Contract constitute non-exempt continuing connected transactions for the Company under the Listing Rules and are subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. The transactions were duly passed by the independent shareholders at the extraordinary general meeting of the Company on 18 July 2008.

Note 4: The Revised Supply Contract dated 3 November 2008

Reference is made to the announcement of the Company dated 4 November 2008. As mentioned in the above note 2, Xingwu, Jinjiazhuang and Zhaiyadi entered into the Revised Supply Contract with Mr. Xing and his associates on 3 November 2008 to revise the cap in amount for the mutual supply of coal, supply of electricity and purchase of accessories and small tools. The term of this Revised Supply Contract is for a period from 15 December 2008 to 31 December 2010. Mr. Xing is a substantial Shareholder and a connected person of the Company. Accordingly, the transactions contemplated under the Revised Supply Contract constitute non-exempt continuing connected transactions for the Company under the Listing Rules and are subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. The transactions were duly passed by the independent shareholders at the extraordinary general meeting of the Company held on 15 December 2008.

CONNECTED TRANSACTIONS *(cont'd)*

(C) Non-exempted Continuing Connected Transactions falling under Rule 14A.35 of the Listing Rules *(cont'd)*

Note 5: The Shi Supply Contract dated 3 November 2008

Reference is made to the announcement of the Company dated 4 November 2008. Xingwu, Jinjiazhuang and Zhaiyadi entered into the Shi Supply Contract with Mr. Shi Jianping ("Mr. Shi") and his associates on 3 November 2008 for supply of coal to Mr. Shi. The term of this Shi Supply Contract is for the period from 15 December 2008 to 31 December 2010. Mr. Shi is a director of the Company and a connected person of the Company. Accordingly, the transactions contemplated under the Shi Supply Contract constitute non-exempt continuing connected transactions for the Company under the Listing Rules and are subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. The transactions were duly passed by the independent shareholders at the extraordinary general meeting of the Company held on 15 December 2008.

Sale Transactions with Mr. Xing and his associates

During the year ended 31 December 2008, Xingwu, Jinjiazhuang and Zhaiyadi have sold certain accessories and small tools such as cable, detonator, explosive, diamond mesh, screw, steel wires, bolt, stock plate and steel strip to Mr. Xing and his associates, and Jinjiazhuang and Zhaiyadi have also sold certain equipment such as coal cutter, sewage treatment equipment and telescopic belt conveyor to Mr. Xing and his associates. For the year ended 31 December 2008, the aggregate amount for sales of these transactions was RMB4,541,691. These sale transactions with Mr. Xing and his associates were contracted between 25 July 2008 and 31 December 2008 and an individual agreement was signed between Xingwu and Mr. Xing and his associates, between Jinjiazhuang and Mr. Xing and his associates, and between Zhaiyadi and Mr. Xing and his associates for each of these transactions. No master agreement has been entered into between the parties. Mr. Xing is a substantial shareholder of the Company and a connected person of the Company. Accordingly, these sale transactions constitute non-exempt continuing connected transactions for the Company under the Listing Rules and are subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. Details of these sale transactions have been disclosed in the announcement of the Company dated 24 April 2009.

Sale Transactions among Xingwu, Jinjiazhuang and Zhaiyadi

During the year ended 31 December 2008, Xingwu, Jinjiazhuang and Zhaiyadi ("the PRC Subsidiaries") have sold certain equipment such as coal cutter, sewage treatment equipment and telescopic belt conveyor and certain accessories and small tools such as cable, detonator, explosive, diamond mesh, screw, steel wires, bolt, stock plate and steel strip among themselves. For the year ended 31 December 2008, the aggregate amount for sales of these transactions was RMB4,641,117. The Sale Transactions among the PRC Subsidiaries were contracted between 25 July 2008 and 31 December 2008 and an individual agreement was signed among them for each of these transactions. No master agreement has been entered into among Xingwu, Jinjiazhuang and Zhaiyadi. Mr. Xing is a substantial Shareholder and a connected person of the Company. Jinjiazhuang is an associate of Mr. Xing and hence a connected person of the Company. Xingwu is an associate of Jinjiazhuang and is therefore a connected person of the Company. Accordingly, these sale transactions constitute non-exempt continuing connected transactions for the Company under the Listing Rules and are subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. Details of these sale transactions have been disclosed in the announcement of the Company dated 24 April 2009.

CONNECTED TRANSACTIONS *(cont'd)*

(C) Non-exempted Continuing Connected Transactions falling under Rule 14A.35 of the Listing Rules *(cont'd)*

The independent non-executive directors of the Company have reviewed all the continuing connected transactions set out above and are of the opinion that these transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or on terms no less favourable to the Group then terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them and on terms that are fair and reasonable and in the interest of shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditor has reported their factual finding on these procedures to the Board. Based on the work performed, the auditor of the Company has confirmed that the continuing connected transactions contemplated under this section:

1. have been approved by the Board;

2. have been entered into in accordance with the terms (including the pricing policy) of the agreements governing the transactions;

3. Save for the actual transaction amounts conducted under the Supply Contract (Note 2) and the Mutual Coal Supply Contract (Note 3) exceeded the cap amounts as approved, other actual transaction amounts did not exceed to their respective cap amounts as approved.

DISCLOSURES PURSUANT TO RULES 13.21 OF THE LISTING RULES

Reference is made to the announcement of the Company dated 22 July 2008. In accordance with Rule 13.21 of the Listing Rules, the following disclosures are included in respect of one of the Company's loan agreements, which contain covenants requiring performance obligations of the controlling shareholder of the Company as at 31 December 2008.

Pursuant to a loan agreement dated 21 July 2008 between Jade Green (a wholly owned subsidiary of the Company) and, among other parties, BOCI Leveraged & Structured Finance Limited as arranger (the "Loan Agreement") relating to a 14-month RMB equivalent US$153,800,000 loan facility, an event of default would arise upon the occurrence of, among other things, a change of control which occurs if, among other things, (i) after completion of the Agreement (as defined and described in the Announcement dated 21 May 2008) on 25 July 2008, (A) Mr. Wong, being the controlling shareholder, executive Director and Chairman of the Company at the date of Loan Agreement and as at 31 December 2008, ceases to be the legal and beneficial owner of at least 3% of the entire issued share capital of the Company; (B) China Merit Limited ("China Merit") ceases to be the legal and beneficial owner of at least 27% of the entire issued share capital of the Company; or (C) Mr. Wong and China Merit cease to be the respective legal and beneficial owners of at least 30% in aggregate of the entire issued share capital of the Company.

Reference is made to the announcement of the Company dated 10 February 2009 (the "Announcement dated 10 February 2009"). Mr. Wong and China Merit have entered into the Share Sale Agreement (as defined and described in the Announcement dated 10 February 2009) to sell 550,000,000 shares of the Company, representing approximately 12.05% of the issued share capital of the Company, to Excel Bond Investments Limited ("Excel Bond"). As the aggregate shareholdings of Mr. Wong and China Merit was reduced to 19.13% upon the completion of the Share Sale Agreement, certain clauses of the Loan Agreement would be breached and would constitute an event of default under the Loan Agreement. However, a waiver was obtained from BOCI Leveraged & Structured Finance Limited by the Company and Jade Green for the non-compliance with the above restrictions before Mr. Wong and China Merit entered into the Share Sale Agreement.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated as appropriate, is set out on page 112 of the annual report. This summary does not form part of the audited financial statements.

RETIREMENT SCHEMES

The Group provides the mandatory provident fund scheme for Hong Kong employees and the state-sponsored retirement plan for PRC employees. Particulars of these retirement schemes are set out in note 3(s) to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's securities during the year.

DIRECTORS

The directors during the year and up to the date of this annual report were:

Executive directors:

Mr. Cao Zhong (Chairman)	(appointed on 4 March 2009)
Mr. WONG Lik Ping (Vice-Chairman)	
Mr. LIU Qiangshan	(appointed on 1 November 2008)
Mr. SO Kwok Hoo	
Mr. XUE Kang	(appointed on 21 January 2008)
Mr. HUANG Bin	(appointed on 1 November 2008 and resigned on 31 March 2009)

Non-executive directors:

Mr. CHEN Zhouping	(appointed on 12 January 2009)
Mr. LEUNG Shun Sang, Tony	(appointed on 4 March 2009)
Mr. SHI Jianping	(appointed on 1 November 2008)
Mr. LI King Luk	(resigned on 4 March 2009)

Independent non-executive directors:

Mr. CHAN Pat Lam
Mr. CHOI Wai Yin
Mr. KEE Wah Sze

In accordance with Article 98 of the Company's articles of association, Mr. Chan Pat Lam , Mr. Choi Wai Yin, Mr. Kee Wah Sze and Mr. Xue Kang shall hold office until the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

All non-executive directors and independent non-executive directors of the Company are appointed for one year by entering one-year service contracts that are subject to renewal and to retirement by rotation and re-election at annual general meetings of the Company in accordance with the articles of association of the Company.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries, which is not determinable within one year without payment of compensation, other than normal statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save for the information set out in the section "CONNECTED TRANSACTIONS" above and information set out in note 33 and note 35 to the financial statements for other details of Mr. Wong Lik Ping's interest in contracts of significance in relation to the Group's business, no other contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SHARE OPTION SCHEME

At the annual general meeting of the Company held on 20 June 2003, the equity holders of the Company approved the adoption of a new option scheme ("the Scheme") to give the Directors the power to implement and administer the Scheme with effect from the date of passing of the resolution. The Scheme will expire on 19 June 2013. Other particulars of the Scheme are set out in note 42 to the financial statements.

At 31 December 2008, the number of shares in respect of which options had been granted under the Scheme was 104,000,000 (2007: 104,000,000), representing approximately 5% (2007: 5%) of the shares of the Company in issue at that date. The total number of shares which may be issued upon exercise of all options granted and to be granted under the Scheme and any other schemes of the Company shall not in aggregate exceed 10% of the issued share capital of the Company as at the date on 20 June 2003 without prior approval from the equity holders of the Company. The number of shares in respect of which options may be granted to any individual in any 12-month period up to and including the date of grant of option shall not exceed 1% of the shares in issue, without prior approval from the shareholders of the Company. Options granted to a substantial equity holder or any independent non-executives Director in excess of 0.1 % of the issued capital of the Company and with an aggregate value in excess of HK$5 million must be approved in advance by the equity holders of the Company.

No consideration is payable on the grant of an option. An option may generally be exercised during the period commencing on the date of grant and expiring on the date to be determined by the Directors, but in any event not more than 10 years from the date of grant. The exercise price of options is to be determined by the Directors and is the highest of the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant or the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant and the nominal value of the share on the date of grant.

The total number of securities available for issue under the Scheme as at 31 December 2008 was 104,080,000 (2007: 104,080,000) which represented approximately 2.28% (2007:4.30%) of the issued share capital of the Company as at 31 December 2008.

SHARE OPTION SCHEME *(cont'd)*

As at 31 December 2008, the option holders of the Company had the following interest in unlisted options to subscribe for shares of the Company granted under the Scheme. The vesting period of the options is two years from the date of grant and the options are then exercisable within a period of the next five years. Each option gives the option holder the right to subscribe for one ordinary share of HK$0.1 each. During the year, no options were granted.

	No. of options outstanding at the beginning of the year	No. of options acquired on exercise of options during the year	No. of options outstanding at the year end	Grant date	Period during which options are exercisable	Exercise price per share	Market value (closing price) per share on exercise of options
Directors							
Wong Lik Ping	2,000,000	–	2,000,000	26 April 2006	26 April 2008 to 25 April 2013	HK$1.50	–
So Kwok Hoo	6,500,000	–	6,500,000	26 April 2006	26 April 2008 to 25 April 2013	HK$1.50	–
Xue Kang	6,000,000	–	6,000,000	26 April 2006	26 April 2008 to 25 April 2013	HK$1.50	–
Chan Pat Lam	800,000	–	800,000	26 April 2006	26 April 2008 to 25 April 2013	HK$1.50	–
Choi Wai Yin	800,000	–	800,000	26 April 2006	26 April 2008 to 25 April 2013	HK$1.50	–
Kee Wah Sze	800,000	–	800,000	26 April 2006	26 April 2008 to 25 April 2013	HK$1.50	–
Sub-total	**16,900,000**	**–**	**16,900,000**				
Employees	72,500,000	(3,000,000)	69,500,000	26 April 2006	26 April 2008 to 25 April 2013	HK$1.50	HK$2.70
Others	14,600,000	(2,000,000)	12,600,000	26 April 2006	26 April 2008 to 25 April 2013	HK$1.50	HK$4.93
Total	**104,000,000**	**(5,000,000)**	**99,000,000**				

Note: Closing price per share immediately before the date of grant of options was HK$1.34.

SHARE OPTION SCHEME *(cont'd)*

The fair value of the options granted in the current year, measured at the date of grant on 26 April 2006, totaled approximately HK$38,858,000. As the options vest after two years from the date of grant on 26 April 2006, the amount will be recognised as a share-base compensation expense in the consolidated income statement over 2 years from 26 April 2006 to 25 April 2008. Thus, HK$6,476,000 (2007 : HK$19,429,000) was recognised as a share-based compensation expense in the consolidation income statement with a corresponding credit in share-based compensation reserve for the year ended 31 December 2008.

Using the Black-Scholes option pricing model, the following significant assumptions were used to derive the fair value of the options granted on 26 April 2006:

1. an expected volatility of 57.33%;

2. nil dividend yield;

3. the estimated weighted average expected life of the options granted on 26 April 2006 is 2.1 years. The corresponding period of Hong Kong Exchange Fund Notes interest rate at the date of the options granted was 4.27%; and

4. estimated turnover rates of the Mainland employees and Hong Kong employees are both 15%.

For the purposes of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited due to the absence of historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Save as disclosed in the section "SHARE OPTION SCHEME" above and disclosed in the section "CONNECTED TRANSACTIONS" above, at no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangements, which enable a director or chief executive of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such rights.

MANAGEMENT CONTRACTS

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at 31 December 2008 and as at 16 April 2009 being the date of this report, the interests and short positions of the directors and chief executives of the Company in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) or which were required, pursuant to section 352 of the SFO to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

(i) *Long and short positions in ordinary shares (HK$0.10 each) of the Company:*

As at 31 December 2008:

	Number of ordinary shares held as at 31 December 2008				% of issued share capital of the Company as at 31 December 2008
Name of director	**Personal interests**	**Family interest**	**Corporate interest**	**Total**	**Total**
Mr. Wong Lik Ping	(L) 173,971,900	–	(L) 1,249,200,000 *(Note a)*	(L) 1,423,171,900	31.18%
	–	–	(S) (883,577,707) *(Note a & b)*	(S) (883,577,707)	(19.36%)
Mr. Shi Jianping	(L) 2,454,000	–	–	(L) 2,454,000	0.05%
Mr. Liu Qingshan	–	(L) 330,000 *(Note c)*	–	(L) 330,000	0.01%

As at 16 April 2009:

	Number of ordinary shares held as at 16 April 2009				% of issued share capital of the Company as at 16 April 2009
Name of director	**Personal interests**	**Family interest**	**Corporate interest**	**Total**	**Total**
Mr. Wong Lik Ping	(L)173,971,900	–	(L) 699,200,000 *(Note a)*	(L) 873,171,900	19.13%
	–	–	(S) (24,750,000) *(Note a & b)*	(S) (24,750,000)	(0.45%)
Mr. Shi Jianping	(L) 2,454,000	–	–	(L) 2,454,000	0.05%
Mr. Liu Qingshan	–	(L) 330,000 *(Note c)*	–	(L) 330,000	0.01%

* *The letter "L" denotes a long position and the letter "S" denotes a short position.*

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS *(cont'd)*

(i) *Long and short positions in ordinary shares (HK$0.10 each) of the Company: (cont'd)*

Note a: Mr. Wong Lik Ping is the beneficial owner of the entire issued share capital of China Merit Limited, which owned 1,249,200,000 ordinary shares in the Company as at 31 December 2008 and owned 699,200,000 ordinary shares as at 16 April 2009. Mr. Wong is the sole director and sole shareholder of China Merit Limited.

Note b: The short position in 883,577,707 held by Mr. Wong through China Merit Limited as at 31December 2008 was derived from the shares pledged to PA Capital Opportunity VII Limited for his personal loan ("Mr. Wong Personal Loan"). As at 16 April 2009, number of ordinary shares held by Mr. Wong in short position was reduced to 20,475,000 shares.

Note c: The spouse of Mr. Liu Qingshan is the beneficial shareholder.

(ii) *Options to subscribe for ordinary shares (HK$0.10 each) of the Company:*

The directors of the Company have been granted unlisted options under the Company's share option scheme, details of which are set out in the section "SHARE OPTION SCHEME" above.

