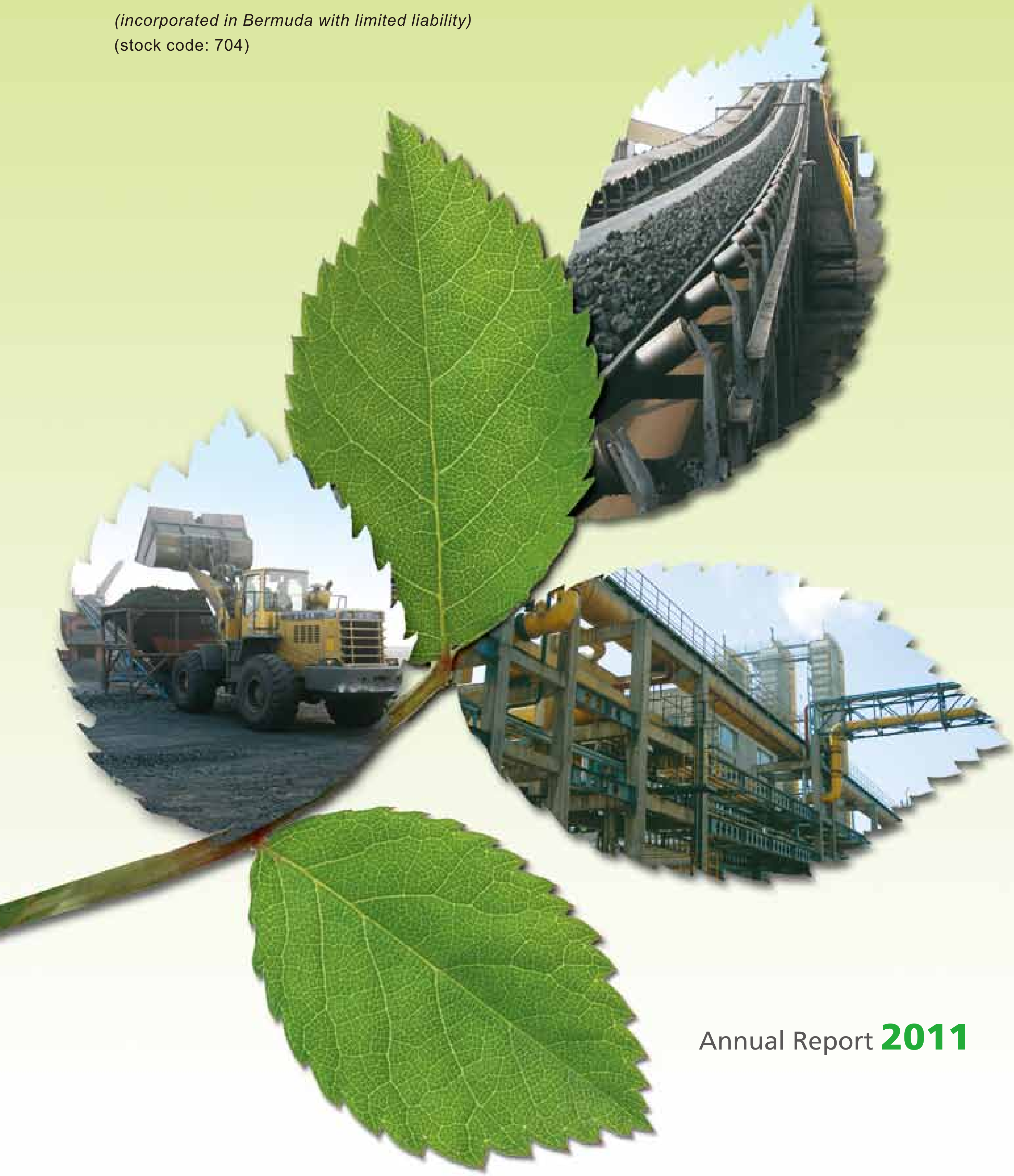
HUSCOKE RESOURCES HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(stock code: 704)



Annual Report **2011**

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Gao Jianguo *(Chairman)*
(appointed on 19 September 2011)
Mr. Li Baoqi *(Chief Executive Officer)*
(appointed as Chief Executive Officer on 19 September 2011)
Mr. Wu Jixian
(redesignated to Non-executive Director on 19 September 2011)
Mr. Cheung Ka Fai *(Chief Financial Officer)*

Non-executive Director

Mr. Wu Jixian
(redesignated from Executive Director on 19 September 2011)

Independent Non-executive Directors

Mr. Lam Hoy Lee, Laurie
Mr. To Wing Tim, Paddy
Mr. Lau Ka Ho
(appointed on 21 April 2011)
Mr. Wan Hon Keung
(resigned on 21 April 2011)

AUDIT COMMITTEE

Mr. Lam Hoy Lee, Laurie
Mr. To Wing Tim, Paddy
Mr. Lau Ka Ho
(appointed on 21 April 2011)
Mr. Wan Hon Keung
(resigned on 21 April 2011)

COMPANY SECRETARY

Mr. Cheung Ka Fai

COMPANY SOLICITORS

In Hong Kong

Chiu & Partners

In Bermuda

Appleby Spurling Hunter

AUDITORS

Ernst & Young
Certified Public Accountants

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Industrial and Commercial Bank of China (Asia) Limited

SHARE REGISTRARS AND TRANSFER OFFICE

In Hong Kong

Tricor Secretaries Limited

In Bermuda

Butterfield Corporate Services Limited

PRINCIPAL OFFICE IN HONG KONG

Room 4205, 42th Floor
Far East Finance Center
16 Harcourt Road
Admiralty, Hong Kong
Tel: 2861 0704
Fax: 2861 3908
E-mail: admin@huscoke.com
Website: www.huscoke.com

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Chairman's Statement

I would like to present the annual audit consolidated results of Huscoke Resources Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2011.

RESULTS AND BUSINESS OVERVIEW

2011 was a difficult and challenging year for the Group. With the governmental consolidation exercise in the Shanxi Province, the Province of which Huscoke's main production facilities are located, lots of the private coal mines in the province were closed and thus, the supply of raw materials in the province was reduced and the price of coal has been increased. Also, the Group needed to rely on other coal mines which are much further and incurred more transportation costs. These increased the cost of purchase and thus, the cost of production for the year.

With the continued depression of the PRC's steel industry, demand for coke, the Group's ultimate products, has been reduced and the increase in the cost of production can't be absorbed by the increase in coke price and thus, the gross profits margin was reduced from 2010's 23.31% to 9.63%.

With the drop in the share price of the Company which constitutes an event of defaults for the Group's convertible bonds issued in 2010, the management has negotiated with the bond holders to see whether they would exercise their right of early redemption. To continue supporting the Group, one of the bond holders, Passion Giant Investment Limited ("PGI") which holds convertible bonds with principal amount of HK$154 million, has first agreed to refrain its early redemption right in June 2011 by amending the conversion price. In December 2011, with the share price dropped again in September 2011, the Group and PGI has entered into the Second PGI Amendment Agreement and the Second PGI Supplemental Deed, pursuant to which PGI refrained from exercising the early redemption right, and certain other terms of the original bonds were amended. Since the conditions, including but not limited to the approval of shareholders at a special general meeting, stated in the Second PGI Amendment Agreement and the Second PGI Supplemental Deed can only be fulfilled on 28 February 2012, the Group needed to record a loss on modification of convertible bonds and fair value change on derivative financial instrument amounting to around HK$17.27 million and HK$36.75 million respectively for the year ended 31 December 2011. For the other convertible bond with principal amount of HK$38.5 million, the Group has fully redeemed the bonds in November 2011 and has recorded a loss on early redemption of convertible bonds amounting to around HK$3.35 million for the year ended 31 December 2011.

With the continue depression in the background of our trading business, in 2011, the Group has made a one-off impairment loss on both goodwill and other intangible assets amounting to around HK$10.72 million and HK$435.03 million respectively. Both losses relating to the above convertible bonds and these impairments are non-cash flow in nature and will not affect the Group's financial and operating status.

Chairman's Statement

PROSPECTS

For the trading business, on 30 January 2012, the World Trade Organisation ("WTO") ruled that the PRC Government has been unfairly restricting the export of nine materials and coke is one of them. As a member of WTO, the PRC Government is expected to respond to this ruling and one of the possible remedial measures from the PRC Government is to reduce the export tax which will ultimately improve the competitiveness of the PRC coke and benefit to our trading business.

It is expected that the consolidation of coal mines in the province will be completed in the second half of 2012 and with the re-open of those coal mines near our factory, the operating status of the Group will be improved. Also, the situation from 2011 re-confirmed the Group's strategy in developing or acquiring coal mine. Once the targeted mine finished its consolidation and it is legally practicable for acquisition, the Group will re-start the negotiation with the mine owner to see whether we can acquire their interests or not. Management are of the view that if the Group can have its own coal mine, raw materials supplied will be much more stable in both quality and quantity and in addition, we can enjoy the profits generated from mine exploration.

Every industry has its own business cycle and we believe 2011 is classified as one of the toughest years in our industry. During this tough year, the management has tried its bests to reduce the burden of the Group including the great repayment of its debts including a structured loan amounting to HK$193.75 million, a repayment of a convertible bond with principal amount of HK$38.5 million and a promissory notes amounting to around HK$233.83 million. Such reduction in debts makes the Group ready when the recovery period arrives.

APPRECIATION

On behalf of the Board, I would like to express my sincere appreciation to the shareholders of the Company for their continued support and sincerely thank the directors and staffs for their dedication and diligence. I also wish to take this opportunity to express my sincere gratitude to the Group's customers, suppliers, bankers and convertible bond holders for their ongoing support.

Gao Jianguo
Chairman
27 March 2012

Directors and senior management

BIOGRAPHICAL DETAILS OF DIRECTORS

Executive Directors

Mr. Gao Jianguo, aged 55, has been appointed as an executive Director and the Chairman since September 2011. Mr. Gao joined the Xiaoyi City Jinyan Electrical Coal Chemical Engineering Co., Ltd. (the non-controlling shareholder of the Group's 90% owned Subsidiary Company) in 2001 and joined the 山西金岩和嘉能源有限公司 GRG Huscoke (Shan Xi) Ltd, and indirect 90%-owned subsidiary of the Company since 2008, and he is now its deputy general manager. He has over 30 years in import-exporting trading business and over 10 years of experience in the coke industry. Mr. Gao was graduated from the 山西財經學院 (Shanxi Finance & Economics College) in 1977.

Mr. Li Baoqi, aged 57, has been appointed as an executive Director since June 2008 and as Chief Executive Officer of the Company since September 2011. Mr. Li has over 25 years of working experience in foreign economy and trade. He worked as the Assistant to General Manager of 中國冶金進出口吉林公司 (China Metallurgy Import and Export Jilin Company), the Manager and the Assistant General Manager of the Import and Export Division of 中國冶金進出口深圳公司 (China Metallurgy Import and Export Shenzhen Company, now known as 中鋼集團深圳公司 (China Steel Group Shenzhen Company)).

Mr. Cheung Ka Fai, aged 37, has been appointed as the Company Secretary and Chief Financial Officer of the Company since June 2008 and as an executive Director since October 2009. Mr. Cheung is responsible for the overall management of the financial function of the Group including oversight of the financial reporting procedures and internal control. He is a professional accountant with more than 10 years' experience in audit, finance and business advisory, during which he worked for the Deloitte Touche Tohmatsu and various listed companies in Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants, an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Cheung obtained his Bachelor degree in accountancy from the Hong Kong Polytechnic University and his Master degree in business administration from the University of Bradford. Mr. Cheung is an independent non-executive director of Zall Development (Cayman) Holding Co Ltd, which is listed on the main board of The Stock Exchange of Hong Kong Limited.

Directors and senior management

Non-executive Directors

Mr. Wu Jixian, aged 48, has been appointed as an executive Director and Chief Executive Officer since June 2008 and has redesignated to non-executive director in September 2011. Mr. Wu has over 20 years of working experience in, variously, trading, marketing and China's coal industry. He worked as the Manager of Electric Appliance Export Division and Manager of Metallurgy & Mine Division of 中國機械設備進出口深圳公司 (China National Machinery & Equipment Import & Export Shenzhen Co. Ltd). He had also worked for certain oversea corporations, including the Sales Manager of JH Coal & Chemical International Inc., Canada, President of Marcell Industrial Inc., Canada and General Manager of Great Launch Inc., Canada.

Independent Non-executive Directors

Mr. Lau Ka Ho, aged 37, has been appointed as an independent non-executive Director of the Company since 21 April 2011 and is a member of the Nomination Committee and the Remuneration Committee and the Chairman of Audit Committee of the Company. Mr. Lau is currently the Chief Financial Officer and Company Secretary of Ajisen (China) Holdings Limited, a company listed on the main board of the Stock Exchange of Hong Kong Limited. Mr. Lau has over 10 years' experience in audit, finance and business advisory, during which he worked for the Deloitte Touche Tohmatsu and various listed companies in Hong Kong. Mr. Lau graduated from the Hong Kong Polytechnic University with a bachelor degree in Accountancy. He is certified public accountant and a member of the Hong Kong Institute of Certified Public Accountants.