Save as disclosed above, none of the directors and chief executives had any interest or short position in the shares, debentures or underlying shares of the Company or its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 31 December 2008 and as at 16 April 2009, being the date of this report, the persons other than a director or chief executive of the Company who had an interest or short position in 5% or more of the issued share capital of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

		As at 31 December 2008		As at 16 April 2009	
Name of shareholder	**Capacity**	**Number of ordinary shares held**	**% of issued share capital of the Company**	**Number of ordinary shares held**	**% of issued share capital of the Company**
Shouguang Concord International Enterprises Company Limited	Corporate interest	–	–	(L) 550,000,000 *(Note a)*	12.05%
Shougang Holding (Hong Kong) Limited	Corporate interest	(L) 450,000,000 *(Note b)*	9.86%	(L) 450,000,000 *(Note b)*	9.86%
Mr. Xing Libin	Beneficial owner	(L) 669,546,536 *(Note c)*	14.67%	(L) 669,546,536 *(Note c)*	14.67%
Pacific Alliance Asia Opportunity Fund Limited	Corporate interest	#(L) 919,675,000 *(Note d)*	20.15%	#(L) 40,950,000 *(Note d)*	0.89%

* *The letter "L" denotes a long position.*

\# *Not a registered shareholder*

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS *(cont'd)*

Note a: Pursuant to the substantial shareholder notices dated 26 February 2009, Shougang Concord International Enterprises Company Limited is the beneficial owner of the entire share capital of Ultimate Capital Limited, which owned 550,000,000 shares as at 16 April 2009.

Note b: Pursuant to the substantial shareholder notices dated 25 July 2008, Shougang Holding (Hong Kong) Limited is the beneficial owner of the entire share capital of Fine Power Group Limited, which owned 450,000,000 shares as at 31 December 2008 and as at 16 April 2009.

Note c: Pursuant to the substantial shareholder notices dated 30 July 2008, Mr. Xing Libin is the beneficial owner of 86.9% of the entire issued share capital of Firstwealth Holdings Limited, which owned 669,546,536 shares as at 31 December 2008 and as at 16 April 2009.

Note d: Pursuant to the substantial shareholder notices dated 31 October 2008, Pacific Alliance Asia Opportunity Fund Limited ("PA Fund") is the beneficial owner of the entire issued share capital of PA Capital Opportunity VII Limited ("PA VII"), a lender of Mr. Wong Personal Loan, which held 919,675,000 shares as at 31 December 2008 but is not a registered shareholder of the Company. Mr. Geicke Horst and Mr. Gradel Christopher Marcus are the ultimate beneficial owners of 45% and 40% of the entire share capital of PA Fund respectively. Out of such 919,675,000 shares, 889,200,000 shares were held by PA VII in the capacity as person having a security interest in shares by means of holding shares pledged for Mr. Wong's personal loan and a derivate interest in favour of PA VII and 20,450,000 shares were held by PA VII in the capacity as person having a derivative interest in shares. Pursuant to the substantial shareholder notices dated 2 March 2009, PA Fund held shares reduced to 40,750,000 shares as at 16 April 2009. PA VII is not a registered shareholder of the Company as at 31 December 2008 and as at 16 April 2009.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	3.25%
– five largest suppliers in aggregate	14.16%
Sales	
– the largest customer	19.35%
– five largest customers in aggregate	48.85%

As far as the Company is aware, save for two of five largest customers (including the largest customer), which accounted for 31.02% of the total sales and were wholly-owed by Mr. Xing Libin and his associates who are interested in 14.67% of the Company's share capital, at no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these suppliers or customers.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company, the Company has maintained sufficient public float as required under the Listing Rules throughout the year ended 31 December 2008.

SUBSEQUENT EVENTS

Save for the settlement agreement entered with Mr. Xing Libin on 16 April 2009 set out in note 26 to the financial statements, there is no other material subsequent events.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of the Company will be held on 2 June 2009. Notice of the annual general meeting will be published and despatched to the shareholders together with this report.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 1 June 2009 to 2 June 2009 (both days inclusive), during which period no transfer of shares in the Company will be effected. In order to qualify for entitlement to attend and vote at the forthcoming annual general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's share registrars, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 pm on 29 May 2009.

AUDITORS

Grant Thornton retires and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Grant Thornton as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

CAO Zhong
Chairman

Hong Kong, 16 April 2009

EXECUTIVE DIRECTORS

Mr. Cao Zhong ("Mr. Cao") (aged 49) was appointed as an executive director of the Company on 4 March 2009 and was also appointed as the Chairman of the Board on 13 March 2009. Mr. Cao graduated from Zhejiang University, the People's Republic of China and Graduate School, The Chinese Academy of Social Sciences with a bachelor degree in engineering and a master degree in economics. Mr. Cao is the deputy chairman and general manager of Shougang Holding (Hong Kong) Limited ("Shougang Holding") and a director of Fine Power Group Limited ("Fine Power") (a wholly-owned subsidiary of Shougang Holding). He is the managing director of Shougang Concord International Enterprises Company Limited ("Shougang International") which is a listed company in Hong Kong and a director of Ultimate Capital Limited ("UCL") (a wholly-owned subsidiary of Shougang International). Shougang Holding, Fine Power, Shougang International and UCL are substantial shareholders of the Company within the meaning of the SFO. Mr. Cao is the vice chairman and managing director of Shougang Concord Grand (Group) Limited and the chairman of each of Shougang Concord Technology Holdings Limited, Shougang Concord Century Holdings Limited, Global Digital Creations Holdings Limited and APAC Resources Limited, all of which are listed companies in Hong Kong. He is also a director of Mount Gibson Iron Limited, a company listed on the Australian Securities Exchange. Mr. Cao has extensive experience in corporate management and operation.

Mr. Wong Lik Ping ("Mr. Wong") (age 48), was appointed as an executive director of the Company and Chairman of the Board on 14 September 2001. Mr. Wong was re-designated to Vice-chairman of the Board on 13 March 2009. Mr. Wong has over 17 years' experience in trading business and financial industry and has held directorship with various private companies. He has extensive experience and investments in a wide range of businesses including mine industry in the People's Republic of China (the "PRC").

Mr. So Kwok Hoo ("Mr. So") (age 55) was appointed as an executive director of the Company on 20 March 1998 and Mr. So is also the chief executive officer of the Company. Mr. So has over 20 years of experience in marketing of electrochemical and industrial products sales in Asia Pacific Region together with property investment experience in Hong Kong as well. He holds Bachelor degrees in both Applied Science with major in Chemical Engineering and Business Administration obtained in Canada.

Mr. Xue Kang ("Mr. Xue") (aged 46) was appointed as an executive director of the Company on 21 January 2008. Mr. Xue has over 20 years' experience in the field of mine industry in the PRC. Mr. Xue has joined our Group since May 2003. Currently, he is the deputy general manager and director of 山西金山能源有限公司 (Shanxi Jinshan Energy Limited), which is a non-wholly owned subsidiary of the Company in the PRC. He is also a director of another three non-wholly owned subsidiaries of the Group in the PRC, namely 山西曜鑫煤焦有限責任公司 (Shanxi Yao Zin Coal and Coking Company Limited) and 柳林縣聯山煤化有限公司 (Liulin Luenshan Coking Company Limited) and 太原西山日盛煤焦有限公司 (Taiyuan Xishan Risheng Coal and Coking Company). Before he joined the Group, Mr. Xue was the assistant to general manager of a company engaged in provision of mine related services in the PRC for several years. Mr. Xue holds a diploma of Electrical and Mechanical engineering from 山西省陽泉煤校機電專業 (Shanxi Yangquan Coal Mine Vestibule School Electro-mechanics Specialist) and a diploma of logistic management from 山西煤炭管理幹部學院物資供應專業 (Shanxi Coal-Mining Administrative College Logistic Management Specialist) respectively.

Mr. Liu Qiangshan ("Mr. Liu") (aged 50) was appointed as an executive director of the Company on 1 November 2008. Mr. Liu has over 25 years' experience in the fields of accounting and finance in the mining industry in the PRC. He had worked as chief financial controller in sizable energy resources companies in the PRC. Mr. Liu currently has been our PRC regional chief financial controller since 25 July 2008. Before he joined the Group, Mr. Liu worked as chief financial controller in Fortune Dragon Group Limited which is engaged in coal mining in the PRC, during the period from January 2005 to July 2008. He received Master of Business Administrative from Capital University of Economics and Business (首都對外經濟貿易學院) and he was graduated from Shanxi University of Finance and Economics Department of Accounting (山西財經學院會計系).

NON-EXECUTIVE DIRECTORS

Mr. Chen Zhouping ("Mr. Chen") (aged 42) was appointed as a non-executive director of the Company on 12 January 2009. Mr. Chen is a member of the Chinese Institute of Certified Public Accountants. Mr. Chen is a deputy managing director of Shougang Concord International Enterprises Company Limited which is a listed company in Hong Kong. He was the managing director of Shougang Concord Grand (Group) Limited, which is a listed company in Hong Kong, during the period from February to November 2002. He is also a deputy managing director of Shougang and a director of Fine Power Group Limited, both are substantial shareholders of the Company within the meaning of Part XV of the SFO. Mr. Chen has extensive experience in steel industry, engineering design, human resources and management.

Mr. Leung Shun Sang, Tony ("Mr. Leung") (aged 66) was appointed as a non-executive director of the Company on 4 March 2009. Mr. Leung is a non-executive director of Shougang International. Shougang International is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Leung is also a director of each of Shougang Concord Grand (Group) Limited, Shougang Concord Technology Holdings Limited, Shougang Concord Century Holdings Limited and Global Digital Creations Holdings Limited, all of which are listed companies in Hong Kong. Mr. Leung is the managing director of CEF Group. Mr. Leung holds a master degree in business administration from New York State University and has over 30 years of experience in finance, investment and corporate management.

Mr. Shi Jianping ("Mr. Shi") (aged 38) was appointed as a non-executive director of the Company on 1 November 2008. Mr. Shi has over 10 years' experience in the fields of the mining and energy resources industries in the PRC and has rich experience in the stated-owned asset management. He currently acts as director in various private companies which are engaged in energy resources related industries in the PRC including operating coal preparation plants.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kee Wah Sze ("Mr. Kee") (age 60) was appointed as an independent non-executive director of the Company on 11 April 1997. Mr. Kee is a partner of Messrs. Michael Cheuk, Wong & Kee and is a practicing solicitor in Hong Kong for over 20 years specialized in both the commercial and conveyancing fields. He is a Notary Public of Hong Kong, a China Appointed Attesting Offices and holder of Master Degree in Chinese and Comparative Law of City University of Hong Kong and Master Degree in Law of the People's University of the PRC. Mr. Kee also currently serves as an executive director of Goldbond Group Holdings Limited, which is a Hong Kong Listed Company.

Mr. Choi Wai Yin ("Mr. Choi") (age 50) was appointed as an independent non-executive director of the Company on 1 July 2004. Mr. Choi has over 20 years' experience in the fields of finance and fund management. He currently serves as a General Manager of Upbest Group Limited which is a Hong Kong listed company and an executive director of a company which is the investment manager of two Hong Kong listed companies. Mr. Choi is an investment adviser registered under the Securities and Future Ordinance. He holds a Master degree of Science in Finance from the City University of Hong Kong, a Bachelor Degree in Business Administration from the Chinese University of Hong Kong and a Bachelor Degree in law from the Peking University.

Mr. Chan Pat Lam ("Mr. Chan") (aged 60) was appointed as an independent non-executive director of the Company on 31 December 2004. Mr. Chan has over 35 years' experience in the field of international banking industry in Hong Kong, Macau and California. Currently, he is the assistant to the Managing Director of a private company, which is engaged in acting as an international container shipping agency in the Western region of Pearl River Delta. He is also the business advisor of a commercial bank in Macau and a partner of another private company, which is engaged in trading and wholesaling of grocery items.

(a) Corporate governance practices

The Company is committed to maintain a high standard of corporate governance, holding the beliefs of transparency, independence, honesty and accountability, with a view to enhancing investors' confidence. The Company therefore strives to attain and maintain effective corporate governance practices and procedures. The Company has complied with the provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules during the year ended 31 December 2008.

(b) Directors' securities transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by directors (the "Model Code"). The Company has made specific enquiries with all directors of the Company and each of them confirmed that they have complied with the Model Code during the year ended 31 December 2008.

(c) Board of directors

Due to the expansion of operations and businesses of the Group, upon the completion of the acquisition of Xingwu, Jinjiazhuang and Zhaiyadi in July 2008, the number of directors was increased from 6 directors as at 31 December 2007 to 10 directors as at 31 December 2008. As at 31 December 2008, the Board comprised 5 executive directors, 2 non-executive directors and 3 independent non-executive directors. As at 16 April 2009, the number of directors was increased to 11 directors.

The primary responsibilities of the Board are to establish long term strategies, administrate and oversee the operations and financial policies and supervising management of the Group. The Board delegates day-to-day operations of the Company to the chief executive officer and senior management of the Group and also instructs the management to implement the Board's decisions and resolutions. In addition, the Board has also delegated various responsibilities to the Audit Committee and the Remuneration Committee.

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

Details of backgrounds and qualifications of the directors are set out in the section of "BIOGRAPHICAL DETAILS OF DIRECTORS".

(c) Board of directors *(cont'd)*

The attendance records of all board meetings in 2008 are set out below:

Number of meetings held in 2008	21
Executive Directors	
Wong Lik Ping	10/21
So Kwok Hoo	21/21
Xue Kang*	11/18*
Huang Bin**	0/1**
Liu Qiangshan**	0/1**
Non-executive directors	
Shi Jianping**	0/1**
Li King Luk	1/21
Independent non-executive directors	
Kee Wah Sze	10/21
Choi Wai Yin	12/21
Chan Pat Lam	11/21

* *Appointed on 21 January 2008 and number of meeting held in 2008 since the date of his appointment*

** *Appointed on 1 November 2008 and number of meeting held in 2008 since the date of his appointment*

(d) Chairman and chief executive officer

The roles of chairman and chief executive officer are separate, no relationship with each other and are not performed by the same individual to reinforce their independence and accountability. Mr. Wong Lik Ping was chairman of the Company until 13 March 2009. Mr. Cao Zhong has been the Chairman of the Company since 13 March 2009. Mr. So Kwok Hoo is chief executive officer of the Company.

(e) Independent non-executive directors

Mr. Kee Wah Sze, Mr. Choi Wai Yin and Mr. Chan Pat Lam are independent non-executive directors of the Company. Mr. Kee Wah Sze, Mr. Choi Wai Yin and Mr. Chan Pat Lam each entered into a one-year service contract with the Company on 31 December 2008 that is subject to renewal. Each independent non-executive director is subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the Company's Articles of Associations.

(f) Remuneration Committee

The Company set up a Remuneration Committee in accordance with the relevant requirements of the Code on 21 September 2005. The Committee comprises four members, including three independent non-executive directors, namely Mr. Kee Wah Sze, Mr. Choi Wai Yin and Mr. Chan Pat Lam and one executive director, namely Mr. So Kwok Hoo. The chairman of the Remuneration Committee is Mr. Kee Wah Sze.

The role and function of the Remuneration Committee include the determination of the specific remuneration packages of all executive and non-executive directors, including benefits in kind, pension rights and compensation payments (such as compensation payable for loss or termination of their office or appointment), and to make recommendations to the board of the directors. The Remuneration Committee should consider factors such as the salaries index, time commitment and responsibilities of the directors.

(f) Remuneration Committee *(cont'd)*

Details of the directors' remuneration are set out in note 14 to the financial statements.

During the year ended 31 December 2008, the Remuneration Committee held three meetings to review the remuneration packages of the directors and senior management of the Company. The attendance records of Remuneration Committee meeting in 2008 are set out below:

Number of meetings held in 2008	3
Name of members	
Kee Wah Sze	3/3
So Kwok Hoo	3/3
Choi Wai Yin	3/3
Chan Pat Lam	3/3

(g) Nomination of directors

The board of directors considered that a nomination committee was not necessary to set up as the board of directors can adopt the role and function of a nomination committee. Where vacancies exist at the Board or additional directors are considered necessary by the Board, candidates are proposed and put forward to the Board for consideration. In considering the nomination of a new Director, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates. In determining the independence of directors, the Board follows the requirements set out in the Listing Rules.

On 21 January 2008, the board of directors appointed Mr. Xue Kang as an executive director and re-designated Mr. Li King Luk from an executive director to a non-executive director. On 1 November 2008, the board of directors appointed Mr. Liu Qiangshan and Mr. Huang Bin as executive directors and Mr. Shi Jianping as a non-executive director. On 12 January 2009, the board of directors appointed Mr. Chen Zhouping as a non-executive director. On 4 March 2009, the board of directors appointed Mr. Cao Zhong and Mr. Leung Shun Sang, Tony as an executive director and a non-executive director respectively.

During the year ended 31 December 2008, the board of directors held 2 meetings to nominate and appoint directors of the Company. The attendance records of these meetings in 2008 are set out below:

Number of meetings held for nomination of directors in 2008	2
Executive Directors	
Wong Lik Ping	0/2
So Kwok Hoo	2/2
Xue Kang*	1/1*
Huang Bin**	0/0**
Liu Qianshan**	0/0**
Non-executive directors	
Shi Jianping**	0/0**
Li King Luk	0/2
Independent non-executive directors	
Kee Wah Sze	2/2
Choi Wai Yin	2/2
Chan Pat Lam	2/2

* *Appointed on 21 January 2008 and number of meeting held for nomination of directors in 2008 since the date of his appointment*

** *Appointed on 1 November 2008 and number of meeting held for nomination of directors in since the date of his appointment*

(h) Audit Committee

The Company has an Audit Committee which was established in accordance with the requirements of the Code of the Best Practice for the purposes of reviewing and supervising the Group's financial reporting process and internal controls. The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

The primary roles and functions of the Audit Committee are to review and supervise the financial reporting process and internal controls systems of the Group. The Audit Committee is also responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions would lead to any potential material adverse effect on the Company.

The Audit Committee comprises three independent non-executive directors, namely Mr. Kee Wah Sze, Mr. Choi Wai Yin and Mr. Chan Pat Lam. Mr. Choi Wai Yin is the Chairman of the Audit Committee.

During the year ended 31 December 2008, the Audit Committee held two meetings to review the annual and interim results, to evaluate the Group's financial reporting process and to make recommendations to improve the Company's internal control system. The attendance records of Audit Committee meetings in 2008 are set out below:

Number of meetings held in 2008	2
Name of members	
Choi Wai Yin	2/2
Kee Wah Sze	2/2
Chan Pat Lam	2/2

(i) Auditors remuneration

An analysis of remuneration in respect of audit and non-audit services provided by Grant Thornton for the year ended 31 December 2008 is as follows:

	HK$'000
Audit services	1,500
Accountants report for business acquisitions	2,784
	4,284

(j) Internal control

The board of directors has overall responsibility for maintaining sound and effective internal controls to safeguard shareholders' investments and the Group's assets, as well as for reviewing the system of internal control of the Group.

Due to the expansion of operations and businesses of the Group upon completion of the acquisition of Xingwu, Jinjiazhuang and Zhaiyadi and the commencement of the production of a coke plant in July 2008, a plan to systematically review the Group's system of internal control is being developed and will be reviewed and discussed with the members of the Audit Committee in due course. As a result, the board has decided and appointed independent professionals to carry out a review and an assessment of the system of internal control of the Group in March 2009. This is to ensure that effective and adequate internal control systems are in place, including the relevant financial, operational and compliance controls and risk management functions. It is expected that the review exercise will be completed by the end of June 2009.

(k) Investors relations

The Company's annual general meeting is a valuable forum for the directors to communicate directly with the shareholders. In addition, the Company organises investors meetings from time to time and releases information related to any significant issues of the Company, so as to provide the development of the Company through mutual and efficient communications. Investors are welcome to write directly to the Company at its Hong Kong registered office for any enquiries. The Company continues to enhance communications and relationships with its investors. Enquiries from investors are dealt with in an informative and timely manner.

(l) Directors' responsibilities for financial statements

The Directors acknowledge their responsibilities for preparing the financial statements of the Group in accordance with statutory requirements and applicable accounting standards. The Directors also ensure that the financial statements of the Group are published in a timely manner.

The reporting responsibilities of our Company's external auditors on the financial statements of the Group are set out in the "Independent Auditor's Report" on page 45 of this annual report.

Grant Thornton
均富

Member of Grant Thornton International Ltd

To the members of Fushan International Energy Group Limited
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Fushan International Energy Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 47 to 113, which comprise the consolidated and Company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

16 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Revenue	5	**1,896,577**	15,056
Cost of sales		**(659,645)**	(13,206)
Gross profit		**1,236,932**	1,850
Other operating income	7	**47,592**	15,142
Selling and distribution expenses		**(59,759)**	–
General and administrative expenses		**(140,873)**	(42,094)
Other operating expenses		**(43,899)**	(17,469)
Impairment loss recognised on the re-measurement of assets of disposal group	29	**(15,305)**	–
Operating profit/(loss)		**1,024,688**	(42,571)
Finance costs	8	**(91,337)**	(22,482)
Fair value loss on derivative liabilities of convertible notes	37	**–**	(21,038)
Share of results of associates		**(225)**	–
Profit/(Loss) before income tax	9	**933,126**	(86,091)
Income tax expense	10	**(226,499)**	–
Profit/(Loss) for the year		**706,627**	(86,091)
Attributable to:			
Equity holders of the Company	11	**567,649**	(77,948)
Minority interests		**138,978**	(8,143)
Profit/(Loss) for the year		**706,627**	(86,091)
		HK (Cents)	HK (Cents)
Earnings/(Loss) per share for profit/(loss) attributable to the equity holders of the Company	12		
– Basic		**16.86**	(3.42)
– Diluted		**16.54**	N/A

Consolidated Balance Sheet

As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*15*	**2,062,535**	376,349
Prepaid lease payments	*16*	**61,819**	17,799
Mining rights	*17*	**10,545,819**	–
Goodwill	*18*	**2,079,145**	15,703
Interests in associates	*21*	**19,573**	–
Available-for-sale financial assets	*22*	**8,403**	7,597
Deposits, prepayments and other receivables	*23*	**264,665**	389,437
Amount due from a connected party	*26*	**218,712**	–
		15,260,671	806,885
Current assets			
Inventories	*24*	**187,465**	–
Trade and bill receivables	*25*	**999,408**	7,232
Deposits, prepayments and other receivables		**215,801**	20,429
Amounts due from connected parties	*26*	**1,495,944**	–
Pledged bank deposits	*27*	**168,941**	–
Cash and cash equivalents	*28*	**760,163**	460,538
Assets classified as held for sale	*29*	**163,875**	–
		3,991,597	488,199
Current liabilities			
Liabilities directly associated with assets classified as held for sale	*29*	**29,238**	–
Trade and bill payables	*30*	**380,795**	2,294
Other payables and accruals	*31*	**1,819,680**	125,997
Borrowings	*32*	**1,590,917**	184,588
Amount due to a director	*33*	**20,000**	–
Amounts due to connected parties	*34*	**51,137**	–
Amounts due to related companies	*35*	**12,316**	25,907
Amounts due to minority equity holders of subsidiaries	*36*	**97,203**	85,589
Derivative liabilities of convertible notes	*37*	**–**	10,916
Tax payables		**399,966**	–
		4,401,252	435,291
Net current (liabilities)/assets		**(409,655)**	52,908
Total assets less current liabilities		**14,851,016**	859,793

	Notes	2008 HK$'000	2007 HK$'000
Non-current liabilities			
Borrowings	32	**35,171**	–
Amounts due to minority equity holders of subsidiaries	36	**–**	33,769
Convertible notes	37	**–**	34,014
Other long term payables	38	**238,550**	–
Deferred tax liabilities	39	**2,128,298**	–
		2,402,019	67,783
Net assets		**12,448,997**	792,010
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital	40	**456,456**	242,239
Reserves	41	**10,365,283**	491,492
		10,821,739	733,731
Minority interests		**1,627,258**	58,279
Total equity		**12,448,997**	792,010

Cao Zhong
Director

Wong Lik Ping
Director

Balance Sheet

As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*15*	**59**	42
Interests in subsidiaries	*19*	**–**	–
Loans to subsidiaries	*20*	**–**	126,598
Interests in associates	*21*	**–**	–
		59	126,640
Current assets			
Amounts due from subsidiaries	*20*	**9,829,849**	661,059
Deposits, prepayments and other receivables		**48**	29
Cash and cash equivalents	*28*	**462,375**	7,542
		10,292,272	668,630
Current liabilities			
Other payables and accruals	*31*	**9,307**	5,765
Net current assets		**10,282,965**	662,865
Net assets		**10,283,024**	789,505
EQUITY			
Share capital	*40*	**456,456**	242,239
Reserves	*41*	**9,826,568**	547,266
Total equity		**10,283,024**	789,505

Cao Zhong
Director

Wong Lik Ping
Director

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Cash flows from operating activities			
Profit/(Loss) before income tax		**933,126**	(86,091)
Adjustments for:			
Amortisation of prepaid lease payments		**907**	450
Amortisation of mining rights		**97,923**	–
Depreciation of property, plant and equipment		**62,717**	2,755
Finance costs		**91,337**	22,482
Fair value loss on derivative liabilities of convertible notes		**–**	21,038
Impairment loss recognised on the re-measurement of assets of disposal group		**15,305**	–
Share-based compensation expense		**6,476**	19,429
Write-back of impairment on other receivables		**(6,474)**	–
Write-down of inventories to net realisable value		**31,465**	–
Share of results of associates		**225**	–
Interest income		**(6,162)**	(15,142)
Gain on disposals of property, plant and equipment		**(1,230)**	–
Exchange gain		**(7,142)**	–
Operating profit/(loss) before working capital changes		**1,218,473**	(35,079)
Increase in inventories		**(100,251)**	–
Increase in trade and bill receivables		**(154,961)**	(7,229)
Decrease/(Increase) in deposits, prepayments and other receivables		**106,811**	(13,752)
Decrease in amounts due from minority equity holders of subsidiaries		**510,235**	–
Decrease in amounts due from connected parties		**583,448**	–
Increase in trade and bill payables		**118,592**	2,294
(Decrease)/Increase in other payables and accruals		**(381,342)**	7,424
Increase in amount due to a director		**20,000**	–
Decrease in amounts due to connected parties		**(852,135)**	–
Cash generated from/(used in) operations		**1,068,870**	(46,342)
Income tax paid		**(87,987)**	–
Net cash generated from/(used in) operating activities		**980,883**	(46,342)

	Note	2008 HK$'000	2007 HK$'000
Cash flows from investing activities			
Payments to acquire subsidiaries	*43*	**(4,934,064)**	–
Payments to acquire property, plant and equipment		**(600,776)**	(57,737)
Proceeds from disposals of property, plant and equipment		**12,284**	–
Prepayments for purchase of property, plant and equipment, and potential mining projects		**–**	(99,948)
Investment in available-for-sale financial assets		**–**	(7,597)
Interest received		**6,162**	15,142
Net cash used in investing activities		**(5,516,394)**	(150,140)
Cash flows from financing activities			
Net proceeds from issue of new shares upon placement		**3,944,748**	443,530
Net proceeds from issue of convertible notes		**–**	289,522
Net proceeds from exercise of share options		**7,478**	–
Proceeds from new bank loans		**1,482,663**	54,265
Repayment of bank loans		**(56,205)**	(50,819)
Proceeds from new other loans		**106,501**	–
Repayments of other loans		**(424,163)**	(101,555)
Repayments to ultimate holding company		**–**	(10,000)
Repayments to related companies		**(13,591)**	(2,281)
(Repayments to)/Advances from minority equity holders of subsidiaries		**(15,776)**	30,509
Increase in pledged bank deposits		**(115,107)**	–
Finance cost paid		**(95,184)**	(7,293)
Net cash generated from financing activities		**4,821,364**	645,878
Net increase in cash and cash equivalents		**285,853**	449,396
Cash and cash equivalents at 1 January		**460,538**	10,573
Effect of foreign exchange rates changes		**13,772**	569
Cash and cash equivalents at 31 December		**760,163**	460,538

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Equity attributable to equity holders of the Company							Minority interests	Total equity
	Share capital HK$'000	Share premium HK$'000	Statutory reserve HK$'000	Accumulated losses HK$'000	Share-based compensation reserve HK$'000	Translation reserve HK$'000	Total HK$'000	HK$'000	HK$'000
At 1 January 2008	242,239	1,089,359	–	(644,167)	32,382	13,918	733,731	58,279	792,010
Net income directly recognised in equity									
– exchange difference arising from translating the financial statements of foreign entities	–	–	–	–	–	6,238	6,238	11,234	17,472
Profit for the year	–	–	–	567,649	–	–	567,649	138,978	706,627
Total recognised income and expense for the year	–	–	–	567,649	–	6,238	573,887	150,212	724,099
Appropriation *(Note 41)*	–	–	107,343	(107,343)	–	–	–	–	–
Increase in shareholding of a non-wholly owned subsidiary	–	–	–	–	–	–	–	8,189	8,189
Acquisition of subsidiaries *(Note 43)*	–	–	–	–	–	–	–	1,410,578	1,410,578
Share-based compensation	–	–	–	–	6,476	–	6,476	–	6,476
Issue of new shares upon conversion of convertible notes	1,717	43,289	–	–	–	–	45,006	–	45,006
Placing of shares	86,000	3,858,748	–	–	–	–	3,944,748	–	3,944,748
Issue of consideration shares	126,000	5,384,413	–	–	–	–	5,510,413	–	5,510,413
Issue of new shares upon conversion of share options	500	8,837	–	–	(1,859)	–	7,478	–	7,478
At 31 December 2008	456,456	10,384,646	107,343	(183,861)	36,999	20,156	10,821,739	1,627,258	12,448,997

	Equity attributable to equity holders of the Company						Minority interests	Total equity
	Share capital HK$'000	Share premium HK$'000	Accumulated losses HK$'000	Share-based compensation reserve HK$'000	Translation reserve HK$'000	Total HK$'000	HK$'000	HK$'000
At 1 January 2007	208,080	399,169	(566,219)	12,953	3,563	57,546	42,034	99,580
Net income directly recognised in equity – exchange difference arising from translating the financial statements of foreign entities	–	–	–	–	10,355	10,355	8,685	19,040
Loss for the year	–	–	(77,948)	–	–	(77,948)	(8,143)	(86,091)
Total recognised income and expense for the year	–	–	(77,948)	–	10,355	(67,593)	542	(67,051)
Increase in shareholdings of non-wholly owned subsidiaries	–	–	–	–	–	–	15,703	15,703
Share-based compensation	–	–	–	19,429	–	19,429	–	19,429
Issue of new shares	23,000	420,530	–	–	–	443,530	–	443,530
Issue of new shares upon conversion of convertible notes	11,159	269,660	–	–	–	280,819	–	280,819
At 31 December 2007	242,239	1,089,359	(644,167)	32,382	13,918	733,731	58,279	792,010

1. GENERAL INFORMATION

Fushan International Energy Group Limited (the "Company") is a limited liability company incorporated and domiciled in Hong Kong. Its registered office address is 12th Floor, Kwan Chart Tower, No. 6 Tonnochy Road, Wanchai, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company and its subsidiaries are referred to as the "Group" hereinafter.

The principal activity of the Company is investment holdings. On 9 May 2008, one of the wholly-owned subsidiaries, Jade Green Investments Ltd ("Jade Green") and Mr. Wong Lik Ping ("Mr. Wong"), one of the substantial shareholders, entered into a sales and purchase agreement (the "Agreement") with Mr. Xing Libin ("Mr. Xing"), the controlling shareholder of Fortune Dragon Group Limited ("Fortune Dragon") to acquire three companies, namely Thechoice Finance Limited ("Thechoice"), Worldman Industrial Limited ("Worldman") and Gumpert Industries Limited ("Gumpert"), all of which are incorporated in the British Virgin Islands (the "BVI"). These companies are all engaged in coking coal mining and production and sales of raw and clean coking coal in the People's Republic of China (the "PRC") through their non-wholly owned PRC subsidiaries, each of which has coalmines. The whole transaction is referred to as the "Very Substantial Acquisition" hereinafter. These PRC subsidiaries are Shanxi Liulin Xingwu Coalmine Company Limited ("Xingwu"), Shanxi Liulin Jinjiazhuang Coal Company Limited ("Jinjiazhuang") and Shanxi Liulin Zhaiyadi Coal Company Limited ("Zhaiyadi"). Details of the Very Substantial Acquisition have been set out in the Company's circular dated 25 June 2008. The Very Substantial Acquisition was completed on 25 July 2008.

On 19 April 2008, Shanxi Jinshan Energy Limited ("Jinshan") entered into a conditional sale and purchase agreement with a subsidiary of the minority shareholder of Taiyuan Xishan Risheng Coal and Coking Company Limited ("Risheng") to dispose of its 70% equity interest in Risheng (the "Disposal"). The total cash consideration for the Disposal was RMB119 million (HK$135 million equivalent). Of which, RMB110 million (HK$124 million equivalent) will be shared by the Group and the remaining RMB9 million (HK$11 million equivalents) by the minority equity holders of Risheng. Risheng is engaged in the production and sales of coke products in Shanxi, the PRC. Details of the Disposal are set out in the circular of the Company dated 29 December 2008. As at 31 December 2008, the Disposal had not yet completed (note 29).

The principal activities of the Group's subsidiaries comprise the production and sales of coking coal products and side products. Details of the activities of its principal subsidiaries are set out in note 19 to the financial statements. Other than the Very Substantial Acquisition and the Disposal as described above, there were no significant changes in the Group's operations during the year. The Group's principal places of the business are in Hong Kong and the PRC.