Mr. Lam Hoy Lee, Laurie, aged 53, has been appointed as an independent non-executive Director since September 2008 and is a member of the Audit Committee and the Remuneration Committee and the chairman of Nomination Committee of the Company. He has over 20 years of experience in legal field. Mr. Lam is a solicitor of Hong Kong, Singapore and a solicitor and counsel of Australia.

Mr. To Wing Tim, Paddy, aged 60, has been appointed as an independent non-executive Director of the Company since October 2009 and is a member of the Audit Committee and the Nomination Committee and the Chairman of Remuneration Committee of the Company. Mr. To obtained his diploma in accountancy from the University of Hong Kong in 1991 and has over 30 years of experience in auditing, accounting and finance industry and has been practicing as a Certified Public Accountant in Hong Kong since 1980. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, associate members of both the Taxation Institute of Hong Kong and Association of Certified General Accountants in Canada.

Management discussion and analysis

BUSINESS REVIEW

2011 is a difficult and challenging year to the Group. First of all, with the launch of the government's consolidation policy for all the coal mines in the Shanxi Province, the number of operating coal mines in the province reduced. Raw coal supplies in the region were affected and the prices of which have been increased. Under the government's plan, some coal mines near our factory have been closed for safety check and thus, the Group needs to rely on other mines with much higher transportation costs. All these increased our purchase costs of raw materials for the year 2011.

With the continuous depression in the PRC's steel industry, demand for coke, which is an ingredient in steel making process, has been reduced. The increase in the purchase costs of raw materials cannot be absorbed by the increase in the general price of coke and thus, gross profit ratios for the Group have been reduced during the year.

Coke trading also faced difficulties in 2011. After the economic crisis and the increase in the PRC export tax from 25% to 40% in late 2008, demand for the PRC's export coke was sharply reduced and the Group has turned to focus on the domestic market instead. With the deteriorating domestic market happened in 2011, revenue or profits generated from the trading business reduced and thus, based on the most updated information and for prudence, the Group has made an one-off impairment loss in both goodwill and other intangible asset amounting to around HK$10.72 million and HK$435.03 million respectively. The impairment loss is a non-cash item, which does not have any impact on the Group's liquidity as well as operations.

The amount of selling and distribution costs have been increased greatly from 2010's HK$48.79 million to 2011's HK$92.97 million. Such great increase is due to the full year operations in coke production in 2011 while in the first half of 2010, the Group has not completed the acquisition of the coking plant and most of the products of the Group were refined coals which were mainly sold to local nearby coking mills.

The amount of finance costs also increased greatly from 2010's around HK$42.71 million to 2011's HK$74.19 million. To finance the acquisition of coking plant, the Group has issued two tranches of convertible bonds and two tranches of promissory notes in May and June 2010 respectively. In 2011, the Group bears a full year of convertible bonds' interests and promissory notes' imputed interests, while in 2010, it was a partial year. This results in an increase in relative interest expenses in current year.

DISPOSAL OF A PROPERTY

In June 2011, the Group has signed a preliminary sale and purchase agreement ("Preliminary Agreement") for the disposal of a property which constituted a Discloseable Transaction under the rules of the Stock Exchange of Hong Kong Limited. According to the Preliminary Agreement, the purchaser has paid around HK$8.91 million as the first deposit and needs to pay the second deposit of another HK$8.91 million on or before 20 June 2011 but the purchaser failed to comply with their obligation and refuse to complete the deal. In December 2011, the purchaser and the Group has signed a deed of cancellation and the main terms of such deed are: 1) the Group has relieved the purchaser from all liabilities arising out and/or all further performance of the obligations under the Preliminary Agreement, 2) the initial deposit is forfeited by the purchaser to the Group and 3) the purchaser is the defaulting party under the Preliminary Agreement. Netting off all the costs incurred, the Group has recorded an other income amounting to around HK$5.62 million in 2011.

CHANGE OF THE TERMS OF THE CONVERTIBLE BONDS

On 24 May 2010, the Group has issued two tranches of convertible bonds to Passion Giant Investment Limited ("PGI") and CSOP Asset Management Limited ("CSOP") with face value of HK$154 million and HK$38.5 million respectively. Under the subscription agreements to these two bonds, the bondholder is entitled to request for an early redemption of the entire or any part of the principal amount if an event of default occurs. One of the events of default is that the average 30 consecutive trading days' closing price per share is less than 70% of the original conversion price. On 25 May 2011, the Company noticed that the average 30 consecutive trading days' closing price per share as at 20 May 2011 was less than 70% of the original conversion price. On 29 June 2011, PGI has given confirmation that it would refrain from exercising the early redemption right and sanctioned the modifications of the PGI Bond condition, pursuant to which (among other matters) the original conversion price was changed from HK$0.55 to HK$0.3 per share. On 7 September 2011, the Group first agreed with CSOP to change the terms by giving the Company's right to early redeem the CSOP bonds and in November 2011, the Group has fully redeemed the CSOP bonds.

On 28 September 2011, the average 30 consecutive trading days' closing price per share was less than 70% of the revised conversion price described above. Thus, the Group negotiated with PGI again and on 30 December 2011, the Group and PGI entered into the Second PGI Amendment Agreement and the Second PGI Supplemental Deed under which PGI refrain from exercising the early redemption right again and in return, the conversion price was further revised from HK$0.3 to HK$0.22 per share. For details of other amendments under the Second PGI Amendment Agreement, please kindly refer to the Group's circular dated 2 February 2012.

Since those conditions stated in the Second PGI Supplemental Deed can only be fulfilled on 28 February 2012 which is after 31 December 2011, according to the current accounting practice, we need to classify all the liabilities related to this bond as current liability and on 28 February 2012 when all the conditions are fulfilled, the bonds are repayable on the original maturity date of 23 May 2013 and the portion in the amount of HK$70.37 million is reclassified as non-current liability.

CHARGES OVER ASSETS

As at 31 December 2011, the Group pledged certain land and buildings and fixed deposits which have an aggregate carrying value of approximately HK$109.56 million (2010: HK$111.05 million) and HK$121.95 million (2010: HK$23.53 million) to secure a mortgage loan and general banking facilities granted to the Group.

Also, shares of three of the subsidiaries, Rich Key Enterprises Limited, Joy Wisdom International Limited and Huscoke International Investment Limited, have been pledged to secure the convertible bonds issued in 2010.

LIQUIDITY AND FINANCIAL RESOURCES

Net current liabilities and current ratio were approximately HK$37.55 million and 0.97:1 as at 31 December 2011. In 31 December 2010, there were net current assets and current ratio of approximately HK$164.15 million and 1.12:1. The deterioration in the net current position is partly due to the classification of the non-current portion of the convertible bonds issued in 2010 of HK$70.37 million as stated in the section of "CHANGE OF THE TERMS OF THE CONVERTIBLE BONDS" above and the classification of mortgage loan payable of HK$27.00 million (2010: HK$32.40 million) as current liabilities as at 31 December 2011. Due to the adoption of HK Interpretation 5, a portion of the Group's mortgage loan of HK$27.00 million which is repayable beyond twelve months from the end of the reporting period in accordance with its original repayment schedule was classified as current liability because the loan terms contained a repayment on demand clause. If we considered both effects stated above and assuming all the others figures unchanged, the Group would have net current assets and a current ratio of approximately HK$59.82 million and 1.06:1.

The Group's bank balances and cash equivalents amounted to approximately HK$11.38 million (2010: approximately HK$16.98 million). In 2011, the Group tries its best to reduce the gearing and has repaid lots of the debts. As at 31 December 2011, bank and other borrowings have been reduced to HK$193.20 million (2010: HK$231.55 million). All the HK$193.75 million structured trade finance for the coke export business recorded in 2010 has been fully repaid in 2011. Also, the Group has redeemed one of the convertible bonds issued to CSOP with face value of HK$38.50 million and has fully repaid the first tranch of the promissory notes amounting to around HK$233.83 million in December 2011.

EMPLOYEES AND REMUNERATION

As at 31 December 2011, the Group had approximately 1,700 employees (2010: approximately 1,800 employees). Less than 10 staffs are stationed in Hong Kong and the rest are PRC workers. The Group's staff costs amounted to approximately HK$76.79 million for the year ended 31 December 2011 and approximately HK$55.30 million was recorded in last corresponding year.

Employees are remunerated according to the nature of the job and market trends, with a built-in merit component incorporated in the annual increment and a year-end performance bonus to reward motivate individual performance. Up to the date of this report, there are 45,700,000 share options granted under the share option scheme.

PROSPECTS

For the existing businesses, the Group will continue its efforts to control our cost of production and negotiate with more customers for Huscoke's coke. For the trading business, on 30 January 2012, the World Trade Organisation ("WTO") ruled that the PRC Government has been unfairly restricting the export of nine materials and coke is one of them. As a member of WTO, the PRC Government is expected to respond to this ruling and one of the possible remedial measures from the PRC Government is to reduce the export tax which will ultimately improve the competitiveness of the PRC coke and benefit to our trading business.

The sharp increase in the purchase costs of raw materials due to the safety check of the coal mine under the consolidation plan in 2011 teaches Huscoke a lesson and re-confirm the Group's strategy in developing the upstream business. In August 2010, the Group has signed a non-legal binding memorandum of understandings ("First MOU") with Golden Rock Group ("GRG"), the non-controlling shareholding of our Joint Venture in the PRC, for the proposed acquisition of coal mines. At the date of this report, most of the due diligence works including the financial, technical or valuation, on the targeted coal mine has been completed. However, the mine is currently in the progress of consolidation and the legal status of which has not been finalized. Once the legal due diligence works completed, the Group will explore or investigate the possibilities for acquiring this coal mine. Management considered that if the Group can acquired a nearby coal mine, it's coal supplies will be stable in both volume and price and also, we can enjoy the profit generated in coal mining which is very beneficial for the Group's long term development. Currently, this First MOU has been extended to 30 June 2012.

In September 2010, the Group has signed another non legal binding memorandum of understandings ("**Second MOU**") with GRG. This Second MOU mainly related to the proposed cooperation with GRG for the construction of a new coking plant with annual capacity of 2 million tones. Up to the date of this report, the Group has invested around RMB2 million in this project and there is no additional commitment for the Group in this stage. The construction works of the new plant has been started in 2011 and was wholly financed by GRG itself and the Group will assess its financial abilities and the prospects of the industry before joining the project.

Corporate Governance Report

The Company is committed to achieving and maintaining high standards of corporate governance, in compliance with the principles set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") from time to time.

(1) CORPORATE GOVERNANCE PRACTICES

The Company is committed to upholding good corporate governance. The Board considers effective corporate governance essential to protect shareholders' interests and enhance stakeholders' value. During the year 2011, the Board has continued to spend considerable efforts to identify and formalize the appropriate corporate governance practices to ensure transparency, accountability and effective internal control.

The Company has complied throughout the year ended 31 December 2011 with the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

(2) DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a Code of Practice for Securities Transactions by Directors and Designated Employees (the "Securities Code") on terms no less exacting than the required standard set out in the Model Code in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors who have confirmed their compliance with the required standard set out in the Securities Code during the period ended 1 January 2011 to 31 December 2011.

(3) BOARD OF DIRECTORS

The Board's role is clearly defined as directing and supervising the affairs of the Group, establishing its strategic direction and setting objectives and business development plans to ensure appropriate business conduct and effective management of the highest quality. The management of the Company is responsible for the implementation of the strategies, objectives and plans determined by the Board. The Chairman of the Company is Mr. Li Baoqi and changed to Mr. Gao Jianguo on 19 September 2011. The Chief Executive Officer is Mr. Wu Jixian and changed to Mr. Li Baoqi on 19 September 2011. The role of the Chairman is clearly segregated from that of the Chief Executive Officer. The Chairman is responsible for managing and providing leadership to the Board. He ensures that the Group establishes sound corporate governance practices and procedures and encourages the Directors to make a full and active contribution to the affairs of the Board. The Chief Executive Officer is responsible for the day-to-day management of the business of the Group.

(3) BOARD OF DIRECTORS *(Continued)*

The Board is led by the Chairman and comprises three executive Directors (one of whom is the Chairman), one non-executive Director, and three independent non-executive Directors. All Directors come from diverse business and professional background, providing valuable expertise and experience for promoting the best interests of the Group and its shareholders. The independent non-executive Directors represent at least, one-third of the Board. The Company has received confirmation from each independent non-executive Director about his independence under Rule 3.13 of the Listing Rules and continues to consider each of them to be independent.

To oversee particular aspects of the Group's affairs and to assist in the execution of its responsibilities, the Board has established three Board Committees, namely Audit Committee, Remuneration Committee and Nomination Committee. Independent non-executive Directors play an important role in these committees to ensure independent and objective views are expressed and to promote critical review and control.

All Board committees of the Company are established with defined written terms of reference.

All members of the Audit Committee, the Remuneration Committee and the Nomination Committee are independent non-executive directors.

The Directors' biographical information is set out on page 5.

The Board meets regularly at least four times a year. For all such meetings, adequate and appropriate information, in the form of agenda, board papers and related materials, are prepared and provided to the Directors prior to the scheduled dates for the Board meeting in a timely manner.

The Company held five full Board meetings in 2011. Individual attendance of each Director is set out below.

(3) BOARD OF DIRECTORS *(Continued)*

	Notes	**Number of Meetings attended**
Chairman		
Mr. Gao Jianguo	*1*	2/5
Executive Directors		
Mr. Li Baoqi	*2*	5/5
Mr. Cheung Ka Fai		5/5
Non-executive Director		
Mr. Wu Jixian	*3*	3/5
Independent Non-executive Directors		
Mr. Lam Hoy Lee, Laurie		2/5
Mr. To Wing Tim, Paddy		3/5
Mr. Lau Ka Ho	*4*	1/5
Mr. Wan Hon Keung	*5*	2/5

Notes:

1. Mr. Gao Jianguo was appointed as Chairman and executive Director on 19 September 2011.

2. Mr. Li Baoqi was appointed as Chief Executive Officer on 19 September 2011.

3. Mr. Wu Jixian was redesignated to non-executive Director on 19 September 2011.

4. Mr. Lau Ka Ho was appointed as independent non-executive Director on 21 April 2011.

5. Mr. Wan Hon Keung resigned as independent non-executive Director with effect from 21 April 2011.

(4) NON-EXECUTIVE DIRECTORS

None of the existing non-executive directors of the Company was appointed for a specific term.

(5) REMUNERATION COMMITTEE

The Remuneration Committee currently comprises all three independent non-executive directors and Mr. To Wing Tim, Paddy is the Chairman. The Committee assists the Board in achieving its objective of attracting, retaining and motivating people of the highest caliber and experience needed to develop and implement the Group's strategy taking into consideration its operations. The Committee is also responsible for the development and administration of a fair and transparent procedure for setting policies on the remuneration of Directors and senior management of the Group and for determining their remuneration packages.

The Company held two committee meetings in 2011. Individual attendance of each Director is set out below:

Chairman	*Notes*	**Number of Meetings attended**
Mr. To Wing Tim, Paddy		2/2
Independent Non-executive Directors		
Mr. Lam Hoy Lee, Laurie		2/2
Mr. Lau Ka Ho	*1*	1/2
Mr. Wan Hon Keung	*2*	0/2

Notes:

1. Mr. Lau Ka Ho was appointed as independent non-executive Director on 21 April 2011.

2. Mr. Wan Hon Keung resigned as independent non-executive Director with effect from 21 April 2011.

The work of the Remuneration Committee during 2011 included:

— reviewing the Group's incentive schemes; and

— reviewing the remuneration packages of Directors.

Information relating to the remuneration of each director for 2011 is set out in Note 8 to the financial statements.

(6) NOMINATION OF DIRECTORS

The Nomination Committee currently comprises all three independent non-executive directors and Mr. Lam Hoy Lee, Laurie is the Chairman. The Committee assists the Board to fulfill its supervisory role over the Group in nominating new directors to the Board and assessing performance and skills of the Directors.

The Company held two committee meetings in 2011. It reviewed the composition of the Board. Individual attendance of each Director is set out below.

		Number of
Chairman	*Notes*	**Meetings attended**
Mr. Lam Hoy Lee, Laurie		2/2
Independent Non-executive Directors		
Mr. To Wing Tim, Paddy		2/2
Mr. Lau Ka Ho	*1*	1/2
Mr. Wan Hon Keung	*2*	0/2

Notes:

1. Mr. Lau Ka Ho was appointed as independent non-executive Director on 21 April 2011.

2. Mr. Wan Hon Keung resigned as independent non-executive Director with effect from 21 April 2011.

(7) AUDITORS' REMUNERATION

For the year ended 31 December 2011, the Auditors of the Company received approximately HK$2.00 million for audit services (2010: HK$2.13 million).

(8) AUDIT COMMITTEE

The Audit Committee currently comprises all three independent non-executive directors and Mr. Lau Ka Ho is the Chairman. The Committee assists the Board in fulfilling its responsibility for reviewing the accounting principles and practices, auditing, internal control and regulatory compliance of the Group. It also reviewed the interim and final results of the Group prior to recommending them to the Board for approval. The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants and comply with the Corporate Governance Code.

In 2011, the Audit Committee held two meetings and had a 100 percent attendance rate.

The work of the Audit Committee during 2011 included:

— reviewing the Directors' Report and full year accounts for the year ended 31 December 2011 and the annual results announcement;

— reviewing the interim accounts for the six months ended 30 June 2011 and the interim results announcement; and

— reviewing the internal audit plan for 2011.

(9) INTERNAL CONTROLS

The Board endeavors to establish a sound and effective internal control system to safeguard the Company's assets and shareholders' investment. An organizational structure with operating policies and procedures, lines of responsibility and delegated authority has been established. The management is delegated with respective levels of authority with regard to key corporate strategy and policy and contractual commitments. The Group's internal audit is currently carried out by a qualified accountant who reports directly to the Chairman and plays a major role in monitoring the internal governance of the Group. The qualified accountant has unrestricted access to review all aspects of the Group's activities and internal controls. It also conducts special audits of areas of concern identified by the Management or the Audit Committee. The Audit Committee has direct access to the qualified accountant freely without reference to the Chairman or the Management.

The Directors have conducted a review of the effectiveness of the system of internal control of the Group during the year of 2011. The review covered all materials controls, including financial, operational and compliance controls and risk management functions.

(10) DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group.

The statement of the Auditor of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Auditor's Report on pages 27 and 28.

(11) INVESTORS RELATIONS

To enhance transparency and effectively communicate with the investment community, the executive directors and senior management of the Company actively maintains close communications with various institutional investors, financial analysts and financial media by convening road shows and investors' conferences during the year. Investors are welcome to share their views with the Board by writing to the Company at its Hong Kong head office or sending enquiries to the Company's web site at www.huscoke.com. Investors and shareholders are welcome to review the Company's recent announcements at the Company's web site at www.huscoke.com.

Report of the Directors

The Directors present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its subsidiaries are set out in note 20 to the financial statements.

RESULTS AND DIVIDENDS

Details of the loss of the Group for the year ended 31 December 2011 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 29 to 129.

The Directors do not recommend the payment of a final dividend (2010: HK0.5 cents per share).

SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with the reasons therefore, are set out in note 34 to the financial statements.

DIRECTORS

The directors of the Company who were in office during the year and those as at the date of this report are as follows:

Executive directors:

Mr. Gao Jianguo *(Chairman)*	*(appointed on 19 September 2011)*
Mr. Li Baoqi	
Mr. Cheung Ka Fai	
Mr. Wu Jixian	*(redesignated to Non-executive Director on 19 September 2011)*

Non-executive director:

Mr. Wu Jixian	*(redesignated from Executive Director on 19 September 2011)*

Independent non-executive directors:

Mr. Lam Hoy Lee, Laurie	
Mr. To Wing Tim, Paddy	
Mr. Lau Ka Ho	*(appointed on 21 April 2011)*
Mr. Wan Hon Keung	*(resigned on 21 April 2011)*

DIRECTORS' SERVICE CONTRACTS

In accordance with Bye-law 99 (as amended by Bye-law 182(vi)) and Bye-law 102 of the Company's Bye-laws, Mr. Lam Hoy Lee, Laurie, Mr. To Wing Tim, Paddy and Mr. Gao Jianguo retire, and being eligible, offer themselves for re-election.

The directors being proposed for re-election at the forthcoming annual general meeting do not have a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of a compensation (other than statutory compensation).

DIRECTORS' OR CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director or controlling shareholder 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.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2011 were as follows:

	2011	2010
	HK$'000	*HK$'000*
Convertible bonds reserve	**683,850**	768,450
Contributed surplus	**419,650**	335,050
Retained profits/(accumulated losses)	**(615,306)**	54,739
	488,194	1,158,239

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

SHARE OPTION SCHEME

The Company adopted an executive share option scheme (the "Scheme") which became effective on 31 May 2002 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 30 May 2012. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties.

Particulars of the Company's share option scheme are set out in note 35 to the financial statements.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders, independent non-executive directors or any of their respective associates in excess of 0.1% of the Company's share capital and with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per option. Options may be exercised at any time from the date of grant of the share option. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five business days immediately preceding the date of grant, and the nominal value of a share of the Company.

SHARE OPTION SCHEME *(Continued)*

For the year ended 31 December 2011, options were granted to certain directors and eligible employees. Details of which are set out in note 35 to the financial statements.

Category/Name of participant	Date of grant of share options	Number of share options: At 1 January 2011	Granted during the year	Lapsed during the year	At 31 December 2011	Exercise period of share options	Exercise price on share options HK$ per share
Directors							
Li Baoqi	27 February 2009	1,500,000	—	—	1,500,000	27 February 2009 — 26 February 2014	0.50
	11 January 2010	3,000,000	—	—	3,000,000	11 January 2010 — 10 January 2015	0.68
	27 January 2011	—	5,000,000	—	5,000,000	27 January 2011 — 26 January 2016	0.40
		4,500,000	5,000,000	—	9,500,000		
Cheung Ka Fai	27 February 2009	1,000,000	—	—	1,000,000	27 February 2009 — 26 February 2014	0.50
	11 January 2010	2,600,000	—	—	2,600,000	11 January 2010 — 10 January 2015	0.68
	27 January 2011	—	4,000,000	—	4,000,000	27 January 2011 — 26 January 2016	0.40
		3,600,000	4,000,000	—	7,600,000		
Wu Jixian	27 February 2009	1,800,000	—	—	1,800,000	27 February 2009 — 26 February 2014	0.50
	11 January 2010	3,600,000	—	—	3,600,000	11 January 2010 — 10 January 2015	0.68
	27 January 2011	—	6,000,000	—	6,000,000	27 January 2011 — 26 January 2016	0.40
		5,400,000	6,000,000	—	11,400,000		
Other employees							
	27 February 2009	1,200,000	—	—	1,200,000	27 February 2009 — 26 February 2014	0.50
	11 January 2010	2,800,000	—	—	2,800,000	11 January 2010 — 10 January 2015	0.68
	27 January 2011	—	5,000,000	(1,800,000)	3,200,000	27 January 2011 — 26 January 2016	0.40
		4,000,000	5,000,000	(1,800,000)	7,200,000		
		17,500,000	20,000,000	(1,800,000)	35,700,000		

DIRECTORS' INTERESTS

As at 31 December 2011, the interests of the directors and the chief executives and their associates in the shares of the Company as recorded in the registered maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in the Shares

Name of Director	*Notes*	Number of shares held	Percentage of the Company's existing issued share capital (%)
Gao Jianguo	*(a)*	22,612,000	0.50
Wu Jixian	*(b)*	657,000,000	14.53
To Wing Tim Paddy	*(c)*	1,160,000	0.03

Long positions in the underlying Shares

Name of Director	*Notes*	Number of underlying shares held	Percentage of issued share capital (%)
Wu Jixian	*(b)*	1,466,400,000	32.42
Li Baoqi		9,500,000	0.21
Cheung Ka Fai	*(e)*	7,600,000	0.17

Short positions in the underlying Shares

Name of Director	*Notes*	Number of underlying shares held	Percentage of issued share capital (%)
Wu Jixian	*(b)*	1,155,000,000	25.54

DIRECTORS' INTERESTS *(Continued)*

Notes:

(a) As at 31 December 2011, Mr. Gao Jianguo, an executive Director, beneficially owned 22,612,000 Shares.

(b) As at 31 December 2011, Mr. Wu Jixian, a non-executive Director, beneficially owned 657,000,000 Shares, he was also interested in convertible bonds in the aggregate principal amount of HK$582,000,000, which were convertible into 1,455,000,000 Shares. Mr. Wu was also entitled to share options to subscribe for a maximum of 11,400,000 Shares upon exercise of the options in full. To support the convertible bonds issued by the Company in May 2010, Mr. Wu has pledged his interests in convertible bonds in the aggregate principal amount of HK$462,000,000, which were convertible into 1,155,000,000 Shares to the convertible bonds holder.

(c) Among the 1,160,000 Shares held by Mr. To Wing Tim, Paddy, an independent non-executive Director, 300,000 Shares were held by Mr. To as beneficial owner and 860,000 Shares held by Ms. Leung Yuet Mei, the spouse of Mr. To. Accordingly, Mr. To was deemed to be interested in the said 1,160,000 Shares under Part XV of the SFO.