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

The financial statements on pages 47 to 113 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretation ("Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable requirements of the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The financial statements for the year ended 31 December 2008 were approved for issue by the board of directors on 16 April 2009.

2. ADOPTION OF NEW AND AMENDED HKFRSs

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Company's financial statements for the annual period beginning on 1 January 2008:

HKAS 39 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions

The new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented. Accordingly, no prior period adjustment is required.

At the date of authorisation of these financial statements, the following new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKAS 39 (Amendments)	Eligible Hedged Items[2]
HKAS 39 (Amendments)	Financial Instruments: Recognition and Measurement – Embedded Derivatives[5]
HKFRS 1 (Revised)	First-time Adoption of HKFRSs[2]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate[1]
HKFRS 2 (Amendments)	Share-based Payment – Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 7 (Amendments)	Improving Disclosures about financial instruments[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 2	Members' Shares in Co-operative Entities and Similar Instruments[1]
HK (IFRIC) – Int 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[3]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[4]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[2]
HK(IFRIC) – Int 18	Transfer of Assets from Customers[6]
Various	Annual Improvements to HKFRS 2008[7]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 October 2008
[5] Effective for annual periods ending on or after 30 June 2009
[6] Effective for transfers of assets from customers received on or after 1 July 2009
[7] Generally effective for annual periods beginning on or after 1 January 2009 unless otherwise stated in the specific HKFRS

2. ADOPTION OF NEW AND AMENDED HKFRSs *(cont'd)*

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement.

Amongst these new standards and interpretations, HKAS 1 (Revised) Presentation of Financial Statements is expected to materially change the presentation of the Group's financial statements. These amendments affect the presentation of owner changes in equity and introduce a statement of comprehensive income. The Group will have the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). These amendments do not affect the financial position or results of the Group but will give rise to additional disclosures.

In addition, HKFRS 8 – Operating Segments may result in new or amended disclosures. The directors are in the process of identifying reportable operating segments as defined in HKFRS 8.

The directors are currently assessing the impact of other new and amended HKFRSs upon initial application. So far, the directors have preliminarily concluded that the initial application of these HKFRSs is unlikely to have a significant impact on the Group's results and financial positions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of the financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared under the historical cost convention except for certain financial assets and liabilities which are stated at fair values. The measurement bases are fully described in the accounting policies below.

In preparing the financial statements, the directors have considered the operations of the Group as a going concern in view of the fact that the Group's current liabilities has exceeded its current assets by HK$409,655,000 as at 31 December 2008 (2007: net current assets of HK$52,908,000). This condition may indicate the existence of material uncertainty which may cast significant doubts on the Group's ability to continue as a going concern and therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, the directors prepare the financial statements based on the assumption that the Group can be operated as a going concern and are of the view that the Group will have sufficient working capital to finance its operations in the next twelve months, after taking into consideration of the followings:

(i) As at 31 December 2008, current portion of the borrowings amounted to HK$1,590,917,000 (2007: HK$184,588,000). Of which, an aggregate balance of HK$1,110,112,000 of two tranches loan repayments, granted to a subsidiary of the Group, will be due in May 2009 and September 2009. The Group is in the progress of applying the re-financing arrangement on its existing loan balances of HK$1,110,112,000 as at 31 December 2008 either with the existing lender or other banks. In the absence of any unforeseeable adverse circumstances, the directors of the Company are confident that the Group can get the bank's approvals to extend the repayment dates of these two tranches loans or one tranche loan, prior to the maturity dates in May 2009 and September 2009 to September 2010 or later or re-financing with other banks; and

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.1 Basis of preparation *(cont'd)*

(ii) The directors have prepared the cash flow projections of the Group for the next twelve months. In light of the net cash inflow generated from operating activities of HK$980,883,000 (2007: outflow of HK$46,342,000) for the year ended 31 December 2008, the directors are of the opinion that, in the absence of any unforeseeable adverse circumstances and any significant investing activities for the next twelve months, persistent positive operating cash inflows can be generated from the subsidiaries as a result of the Very Substantial Acquisition (note 1). As such, the directors are of the opinion that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements.

In light of the above, the directors believe that the Group will be able to operate as a going concern. Accordingly, the financial statements are prepared based on the assumption that the Group can be operated as a going concern.

Should the Group be unable to generate sufficient cash flows and/or secure the support of its banks, the Group might not be able to continue in business as a going concern. Accordingly, adjustments would have to be made in the financial statements to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not yet been reflected in the financial statements.

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

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

3.3 Subsidiaries

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

Business combinations (other than for combining entities under common control) are accounted for by applying the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.3 Subsidiaries *(cont'd)*

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivables at the balance sheet date.

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interests to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interests only after the minority's share of losses previously absorbed by the Group has been recovered.

3.4 Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture. In the consolidated financial statements, investment in associates is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associate recognised for the year.

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.4 Associates *(cont'd)*

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. At each balance sheet date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (see note 3.8) of the associate and its carrying amount.

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 the income statement in the determination of the Group's share of the associate's profit or loss in which the investment is acquired.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, when necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

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

3.5 Goodwill

Goodwill represents the excess of the cost of a business combination or an investment over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assume, and equity instruments issued by the Group, plus any costs directly attributable to the business combination or investment.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units ("CGUs") and is tested annually for impairment (see note 3.8). In respect of associates, the carrying amount of goodwill, if any, is included in the carrying amount of the Group's interest in the associate.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in income statement.

On subsequent disposal of a subsidiary or an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.6 Property, plant and equipment

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

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

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

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

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

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

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

The gain or loss arising on retirement or disposal is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognised in the income statement.

3.7 Mining rights

Mining rights are stated at cost less accumulated amortisation and are amortised on the units of production method based on the total proven and probable reserves of the coal mine or contractual period from the date of commencement of commercial production which approximates the date from which they are available for use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.8 Impairment of non-financial assets

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

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

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

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

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

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

Impairment loss recognised in an interim period in respect of goodwill is not reversed in a subsequent period.

3.9 Foreign currency translation

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.9 Foreign currency translation *(cont'd)*

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

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the balance sheet date. Income and expenses have been converted into the HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the translation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into HK$ at the closing rates.

Other exchange differences arising from the translation of the net investment are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

3.10 Revenue recognition

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

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

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

3.11 Borrowing costs

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

3.12 Leases

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.12 Leases *(cont'd)*

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

Prepaid lease payments

Prepaid lease payments represent up-front payments to acquire long term interests in the usage of the land on which various mining plants and buildings are situated. These payments are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method over the applicable lease term.

Assets acquired under finance leases

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

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

Finance charges implicit in the lease payments are charged to income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Operating lease as the lessee

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

3.13 Financial assets

Recognition and measurement

The Group's financial assets include available-for-sale financial assets, trade and bill receivables, deposits, prepayments and other receivables, amounts due from connected parties, pledged bank deposits and cash and cash equivalents. These are mainly classified into loans and receivables and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value plus directly attributable transaction costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.13 Financial assets *(cont'd)*

Recognition and measurement *(cont'd)*

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of other categories of financial assets.

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value is recognised directly in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity would be recycled in the income statement. Interest calculated using the effective interest method is recognised in the income statement. Upon disposal, the cumulative gain or loss previously recognised in equity is transferred to the income statement.

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

Impairment of financial assets

At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Loans and receivables carried at amortised cost

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

– significant financial difficulty of the debtor; or

– a breach of contract, such as default or delinquency in interest or principal payments; or

– it becoming probable that the debtor will enter bankruptcy or financial reorganisation; or

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.13 Financial assets *(cont'd)*

Impairment of financial assets *(cont'd)*

Loans and receivables carried at amortised cost (cont'd)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

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

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

Available-for-sale financial assets

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

Reversals for investment in equity instruments classified as available-for-sale are not recognised in the income statement. The subsequent increase in fair value is recognised directly in equity.

Financial assets carried at cost

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.14 Inventories

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

3.15 Accounting for income taxes

Income tax comprises current tax and deferred tax.

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

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

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

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

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

3.16 Cash and cash equivalents

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

3.17 Share capital

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.18 Share-based compensation

The Group operates equity-settled share-based compensation plans for remuneration of its employees and its directors.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based compensation is recognised as an expense in income statement with a corresponding credit to share-based compensation reserve, net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the share issued are reallocated to share capital with any excess being recorded as share premium. When the vested share options are lapsed, forfeited or still not exercised at the expiry date, the amount previously recognised in equity will be transferred to accumulated losses.

3.19 Retirement benefit costs and short term employee benefits

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme ("the MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all employees in Hong Kong. Contributions are made based on 5% of the employees' basic salaries, with a cap of monthly salaries of HK$20,000 and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF scheme.

According to the relevant regulations in the PRC, the subsidiaries of the Group operating in the PRC are required to participate in the state-sponsored retirement plan (the "PRC RB Plan") operated by the respective local municipal government in the PRC. These PRC subsidiaries are required to contribute a certain percentage of the basic salaries of their employees to the PRC RB Plan to fund their retirement benefits. The PRC RB Plan is responsible for the entire pension obligations payable to the retired employees and the Group has no further obligations for the actual pension payments or other post-retirement benefits beyond the employer contributions. Contributions under the PRC RB Plan are charged to the income statement as they become payable in accordance with the rules of the PRC RB Plan.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.19 Retirement benefit costs and short term employee benefits *(cont'd)*

Short term employee benefits

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

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

3.20 Financial liabilities

The Group's financial liabilities include borrowings, amounts due to related companies, minority equity holders of subsidiaries, a director and connected parties, convertible notes, trade and bill payables, other payables, accruals and other long term payables.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

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

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

Borrowings

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

Bank loans and other loans are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Convertible notes (do not contain an equity component)

At initial recognition the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs related to the issue of the convertible notes are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.20 Financial liabilities *(cont'd)*

Convertible notes (do not contain an equity component) *(cont'd)*

The derivative component is subsequently re-measured in accordance with the Group's accounting policy on derivative financial instruments. The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the note is converted, the carrying amount of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, any difference between the amount paid and the carrying amount of both components is recognised in the income statement.

Finance lease liabilities

Finance lease liabilities are measured at initial value less the capital element of lease repayments (note 3.12).

Other financial liabilities at amortised cost

Amounts due to related companies, minority equity holders of subsidiaries, a director and connected parties, trade and bill payables, other payables, accruals and other long term payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

3.21 Provisions, contingent liabilities and contingent assets

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

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

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

3.22 Related parties

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

(i) the party has the ability, directly, or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.22 Related parties *(cont'd)*

(iv) the party is a member of the key management personnel of the Group; or is a close member of the family of any individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individual; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3.23 Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

A business segment is a group of assets and operations engaged in providing products that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

In respect of business segment reporting, unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, prepaid lease payments, mining rights, goodwill, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings.

Capital expenditure comprises additions to property, plant and equipment, prepaid lease payments, mining rights, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, revenue are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

3.24 Financial guarantees issued

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

3.24 Financial guarantees issued *(cont'd)*

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

3.25 Assets classified as held for sale

Assets (or disposal groups) are classified as held for sales if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Assets (or disposal groups) classified as held for sale are measured at the lower of the assets' (or disposal group's) previous carrying amount and fair value less costs to sell.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

4.1 Impairment of non-financial assets

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

4.2 Impairment of goodwill

The Group tests on an annual basis whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3.5. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of judgement and estimates of the future cash flows expected to arise from the CGUs, the timeframe for the cash flows forecast and the suitable discount rates in order to calculate the present value. Since the cash flows projections are extrapolated beyond 5 years and the licence period of the mining rights held by the Group ranges from three to five years, management is of the opinion that the Group is able to renew the licence of the mining rights from the relevant authority continuously and at minimal charges. Details of impairment assessment are set out in note 18 to the financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(cont'd)*

4.3 Impairment of loans and receivables

Allowances for impairment of receivables are determined by management of the Group based on the repayment history of its debtors and the current market conditions. It could change significantly as a result of changes in the financial position of the debtors. Management reassesses the amount of impairment allowances of receivables, if any, at each balance sheet date.

4.4 Depreciation

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

4.5 Amortisation of mining rights

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

4.6 Net realisable value of inventories

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

4.7 Income taxes

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the amount of the provision for income taxes and the timing of payment of related taxes. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. REVENUE

Revenue, which is also the Group's turnover, comprises total invoiced value of coal supplied, net of applicable VAT in the PRC. Revenue recognised during the year are as follows:

	2008 **HK$'000**	2007 HK$'000
Sales of raw coal	**1,315,771**	14,256
Sales of clean coal	**495,790**	–
Sales of coke	**85,016**	–
Sales of jewellery	**–**	800
	1,896,577	15,056

6. SEGMENT INFORMATION

6.1 Primary reporting format – business segments

The Group comprises two business segments as follows:

- Coal Mining: Mining and exploration of coal resources and production of raw coking coal and clean coking coal
- Coke Production: Production of coke

The following tables present revenue, results information for the year ended 31 December 2008 and certain assets and liabilities information as at 31 December 2008 for the Group's business segments.

6. SEGMENT INFORMATION *(cont'd)*

6.1 Primary reporting format – business segments *(cont'd)*

	Coal mining		Coke production		Others		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Sales to external parties	**1,811,561**	14,256	**85,016**	–	**–**	800	**1,896,577**	15,056
Segment results	**1,148,068**	1,050	**(93,872)**	(12,668)	**–**	800	**1,054,196**	(10,818)
Unallocated income and expenses							**(29,508)**	(31,753)
Operating profit/(loss)							**1,024,688**	(42,571)
Finance costs							**(91,337)**	(22,482)
Fair value loss on derivative liabilities of convertible notes							**–**	(21,038)
Share of results of associates	**(225)**	–	**–**	–	**–**	–	**(225)**	–
Profit/(Loss) before income tax							**933,126**	(86,091)
Income tax expense							**(226,499)**	–
Profit/(Loss) for the year							**706,627**	(86,091)
Segment assets	**18,093,924**	4,789	**668,572**	948,065	**–**	–	**18,762,496**	952,854
Interests in associates							**19,573**	–
Unallocated assets							**470,199**	342,230
Total assets							**19,252,268**	1,295,084
Segment liabilities	**2,072,200**	2,294	**104,436**	449,535	**–**	–	**2,176,636**	451,829
Unallocated liabilities							**4,626,635**	51,245
Total liabilities							**6,803,271**	503,074
Other segment information								
Capital expenditure	**12,427,081**	16,176	**235,005**	86,104	**–**	3	**12,662,086**	102,283
Depreciation	**40,601**	2,096	**21,869**	256	**247**	403	**62,717**	2,755
Amortisation of mining rights	**97,923**	–	**–**	–	**–**	–	**97,923**	–
Amortisation of prepaid lease payments	**568**	129	**232**	214	**107**	107	**907**	450
Write-down of inventories to net realisable value	**–**	–	**31,465**	–	**–**	–	**31,465**	–

6. SEGMENT INFORMATION *(cont'd)*

6.2 Secondary reporting format – geographical segments

An analysis of the Group's revenue, segment results for the year, the Group's assets as at 31 December 2008 and capital expenditure incurred for the year by geographical segments is as follows:

	Revenue		Segment results		Total assets		Capital expenditure	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Principal markets								
PRC	**1,896,577**	14,256	**1,054,196**	(11,618)	**18,782,069**	952,854	**12,662,086**	102,280
Hong Kong	**–**	800	**(29,508)**	(30,953)	**470,199**	342,230	**–**	3
	1,896,577	15,056	**1,024,688**	(42,571)	**19,252,268**	1,295,084	**12,662,086**	102,283

7. OTHER OPERATING INCOME

	2008	2007
	HK$'000	HK$'000
Gain on disposals of property, plant and equipment	**1,230**	–
Gain on sales of purchased coal	**10,939**	–
Gain on sales of scrapped products	**15,645**	–
Write-back of impairment on other receivables	**6,474**	–
Bank interest income on escrow accounts	**74**	7,042
Other bank interest income	**6,088**	8,100
Exchange gain	**7,142**	–
	47,592	15,142

8. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Interest charged on:		
– bank borrowings repayable within five years	**71,786**	3,765
– other loans wholly repayable within five years	**16,486**	11,125
– amounts due to related companies wholly repayable within five years	**358**	1,069
– amounts due to minority equity holders of subsidiaries wholly repayable within five years	**1,777**	4,412
– convertible notes wholly repayable within five years	**103**	15,189
– early redemption of bill receivables	**4,541**	–
– finance charges on finance leases	**133**	–
	95,184	35,560
Less: interest capitalised in CIP*	**(3,847)**	(13,078)
Total finance costs	**91,337**	22,482

* *the borrowing costs have been capitalised at the rates ranging from 6% to 7% (2007: 6% to 7%) per annum.*

9. PROFIT/(LOSS) BEFORE INCOME TAX

	2008 HK$'000	2007 HK$'000
Profit/(Loss) before income tax is arrived at after charging:		
Auditors' remuneration:		
– audit services	**1,500**	440
– other services	**2,784**	3,278
Less: capitalised as part of the investment cost in business acquisiton	**(2,222)**	–
	2,062	3,718
Cost of inventories recognised as expenses	**637,219**	13,206
Amortisation of:		
– prepaid lease payments	**907**	450
– mining rights	**97,923**	–
Depreciation of property, plant and equipment		
– owned assets	**24,135**	2,755
– leased assets	**38,582**	–
Employee benefit expenses (including directors' emoluments and retirement benefits scheme contributions) *(Note 13)*	**146,409**	31,323
Operating lease charges in respect of land and buildings	**8,400**	905
Write-down of inventories to net realisable value	**31,465**	–

10. INCOME TAX EXPENSE

	2008 HK$'000	2007 HK$'000
Current tax – PRC income tax	**153,453**	–
Deferred tax *(Note 39)*	**73,046**	–
	226,499	–

No provision for Hong Kong profits tax has been provided in the financial statements as the Group had no assessable profit arising in Hong Kong in 2007 and 2008. The Hong Kong SAR Government enacted a reduction in the Profits Tax Rate from 17.5% to 16.5% with effect from the year of assessment 2008/2009. Accordingly, the relevant current or deferred tax has been calculated using the new tax rate of 16.5%.

In accordance with the Income Tax Law of the PRC for Enterprises with Foreign Investment, the Group's certain subsidiaries, namely Xingwu, Jinjiazhuang and Zhaiyadi, all established in the PRC, were entitled to full exemption on the income tax in the PRC for the years ended 31 December 2006 and 2007 and a 50% relief from the corporate income tax for the three subsequent years ending 31 December 2010.

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the PRC New Corporate Income Tax Law was approved and become effective on 1 January 2008. The PRC New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the corporate income tax rates for domestic-invested and foreign-invested enterprises at 25%. As a result, the applicable income tax rate of all PRC subsidiaries within the Group has changed to 25% with effect from 1 January 2008.

The enterprise income tax rate for the calendar years from 2008 to 2010 is changed from 16.5% to 12.5%. From the calendar year of 2011 onwards, the enterprise income tax rate for Xingwu, Jinjiazhuang and Zhaiyadi shall become 25% without any exemption.

Reconciliation between income tax expense and accounting profit/(loss) at applicable tax rates is as follows:

	2008 HK$'000	2007 HK$'000
Profit/(Loss) before income tax	**933,126**	(86,091)
Tax calculated at the rates applicable to the tax jurisdiction concerned	**249,938**	(18,330)
Tax effect of tax exemption granted	**(145,280)**	–
Tax effect of non-deductible expenses	**48,092**	18,410
Tax effect of non-taxable income	**(3,251)**	(1,771)
Tax effect of temporary difference not recognised	**(24)**	(28)
Tax effect of unused tax losses not recognised	**3,978**	1,719
Effect of withholding tax at 10% on distributable profits of the Group's PRC subsidiaries	**73,046**	–
Income tax expense	**226,499**	–

10. INCOME TAX EXPENSE *(cont'd)*

Under the PRC New Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared in respect of profits earned by the PRC subsidiaries to the foreign investors, where there is no tax treaty with the PRC, from 1 January 2008 onwards. The Group is therefore liable to withholding taxes on dividends distributed by its PRC subsidiaries, namely Xingwu, Jinjiazhuang and Zhaiyadi, in respect of earnings from which generated since the Very Substantial Acquisition completed on 25 July 2008 (note 1).

11. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated profit for the year attributable to the equity holders of the Company of HK$567,649,000 (2007: loss of HK$77,948,000), a loss of HK$20,602,000 (2007: HK$28,790,000) has been dealt with in the financial statements of the Company.

12. EARNINGS/(LOSS) PER SHARE

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

	2008 **HK$'000**	2007 HK$'000
Profit/(Loss) attributable to equity holders of the Company	**567,649**	(77,948)
Interest on convertible notes	**103**	–
Profit/(Loss) used to determine diluted earnings/(loss) per share	**567,752**	(77,948)
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	**3,367,451**	2,277,845
Effect of dilutive potential ordinary shares:		
– Share options	**60,385**	–
– Convertible notes	**5,174**	–
Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share *(Note)*	**3,433,010**	2,277,845

Note:

For the year ended 31 December 2007, the computation of diluted earnings per share did not assume the exercise of the outstanding share options and convertible notes as the exercise of the share options and convertible bonds was anti-dilutive.

13. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2008 HK$'000	2007 HK$'000
Salaries, wages and allowances	132,358	12,134
Share-based compensation expense	6,476	19,429
Unutilised annual leaves	315	90
Retirement benefits scheme contributions	7,260	69
	146,409	31,722
Less: Salaries and wages capitalised in CIP	–	(399)
	146,409	31,323

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

Directors' emoluments

	2008					2007				
	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefits scheme contributions HK$'000	Share-based compensation expense HK$'000	Total HK$'000	Fees HK$'000	Salaries, allowance and benefits in kind HK$'000	Retirement benefits scheme contributions HK$'000	Share-based compensation expense HK$'000	Total HK$'000
Executive directors										
Mr. Wong Lik Ping	–	8,570	12	172	8,754	–	1,671	12	517	2,200
Mr. So Kwok Hoo	–	2,780	12	560	3,352	–	1,352	12	1,681	3,045
Mr. Xue Kang*	40	95	–	347	482	–	–	–	–	–
Mr. Liu Qingshan**	40	47	–	–	87	–	–	–	–	–
Mr. Huang Bin***	400	–	–	–	400	–	–	–	–	–
Non-executive directors										
Mr. Shi Jianping**	40	–	–	–	40	–	–	–	–	–
Mr. Li King Luk	30	–	–	–	30	–	–	–	–	–
Independent non-executive directors										
Mr. Kee Wah Sze	120	–	–	69	189	60	–	–	207	267
Mr. Choi Wai Yin	120	–	–	69	189	60	–	–	207	267
Mr. Chan Pat Lam	120	–	–	69	189	60	–	–	207	267
	910	11,492	24	1,286	13,712	180	3,023	24	2,819	6,046

* appointed on 21 January 2008
** appointed on 1 November 2008
*** appointed on 1 November 2008 and subsequently resigned on 31 March 2009

For the year ended 31 December 2008, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office (2007: Nil).

For the year ended 31 December 2008, no share options were granted to the directors in respect of their services to the Group (2007: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2007: Nil).

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(cont'd)

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2007: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2007: three) individuals during the year are as follows:

	2008 HK$'000	2007 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**2,705**	1,429
Retirement benefits scheme contributions	**24**	24
Share-based compensation expense	**434**	2,257
	3,163	3,710

The emoluments of the two (2007: three) individuals with the highest emoluments are within the following bands:

Emolument bands	2008 Number of individuals	2007 Number of individuals
HK$1,000,000 – HK$1,500,000	**1**	3
HK$1,500,001 – HK$2,000,000	**1**	–

During the year, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2007: Nil).

15. PROPERTY, PLANT AND EQUIPMENT

GROUP

	Buildings	CIP	Mining structures	Mining machinery and equipment	Leasehold improvements	Office equipment, furniture and fixture	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2007								
Cost	7,850	242,702	–	5,831	696	628	7,876	265,583
Accumulated depreciation	(1,993)	–	–	(1,171)	(696)	(449)	(5,998)	(10,307)
Net carrying amount	5,857	242,702	–	4,660	–	179	1,878	255,276
For the year ended 31 December 2007								
Opening net carrying amount	5,857	242,702	–	4,660	–	179	1,878	255,276
Exchange retranslation	202	20,900	–	371	–	7	65	21,545
Additions	389	99,027	–	1,411	–	276	1,180	102,283
Depreciation	(402)	–	–	(649)	–	(94)	(1,610)	(2,755)
Closing net carrying amount	6,046	362,629	–	5,793	–	368	1,513	376,349
At 31 December 2007								
Cost	8,490	362,629	–	7,744	696	921	9,688	390,168
Accumulated depreciation	(2,444)	–	–	(1,951)	(696)	(553)	(8,175)	(13,819)
Net carrying amount	6,046	362,629	–	5,793	–	368	1,513	376,349
For the year ended 31 December 2008								
Opening net carrying amount	**6,046**	**362,629**	**–**	**5,793**	**–**	**368**	**1,513**	**376,349**
Exchange retranslation	**(206)**	**8,889**	**(842)**	**3,861**	**–**	**(13)**	**(73)**	**11,616**
Acquisition of subsidiaries *(Note 43)*	**322,220**	**209,939**	**327,799**	**427,494**	**–**	**18,076**	**17,699**	**1,323,227**
Additions	**–**	**503,769**	**–**	**92,327**	**–**	**5,437**	**3,090**	**604,623**
Transfer	**98,860**	**(563,526)**	**59,960**	**404,570**	**–**	**136**	**–**	**–**
Disposals	**–**	**–**	**–**	**(10,211)**	**–**	**–**	**(1,293)**	**(11,504)**
Depreciation	**(7,799)**	**–**	**(7,410)**	**(43,593)**	**–**	**(1,780)**	**(2,135)**	**(62,717)**
Reclassified as assets held for sale *(Note 29)*	**–**	**(177,411)**	**–**	**(1,633)**	**–**	**–**	**(15)**	**(179,059)**
Closing net carrying amount	**419,121**	**344,289**	**379,507**	**878,608**	**–**	**22,224**	**18,786**	**2,062,535**
At 31 December 2008								
Cost	**429,475**	**344,289**	**386,992**	**924,055**	**696**	**24,617**	**28,359**	**2,138,483**
Accumulated depreciation	**(10,354)**	**–**	**(7,485)**	**(45,447)**	**(696)**	**(2,393)**	**(9,573)**	**(75,948)**
Net carrying amount	**419,121**	**344,289**	**379,507**	**878,608**	**–**	**22,224**	**18,786**	**2,062,535**

15. PROPERTY, PLANT AND EQUIPMENT *(cont'd)*

GROUP *(cont'd)*

During the year, interest expense of HK$3,847,000 (2007: HK$13,078,000) (note 8) has been capitalised in CIP.

The net carrying amount of the Group's property, plant and equipment held under finance leases included in total amount of buildings as at 31 December 2008 amounted to HK$12,523,000 (2007: Nil). The Group's buildings are situated in the PRC and are held on leases of between 10 to 50 years.

At 31 December 2008, certain property, plant and equipment with a net carrying amount of approximately HK$610,605,000 (2007: Nil) were pledged for the banking facilities denominated in RMB977,556,000 (HK$1,110,112,000 equivalent) granted to the Group (note 32).

As at 31 December 2008, the Group is still in the process of obtaining the building ownership certificates for certain buildings with net carrying amount of HK$12,534,000 (RMB11,037,000 equivalent) (2007: Nil). In the opinion of directors, the Group has obtained the rights to use the buildings.

COMPANY

	Leasehold improvements HK$'000	Office equipment HK$'000	Furniture and fixtures HK$'000	Total HK$'000
At 1 January 2007				
Cost	696	320	93	1,109
Accumulated depreciation	(696)	(263)	(89)	(1,048)
Net carrying amount	–	57	4	61
Year ended 31 December 2007				
Opening net carrying amount	–	57	4	61
Additions	–	3	–	3
Depreciation	–	(20)	(2)	(22)
Closing net carrying amount	–	40	2	42
At 31 December 2007				
Cost	696	323	93	1,112
Accumulated depreciation	(696)	(283)	(91)	(1,070)
Net carrying amount	–	40	2	42
Year ended 31 December 2008				
Opening net book amount	**–**	**40**	**2**	**42**
Additions	**–**	**40**	**–**	**40**
Depreciation	**–**	**(21)**	**(2)**	**(23)**
Closing net carrying amount	**–**	**59**	**–**	**59**
At 31 December 2008				
Cost	**696**	**363**	**93**	**1,152**
Accumulated depreciation	**(696)**	**(304)**	**(93)**	**(1,093)**
Net carrying amount	**–**	**59**	**–**	**59**

16. PREPAID LEASE PAYMENTS – GROUP

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

	2008 HK$'000	2007 HK$'000
Opening net carrying amount	**17,799**	17,164
Exchange retranslation	**430**	1,085
Acquisition of subsidiaries *(Note 43)*	**44,497**	–
Annual charges of prepaid lease payments	**(907)**	(450)
Closing net carrying amount	**61,819**	17,799
In Hong Kong held on:		
– Lease of over 50 years	**4,174**	4,281
In the PRC held on:		
– Leases of between 10 to 50 years	**57,645**	13,518
	61,819	17,799

Certain prepaid lease payments in the PRC with a net carrying amount of HK$43,876,000 (2007: Nil) were pledged for the banking facilities denominated in RMB977,556,000 (HK$1,110,112,000 equivalent) granted to the Group as at 31 December 2008 (note 32).

17. MINING RIGHTS – GROUP

	2008 HK$'000	2007 HK$'000
Opening net carrying amount	**–**	–
Acquisition of subsidiaries *(Note 43)*	**10,689,739**	–
Exchange retranslation	**(45,997)**	–
Amortisation charge	**(97,923)**	–
Closing net carrying amount	**10,545,819**	–
Gross carrying amount	**10,644,745**	–
Accumulated amortisation	**(98,926)**	–
Net carrying amount	**10,545,819**	–

All mining rights are pledged for banking facilities denominated in RMB977,556,000 (HK$1,110,112,000 equivalent) granted to the Group as at 31 December 2008 (note 32) (2007: Nil).

18. GOODWILL – GROUP

	2008 HK$'000	2007 HK$'000
Gross carrying amount at 1 January	**17,713**	2,010
Exchange retranslation	**(8,686)**	–
Acquisition of subsidiaries *(Note 43)*	**2,063,939**	–
Balance arising from additions in equity interest in subsidiaries	**8,189**	15,703
Gross carrying amount at 31 December	**2,081,155**	17,713
Less: Accumulated impairment loss	**(2,010)**	(2,010)
Net carrying amount at 31 December	**2,079,145**	15,703

Goodwill arose during the year relates to the Very Substantial Acquisition (note 1) and Jinshan (as a result of its capital contribution to Jinshan made during the year (note 19(a)) to increase the equity interest from 91.25% to 94.17%) and is allocated to the CGUs from which it is expected to benefit. The carrying amount of goodwill had been allocated as follows:

	HK$'000
Xingwu	793,820
Jinjiazhuang	739,100
Zhaiyadi	521,115
Jinshan	21,927
Shanxi Yao Zin Coal and Coking Company Limited ("Shanxi Yao Zin")	3,183
Net carrying amount at 31 December	**2,079,145**

As described in note 4.2, the recoverable amounts of goodwill totalling HK$2,079,145,000 from each of the above CGUs have been determined on the basis of value-in-use calculations, which are based on certain key assumptions on discount rates, growth rates and expected changes in selling prices and direct costs. All value-in-use calculations use cash flow projections based on financial budgets prepared by management covering a 5-year period, using a growth rate of approximately 5% (2007: 8%) and with a discount rate of 13.39% (2007: 12%) per annum.

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

Apart from the considerations described in determining the value-in-use of the CGU's above, the Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates. However, the estimate of recoverable amount of the Group's CGUs is particularly sensitive to the long term growth rate applied. If the growth rate for the Group's CGUs was decreased by 2%, a total impairment loss of HK$86,649,000 would be recognised against the goodwill.

19. INTERESTS IN SUBSIDIARIES – COMPANY

	2008 HK$'000	2007 HK$'000
Unlisted equity interest, at cost	**22,256**	22,256
Less: Provision for impairment	**(22,256)**	(22,256)
	–	–

Particulars of the subsidiaries at 31 December 2008 are as follows:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Percentage of issued capital held by the Group 2008	2007
Jinshan*	PRC, limited liability company	Investment holding, production and sales of coal products in the PRC	Registered capital of RMB600,000,000 *(Note a)*	**94%**	91%
Risheng* *(Note 29)*	PRC, limited liability company	Production and sales of coke products in the PRC	Registered capital of RMB30,000,000	**70%#**	64%#
Liulin Luenshan Coking Company Limited ("Luenshan")*	PRC, limited liability company	Production and sales of coke products in the PRC	Registered capital of RMB120,000,000	**61%#**	59%#
Fushan Energy Group Limited	BVI, limited liability company	Investment holding in the PRC	1 ordinary share of US$1	**100%**	100%
Fu Hui Jewellery & Goldsmith Company Limited	Hong Kong, limited liability company	Jewellery retailing and wholesaling in Hong Kong	2,000,000 ordinary shares of HK$1 each	**100%**	100%
Fu Hui Investments Limited	Hong Kong, limited liability company	Provision of financing arrangements in Hong Kong	100 ordinary shares of HK$1 each	**100%**	100%
Jumbo Hall International Limited	Hong Kong, limited liability company	Property holding in Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%
New Honest Limited	BVI, limited liability company	Investment holding in the PRC	1 ordinary share of US$1	**100%**	100%
Shanxi Yao Zin	PRC, limited liability company	Production and sales of coke products in the PRC	Registered capital of RMB320,000,000 *(Note b)*	**66%**	66%

19. INTERESTS IN SUBSIDIARIES – COMPANY *(cont'd)*

Name	Place of incorporation and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital/ registered capital	Percentage of issued capital held by the Group 2008	2007
Maxease Limited ("Maxease")	BVI, limited liability company	Vehicle for financing arrangement	1 ordinary share of US$1	**100%**	100%
Full Bright International Limited	New York, U.S.A., limited liability company	Dormant	US$183,750	**100%**	100%
Jade Green	BVI, limited liability company	Investment holding	1 ordinary share of US$1	**100%**	–
Thechoice	BVI, limited liability company	Investment holding	1 ordinary share of US$1	**100%**	–
Worldman	BVI, limited liability company	Investment holding	1 ordinary share of US$1	**100%**	–
Gumpert	BVI, limited liability company	Investment holding	1 ordinary share of US$1	**100%**	–
Xingwu^	PRC, limited liability company	Production and sale of coal in the PRC	RMB250,000,000	**88%**	–
Jinjiazhuang^	PRC, limited liability company	Production and sale of coal in the PRC	RMB374,000,000	**65%**	–
Zhaiyadi^	PRC, limited liability company	Production and sale of coal in the PRC	RMB800,000,000	**95%**	–

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

These companies are subsidiaries of Jinshan as Jinshan holds more than half of the voting power of these companies and accordingly, are accounted for as subsidiaries of the Company.