(d) As at 31 December 2011, Mr. Li Baoqi, an executive Director was entitled to share options to subscribe for a maximum of 9,500,000 Shares upon exercise of the options in full.

(e) As at 31 December 2011, Mr. Cheung Ka Fai, an executive Director was entitled to share options to subscribe for a maximum of 7,600,000 Shares upon exercise of the options in full.

Save as disclosed above, as at 31 December 2011, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) were required, pursuant to section 352 of the SFO, to be entered in the registered referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the convertible bonds discussed above and the share option scheme of the Company, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of 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 right during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, the interests of the shareholders (excluding directors and the chief executives and their associates of the Company) as recorded in the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO were as follows:

Long positions in underlying shares

Name of shareholder	Nature of Interest	Number of underlying shares held	Approximate percentage of the issued share capital of the Company
Passion Giant Investment Limited ("**PGI**")	Beneficial owner *(Note 1)*	1,855,000,000	41.01%
CCB International Asset Management Limited ("**CCBIAML**")	Interest in controlled corporation *(Note 2)*	1,855,000,000	41.01%
CCB International Assets Management (Cayman) Limited ("**CCBIAMCL**")	Interest in controlled corporation *(Note 2)*	1,855,000,000	41.01%
CCB International (Holdings) Limited ("**CCBIHL**")	Interest in controlled corporation *(Note 2)*	1,855,000,000	41.01%
CCB Financial Holdings Limited ("**CCBFHL**")	Interest in controlled corporation *(Note 2)*	1,855,000,000	41.01%
CCB International Group Holdings Limited ("**CCBIGHL**")	Interest in controlled corporation *(Note 2)*	1,855,000,000	41.01%
China Construction Bank Corporation ("**CCBC**")	Interest in controlled corporation *(Note 2)*	1,855,000,000	41.01%
Central Huijiu Investments Limited ("**CHIL**")	Interest in controlled corporation *(Note 2)*	1,855,000,000	41.01%

Notes:

1. As at 31 December 2011, PGI was interested in convertible bonds in the aggregate principle amount of HK$ 154,000,000, which were convertible into 700,000,000 shares. To secure these convertible bonds, the substantial shareholder of the Company, Mr. Wu Jixian, has pledged his interests in convertible bonds in the aggregate principle amount of HK$ 462,000,000 which were convertible into 1,155,000,000 shares.

2. CHIL owns 57.1% in CCBC which in turn owns 100% in CCBIGHL which in turn owns 100% in CCBFHL which in turn owns 100% in CCBIHL which in turn owns 100% in CCBIAMCL which in turn owns 100% in CCBIAML which in turn owns 100% in PGI.

Save as disclosed above and so far as is known to the Directors and the chief executive of the Company, as at 31 December 2011, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO discloses no other person as having a notifiable interest or short position in the issued share capital of the Company.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has complied with the sufficiency of public float requirement under the Listing Rules during the year ended 31 December 2011.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees. Details of the scheme are set out in note 35 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 36 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group accounted for approximately 89% of the Group's total turnover and the largest customer accounted for approximately 43% of the Group's total turnover.

The five largest suppliers of the Group accounted for approximately 49% of the Group's total purchases for the year and the largest suppliers accounted for approximately 17% of the Group's total purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements of the Group is set out below:

RESULTS

	Year ended 31 December 2011	Year ended 31 December			
		2010	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
CONTINUING OPERATIONS					
TURNOVER	**1,847,609**	1,813,039	1,266,801	1,371,078	640,635
PROFIT/(LOSS) BEFORE TAX	**(552,083)**	282,260	148,744	(1,837,800)	(42,486)
Income tax	**68,762**	(87,663)	(41,506)	(14,988)	317
PROFIT/(LOSS) FOR THE YEAR	**(483,321)**	194,597	107,238	(1,852,788)	(42,169)
Attributable to:					
Owners of the parent	**(488,020)**	167,859	93,736	(1,858,198)	(42,169)
Non-controlling interests	**4,699**	26,738	13,502	5,410	—
	(483,321)	194,597	107,238	(1,852,788)	(42,169)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December 2011	As at 31 December			
	2011	2010	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TOTAL ASSETS	**3,086,992**	3,979,267	2,741,239	2,783,528	280,997
TOTAL LIABILITIES	**(1,383,257)**	(1,817,439)	(872,998)	(1,023,285)	(104,235)
	1,703,735	2,161,828	1,868,241	1,760,243	176,762
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**1,551,413**	2,018,870	1,795,861	1,701,365	176,762
NON-CONTROLLING INTERESTS	**152,322**	142,958	72,380	58,878	—
	1,703,735	2,161,828	1,868,241	1,760,243	176,762

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 11 to 16 of this Annual Report.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period are set out in note 45 to the financial statements.

AUDITORS

Deloitte Touche Tohmatsu acted as auditor of the Company for the year ended 31 December 2009. Ernst & Young acted as auditor of the Company for the past two years. A resolution will be submitted to the annual general meeting to re-appoint Ernst & Young as auditor.

ON BEHALF OF THE BOARD

Gao Jianguo
CHAIRMAN

Hong Kong
27 March 2012

ERNST & YOUNG
安 永

To the shareholders of Huscoke Resources Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Huscoke Resources Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 29 to 129, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's loss 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 disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong

22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

27 March 2012

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
REVENUE	5	**1,847,609**	1,813,039
Cost of sales			
— Amortisation of other intangible asset		**(43,512)**	(43,512)
— Others		**(1,626,241)**	(1,346,922)
Gross profit		**177,856**	422,605
Other income and gains	5	**27,417**	19,846
Selling and distribution costs		**(92,972)**	(48,787)
Administrative expenses		**(87,068)**	(68,692)
Loss on early redemption of convertible bonds	32	**(3,353)**	—
Loss arising from modification of convertible bonds	32	**(17,272)**	—
Fair value change on derivative financial instrument	32	**(36,751)**	—
Impairment loss on goodwill	17	**(10,718)**	—
Impairment loss on other intangible asset	18	**(435,030)**	—
Finance costs	7	**(74,192)**	(42,712)
Profit/(loss) before tax	6	**(552,083)**	282,260
Income tax expense	10	**68,762**	(87,663)
PROFIT/(LOSS) FOR THE YEAR		**(483,321)**	194,597
Other comprehensive income/(loss) for the year:			
Fair value loss of available-for-sale investments		**(347)**	—
Exchange differences on translation of foreign operation		**46,654**	38,400
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**(437,014)**	232,997
Profit/(loss) for the year attributable to:			
Owners of the parent	11	**(488,020)**	167,859
Non-controlling interests		**4,699**	26,738
		(483,321)	194,597

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	Notes	**2011** **HK$'000**	2010 HK$'000
Total comprehensive income/(loss) attributable to:			
Owners of the parent		**(446,378)**	202,419
Non-controlling interests		**9,364**	30,578
		(437,014)	232,997
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT	*13*		
Basic			
— For profit/(loss) for the year		**(HK8.16 cents)**	HK2.81 cents
Diluted			
— For profit/(loss) for the year		**(HK8.16 cents)**	HK2.81 cents

Details of the dividend proposed for the year are disclosed in note 12 to the financial statements.

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,347,888**	1,291,806
Prepaid land lease payments	15	**—**	—
Investment property	16	**—**	—
Goodwill	17	**388,544**	399,262
Other intangible asset	18	**277,432**	755,974
Available-for-sale investments	21	**4,660**	2,568
Total non-current assets		**2,018,524**	2,449,610
CURRENT ASSETS			
Inventories	22	**179,515**	171,711
Trade and bills receivables	23	**112,323**	280,019
Prepayments, deposits and other receivables	24	**331,678**	682,938
Amount due from the Non-controlling Shareholder	25	**311,621**	351,132
Equity investment at fair value through profit or loss	26	**—**	3,351
Pledged deposits	27	**121,951**	23,529
Cash and cash equivalents	27	**11,380**	16,977
Total current assets		**1,068,468**	1,529,657
CURRENT LIABILITIES			
Trade and bills payables	28	**479,463**	544,896
Other payables and accruals	29	**212,195**	216,564
Amount due to the Non-controlling Shareholder	25	**—**	13,501
Promissory notes	30	**—**	214,679
Tax payable		**3,861**	84,637
Interest-bearing bank and other borrowings	31	**193,196**	231,550
Convertible bonds	32	**180,556**	59,683
Derivative financial instrument	32	**36,751**	—
Total current liabilities		**1,106,022**	1,365,510
NET CURRENT ASSETS/(LIABILITIES)		**(37,554)**	164,147
TOTAL ASSETS LESS CURRENT LIABILITIES — page 32		**1,980,970**	2,613,757

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES — page 31		**1,980,970**	2,613,757
NON-CURRENT LIABILITIES			
Amount due to the Non-controlling Shareholder	25	**7,201**	—
Convertible bonds	32	**—**	119,367
Deferred tax liabilities	33	**53,198**	134,096
Promissory notes	30	**216,836**	198,466
Total non-current liabilities		**277,235**	451,929
Net assets		**1,703,735**	2,161,828
EQUITY			
Equity attributable to the owners of parent			
Issued share capital	34	**452,293**	434,293
Reserves		**1,099,120**	1,562,862
Proposed final dividend	12	**—**	21,715
		1,551,413	2,018,870
Non-controlling interests		**152,322**	142,958
Total equity		**1,703,735**	2,161,828

Director *Director*

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

		Attributable to owners of the parent													
	Notes	Share capital *HK$'000*	Share premium *HK$'000*	Contributed surplus *HK$'000* *(note i)*	Special reserve *HK$'000* *(note ii)*	Available-for-sale investment revaluation reserve *HK$'000*	Share options reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	Capital redemption reserve *HK$'000*	Convertible bonds reserve *HK$'000*	Retained profits/ (accumulated losses) *HK$'000*	Proposed final dividend *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2010		336,543	144,997	1,599,000	18,236	–	760	591	85	1,494,750	(1,799,101)	–	1,795,861	72,380	1,868,241
Profit for the year		–	–	–	–	–	–	–	–	–	167,859	–	167,859	26,738	194,597
Other comprehensive income for the year:															
Exchange differences on translation of foreign operation		–	–	–	–	–	–	34,560	–	–	–	–	34,560	3,840	38,400
Total comprehensive income for the year		–	–	–	–	–	–	34,560	–	–	167,859	–	202,419	30,578	232,997
Issue of convertible bonds	*32*	–	–	–	–	–	–	–	–	17,788	–	–	17,788	–	17,788
Issue of shares	*34(a)*	97,750	–	465,050	–	–	–	–	–	(562,800)	–	–	–	–	–
Equity-settled share option arrangements	*35*	–	–	–	–	–	2,802	–	–	–	–	–	2,802	–	2,802
Capital injection from the Non-controlling Shareholder		–	–	–	–	–	–	–	–	–	–	–	–	40,000	40,000
Proposed final 2010 dividend	*12*	–	–	–	–	–	–	–	–	–	(21,715)	21,715	–	–	–
Transfer	*36(b)(iii)*	–	–	(1,729,000)	–	–	–	–	–	–	1,729,000	–	–	–	–
At 31 December 2010		434,293	144,997*	335,050*	18,236*	–	3,562*	35,151*	85*	949,738*	76,043*	21,715	2,018,870	142,958	2,161,828

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

		Attributable to owners of the parent													
	Notes	Share capital *HK$'000*	Share premium *HK$'000*	Contributed surplus *HK$'000* *(note i)*	Special reserve *HK$'000* *(note ii)*	Available-for-sale investment revaluation reserve *HK$'000*	Share options reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	Capital redemption reserve *HK$'000*	Convertible bonds reserve *HK$'000*	Retained profits/ (accumulated losses) *HK$'000*	Proposed final dividend *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2011		434,293	144,997	335,050	18,236	–	3,562	35,151	85	949,738	76,043	21,715	2,018,870	142,958	2,161,828
Profit/(loss) for the year		–	–	–	–	–	–	–	–	–	(488,020)	–	(488,020)	4,699	(483,321)
Other comprehensive income/(loss) for the year:															
Fair value loss of an available-for-sale investment, net of tax		–	–	–	–	(347)	–	–	–	–	–	–	(347)	–	(347)
Exchange differences on translation of foreign operation		–	–	–	–	–	–	41,989	–	–	–	–	41,989	4,665	46,654
Total comprehensive income/(loss) for the year		–	–	–	–	(347)	–	41,989	–	–	(488,020)	–	(446,378)	9,364	(437,014)
Final 2010 dividend declared	12	–	–	–	–	–	–	–	–	–	(900)	(21,715)	(22,615)	–	(22,615)
Issue of shares	34(a)	18,000	–	84,600	–	–	–	–	–	(102,600)	–	–	–	–	–
Equity-settled share option arrangements	35	–	–	–	–	–	2,560	–	–	–	–	–	2,560	–	2,560
Lapsed share options	35	–	–	–	–	–	(230)	–	–	–	230	–	–	–	–
Arising from modification of convertible bonds	32	–	–	–	–	–	–	–	–	(14,011)	14,011	–	–	–	–
Arising from early redemption of convertible bonds	32	–	–	–	–	–	–	–	–	(3,777)	2,753	–	(1,024)	–	(1,024)
At 31 December 2011		452,293	144,997*	419,650*	18,236*	(347)*	5,892*	77,140*	85*	829,350*	(395,883)*	–	1,551,413	152,322	1,703,735

* These reserve accounts comprise the consolidation reserves of HK$1,099,120,000 as at 31 December 2011 (2010: HK$1,562,862,000) in the consolidated statement of financial position.