^ The unofficial English translation is for identification purpose only.

Note a: In August 2008, the Group and minority equity holders of Jinshan entered into a supplemental sino-foreign equity joint venture agreement and supplemental articles of association to increase Jinshan's registered capital from RMB400,000,000 to RMB600,000,000. The increase portion of RMB200,000,000 shall all be contributed by the Group. As a result of the change in equity interest, as at 31 December 2008, the Group's equity interest in Jinshan increased from 91.25% to 94.17%. As at 31 December 2008, the registered capital not yet contributed by the Group amounted to RMB111,970,100.

Note b: As at 31 December 2008, the registered capital not yet contributed by other minority equity holders amounted to RMB89,200,000. The Group has fully-paid up its proportional registered capital as at 31 December 2008. Shanxi Yao Zin has commenced operations during the year.

19. INTERESTS IN SUBSIDIARIES – COMPANY *(cont'd)*

The financial statements of the principal subsidiaries have been audited by Grant Thornton, Hong Kong, for statutory purpose and/or the purpose of the consolidation of the Company.

The entire equity interests in Jade Green, Thechoice, Worldman, Gumpert, Xingwu, Jinjiazhuang and Zhayadi, including the rights to receive all dividends or other distributions and all other rights and benefits, with a carrying amount of HK$9,286,001,000 (2007: Nil) were pledged for the banking facilities of RMB977,556,000 (HK$1,110,112,000 equivalent) granted to the Group as at 31 December 2008 (note 32).

20. AMOUNTS DUE FROM SUBSIDIARIES – COMPANY

	2008 **HK$'000**	2007 HK$'000
Amounts due from subsidiaries	**9,844,760**	811,713
Loans to subsidiaries	**135,743**	126,598
Less: Provision for impairment	**(150,654)**	(150,654)
	9,829,849	787,657
Less: Amounts due within one year included under current assets	**(9,829,849)**	(661,059)
Loans to subsidiaries included under non-current assets	**–**	126,598

Amounts due from subsidiaries as at 31 December 2008 are unsecured, interest-free and repayable on demand.

Loans to subsidiaries are unsecured, interest bearing at 7.5% (2007: 7.5%) per annum and are repayable in April 2009 (2007: April 2009). Included in the balance is interest receivable of HK$14,303,000 (2007: HK$5,058,000) which is repayable together with the principal debts on the maturity date.

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

21. INTERESTS IN ASSOCIATES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Acquisition of subsidiaries (*Note 43*)	**19,884**	–	**4**	4
Exchange retranslation	**(806)**	–	**–**	–
Share of net assets	**495**	–	**–**	–
Amount due from an associate	**3,739**	3,739	**3,739**	3,739
	23,312	3,739	**3,743**	3,743
Less: Provision for impairment	**(3,739)**	(3,739)	**(3,743)**	(3,743)
	19,573	–	**–**	–

Amount due from an associates is unsecured, interest-free and not repayable within 12 months from the balance sheet date.

Particulars of the associates at 31 December 2008 are as follows:

Name	Place of incorporation	Principal activities and place of operations	Particulars of registered capital/ issued share capital	Group's/Company's* effective interest	
				2008	2007
Luliang Jin Yu Cangchu Company Limited# 呂梁晉煜倉儲有限公司	PRC	Provision of coal storage services in the PRC	RMB42,000,000	**26%**	–
Real Wide Limited	Hong Kong	In the progress of voluntary liquidation	100 ordinary shares of HK$1 each	**45%***	45%*

The unofficial English translation is for identification purpose only. This associate was acquired as a result of the Very Substantial Acquisition (note 1) during the year.

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

	2008	2007
	HK$'000	HK$'000
Assets	**54,040**	–
Liabilities	**5,106**	–
Revenue	**5,077**	–
Profit	**484**	–

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2008 HK$'000	2007 HK$'000
Unlisted security fund investment, at cost *(Note 43)*	**454**	–
Unlisted equity interest, at cost *	**7,949**	7,597
	8,403	7,597

* As at 31 December 2008, the Group had a 7% (2007: 7%) equity interest in an unlisted company incorporated in the PRC. The investee company has not yet commenced its business at the balance sheet date and will be engaged in transportation industry. In the opinion of directors, no impairment is considered necessary.

The unlisted equity interest with a carrying amount of HK$7,949,000 (2007: HK$7,597,000) are measured at cost less impairment losses as there are no quoted market prices in active market and the range of reasonable fair value estimates is so significant that the director are of the opinion that its fair value cannot be measured reliably. The Group plans to hold this equity interest for the foreseeable future.

23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES – GROUP

	2008 HK$'000	2007 HK$'000
Deposits for a potential mining project	**159,982**	152,896
Prepayments for construction and installation of property, plant and equipment	**54,246**	152,663
Deposits paid to a minority equity holder of a subsidiary for the purchases of raw coal	**–**	32,559
Prepayments for land-use rights	**50,437**	51,319
	264,665	389,437

24. INVENTORIES – GROUP

	2008 HK$'000	2007 HK$'000
Spare parts and consumables	**112,096**	–
Raw coal	**32,088**	–
Coke	**43,281**	–
	187,465	–

25. TRADE AND BILL RECEIVABLES – GROUP

	2008 **HK$'000**	2007 HK$'000
Trade receivables	**830,394**	7,232
Bill receivables	**182,103**	–
	1,012,497	7,232
Less: Provision for impairment	**(13,089)**	–
	999,408	7,232

Trade debtors generally have credit terms ranging from 60 to 90 days and no interest is charged.

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

As at 31 December 2008, included in trade receivables was a balance of RMB72,000,000 (HK$81,763,000 equivalent) pledged for a bank loan amounting to RMB70,000,000 (HK$79,492,000 equivalent (note 32)).

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

Impairment losses in respect of trade and bill receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bill receivables directly. As at 31 December 2008, ageing analysis of net trade and bill receivables, based on the invoice dates, is as follows:

	2008 **HK$'000**	2007 HK$'000
0 – 90 days	**442,728**	7,232
91 – 180 days	**289,269**	–
181 – 365 days	**68,585**	–
Over 365 days	**198,826**	–
	999,408	7,232

25. TRADE AND BILL RECEIVABLES – GROUP *(cont'd)*

As at 31 December 2008, ageing analysis of trade and bill receivables that are not impaired is as follows:

	2008 HK$'000	2007 HK$'000
Neither past due nor impaired	**442,728**	7,232
1 – 90 days past due	**289,269**	–
91 – 180 days past due	**8,238**	–
181 – 365 days past due	**157,093**	–
Over 365 days past due	**102,080**	–
	556,680	–
	999,408	7,232

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

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

Included in the balances categorised under 180 days past due are a number of long outstanding balances due from certain customers amounting to approximately HK$233,617,000 (RMB205,721,000 equivalent) (the "Overdue Debts") and according to an undertaking letter dated 4 September 2008, Mr. Xing, together with companies under the control of Ms. Li Feng Xiao ("Mrs. Xing"), namely Shanxi Luensheng Energy Limited, a minority shareholder holding 5% equity interests in Zhaiyadi, and Shanxi Luensheng Energy Investment Limited, a minority shareholder holding 35% equity interests in Jinjiazhuang, (collectively referred to as the "Luensheng Companies") agreed to undertake to make any good losses which the Group may suffer as a result of default in repayment for the Overdue Debts as at 31 December 2008. Further on 15 April 2009, a pledge document was entered into amongst the Company, Jade Green, Mr. Xing and Luensheng Companies such that the Luensheng Companies agreed to pledge their sharing profits since 1 January 2009 in Zhaiyadi and Jinjiazhuang to settle the Overdue Debts until the Overdue Debts have been fully recovered by the Group.

26. AMOUNTS DUE FROM CONNECTED PARTIES – GROUP

	2008 HK$'000
Liulin Xian Nahagou Meiye Company Limited#	**7,688**
Liulin Xian Shiweigou Meiye Company Limited#	**2,144**
Shanxi Liulin Guojiashan Meiye Company Limited#	**773**
Liulin Xian Chenjiawan Xiang Baicaoer Meikuang#	**1,044**
Shanxi Fortune Dragon Coalification Company Limited#	**378,327**
Liulin Xian Yongsheng Xuanmeichang ("Yongsheng Xuanmeichang")#	**250,659**
Liulin Xian Wangjiagou Meikuang#	**1,794**
Liulin Xian Baicaoer Jiansing Xuanmei Company Limited#	**86,780**
Liulin Xian Longmenta Meikuang#	**1,019**
Shanxi Tongjiang Energy Group Company Limited#	**2,267**
Mr. Xing *(Note)*	**982,161**
	1,714,656
Less: Amount due from Mr. Xing included under non-current assets *(Note)*	**(218,712)**
Amount included under current assets	**1,495,944**

The unofficial English translation is for identification purpose only

Note:

According to the payment notices dated 17 September 2008 issued by the Land Resource Bureau of Liulin County, Shanxi Province, the PRC, an aggregate sum of HK$796,985,000 (RMB701,818,000 equivalent) in respect of the coal mining rights was levied on Xingwu, Jinjiazhuang and Zhaiyadi. As of 31 December 2008, partial payments amounting to HK$22,712,000 (RMB20,000,000) (the "Prepaid Sum") was paid by the Group and another sum of HK$22,712,000 (RMB20,000,000) was paid in February 2009. Upon further negotiation with the relevant local government authority, on 16 March 2009, the amount of HK$796,985,000 was revised and finalised as HK$982,162,000 (RMB864,883,000 equivalent) (the "Levied Sum"), of which, after deducting the Prepaid Sum, HK$740,738,000 (RMB652,288,000 equivalent) shall be paid within 2009 and the remaining amount of HK$218,712,000 (RMB192,595,000 equivalent) shall be paid after 2009. The Levied Sum has been provided for and included under "other payables and accruals" (note 31).

In accordance with Clause 11.5.1 of the Agreement (as defined in note 1 to the financial statements), on 30 March 2009, the Company issued a notice (the "Notice") to Mr. Xing and Fortune Dragon Group Limited (the "Seller") to claim against the Seller for the Levied Sum. On 16 April 2009, among others, the Company, Jade Green, Mr. Xing and the Seller entered into a settlement agreement pursuant to which, Mr. Xing (as guarantor of the Seller under the Agreement) agreed to reimburse the Group against the full amount of the Levied Sum by instalments as follows: HK$45,424,000 (RMB40,000,000 equivalent) on or before 30 June 2009, HK$718,026,000 (RMB632,288,000 equivalent) on or before 31 December 2009 and HK$218,712,000 (RMB192,595,000 equivalent) on or before 31 December 2010, or such other payment schedule as agreed by the relevant local government authority. Should the performance of the settlement agreement by Mr. Xing constitute a connected transaction of the Company, the Company will comply with the relevant disclosure and/or independent shareholders' approval requirements under the Listing Rules as and when necessary.

26. AMOUNTS DUE FROM CONNECTED PARTIES – GROUP *(cont'd)*

Remaining balances due are all unsecured, interest-free and repayable on demand. Except for Yongsheng Xuanmeichang, all companies above are ultimately owned by Mr. Xing and/or Mrs. Xing, who have equity interests in the Company. Yongsheng Xuanmeichang is owned by Mr. Xing Yanbin, a brother of Mr. Xing. There were no balances due from connected parties as at 31 December 2007.

27. PLEDGED BANK DEPOSITS – GROUP

As at 31 December 2008, all pledged bank deposits (2007: Nil) were denominated in RMB. Of which, RMB3,000,000 (HK$3,407,000 equivalent) were pledged for the banking facilities denominated in RMB977,556,000 (HK$1,110,112,000 equivalent) (note 32) and the remaining of RMB145,768,000 (HK$165,534,00 equivalent) were pledged for bill payables of RMB161,560,000 (HK$183,468,000 equivalent) (note 30). The balance is to be released on 25 September 2009 upon repayment of the bank borrowings. The directors of the Company consider that the fair value of the pledged bank deposits is not materially different from their carrying amount because of the short maturity period.

28. CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and on hand	**537,074**	165,617	**239,286**	7,542
Short-term bank deposits*	**223,089**	294,921	**223,089**	–
	760,163	460,538	**462,375**	7,542

* Short term bank deposits as at 31 December 2007 represented the net proceeds collected from the issue of the convertible notes on 20 April 2007 together with bank interest earned and the whole amount was placed at an escrow account until the conditions as disclosed in note 37 to the financial statements were fulfilled. As all convertible notes had been converted into shares before these conditions were fulfilled in January 2008, the deposits placed at the escrow account were released to the Group during the year.

Cash at banks earns interest at the floating rates based on the daily bank deposit rates. Short-term bank deposits were made for varying periods of one week to one month depending on the immediate cash requirements of the Group, and earned interest at the respective short-term time deposit rates ranging from 0.015% to 3% (2007: 2.00% to 4.5%) per annum.

As at 31 December 2008, included in cash and cash equivalents of the Group were HK$139,025,000 (2007: Nil) of cash and bank balances denominated in USD and HK$97,424,000 (2007: HK$126,201,000) of cash and bank balances denominated in RMB placed with the banks in the PRC respectively.

RMB is not a freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB into foreign currencies through the banks that are authorised to conduct foreign exchange business.

29. ASSETS CLASSIFIED AS HELD FOR SALE – GROUP

As described in note 1 to the financial statements, on 19 April 2008, Jinshan entered into a conditional sale and purchase agreement with a subsidiary of the minority shareholder of Risheng for the Disposal at a total cash consideration of RMB119 million (HK$135 million equivalent). Risheng is engaged in the production and sales of coke products in Shanxi, the PRC. Details of the Disposal are set out in the circular of the Company dated 29 December 2008. As at 31 December 2008, the Disposal has not yet completed.

Having estimated the cost to sell to be approximately HK$500,000 and assessed the recoverable amounts of the relevant assets and liabilities with reference to the sales proceeds, the directors consider that an impairment loss of HK$15,305,000 is likely to be incurred and thus the amount is recognised in the income statement for the year ended 31 December 2008.

Major assets and liabilities of Risheng classified as assets held for sale as at 31 December 2008 are as follows:

	HK$'000
Property, plant and equipment *(Note 15)*	179,059
Deposits and other receivables	6
Bank and cash balances	115
Total assets classified as held for sale	179,180
Less: Impairment loss recognised on re-measurement of assets of the Disposal	(15,305)
Assets classified as held for sale	163,875
Liabilities directly associated with the assets classified as held for sale	(29,238)
Net assets of disposal of a subsidiary	**134,637**

Risheng did not contribute any revenue to the Group but contributed net loss of approximately HK$5,804,000 during the year. In view of the fact that Risheng does not represent a separate major line of business and its insignificant financial impact to the Group's result for the year, the Disposal is not classified as discontinued operation and no separate line items of discontinued operations was shown on the face of the income statement and the cash flow statement.

30. TRADE AND BILL PAYABLES – GROUP

The Group was granted by its suppliers the credit period ranging between 30 and 180 days during the year. Based on the invoice dates, ageing analysis of trade and bill payables as at 31 December 2008 are as follows:

	2008 **HK$'000**	2007 HK$'000
0 – 90 days	**278,580**	2,294
91 – 180 days	**76,586**	–
181 – 365 days	**12,041**	–
Over 365 days	**13,588**	–
	380,795	2,294

Bill payables of RMB161,560,000 (HK$183,468,000 equivalent) were secured by pledged bank deposits of RMB145,768,000 (HK$165,534,000 equivalent) (note 27).