Notes:

(i) The contributed surplus represents the excess of the value of shares converted upon conversion of the 2008 Convertible Bonds (as defined in note 32 to the financial statements) over the nominal amount of the ordinary shares issued pursuant to Section 40(1) of the Bermuda Companies Act 1981.

(ii) The special reserve represents the difference between the nominal value of the shares of the subsidiaries at the date when the shares were acquired by the Company and the nominal amount of the Company's shares issued for the acquisition.

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax:		**(552,083)**	282,260
Adjustments for:			
Equity-settled share option expense	6	**2,560**	2,802
Gain on equity investment at fair value through profit or loss	5	**—**	(17)
Finance costs	7	**74,192**	42,712
Interest income	5	**(2,229)**	—
Depreciation	14	**92,747**	65,423
Amortisation of other intangible asset	18	**43,512**	43,512
Impairment loss on goodwill	17	**10,718**	—
Impairment loss on other intangible asset	18	**435,030**	—
Impairment of trade receivables	23	**1,335**	—
Loss on early redemption of convertible bonds		**3,353**	—
Loss arising from modification of convertible bonds		**17,272**	—
Fair value change on derivative financial instrument		**36,751**	—
Gain on disposal of a subsidiary	37	**—**	(246)
Operating cash flows before movements in working capital		**163,158**	436,446
Increase in inventories		**(1,507)**	(106,980)
(Increase)/decrease in trade and bills receivables		**174,461**	(246,167)
(Increase)/decrease in prepayments, deposits and other receivables		**365,615**	(107,079)
(Increase)/decrease in an amount due from the Non-controlling Shareholder		**51,726**	(66,507)
Increase/(decrease) in trade and bills payables		**(84,340)**	405,617
Increase/(decrease) in other payables and accruals		**(9,605)**	56,460
Decrease in an amount due to the Non-controlling Shareholder		**(6,626)**	—
Cash generated from operations		**652,882**	371,790
Income taxes paid		**(94,501)**	(75,470)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**558,381**	296,320

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 *HK$'000*	2010 *HK$'000*
NET CASH FLOWS FROM OPERATING ACTIVITIES		**558,381**	296,320
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(105,578)**	(348,650)
Purchases of available-for-sale investments		**(2,410)**	—
Increase in pledged deposits		**(96,386)**	(23,529)
Proceeds from disposal of equity investment at fair value through profit or loss		**3,351**	—
Disposal of a subsidiary	*37*	**—**	15,000
Interest received		**2,229**	—
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(198,794)**	(357,179)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings		**159,327**	—
Net proceeds from issue of convertible bonds		**—**	181,300
Repayment of bank borrowings		**(199,150)**	(144,900)
Repayment of promissory notes		**(231,012)**	(15,000)
Early redemption of convertible bonds		**(45,873)**	—
Interest paid		**(26,327)**	(15,348)
Capital injection from the Non-controlling Shareholder		**—**	40,000
Dividend paid		**(22,460)**	—
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		**(365,495)**	46,052
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(5,908)**	(14,807)
Cash and cash equivalents at the beginning of the year		**16,977**	29,122
Effect of foreign currency rate changes, net		**311**	2,662
Cash and cash equivalents at the end of the year		**11,380**	16,977
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*27*	**11,380**	16,977

Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	20	**1,474,393**	2,120,343
Total non-current assets		**1,474,393**	2,120,343
CURRENT ASSETS			
Prepayments, deposits and other receivables	24	**—**	1,584
Cash and cash equivalents	27	**244**	92
Total current assets		**244**	1,676
CURRENT LIABILITIES			
Other payables and accruals	29	**3,094**	3,229
Convertible bonds	32	**180,556**	59,683
Derivative financial instrument	32	**36,751**	—
Total current liabilities		**220,401**	62,912
NET CURRENT LIABILITIES		**(220,157)**	(61,236)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,254,236**	2,059,107
NON-CURRENT LIABILITY			
Convertible bonds	32	**—**	119,367
Net assets		**1,254,236**	1,939,740
EQUITY			
Issued share capital	34	**452,293**	434,293
Reserves	36(b)	**801,943**	1,483,732
Proposed final dividend	12	**—**	21,715
Total equity		**1,254,236**	1,939,740

Director *Director*

1. CORPORATE INFORMATION

Huscoke Resources Holdings Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business is Room 4205, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

During the year, the Company and its subsidiaries (collectively, the "Group") were involved in the following activities:

— coke trading business;

— coal-related ancillary business; and

— coke production business.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 20 to the financial statements.

2.1 BASIS OF PRESENTATION

The Group recorded a loss and total comprehensive loss attributable to the owners of the parent of HK$488,020,000 and HK$446,378,000, respectively, for the year ended 31 December 2011 (2010: profit and total comprehensive income attributable to the owners of the parent of HK$167,859,000 and HK$202,419,000, respectively). This is resulted, mainly from (i) loss on early redemption of convertible bonds amounting to HK$3,353,000, (ii) loss arising from modification of convertible bonds amounting to HK$17,272,000, (iii) fair value change on derivative financial instrument amounting to HK$36,751,000, (iv) an impairment loss on goodwill amounting to HK$10,718,000 and (v) an impairment loss on other intangible asset amounting to HK$435,030,000. These items are one-off in nature and had not affected the Group's operating cash flows.

The Group also recorded net current liabilities of HK$37,554,000 at 31 December 2011 (2010: net current assets of HK$164,147,000). The deterioration in the net current position is partly due to the classification of the non-current portion of the 2010 Convertible Bonds (as defined in note 32) of HK$70,371,000 and the classification of mortgage loan payable of HK$27,000,000 (2010: HK$32,400,000) as current liabilities as at 31 December 2011.

2.1 BASIS OF PRESENTATION *(Continued)*

An event of default under the 2010 Convertible Bonds occurred on 28 September 2011, which entitled PGI (as defined in note 32) to request for early redemption of the bonds. On 30 December 2011, the Group and PGI entered into a Second PGI Amendment Agreement and the Second PGI Supplemental Deed (as defined in note 32), pursuant to which PGI refrained from exercising the early redemption right, and certain other terms were amended. The Second PGI Amendment Agreement and the Second PGI Supplemental Deed would become effective upon fulfillment of certain conditions including the approval of shareholders at a special general meeting. The approval of shareholders was obtained, and fulfillment of other conditions was achieved, on 28 February 2012, upon which the Second PGI Amendment Agreement and the Second PGI Supplemental Deed became effective. The bonds are then repayable on the original maturity date of 23 May 2013, and the portion in the amount of HK$70,371,000 is reclassified as non-current liability.

Due to the adoption of HK Interpretation 5, a portion of the Group's mortgage loan of HK$27,000,000 which is repayable beyond twelve months from the end of the reporting period in accordance with its original repayment schedule was classified as current liability because the loan terms contained a repayment on demand clause.

If the non-current portion of the 2010 Convertible Bonds of HK$70,371,000 and the mortgage loan payable of HK$27,000,000 were not reclassified to current liabilities, with other matters remained unchanged, the Group would have recorded net current assets of HK$59,817,000 as at 31 December 2011.

2.2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investment at fair value through profit or loss, certain available-for-sale investments and derivative financial instrument, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

2.2 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 41 to the financial statements.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: *Disclosures — Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	Amendments to HKAS 32 Financial Instruments: *Presentation — Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operation and financial position.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interest are measured at fair values. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets *(Continued)*

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Property, plant and equipment and depreciation

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

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Leasehold land under finance leases	Over the lease terms
Buildings	Over the shorter of the term of the lease of the land and 50 years
Furnaces and infrastructure	25 years
Plant and machinery	8 years
Computer equipment	5 years
Furniture and fixtures	5 years
Motor vehicles	5 years

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset being derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment property

Investment property is interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of an investment property are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

For a transfer from an investment property to owner-occupied property, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and cash equivalents, pledged deposits, trade and bills receivables, other receivables, equity investment at fair value through profit or loss, available-for-sale investments and an amount due from the Non-controlling Shareholder.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Financial assets at fair value through profit or loss *(Continued)*

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation as these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss . These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other operating expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Available-for-sale financial investments *(Continued)*

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investments revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investments revaluation reserve to profit or loss in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, 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 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or ''prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss— measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade, bills and other payables and accruals, an amount due to the Non-controlling Shareholder, promissory notes, convertible bonds, derivative financial instrument and interest-bearing bank and other borrowings.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Loan and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative financial instrument 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 are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. 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 profit or loss.

Derecognition of financial liabilities

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

When 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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. These techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rental receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) the sale of refined coal, coke and by-products, when the significant risks and rewards of ownership have been transferred to the buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) the sale of electricity and heat, when the electricity and heat are consumed by the customers; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 35 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss 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.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiary is required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grants will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

    (i) has control or joint control over the Group;

    (ii) has significant influence over the Group; or

    (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are subsequently amortised over the economic useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Impairment of non-financial assets

In determining whether an asset is impaired or the events previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Judgements *(Continued)*

Tax

Determining income tax provisions requires the Group to make judgements on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

Estimation uncertainty

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

Impairment of goodwill and other intangible asset

Determining whether goodwill and other intangible asset are impaired requires an estimation of the value in use of the cash-generating units to which the goodwill and other intangible assets are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose suitable discount rates in order to calculate the present value of those cash flows. Any change in the business environment may lead to the change of expected future cash flows. The carrying amount of goodwill and other intangible asset at 31 December 2011 was HK$388,544,000 (2010: HK$399,262,000) and HK$277,432,000 (2010: HK$755,974,000) respectively. Further details are set out in notes 17 and 18 to the financial statements, respectively.

Other intangible asset

The estimated useful life of other intangible asset, being an export distribution right, acquired on acquisition of businesses as set out in note 18 is based on the management's best estimate of the expected life of the right, according to the management understanding of the trading of coke business. In addition, the actual amount of export sales by the sole supplier to the Group is subject to the quantity of export quota granted by the Ministry of Commerce of China to the sole supplier semi-annually.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Depreciation

The Group depreciates its property, plant and equipment over the estimated useful life, commencing from the date the property, plant and equipment are ready for their intended used. The estimated useful life reflects the management's estimate of the periods that the Group intends to derive future economic benefits from the use of the property, plant and equipment. The depreciation will be changed when the useful life is expected to be different from the estimate and would affect profit or loss for the period in which such change of estimate take place.

Impairment of loans and receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a loan/receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of trade and bills receivables, an amount due from the Non-controlling Shareholder and other receivables as at 31 December 2011 were HK$112,323,000 (2010: HK$280,019,000), HK$311,621,000 (2010: HK$351,132,000) and HK$8,307,000 (2010: HK$8,294,000), respectively.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has the following reportable operating segments:

(a) the trading of coke segment — purchases and sales of coke;

(b) the coal-related ancillary segment — washing of raw coal into refined coal for sales and for further processing, and the sale of electricity and heat which is generated as the by-products during washing of raw coal; and

(c) the coke production segment — processing of refined coal into coke for sales, and sales of coke by-products that are generated during coke production.

4. OPERATING SEGMENT INFORMATION *(Continued)*

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, sundry income, gain on equity investment at fair value through profit or loss, corporate administrative expenses, loss on early redemption and on modification of convertible bonds, fair value change on derivative financial instrument, unallocated finance costs and deferred tax on properties for corporate use are excluded from such measurement.

Segment assets exclude pledged deposits, cash and cash equivalents, equity investment at fair value through profit or loss, available-for-sale investments and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude the amount due to the Non-controlling Shareholder, interest-bearing bank and other borrowings, promissory notes, convertible bonds, derivative financial instrument, deferred tax liabilities on properties for corporate use and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted on cost plus a certain percentage of mark-up.

4. OPERATING SEGMENT INFORMATION *(Continued)*

Segment revenue and results

Year ended 31 December 2011

	Trading of coke *HK$'000*	Coal-related ancillary *HK$'000*	Coke production *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
Segment revenue					
— external sales	176,298	497,027	1,174,284	—	1,847,609
— intersegment sales	—	725,532	—	(725,532)	—
Other income and gains	5,855	12,182	—	—	18,037
Total	182,153	1,234,741	1,174,284	(725,532)	1,865,646
Segment results	(396,293)	41,708	22,842	(14,509)	(346,252)
Interest income					2,229
Sundry income					7,151
Corporate administrative expenses					(22,002)
Loss on early redemption of convertible bonds					(3,353)
Loss arising from modification of convertible bonds					(17,272)
Fair value change on derivative financial instrument					(36,751)
Unallocated finance costs					(67,241)
Deferred tax credit on properties (for corporate)					170
Loss for the year					(483,321)

4. OPERATING SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

Year ended 31 December 2010

	Trading of coke HK$'000	Coal-related ancillary HK$'000	Coke production HK$'000	Others HK$'000	Elimination HK$'000	Total HK$'000
Segment revenue						
— external sales	130,348	1,097,642	585,049	—	—	1,813,039
— intersegment sales	—	473,322	—	—	(473,322)	—
Other income and gains	7,750	11,833	—	246	—	19,829
Total	138,098	1,582,797	585,049	246	(473,322)	1,832,868
Segment results	(14,211)	251,618	26,174	246	(9,466)	254,361
Gain on equity investment at fair value through profit or loss						17
Corporate administrative expenses						(22,886)
Unallocated finance costs						(35,064)
Deferred tax charge on properties (for corporate)						(1,831)
Profit for the year						194,597

4. OPERATING SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

31 December 2011

	Trading of coke HK$'000	Coal-related ancillary HK$'000	Coke production HK$'000	Total HK$'000
SEGMENT ASSETS				
Segment assets	436,353	1,666,182	736,543	2,839,078
Corporate and unallocated assets				247,914
Consolidated assets				3,086,992
SEGMENT LIABILITIES				
Segment liabilities	127,257	467,518	144,193	738,968
Corporate and unallocated liabilities				644,289
Consolidated liabilities				1,383,257

4. OPERATING SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

31 December 2010

	Trading of coke *HK$'000*	Coal-related ancillary *HK$'000*	Coke production *HK$'000*	Total *HK$'000*
SEGMENT ASSETS				
Segment assets	1,035,471	1,882,238	898,390	3,816,099
Corporate and unallocated assets				163,168
Consolidated assets				3,979,267
SEGMENT LIABILITIES				
Segment liabilities	396,847	569,389	196,508	1,162,744
Corporate and unallocated liabilities				654,695
Consolidated liabilities				1,817,439

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2011

	Trading of coke HK$'000	Coal-related ancillary HK$'000	Coke production HK$'000	Total HK$'000
Additions of property, plant and equipment	—	100,604	4,974	105,578
Unallocated				—
				105,578
Impairment of goodwill	10,718	—	—	10,718
Unallocated				—
				10,718
Impairment of other intangible asset	435,030	—	—	435,030
Unallocated				—
				435,030
Amortisation of other intangible asset	43,512	—	—	43,512
Unallocated				—
				43,512
Depreciation	—	47,335	41,833	89,168
Unallocated				3,579
				92,747
Interest expense on bank and other borrowings	3,555	—	—	3,555
Unallocated				5,515
				9,070
Income tax expense/(credit)	(77,465)	8,620	4,718	(64,127)
Unallocated				(4,635)
				(68,762)

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2010

	Trading of coke *HK$'000*	Coal-related ancillary *HK$'000*	Coke production *HK$'000*	Total *HK$'000*
Additions of property, plant and equipment	—	5,245	729,684	734,929
Unallocated				18,594
				753,523
Amortisation of other intangible asset	43,512	—	—	43,512
Unallocated				—
				43,512
Amortisation of prepaid land lease payments	—	—	—	—
Unallocated				26
				26
Depreciation	—	43,004	17,223	60,227
Unallocated				5,196
				65,423
Interest expense on bank and other borrowings	7,085	—	—	7,085
Unallocated				563
				7,648
Income tax expense/(credit)	544	57,759	31,151	89,454
Unallocated				(1,791)
				87,663

4. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

(a) Revenue from external customers

The Group's revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to a single geographical region, Mainland China, which is the Group's principal place of business and operations during the years ended 31 December 2011 and 2010. Therefore, no analysis by geographical region is presented.

The revenue information is based on the location of the customers.

(b) Non-current assets

	2011	2010
	HK$'000	*HK$'000*
Hong Kong	**389,013**	881,850
Mainland China	**1,624,851**	1,565,192
	2,013,864	2,447,042

The non-current assets information above is based on the location of assets and excludes financial instruments.

Information about major customers

Revenue of approximately HK$789,859,000 (2010: HK$360,139,000) was derived from sales in the coke production segment to a single customer, which is an independent third party of the Group.

Revenue of approximately HK$475,759,000 (2010: HK$1,070,212,000) was derived from sales in the coal-related ancillary segment and the coke production segment to a single customer, which is the Non-controlling Shareholder.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts and the value of services rendered during the year.

An analysis of revenue, other income and gains is as follows:

	Notes	2011 HK$'000	2010 HK$'000
Revenue			
Sale of refined coal		**424,597**	1,033,419
Sale of electricity and heat		**72,430**	64,223
Sale of coke and by-products		**1,350,582**	715,397
		1,847,609	1,813,039
Other income			
Interest income		**2,229**	—
Government subsidies	*(i)*	**12,182**	10,818
Reimbursement from the Non-controlling Shareholder	*(ii)*	**5,855**	7,750
Sundry income		**7,151**	1,015
		27,417	19,583
Other gains			
Gain on equity investment at fair value through profit or loss		**—**	17
Gain on disposal of a subsidiary		**—**	246
		—	263
		27,417	19,846

Notes:

(i) 山西金岩和嘉能源有限公司(" 金岩和嘉 "), a 90%-owned subsidiary of the Group, is entitled to receive local government subsidies for the provision of heat in a city in Mainland China. The subsidies were recognised in income statement on the straight-line basis over the subsidy period.

(ii) As further detailed in note 18 to the financial statements, the Group has an exclusive international right to handle the export business of coke for 金岩電力煤化工有限公司, the non-controlling shareholder holding a 9% interest in 金岩和嘉 (the "Non-controlling Shareholder"). The Non-controlling Shareholder agreed to reimburse the Group's interest expense on the export loan (note 31) which the Group obtained to finance the prepayments made for purchases for the Group's export trade (note 24). The export loan was fully settled in 2011.

6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging:

	Notes	2011 HK$'000	2010 HK$'000
Auditors' remuneration		**2,000**	2,130
Cost of inventories sold		**1,626,241**	1,346,922
Depreciation		**92,747**	65,423
Amortisation of prepaid land lease payments		**—**	26
Net foreign exchange losses		**538**	60
Impairment of trade receivables	*23*	**1,335**	—
Operating lease payments in respect of leasehold interest in land and rented properties		**1,368**	817
Employee benefit expense (including directors' remuneration)			
Wages and salaries		**62,635**	52,429
Equity-settled share option expense	*35*	**2,560**	2,802
Pension scheme contribution[#]		**11,599**	71
		76,794	55,302

[#] As at 31 December 2011 and 2010, the Group had no forfeited contributions from the pension schemes available to reduce its contribution to the pension schemes in future years.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2011 HK$'000	2010 HK$'000
Interest on bank and other borrowings repayable within five years	**9,070**	7,648
Interest on promissory notes	**22,135**	11,826
Interest on convertible bonds	**39,590**	23,238
Interest on discounted bills	**3,397**	—
	74,192	42,712

8. DIRECTORS' EMOLUMENTS

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Directors' fees	**2,730**	2,040
Other emoluments:		
Salaries, allowances and benefits in kind	**3,020**	3,432
Bonuses	**—**	2,556
Equity-settled share based expense	**1,920**	2,149
Pension scheme contributions	**21**	24
	4,961	8,161
	7,691	10,201

During the years ended 31 December 2011 and 2010, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 35 to the financial statements. The fair value of these options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant, and the amounts included in the financial statements for the years ended 31 December 2011 and 2010 have been included in the above directors' remuneration disclosures.

8. DIRECTORS' EMOLUMENTS *(Continued)*

2011

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Bonuses HK$'000	Equity-settled share based expense HK$'000	Pension scheme contributions HK$'000	Total HK$'000
Executive directors:						
Li Baoqi	806	514	—	640	—	1,960
Wu Jixian (resigned on 19 September 2011)	645	1,441	—	768	9	2,863
Cheung Ka Fai	324	912	—	512	12	1,760
Gao Jianguo (appointed on 19 September 2011)	221	153	—	—	—	374
	1,996	3,020	—	1,920	21	6,957
Non-executive director:						
Wu Jixian (appointed on 19 September 2011)	374	—	—	—	—	374
Independent non-executive directors:						
Lam Hoy Lee, Laurie	120	—	—	—	—	120
Wan Hon Keung (resigned on 21 April 2011)	37	—	—	—	—	37
To Wing Tim, Paddy	120	—	—	—	—	120
Lau Ka Ho (appointed on 21 April 2011)	83	—	—	—	—	83
	360	—	—	—	—	360
	2,730	3,020	—	1,920	21	7,691

8. DIRECTORS' EMOLUMENTS *(Continued)*

2010

	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Bonuses *HK$'000*	Equity-settled share based expense *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
Executive directors:						
Li Baoqi	696	504	600	701	—	2,501
Wu Jixian	780	2,016	1,398	841	12	5,047
Chim Kim Lun, Ricky (resigned on 2 September 2010)	—	—	—	—	—	—
Cheung Ka Fai	204	912	558	607	12	2,293
	1,680	3,432	2,556	2,149	24	9,841
Independent non-executive directors:						
Lam Hoy Lee, Laurie	120	—	—	—	—	120
Wan Hong Keung	120	—	—	—	—	120
Sun Tak Keung (resigned on 18 January 2010)	—	—	—	—	—	—
To Wing Tim, Paddy	120	—	—	—	—	120
	360	—	—	—	—	360
	2,040	3,432	2,556	2,149	24	10,201

There was no arrangement under which a director waived or agreed to waive any remuneration during the year. (2010: Nil)

During the years ended 31 December 2011 and 2010, no emolument was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2010: three) directors details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2010: two) non-director, highest paid employees for the year are as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**1,630**	1,197
Equity-settled share based expense	**486**	467
Pension scheme contribution	**12**	18
	2,128	1,682

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2011	2010
Nil to HK$1,000,000	**—**	2
HK$1,000,001 to HK$1,500,000	**2**	—
	2	2

During the years ended 31 December 2011 and 2010, share options were granted to a non-director, highest paid employees in respect of their service to the Group, further details of which are included in the disclosure in note 35 to the financial statements. The fair value of these options, which has been recognised in the income statement over the vesting period, was determined at the date of grant, and the amounts included in the financial statements have been included in the above non-director, highest paid employees' remuneration disclosures.

10. INCOME TAX

No provision for Hong Kong profits tax has been made as there were no assessable profits arising in Hong Kong for both years. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2011	2010
	HK$'000	*HK$'000*
Group:		
Current — Hong Kong		
Charge for the year	**—**	—
Overprovision in prior years	**(4,463)**	(3,622)
Current — Elsewhere	**16,599**	96,633
Deferred *(note 33)*	**(80,898)**	(5,348)
Total tax (credit)/charge for the year	**(68,762)**	87,663

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group — 2011

	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	***HK$'000***	**%**	***HK$'000***	**%**
Profit/(loss) before tax	**(604,368)**		**52,285**		**(552,083)**	
Tax at the statutory tax rate	**(99,719)**	**(16.5)**	**13,071**	**25.0**	**(86,648)**	**(15.7)**
Income not subject to tax	**(1,250)**	**(0.2)**	**—**	**—**	**(1,250)**	**(0.2)**
Expenses not deductible for tax	**17,742**	**2.9**	**3,434**	**6.5**	**21,176**	**3.8**
Underprovision/(overprovision) in prior years	**(4,463)**	**(0.7)**	**94**	**0.2**	**(4,369)**	**(0.8)**
Tax losses not recognised	**2,329**	**0.4**	**—**	**—**	**2,329**	**0.4**
Tax (credit)/charge at the Group's effective rate	**(85,361)**	**(14.1)**	**16,599**	**31.7**	**(68,762)**	**(12.5)**

10. INCOME TAX *(Continued)*

Group — 2010

	Hong Kong		Mainland China		Total	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%
Profit/(loss) before tax	(97,516)		379,776		282,260	
Tax at the statutory tax rate	(16,090)	(16.5)	94,944	25.0	78,854	27.9
Income not subject to tax	(40)	(0.0)	—	—	(40)	(0.0)
Expenses not deductible for tax	7,326	7.5	1,689	0.4	9,015	3.2
Overprovision in prior years	(3,622)	(3.7)	—	—	(3,622)	(1.3)
Tax losses not recognised	3,456	3.5	—	—	3,456	1.2
Tax (credit)/charge at the Group's effective rate	(8,970)	(9.2)	96,633	25.4	87,663	31.0

11. PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated loss attributable to owners of the parent for the year ended 31 December 2011 includes a loss of HK$664,424,000 (2010: profit of HK$124,840,000) which has been dealt with in the financial statements of the Company (note 36(b)).