31. OTHER PAYABLES AND ACCRUALS

	Group		**Company**	
	2008 **HK$'000**	2007 HK$'000	**2008** **HK$'000**	2007 HK$'000
Advances from customers	**85,349**	–	**–**	–
Accruals	**335,185**	83,474	**7,677**	5,765
Levied Sum *(Note 26)*	**959,450**	–	**–**	–
Other payables	**678,246**	42,523	**1,630**	–
Total other payables and accruals	**2,058,230**	125,997	**9,307**	5,765
Less: Balances grouped under non-current liabilities				
– Levied Sum *(Note 26)*	**(218,712)**	–	**–**	–
– Other long term payables *(Note 38)*	**(19,838)**	–	**–**	–
	(238,550)	–	**–**	–
Balances due within one year as current liabilities	**1,819,680**	125,997	**9,307**	5,765

As at 31 December 2008, other payables and accruals include payable in relation to construction payable on property, plant and equipment, environmental restoration fund payable, and other tax levies amounting to HK$120,172,000 (2007: HK$52,679,000), HK$60,839,000 (2007: Nil), HK$240,049,000 (2007: Nil) respectively.

32. BORROWINGS – GROUP

	2008			2007		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Finance lease payables	5.22%	2009	5,680	–	–	–
Bank loans – secured	4.54% – 10%	2009	1,472,370	8.54%	2008	54,265
Other loans	0% – 18%	2009	112,867	5.49% – 12%	2008	130,323
			1,590,917			184,588
Non-current						
Finance lease payables	5.22%	2012	5,279	–	–	–
Bank loans – secured	7.56%	2010	3,407	–	–	–
Other loans	3.60%	2010	26,485	–	–	–
			35,171			–
			1,626,088			184,588

	Bank loans		Other loans		Total	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Analysed of loans repayable:						
– within one year	1,472,370	54,265	112,867	130,323	1,585,237	184,588
– in the second year	3,407	–	26,485	–	29,892	–
	1,475,777	54,265	139,352	130,323	1,615,129	184,588
Less: Portion classified as current liabilities	(1,472,370)	(54,265)	(112,867)	(130,323)	(1,585,237)	(184,588)
	3,407	–	26,485	–	29,892	–

32. BORROWINGS – GROUP *(cont'd)*

The Group's interest-bearing bank and other loans were denominated in the foreign currency:

	2008 **'000**	2007 '000
RMB	**1,299,556**	170,080

The carrying amounts of the borrowings approximate to their fair value.

Bank loan denominated in RMB977,556,000 (HK$1,110,112,000 equivalent) were secured by pledged bank deposits of RMB3,000,000 (HK$3,407,000 equivalent) (note 27), the entire interests in the PRC subsidiaries, including the rights to receive all dividends or other distributions and all other rights and benefits (note 19), and the Group's mining rights (note 17), prepaid lease payments (note 16) and certain property, plant and equipment (note 15).

Remaining bank loans of RMB319,000,000 (HK$362,256,000 equivalent) (2007: Nil) are guaranteed by Mr. Xing, Mrs. Xing, certain minority equity holders and/or independent third parties, of which RMB70,000,000 (HK$79,492,000 equivalent) were secured by a trade receivable balance amounting to RMB72,000,000 (HK$81,763,000 equivalent) (note 25).

At 31 December 2008, other loans, obtained from third parties, are unsecured and interest bearing at fixed rates ranging from 0% to 18% (2007: 5.49% to 12%) per annum.

The analysis of the obligations under finance leases is as follows:

	2008 **HK$'000**
Total minimum lease payments:	
Due within one year	**6,099**
Due in the second to fifth year inclusive	**7,068**
	13,167
Future finance charges on finance leases	**(2,208)**
Present value of finance lease liabilities	**10,959**
Present value of finance lease liabilities is as follows:	
Due within one year	**5,680**
Due in the second to fifth years	**5,279**
	10,959
Less: Due within one year included under current portion of borrowings	**(5,680)**
Non-current portion included under non-current liabilities	**5,279**

33. AMOUNT DUE TO A DIRECTOR – GROUP

The amount due is unsecured, interest free and repayable on demand.

34. AMOUNTS DUE TO CONNECTED PARTIES – GROUP

	2008 HK$'000
Shanxi Luensheng Energy Limited#	18,887
Liulin Xian Liansheng Duozhong Jingying Company Limited#	6,575
Mrs. Xing	18,526
Mr. Xing Yanbin#	2,555
Shanxi Panlong Gongcheng Jixie Company Limited ("Panlong Gongcheng")#	3,352
Liulin Xian Zhuangshangzhen Nangou Meikuang#	776
Shanxi Liulin Xiasitou Meiye Company Limited#	235
Liulin Xian Shiweigou Meiye Company Limited#	85
Shanxi Liulin Shizigou Meiye Company Limited#	78
Liulin Xian Hejiashe Meikuang#	68
	51,137

The unofficial English translation is for identification purpose only

These companies are connected to Mr. Xing. All balances due are all unsecured, interest-free and repayable on demand. Except for Panlong Gongcheng, all companies above are ultimately owned by Mr. Xing and/or Mrs. Xing. Panlong Gongcheng, although it is not owned by Mr. Xing Yanbin, is connected to Mr. Xing Yanbin who obtained financial benefits from the constructions work conducted by Panlong Gongcheng. There were no balances due to connected parties as at 31 December 2007.

35. AMOUNTS DUE TO RELATED COMPANIES – GROUP

As at 31 December 2008, a balance of HK$11,180,000 denominated in RMB was due to a company in which a director of the Company is also a substantial equity holder. The balance is unsecured, interest bearing at 7% per annum and repayable on demand. As at 31 December 2007, balances due to this related company amounting to HK$9,253,000 was unsecured, interest free and repayable on demand and the remaining of HK$16,654,000 was unsecured, interest bearing at 7% per annum and repayable on 31 December 2008.

As at 31 December 2008, the remaining balance of HK$1,136,000 (2007: Nil) denominated in RMB due to another related company, in which a director of a subsidiary of the Company has interests, is unsecured, interest bearing at 15% per annum and repayable on 20 November 2009.

36. AMOUNTS DUE TO MINORITY EQUITY HOLDERS OF SUBSIDIARIES – GROUP

All balances due as at 31 December 2008 were denominated in RMB. Of which, RMB52,900,000 (HK$60,073,000 equivalent) was unsecured, interest free and repayable on demand and the remaining balance of RMB32,696,000 (HK$37,130,000 equivalent) was unsecured, interest bearing at 6% to 7% per annum and repayable in one year. As at 31 December 2007, the balances were interest free, denominated in RMB, unsecured and, except for a balance of HK$29,154,000 which was due on 31 December 2008, were repayable on demand.

As at 31 December 2007, the amount of HK$33,769,000 was due one year after the related subsidiary has commenced its production and the subsidiary was still in its pre-operating period in last year. The balance was unsecured and interest charged on the outstanding amount at the rates ranging from 6% to 7% per annum. As at 31 December 2008, the subsidiary has commenced operation and the amount was reclassified as current liabilities accordingly.

37. CONVERTIBLE NOTES – GROUP

On 20 April 2007, zero coupon convertible notes in the principal amount of HK$300,000,000 (the "Notes") were issued by Maxease, a wholly-owned subsidiary of the Group. The Notes were jointly and severally guaranteed by the Company and Mr. Wong Lik Ping who is a substantial shareholder and a director of the Company. The Notes, with the maturity date on 19 April 2012 (the "Maturity Date"), were convertible into shares of the Company with a par value of HK$0.10 at the initial conversion price of HK$2.33 (the "Conversion Price") per share at any time following the issue of the Notes until 10 business days prior to the Maturity Date on 19 April 2012. In 2007, the Notes with total face value of HK$260,000,000 had been converted into the new shares of the Company.

During the year, the remaining Notes with total face value of HK$40,000,000 have been converted into 17,167,000 new shares of the Company. As at 31 December 2008, the Group did not have any outstanding Notes.

Movements in the Notes during the year are analysed as follows:

	2008				2007			
	Face value HK$'000	**Liability component HK$'000**	**Derivative component HK$'000**	**Total HK$'000**	Face value HK$'000	Liability component HK$'000	Derivative component HK$'000	Total HK$'000
At 1 January	**40,000**	**34,014**	**10,916**	**44,930**	–	–	–	–
Proceeds of issue during the year	**–**	**–**	**–**	**–**	300,000	244,422	55,578	300,000
Transaction costs	**–**	**(27)**	**–**	**(27)**	–	(10,478)	–	(10,478)
Fair value loss on derivative component	**–**	**–**	**–**	**–**	–	–	21,038	21,038
Interest expense	**–**	**103**	**–**	**103**	–	15,189	–	15,189
Conversion into ordinary shares	**(40,000)**	**(34,090)**	**(10,916)**	**(45,006)**	(260,000)	(215,119)	(65,700)	(280,819)
At 31 December	**–**	**–**	**–**	**–**	40,000	34,014	10,916	44,930

Interest expense on the Notes was calculated using the effective interest method by applying the effective interest rate of 12.15% (2007: 12.75%) per annum to the liability component of the Notes.

38. OTHER LONG TERM PAYABLES – GROUP

The balance as at 31 December 2008 represents interest payables of HK$19,838,000 (note 31) in relation to a loan from an independent third party which was included in other loans and the Levied Sum of HK$218,712,000 (note 26) which is payable after 2009. There were no long term payables as at 31 December 2007.

39. DEFERRED TAX LIABILITIES – GROUP

Major deferred tax liabilities recognised in the balance sheet and their movements during the year are as follows:

	Withholding tax	**Fair value adjustments of property, plant and equipment and mining rights**	**Total**
	HK$'000	HK$'000	HK$'000
Acquisition of subsidiaries *(Note 43)*	–	2,063,939	2,063,939
Exchange retranslation	–	(8,687)	(8,687)
Charged to the income statement *(Note 10)*	73,046	–	73,046
At 31 December	**73,046**	**2,055,252**	**2,128,298**

There were no movements in deferred tax liabilities for the year ended 31 December 2007.

As at 31 December 2008, deferred tax liabilities were recognised for withholding tax that would be payable on the unremitted earnings that are subject to withholding tax arising from the Group's newly acquired subsidiaries as a consequence of the Very Substantial Acquisition as described in note 1 to the financial statements. In the opinion of the directors, it is probable that these subsidiaries will distribute such earnings derived since the acquisition date of 25 July 2008 in the foreseeable future. The temporary difference associated with investment in these subsidiaries for which deferred tax liabilities have been recognised totalled HK$73,046,000.

39. DEFERRED TAX LIABILITIES – GROUP *(cont'd)*

As at 31 December 2008, no deferred tax assets have been recognised (2007: Nil) in relation to the deductible temporary differences and unused tax losses as it is uncertain whether future taxable profit is available against which the deductible temporary differences and tax losses can be utilised. Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deductible temporary differences	**5,039**	6,164	**–**	395
Tax losses	**223,657**	199,940	**184,278**	159,540
	228,696	206,104	**184,278**	159,935

The Group has tax losses of approximately HK$4,396,000 (2007: HK$6,109,000) which shall expire in four to five years and tax losses of approximately HK$219,261,000 (2007: HK$193,831,000) which are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

40. SHARE CAPITAL

	Number of shares		Group and Company	
	2008	2007	**2008**	2007
	'000	'000	**HK$'000**	HK$'000
Authorised:				
Ordinary shares of HK$0.10 each				
At 31 December	**5,000,000**	5,000,000	**500,000**	500,000
Issued and fully paid:				
Ordinary shares of HK$0.10 each				
At 1 January	**2,422,388**	2,080,800	**242,239**	208,080
Issue of new shares *(Note (a))*	**–**	230,000	**–**	23,000
Issue of new shares upon conversion of the Notes in 2007/2008 *(Note (b), (c))*	**17,167**	111,588	**1,717**	11,159
Placing of shares *(Note (d))*	**860,000**	–	**86,000**	–
Issue of shares consideration *(Note (e))*	**1,260,000**	–	**126,000**	–
Issue of new shares upon conversion of share options	**5,000**	–	**500**	–
At 31 December	**4,564,555**	2,422,388	**456,456**	242,239

40. SHARE CAPITAL *(cont'd)*

Notes:

(a) The Company and the placing agent entered into a placing agreement on 15 March 2007 pursuant to which the placing agent conditionally agreed to procure the placees for a maximum of 230,000,000 new shares, at a price of HK$2.00 per share. On 2 April 2007, 230,000,000 Placing Shares were issued under the general mandate granted to the directors at the Company's annual general meeting held on 16 June 2006. Details of the transactions are set out in the Company's announcements dated 20 March 2007 and 2 April 2007. The net proceeds of approximately HK$443,530,000 from the Placing Shares were received.

(b) As described in note 37, the Notes with the principal amount of HK$300,000,000 were issued on 20 April 2007 and were convertible into the shares of the Company at the Conversion Price (HK$2.33 per share) within certain periods and conditions. Up to the balance sheet date, the principal amount of HK$260,000,000 of the Notes was converted into 111,588,000 shares of the Company at the Conversion Price.

(c) During the year, the Notes with the remaining principal amount of HK$40,000,000 have been converted into 17,167,000 shares of the Company at the Conversion Price.

(d) The Company and the placing agent entered into a placing agreement on 15 June 2008 pursuant to which the placing agent agreed to procure the placees for a maximum of 450,000,000 new shares, at a price of HK$4.60 per share. On the same date, the placing agent agreed to place to Fine Power Group Limited, a wholly-owned subsidiary of Shougang Holding (Hong Kong) Limited ("Shougang"), under the guarantee of Shougang. Further on 20 June 2008, the Company entered into another placing agreement with the placing agent to procure placees for 410,000,000 shares at the price of HK$4.8 per share. In relation to these two share placing events, net proceeds of approximately HK$3.8 billion were received and are mainly used to settle the partial cash consideration for the business acquisition as detailed in notes 1 and 43 to the financial statements. Details of the transactions are set out in the Company's announcements dated 21 May 2008, 17 June 2008 and 20 June 2008 respectively.

(e) On 25 July 2008, the issued share capital of the Company was increased by the issue of 1,260,000,000 ordinary shares of HK$0.10 each at the weighted average price of HK$4.37 per share. The issuance of new shares is used as share consideration for the Very Substantial Acquisition as detailed in notes 1 and 43 to the financial statements.

41. RESERVES

Group

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

Share premium

The share premium account of the Group includes the premium arising from issue of shares of the Company at a premium.

Statutory reserve

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

Company

	Share premium HK$'000	Accumulated losses HK$'000	Share-based compensation reserve HK$'000	Total HK$'000
At 1 January 2007	399,169	(545,685)	12,953	(133,563)
Share-based compensation	–	–	19,429	19,429
Issue of new shares at premium	420,530	–	–	420,530
Issue of new shares upon conversion of the Notes	269,660	–	–	269,660
Loss for the year	–	(28,790)	–	(28,790)
At 31 December 2007	1,089,359	(574,475)	32,382	547,266
At 1 January 2008	**1,089,359**	**(574,475)**	**32,382**	**547,266**
Share-based compensation	**–**	**–**	**6,476**	**6,476**
Issue of new shares upon conversion of the Notes	**43,289**	**–**	**–**	**43,289**
Placing of shares	**3,858,748**	**–**	**–**	**3,858,748**
Issue of consideration shares	**5,384,413**	**–**	**–**	**5,384,413**
Issue of new shares upon share options	**8,837**	**–**	**(1,859)**	**6,978**
Loss for the year	**–**	**(20,602)**	**–**	**(20,602)**
At 31 December 2008	**10,384,646**	**(595,077)**	**36,999**	**9,826,568**

42. SHARE OPTION SCHEME

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

The exercise price of the options is to be determined by the directors and is at least the highest of the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, the average closing price of the shares as stated as Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant and the nominal value of the share on the date of grant. No consideration is payable on the grant of an option. An option may generally be exercised during the period commencing on the date of grant and expiring on the date as determined by the directors, but in any event not more than 10 years from the date of grant. Options granted to a substantial equity holder or any independent non-executives of the Company in excess of 0.1% of the issued capital of the Company and with an aggregate value in excess of HK$5 million must be approved in advance by the equity holders of the Company.

The total number of shares available for issue under the share option scheme as at 31 December 2008 was 99,000,000 (2007: 104,080,000) which represents 2% (2007: 4%) of the Company's issued shares at 31 December 2008. The number of shares issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the Company's ordinary shares in issue.

All share-based compensation is settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options. All share options granted are accounted for under HKFRS 2. Share options and exercise price for the years ended 31 December 2008 and 2007 are as follows.