12. DIVIDEND

	Group	
	2011	2010
	HK$'000	*HK$'000*
Proposed final dividend — Nil (2010: HK0.5 cents) per ordinary share	**—**	21,715

Final dividend for the year ended 31 December 2010 approved at the annual general meeting on 1 June 2011 amounted to HK$22,615,000.

No final dividend was proposed by the directors for the year ended 31 December 2011.

13. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The calculation of basic earnings/(loss) per share amounts is based on the loss for the year attributable to owners of the parent of HK$488,020,000 (2010: profit of HK$167,859,000), and the weighted average number of ordinary shares of 5,977,926,000 (2010: 5,977,926,000) in issue during the year, as adjusted to reflect the full conversion of the 2008 Convertible Bonds (as defined) for ordinary shares of the Company during the year.

As disclosed in note 32, the 2008 Convertible Bonds shall be converted automatically into new shares of the Company at the date of maturity. Shares that are issuable solely after the passage of time are not contingently issuable shares and are included in the calculation of basic and diluted earnings/(loss) per share.

The calculation of diluted earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to owners of the parent, adjusted to reflect the interest on convertible bonds, fair value change on derivative financial instrument and loss arising from modification of convertible bonds. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings/(loss) per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings/(loss) per share are based on:

	2011	2010
	HK$'000	*HK$'000*
Earnings/(loss)		
Profit/(loss) attributable to owners of the parent, used in the basic earnings/(loss) per share calculation:	**(488,020)**	167,859
Interest on convertible bonds	**39,590**	23,238
Fair value change on derivative financial instrument	**36,751**	—
Loss arising from modification of convertible bonds	**17,272**	—
Profit/(loss) attributable to owners of the parent (diluted)	**(394,407)**	191,097

13. **EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT** *(Continued)*

	Number of shares	
	2011	2010
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation	**5,977,926**	5,977,926
Effect of dilution — weighted average number of ordinary shares:		
Share options	**—**	74
Convertible bonds	**260,183***	204,167*
	6,238,109	6,182,167

* Because the diluted earnings/(loss) per share amount increases/(decreases) when taking into account the 2010 Convertible Bonds, the 2010 Convertible Bonds had an anti-dilutive effect on the basic earnings/(loss) per share for the year ended 31 December 2011 and 2010 and were ignored in the calculation of diluted earnings/(loss) per share. Therefore, diluted earnings/(loss) per share amounts are based on the loss for the year of HK$488,020,000 (2010: profit for the year of HK$167,859,000) and the weighted average number of ordinary shares (after effect of dilution) of 5,977,926,000 (2010: 5,978,000,000) in issue during the year.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	Land and buildings HK$'000	Furnaces and infrastructure HK$'000	Plant and machinery HK$'000	Computer equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST									
At 1 January 2010		268,208	—	221,607	37,935	707	22,875	60,322	611,654
Additions	*(i)*	74,276	436,510	122,769	28,557	2,697	9,101	79,613	753,523
Disposal of a subsidiary	*37*	(28,759)	—	—	—	—	—	—	(28,759)
Transfer from investment property	*16*	37,000	—	—	—	—	—	—	37,000
Exchange realignment		8,369	10,271	14,137	3,067	—	1,715	4,002	41,561
At 31 December 2010		359,094	446,781	358,513	69,559	3,404	33,691	143,937	1,414,979
Additions		—	1,533	4,577	816	—	1,575	97,077	105,578
Exchange realignment		8,880	16,364	13,127	2,555	—	1,210	6,451	48,587
At 31 December 2011		367,974	464,678	376,217	72,930	3,404	36,476	247,465	1,569,144
DEPRECIATION									
At 1 January 2010		23,150	—	27,258	7,871	337	5,641	—	64,257
Provided for the year		11,376	8,393	30,304	9,524	433	5,393	—	65,423
Disposal of a subsidiary	*37*	(15,790)	—	—	—	—	—	—	(15,790)
Exchange realignment		1,365	198	5,131	1,558	—	1,031	—	9,283
At 31 December 2010		20,101	8,591	62,693	18,953	770	12,065	—	123,173
Provided for the year		9,885	17,595	44,968	12,947	625	6,727	—	92,747
Exchange realignment		641	528	2,825	854	—	488	—	5,336
At 31 December 2011		30,627	26,714	110,486	32,754	1,395	19,280	—	221,256
NET CARRYING AMOUNT									
At 31 December 2011		337,347	437,964	265,731	40,176	2,009	17,196	247,465	1,347,888
At 31 December 2010		338,993	438,190	295,820	50,606	2,634	21,626	143,937	1,291,806

Note:

(i) Included in additions during the year ended 31 December 2010 were the acquisitions of the coke production assets of HK$663,187,000 from the Non-controlling Shareholder which was satisfied in part by the issue of the promissory notes with fair values of HK$391,372,000 (note 30) and in part by a cash consideration of HK$271,815,000 payable within one year from the acquisition date. Further details of the acquisition were disclosed in the Company's circular dated 29 January 2010.

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

The carrying value of the land and buildings shown above comprises:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Properties situated on leasehold interest land:		
In Hong Kong under long term lease	**109,561**	111,052
Outside Hong Kong under medium-term lease	**227,786**	227,941
	337,347	338,993

At 31 December 2011, certain of the Group's land and buildings with a net carrying amount of approximately HK$109,561,000 (2010: HK$111,052,000) were pledged to secure general banking facilities granted to the Group (note 31).

15. PREPAID LAND LEASE PAYMENTS

	Group
	HK$'000
Carrying amount at 1 January, 2010	2,019
Recognised during the year	(26)
Disposal of a subsidiary *(note 37)*	(1,993)
Carrying amount at 31 December 2010, 1 January 2011 and 31 December 2011	—

The leasehold land was situated in Mainland China and was held under a medium term lease.

16. INVESTMENT PROPERTY

		Group
	Note	*HK$'000*
Carrying amount at 1 January, 2010		37,000
Transfer to property, plant and equipment	*14*	(37,000)
Carrying amount at 31 December 2010, 1 January 2011 and 31 December 2011		—

17. GOODWILL

	Group
	HK$'000
Cost:	
At 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011	2,269,645
Accumulated impairment:	
At 1 January 2010, 31 December 2010, 1 January 2011	(1,870,383)
Impairment during the year	(10,718)
At 31 December 2011	(1,881,101)
Net carrying amount:	
At 31 December 2011	388,544
At 31 December 2010	399,262

Goodwill arose from the acquisition of Pride Eagle Investment Limited and its subsidiaries (the "Pride Eagle Group") and Joy Wisdom International Limited and its subsidiaries (the "Joy Wisdom Group") that amounted to HK$1,085,213,000 and HK$1,184,432,000, respectively, in 2008. It represented the excess of the cost of acquisition over the Group's interest in the fair value of the respective identifiable assets and liabilities of the Pride Eagle Group and the Joy Wisdom Group.

18. OTHER INTANGIBLE ASSET

	Group
	HK$'000
Cost:	
At 1 January 2010, at 31 December 2010, 1 January 2011 and 31 December 2011	870,192
Accumulated amortisation:	
At 1 January 2010	(70,706)
Provided during the year	(43,512)
At 31 December 2010 and 1 January 2011	(114,218)
Provided during the year	(43,512)
Impairment during the year	(435,030)
At 31 December 2011	(592,760)
Net carrying amount:	
At 31 December 2011	277,432
At 31 December 2010	755,974

The other intangible asset relates to an export agency agreement entered into between a PRC coke supplier, which is the Non-controlling Shareholder, and Huscoke International Group Limited ("HIG"), a wholly-owned subsidiary of the Group incorporated in Hong Kong. The agreement entitled the Group to have an exclusive right to handle the export business of coke for the supplier. The agreement was effective for three years from the agreement date of 1 January 2007, and would continue to be effective if there is no change related to the contractual parties. The directors of the Company were of the opinion that the coke supplier would be able to obtain the export quota from the relevant PRC government authority for a period of not less than 20 years and has the ability to utilise the export quota, and that the Group would continue to maintain a relationship with the coke supplier such that HIG would continue to handle the export business of coke from the coke supplier for the 20-year duration. Taking into consideration market and competitive information, the Group estimated that the useful life of the intangible asset to be 20 years, being the period over which the Group is expected to generate net cash flows. The discounted cash flow method, with cash flow projections covering 20 years, being the estimated period of the export agency agreement with the sole supplier, and a discount rate of 13.4%, had been used to estimate the fair value of the intangible asset at date of acquisition. The intangible asset is amortised on the straight-line basis over the estimated useful life of 20 years.

18. OTHER INTANGIBLE ASSET *(Continued)*

On 1 July 2010, a modified export agency agreement was entered into between the coke supplier and HIG, in which the coke supplier agreed to continue to grant HIG the exclusive right to handle the export business of coke from the supplier, and where the export quantity falls short of the export quota granted by the relevant PRC government authority, the difference would be supplied to HIG or its nominee for domestic sales in Mainland China. The modified export agency agreement is effective for three years from 1 July 2010, and will continue to be effective if there is no change to the contractual parties. Taking into account the above, management considers it appropriate that the estimated useful life of the other intangible asset remains at 20 years.

19. IMPAIRMENT TEST ON GOODWILL AND OTHER INTANGIBLE ASSET

For the purpose of impairment testing, goodwill and other intangible asset have been allocated to two cash-generating units, being the coke trading segment and the coal-related ancillary segment. The carrying amounts of goodwill and other intangible asset as at 31 December 2011 and 2010 allocated to these units are as follows:

	Goodwill		**Other Intangible Asset**		**Total**	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Coke trading segment	**—**	10,718	**277,432**	755,974	**277,432**	766,692
Coal-related ancillary segment	**388,544**	388,544	**—**	—	**388,544**	388,544
	388,544	399,262	**277,432**	755,974	**665,976**	1,155,236

Coke trading cash-generating unit

The recoverable amount of the coke trading cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a 16-year duration (2010: 17-year duration) approved by senior management. The financial budgets and growth rates are estimated with reference to the development curve of the industry. The rate used to discount the forecasted cash flows is 15.4% (2010: 15.4%).

19. IMPAIRMENT TEST ON GOODWILL AND OTHER INTANGIBLE ASSET *(Continued)*

Coke trading cash-generating unit *(Continued)*

Key assumptions were used in the value in use calculation of the coke trading cash-generating unit for the year ended 31 December 2011. The following describes each key assumption on which management had based its cash flow projections to undertake impairment testing:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the coke trading cash-generating unit.

The carrying value of the coke trading segment using the value in use calculation is approximately HK$277,432,000 as at 31 December 2011. This resulted in impairment of goodwill and other intangible asset of approximately HK$10,718,000 (2010: Nil) and HK$435,030,000 (2010: Nil) respectively, which have been charged to the income statement for the year.

The decrease in the recoverable amount of the coke trading cash-generating unit was mainly due to the lack of world demand which continued to place pressure on the pricing of export coke and the narrowed gross profit margin on domestic sales due to slower demand and higher costs of raw materials.

Coal-related ancillary cash-generating unit

The recoverable amount of the coal-related ancillary cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a 5-year period on growth rate approved by senior management, and cash flows beyond the 5-year period were extrapolated using a growth rate of 5% which was the same as the long term average growth rate of the coal-related ancillary industry. The discount rate applied to the cash flow projections was 15% (2010:15%).

Key assumptions were used in the value in use calculation of the coal-related ancillary cash-generating units as at 31 December 2011. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is either the average gross margins achieved in the prior years or the contractual gross margin, increased for expected efficiency improvements, and expected market development.

19. IMPAIRMENT TEST ON GOODWILL AND OTHER INTANGIBLE ASSET *(Continued)*

Coal-related ancillary cash-generating unit *(Continued)*

Discount rates — The discount rates used are before tax and reflect specific risks relating to the coal-related ancillary cash-generating unit.

Raw materials price inflation — The basis used to determine the value assigned to raw material price inflation is the forecast inflation indices during the budget year from where the raw materials are sourced.

20. INVESTMENTS IN SUBSIDIARIES

	Company	
	2011	2010
	HK$'000	*HK$'000*
Unlisted shares, at cost	**—**	55,882
Amounts due from subsidiaries	**3,748,663**	3,751,611
Amounts due to subsidiaries	**(116,542)**	(84,308)
Impairment[#]	**(2,157,728)**	(1,602,842)
	1,474,393	2,120,343

[#] The impairment as at 31 December 2011 includes impairment provision of HK$2,157,728,000 (2010: HK$1,557,207,000) for amounts due from subsidiaries. The provision was determined on the basis of the amounts recoverable from the subsidiaries with reference to the estimated fair value of the underlying assets held by subsidiaries. The impairment as at 31 December 2010 also included impairment provision of HK$45,635,000 for the investment cost of a subsidiary, Frankie Dominion (BVI) Company Limited. This subsidiary was dissolved during the year.