	2008		2007	
	Number '000	**Exercise price/ Weighted average share price* HK$**	Number '000	Exercise price HK$
Outstanding at 1 January	**104,000**	**1.5**	104,000	1.5
Exercise of share options on:				
– 11 August 2008	**(2,000)**	**4.93***	–	–
– 6 October 2008	**(3,000)**	**2.7***	–	–
Outstanding at 31 December	**99,000**	**1.5**	104,000	1.5

* this represented the weighted average share price at date of exercise

42. SHARE OPTION SCHEME *(cont'd)*

The exercise date of the outstanding options is on 26 April 2008. There were no options granted during years ended 2008 and 2007. The fair values of options granted in 2006 were determined using the Black-Scholes valuation model. Significant inputs into the calculation included an expected volatility of 57.33%, estimated weighted average expected life of 2.1 years, risk-free interest rate of 4.27%, no dividend yield and estimated employees' turnover rate of 15%. The expected volatility was determined with reference to the historical volatility based on the Company's daily average closing price from 26 April 2004 to 25 April 2006. The expected volatility reflects the assumption that the historical volatility is indicative of future share market price trends, which may also not necessarily be the actual outcome. The risk-free interest rate was determined with reference to the corresponding period of Hong Kong Exchange Fund Notes interest rate at the date of options granted.

The fair value of the options granted in 2006, measured at the date of grant on 26 April 2006, totalled approximately HK$38,858,000. As the options vest after two years from the date of grant on 26 April 2006, the amount is recognised as a share-based compensation expense in the income statement over 2 years from 26 April 2006 to 25 April 2008. Thus, remaining amount of HK$6,476,000 (2007: HK$19,429,000) was recognised as an expense in the income statement with a corresponding credit in share-based compensation reserve during the year. No liabilities were recognised due to share-based payment transactions.

43. BUSINESS COMBINATIONS

On 25 July 2008, the Group completed the Very Substantial Acquisition for a total consideration of HK$8,343,038,000. Details of net assets acquired and goodwill as at the date of acquisition are as follows:

	HK$'000
Purchase consideration	
– Cash paid	**4,860,000**
– Fair value of shares consideration	**5,510,413**
– Direct cost relating to the Very Substantial Acquisition	**73,552**
– Purchases of shareholders' loans	**(1,134,614)**
– Special dividend	**20,000**
Total purchase consideration	**9,329,351**
Less: Adjustment to purchase consideration *(Note)*	**(986,313)**
Adjusted purchase consideration	**8,343,038**
Fair value of assets acquired – as shown below	**(6,279,099)**
Goodwill *(Note 18)*	**2,063,939**

Note:

The amount represents total balance to be reimbursed by Mr. Xing to the Group in connection with additional payments levied by the local government authority on the coal mining rights. Details of which are set out in note 26 to the financial statements.

Goodwill is attributable to the high profitability expected to arise after the Very Substantial Acquisition. In the opinion of directors, the fair value of the shares consideration should be determined based on the published share price on the acquisition date with a discount for the restriction arising from six to twelve-month lock-up arrangement.

43. BUSINESS COMBINATIONS *(cont'd)*

The fair values of the identifiable assets and liabilities arising from the Very Substantial Acquisition as at the date of acquisition and the corresponding carrying amounts immediately prior to the Very Substantial Acquisition were as follows:

	Fair value HK$'000	Acquirees' carrying amount HK$'000
Cash and cash equivalents	19,488	19,488
Property, plant and equipment *(Note 15)*	1,323,227	1,231,963
Prepaid lease payments *(Note 16)*	44,497	44,497
Mining rights *(Note 17)*	10,689,739	2,525,244
Interests in associates *(Note 21)*	19,884	19,884
Inventories	118,679	118,679
Available-for-sale financial assets *(Note 22)*	454	454
Trade and bill receivables	517,390	517,390
Deposits, prepayments and other receivables	177,417	177,417
Amounts due from connected parties	1,311,791	1,311,791
Amounts due from minority equity holder of subsidiaries	510,235	510,235
Amounts due from fellow subsidiaries	313,351	313,351
Pledged bank deposits	53,834	53,834
Trade and bill payables	(261,163)	(261,163)
Other payables and accruals	(1,703,193)	(1,703,193)
Amounts due to connected parties	(903,272)	(903,272)
Amounts due to ultimate holding company	(625,641)	(625,641)
Amounts due to an associate	(24,649)	(24,649)
Amounts due to fellow subsidiaries	(402,752)	(402,752)
Borrowings	(353,176)	(353,176)
Long term payables	(232,760)	(232,760)
Tax payables	(334,729)	(334,729)
Deferred tax liabilities *(Note 39)*	(2,063,939)	–
Loans from ultimate holding company	(505,035)	(505,035)
Net assets	7,689,677	1,497,857
Minority interests	(1,410,578)	
Net assets acquired	6,279,099	
Purchase consideration settled in cash		4,860,000
Direct costs relating to the Very Substantial Acquisition		73,552
Special dividend		20,000
Cash and cash equivalents in subsidiaries acquired		(19,488)
Net cash outflows		4,934,064

43. BUSINESS COMBINATIONS *(cont'd)*

Since the Very Substantial Acquisition, the newly acquired subsidiaries contributed revenues of approximately HK$1,806,265,000 and net profit of approximately HK$847,122,000 to the Group for the year ended 31 December 2008.

Had the business combination taken place on 1 January 2008, the revenue and the profit of the Group for the year ended 31 December 2008 would have been approximately HK$3,502,527,000 and HK$1,577,872,000 respectively. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the operations of the Group that actually would have been achieved had the Very Substantial Acquisition been completed on 1 January 2008 nor are they intended to be a projection of future results.

44. OPERATING LEASE COMMITMENTS

Group

At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings payable by the Group are as follows:

	2008		2007	
	Land and buildings HK$	**Other assets HK$**	Land and buildings HK$	Other assets HK$
Within one year	**6,233**	**1,136**	716	–
In the second to fifth years	**18,783**	**–**	2,863	–
After five years	**92,564**	**–**	27,552	–
	117,580	**1,136**	31,131	–

The Group leases a number of land and buildings and other assets under operating leases arrangement. The leases run for an initial period of 1 to 30 years, without an option to renew the leases and renegotiated the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords. None of the leases include contingent rental.

Company

The Company did not have any significant operating lease commitments as at 31 December 2008 and 2007.

45. CAPITAL COMMITMENTS

Group

	2008 HK$'000	2007 HK$'000
Contracted but not provided for:		
– Acquisition of property, plant and equipment	**445,302**	374,271
– Exploration and design fees for a potential mining project	**8,494**	8,118
	453,796	382,389

Company

The Company did not have any capital commitments as at 31 December 2008 and 2007.

46. FINANCIAL GUARANTEE CONTRACTS – GROUP

As at 31 December 2008, Xingwu and Zhaiyadi executed guarantees with respect to the bank loans and other loans, denominated in RMB872,000,000 and RMB100,000,000 respectively, granted to three independent third parties, under which Xingwu and Zhaiyadi are liable to pay the banks and lenders if the banks and lenders are unable to recover the loans from these third parties. At the balance sheet date, no provision for the Group's obligation under the guarantee contracts has been made as the directors consider that it is not probable that the repayment of the loans will be in default.

47. CONNECTED TRANSACTIONS – GROUP

During the year ended 31 December 2008, the Group had entered into certain connected transactions and continuing connected transactions as defined in Chapter 14A of the Listing Rules. Details are set out in pages 22 to 29 of the Directors' Report.

48. RELATED PARTY TRANSACTIONS – GROUP

Except as disclosed elsewhere in these financial statements, the following transactions were for the year ended 31 December 2008 carried out with related parties:

(i) The Notes (note 37) are jointly and severally guaranteed by the Company and Mr. Wong Lik Ping, being the substantial shareholder and director of the Company at a nil consideration. The guarantee no longer exist as the Notes has been fully converted on 20 April 2008.

(ii) For the year ended 31 December 2007, Luenshan drawn down a banking facility denominated in RMB amounted to HK$54,265,000 from a financial institution. Jinshan, the immediate holding company of Luenshan, and a subsidiary of a minority equity holder of Luenshan had given joint and several guarantees to secure the banking facility. Such banking facilities have been settled during the year.

(iii) The compensation payable to key management personnel during the year have been disclosed in note 14 to the financial statements.

49. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group does not have written risk management policies and guidelines. However, the directors meet periodically to analyse and formulate measures to manage the Group's exposure to market risks, including changes in interest rates and currency exchange rates. Generally, the Group employs a conservative strategy regarding its risk management. As the directors consider that the Group's exposure to market risk is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below.

Foreign currency risk

The Group's exposure to currency exchange rates is minimal as the group entities hold majority of their assets and liabilities in their own functional currency.

Credit risk

The Group's credit risk is primarily attributable to its trade and bill receivables, deposits, prepayments and other receivables, amounts due from connected parties, pledged bank deposits and cash and cash equivalents. Credit risk arises from the possibility that the counterparties are unwilling or unable to fulfil their obligations with the results that the Group thereby suffers financial loss. Management has a credit policy and the exposures to credit risk are monitored on an ongoing basis.

49. RISK MANAGEMENT OBJECTIVES AND POLICIES *(cont'd)*

Credit risk *(cont'd)*

The carrying amounts of trade and bill receivables, deposits, prepayments and other receivables, amounts due from connected parties, pledged bank deposits and cash and cash equivalents included in the balance sheet represent the Group's maximum exposure to credit risk in relation to financial assets. Of which, financial assets carrying significant credit risk exposures are the Overdue Debts amounting to HK$233,617,000 (note 25) and amount due from Mr. Xing amounting to HK$982,161,000 (note 26), the management are of the opinion that reasonable actions and mitigations have been carried out to minimise their credit risk and details of such mitigations are set out in respective note to the financial statements. In this regards, the directors consider that the Group's credit risk is sufficiently minimised.

The exposures to these receivables are also actively monitored by management to avoid significant concentrations of credit risk. The Group also monitors its trade and bill receivables on an ongoing basis and only trades with creditworthy third parties.

All pledged bank deposits and cash and cash equivalents are placed with major banks located in Hong Kong and the PRC respectively. No other financial assets carry a significant exposure to credit risk.

Interest rate risk

The Group borrows the loans where interest is charged at the fixed interest rates. The Group did not have exposure to the floating interest rate where there are unexpected adverse interest rate movements. The interest rates and terms of repayment of the borrowings, amounts due to a director/connected parties/related companies/minority equity holders of subsidiaries, pledged bank deposits and cash and cash equivalents are disclosed in notes 32, 33, 34, 35, 36, 27 and 28 respectively.

Interest rate sensitivity analysis

The sensitivity analysis was determined by assuming that the change in interest rates had occurred at the balance sheet date and had been applied to variable-rate financial instruments at that date. The 25 basis points increase or decrease represents management's assessment of reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis was performed on the same basis for the year ended 31 December 2007.

At 31 December 2008, the Group was exposed to changes in interest rates through its pledged bank deposits and cash and cash equivalent. It is estimated that a general increase of 25 basis points (2007: 25 basis points) in interest rates, with all other variables held constant, would increase the Group's profit after tax and retained profits by approximately HK$2,130,000 (2007: HK$1,151,000). There is no impact on other components of consolidated equity in response to general increase in interest rates. A decrease of 25 basis points in interest rates would have had the equal but opposite effect.

Fair values

At the balance sheet date, the fair values of the Group's following current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short-term maturity: trade and bill receivables, deposits, prepayment and other receivables, amounts due from/(to) connected parties, pledged bank deposits, cash and cash equivalents, amounts due to related parties/minority equity holders of subsidiaries, trade and bill payables, other payables and accruals, amount due to a director and borrowings. The fair values of non-current liabilities were not disclosed because their carrying values are not materially different from their fair values as at the balance sheet date.

Liquidity risk

The Group's policies are to maintain sufficient cash and cash equivalents and have available funding to meet their working capital requirements. As explained in note 3.1, the Group's liquidity is dependent on continuing renewal of the Group's loan facility with aggregate balance of HK$1,110,112,000 upon maturity and persistent positive operating cash inflows generated from the subsidiaries as a result of the Very Substantial Acquisition. In light of the above, the directors of the Company are satisfied that the Group will be able to meet in full their financial obligations as and when they fall due in the foreseeable future.

49. RISK MANAGEMENT OBJECTIVES AND POLICIES *(cont'd)*

Liquidity risk *(cont'd)*

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

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

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

As at 31 December 2008	**Carrying amount HK$'000**	**Total contractual undiscounted cash flow HK$'000**	**Within one year or on demand HK$'000**	**More than 1 year but not exceeding 2 years HK$'000**
Group				
Trade and bill payables	**380,795**	**380,795**	**380,795**	**–**
Other payables and accruals	**2,058,230**	**2,058,230**	**1,819,680**	**238,550**
Borrowings	**1,626,088**	**1,719,415**	**1,683,751**	**35,664**
Amount due to a director	**20,000**	**20,000**	**20,000**	**–**
Amounts due to connected parties	**51,137**	**51,137**	**51,137**	**–**
Amounts due to related companies	**12,316**	**13,096**	**13,096**	**–**
Amounts due to minority equity holders of subsidiaries	**97,203**	**97,203**	**97,203**	**–**
	4,245,769	**4,339,876**	**4,065,662**	**274,214**

As at 31 December 2007	Carrying amount HK$'000	Total contractual undiscounted cash flows HK$'000	Within 1 year or on demand HK$'000	More than 1 year but not exceeding 2 years HK$'000	More than 2 years but not exceeding 5 years HK$'000
Trade payables	2,294	2,294	2,294	–	–
Other payables	125,997	125,997	125,997	–	–
Borrowings	184,588	194,622	194,622	–	–
Amounts due to related companies	25,907	26,895	26,895	–	–
Amounts due to minority equity holders of subsidiaries	119,358	122,538	87,108	35,430	–
Convertible notes	34,014	57,802	–	–	57,802
	492,158	530,148	436,916	35,430	57,802

49. RISK MANAGEMENT OBJECTIVES AND POLICIES *(cont'd)*

Summary of financial assets and liabilities by category

The carrying amounts of the Group's financial assets and liabilities as recognised at the balance sheet dates may also be categorised as follows. See notes 3.13 and 3.20 for explanations about how the category of instruments affects their subsequent measurement.

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Non-current assets				
Loan and receivables:				
– Loan to subsidiaries	**–**	–	**–**	126,598
– Amount due from a connected party	**218,712**	–	**–**	–
Available-for-sale financial assets	**8,403**	7,597	**–**	–
	227,115	7,597	**–**	126,598
Current assets				
Loan and receivables:				
– Trade and bill receivables	**999,408**	7,232	**–**	–
– Amounts due from subsidiaries	**–**	–	**9,829,849**	661,059
– Amounts due from connected parties	**1,495,944**	–	**–**	–
Pledged bank deposits	**168,941**	–	**–**	–
Cash and cash equivalents	**760,163**	460,538	**462,375**	7,542
	3,424,456	467,770	**10,292,224**	668,601
	3,651,571	475,367	**10,292,224**	795,199
Current liabilities				
Financial liabilities at amortised cost:				
– Trade and bill payables	**380,795**	2,294	**–**	–
– Other payables and accruals	**1,819,680**	125,997	**9,307**	5,765
– Borrowings	**1,590,917**	184,588	**–**	–
– Amount due to a director	**20,000**	–	**–**	–
– Amounts due to connected parties	**51,137**	–	**–**	–
– Amounts due to related companies	**12,316**	25,907	**–**	–
– Amounts due to minority equity holders of subsidiaries	**97,203**	85,589	**–**	–
Financial liability at fair value through profit or loss:				
– Derivative liabilities of convertible notes	**–**	10,916	**–**	–
	3,972,048	435,291	**9,307**	5,765
Non-current liabilities				
Financial liabilities at amortised cost:				
– Borrowings	**35,171**	–	**–**	–
– Amounts due to minority equity holders of subsidiaries	**–**	33,769	**–**	–
– Convertible notes	**–**	34,014	**–**	–
– Other long term payable	**238,550**	–	**–**	–
	273,721	67,783	**–**	–
	4,245,769	503,074	**9,307**	5,765

50. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

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

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

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

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

Five Year Financial Summary

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years as extracted from the respective published audited financial statements is set out below. Certain comparative amounts have been restated due to the adoption of the new or revised standards and interpretations of Hong Kong Financial Reporting Standards effective from 1 January 2005. This summary does not form part of the audited financial statements.

	2008	2007	2006	(Restated) 2005	(Restated) 2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**1,896,577**	15,056	10,535	10,232	7,560
Profit/(Loss) attributable to equity holders of the Company	**567,649**	(77,948)	(30,988)	(14,020)	(14,741)
Assets and liabilities					
Total assets	**19,252,268**	1,295,084	517,104	383,799	210,021
Total liabilities	**(6,803,271)**	(503,074)	(417,524)	(256,338)	(82,021)
Net assets	**12,448,997**	792,010	99,580	127,461	128,000
Minority interests	**(1,627,258)**	(58,279)	(42,034)	(54,276)	(42,080)
Equity attributable to equity holders of the Company	**10,821,739**	733,731	57,546	73,185	85,920