Movements in the provision for impairment of amounts due from subsidiaries are as follows:

	2011	2010
	HK$'000	*HK$'000*
At 1 January	**1,557,207**	1,762,636
Impairment losses recognised	**600,521**	—
Reversal of provision for impairment	**—**	(205,429)
At 31 December	**2,157,728**	1,557,207

The amounts due from/(to) subsidiaries included in investments in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment.

The carrying amounts of the amounts due from/(to) subsidiaries approximate their fair values.

20. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries as at 31 December 2011 are as follows:

Name of company	Place of incorporation/ registration and place of operations	Nominal value of issued share/ registered capital and class of share held	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Rich Key Enterprises Limited*	British Virgin Islands/ Hong Kong	US$1 Ordinary	100%	—	Investment holding
Pride Eagle Investments Limited*	British Virgin Islands/ Hong Kong	US$1 Ordinary	—	100%	Investment holding
Huscoke International Group Limited	Hong Kong/Hong Kong	HK$10,000 Ordinary	—	100%	Trading of coke
Ocean Signal Limited	Hong Kong/Hong Kong	HK$10,000 Ordinary	—	100%	Property holding
Joy Wisdom International Limited*	British Virgin Islands/ Hong Kong	US$1 Ordinary	—	100%	Investment holding
Huscoke International Investment Limited	Hong Kong/Hong Kong	HK$1 Ordinary	—	100%	Investment holding
金岩和嘉 *(note i)**	People's Republic of China/ Mainland China	HK$715,000,000#	—	90%	Coal-related ancillary business; coke production and trading of coke

* The statutory financial statements of the subsidiaries noted above are not audited by Ernst & Young Hong Kong or another member firm of Ernst & Young global network.

\# The amount stated represent the paid-up capital.

Note:

(i) 金岩和嘉 is a Sino-foreign equity joint venture company established in the People's Republic of China.

21. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2011	2010
	HK$'000	*HK$'000*
Club debentures, at fair value	**2,221**	2,568
Unlisted equity shares, at cost	**2,439**	—
	4,660	2,568

During the year, gross loss on available-for-sale investments recognised in other comprehensive income amounted to HK$347,000 (2010:Nil).

At 31 December 2011, an unlisted equity investment with a carrying amount of HK$2,439,000 (2010: Nil) was stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that fair value cannot be measured reliably. The Group does not intend to dispose of it the near future.

22. INVENTORIES

	Group	
	2011	2010
	HK$'000	*HK$'000*
Raw materials	**121,435**	145,758
Work in progress	**27,475**	12,246
Finished goods	**30,605**	13,707
	179,515	171,711

23. TRADE AND BILLS RECEIVABLES

		Group	
		2011	2010
	Note	***HK$'000***	*HK$'000*
Trade receivables		**425,296**	574,092
Bills receivables		**—**	57,059
Impairment		**(1,352)**	—
		423,944	631,151
Less: Trade receivables due from the Non-controlling Shareholder	*25*	**(311,621)**	(351,132)
		112,323	280,019

The Group's trading terms with its customers are mainly on credit. The credit period is generally 120 days. Each customer has a maximum credit limit. Advances are required for certain customers. The directors consider that these arrangements enable the Group to limit its credit risk exposure. As at 31 December 2011, approximately 74% (2010: 56%) and 6% (2010: 33%) of the Group's trade receivables were due from two customers, and there is a significant concentration of credit risk. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

Trade receivables due from the Non-controlling Shareholder are on similar credit terms to those offered to the major customers of the Group.

The carrying amounts of trade and bills receivables approximate their fair values.

23. TRADE AND BILLS RECEIVABLES *(Continued)*

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Within 3 months	**387,557**	489,178
3 to 4 months	**7,106**	106,620
Over 4 months	**29,281**	35,353
	423,944	631,151

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
At 1 January	**—**	—
Impairment losses recognised *(note 6)*	**1,335**	—
Exchange realignment	**17**	—
At 31 December	**1,352**	—

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$1,352,000 (2010: Nil) with a carrying amount before provision of HK$3,520,000 (2010: Nil).

The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered.

23. TRADE AND BILLS RECEIVABLES *(Continued)*

An aged analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired as at the end of the reporting period, based on the payment due date, is as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Neither past due nor impaired	**394,663**	595,798
Less than 6 months past due	**18,981**	19,126
More than 6 months past due	**10,300**	16,227
	423,944	631,151

The Group's trade and bills receivables at the end of the reporting period that were neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are considered fully recoverable.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2011	2010	**2011**	2010
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments to the Non-controlling Shareholder	*(i)*	**158,921**	249,957	**—**	—
Prepayments, deposits and other receivables to others	*(ii)*	**172,757**	432,981	**—**	1,584
		331,678	682,938	**—**	1,584

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Notes:

(i) Balance represented prepayments for purchase of coke for coke trading business (note 18). The balance is unsecured, non-interest-bearing and is to be settled with future purchases.

(ii) Balance included prepayments to suppliers of raw materials for the coal-related ancillary and the coke production businesses which are unsecured, non-interest-bearing and are to be settled with future purchases.

Other receivables included in the above balance were neither past due nor impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The carrying amounts of deposits and other receivables approximate their fair values.

25. AMOUNT DUE FROM/(TO) THE NON-CONTROLLING SHAREHOLDER

		Group	
		2011	2010
	Notes	***HK$'000***	*HK$'000*
Current			
Trade receivables due from the Non-controlling Shareholder *(note 23)*	*(i)*	**311,621**	351,132
Prepayment to the Non-controlling Shareholder *(note 24)*	*(ii)*	**158,921**	249,957
Amount due to the Non-controlling Shareholder	*(iii)*	**—**	(13,501)
Promissory notes *(note 30)*	*(iv)*	**—**	(214,679)
Non-current			
Amount due to the Non-controlling Shareholder	*(iii)*	**(7,201)**	—
Promissory notes *(note 30)*	*(iv)*	**(216,836)**	(198,466)

25. AMOUNT DUE FROM/(TO) THE NON-CONTROLLING SHAREHOLDER *(Continued)*

Note:

(i) The balance is trade in nature and is unsecured, non-interest-bearing and repayable within the credit term of 120 days (2010: 120 days), which is similar to those granted to major trading customers of the Group. As at 31 December 2011 and 2010, the balances were aged within the credit period.

(ii) The balance is trade in nature, and is unsecured, non-interest-bearing and is to be settled with future purchases.

(iii) The balance 31 December 2010 represented the remaining cash consideration payable in relation to the acquisition of the coke production assets, further details of which are disclosed in note 14 to the financial statements. The balance 31 December 2011 represented an advance from the Non-controlling Shareholder. The balance is unsecured, interest-free and not repayable within twelve months from the end of the reporting period.

(iv) The promissory notes were issued by the Group to the Non-controlling Shareholder in connection to the acquisition of the coke production assets in 2010, further details of the terms are disclosed in note 30 to the financial statements.

The carrying amounts of the above balances approximate their fair values.

26. EQUITY INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2011	2010
	HK$'000	*HK$'000*
Mutual funds	—	3,351

At 31 December 2010, the portfolio of mutual funds held by the Group included equity securities listed in Hong Kong.

27. CASH AND CASH EQUIVALENTS, AND PLEDGED DEPOSITS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**11,380**	16,977	**244**	92
Time deposits	**121,951**	23,529	**—**	—
	133,331	40,506	**244**	92
Less: Pledged time deposits for bills payables	**(121,951)**	(23,529)	**—**	—
Cash and cash equivalents	**11,380**	16,977	**244**	92

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to HK$122,408,000 (2010: HK$12,530,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

28. TRADE AND BILLS PAYABLES

	Group	
	2011	2010
	HK$'000	*HK$'000*
Trade payables	**357,512**	521,366
Bills payables	**121,951**	23,530
	479,463	544,896

An aged analysis of the trade and bills payables as at the end of the reporting periods, based on the invoice date, is as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Within 3 months	**283,009**	298,751
3 to 4 months	**17,515**	71,031
Over 4 months	**178,939**	175,114
	479,463	544,896

The trade payables are non-interest-bearing and are normally settled on 120-day terms.

The carrying amounts of trade and bills payables approximate their fair values.

29. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other payables and accrued charges	**136,973**	142,849	**3,094**	3,229
Advance received from customers	**75,222**	73,715	**—**	—
	212,195	216,564	**3,094**	3,229

Other payables are non-interest-bearing and have an average credit term of 120 days.

The carrying amounts of other payables and accruals approximate their fair values.

30. PROMISSORY NOTES

	Group	
	2011	2010
	HK$'000	*HK$'000*
Carrying value	**216,836**	413,145
Current portion	**—**	(214,679)
Non-current portion	**216,836**	198,466

On 10 June 2010, the Company issued two unsecured, interest-free promissory notes with the principal amount of RMB191,740,000 (approximately HK$219,000,000) each to the Non-controlling Shareholder as part of the consideration for the acquisition of the coke production assets (note 14). The effective interest rate of the promissory notes is 5.4% per annum. One of the promissory notes matured on 9 December 2011 and was fully repaid. The remaining promissory note matures on 9 June 2013. The carrying values of the promissory notes approximate their fair values.

31. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	31 December 2011			31 December 2010		
	Effective contractual interest rate	**Maturity**	***HK$'000***	Effective contractual interest rate	Maturity	*HK$'000*
Export loan	**—**	**—**	**—**	1 month LIBOR + 2.5%	2011	193,750
Mortgage loan	**1 month HIBOR + 1.25%**	**On demand**	**32,400**	1 month HIBOR + 1.25%	On demand	37,800
Other bank loan	**6.71%**	**On demand**	**121,951**	—	—	—
Other borrowing	**10%**	**On demand**	**38,845**	—	—	—
			193,196			231,550
Secured			**32,400**			231,550
Unsecured			**160,796**			—
			193,196			231,550
Carrying amounts repayable on demand or within one year			**193,196**			231,550

Notes:

(a) Except for the other bank loan of HK$121,951,000 (2010: Nil) which is denominated in Renminbi, and an export loan at 31 December 2010 of HK$193,750,000 which was denominated in United States dollars, all bank, and other borrowings are denominated in Hong Kong dollars.

(b) The export loan at 31 December 2010 was secured by a charge over certain securities, with a carrying value at 31 December 2010 of HK$3,351,000 (note 26). The export loan represented loan obtained by the Group to make advance payments to the Non-controlling Shareholder for purchases of coke for export trade.

31. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

Notes: (Continued)

(c) The mortgage loan is secured by a mortgage over the Group's land and buildings situated in Hong Kong, which has a carrying value at 31 December 2011 of HK$109,561,000 (2010: HK$111,052,000) (note 14). As further explained in notes 2.1 and 44 to the financial statements, due to the adoption of HK Interpretation 5, the Group's mortgage loan in the amount of HK$27,000,000 (2010: HK$32,400,000) containing a repayment on demand clause has been reclassified as a current liability. For the purpose of the above analysis, the bank loan is included within current interest-bearing bank and other borrowings and analysed into bank loans repayable within one year or on demand.

(d) Based on the maturity terms of the bank loans, the amounts repayable in respect of the bank loans are HK$127,351,000 (2010: HK$199,150,000) payable within one year; HK$5,400,000 (2010: HK$5,400,000) payable in the second year; HK$16,200,000 (2010: HK$16,200,000) payable in the third to fifth years, inclusive and HK$5,400,000 (2010: HK$10,800,000) payable beyond five years. The other borrowing has no fixed term of repayment and is classified as "on demand".

32. CONVERTIBLE BONDS

2008 Convertible Bonds

The Company issued two tranches of zero coupon convertible bonds, each with a principal amount of HK$1,100,000,000, to Mr. Wu Jixian on 16 May 2008 (the "Tranche 1 Bonds") and 31 October 2008 (the "Tranche 2 Bonds") (collectively, the "2008 Convertible Bonds"), with maturity date on the fifth anniversary of the respective dates of issue, as the partial settlement for the acquisitions of the Pride Eagle Group and the Joy Wisdom Group, respectively.

The 2008 Convertible Bonds should accrue no interest and are freely transferable, provided that where they are intended to be transferred to a connected person (as defined in the Listing Rules) of the Group (other than the associates of the bondholder), such transfer shall comply with the requirements under the Listing Rules and/or requirements imposed by the Stock Exchange, if any.

32. CONVERTIBLE BONDS *(Continued)*

2008 Convertible Bonds *(Continued)*

The bondholder may, at any time during the respective bond issue periods, convert in whole or in part the 2008 Convertible Bonds into ordinary shares of the Company at the conversion price of HK$0.4 per share subject to adjustments. Any portion of the bonds which remain outstanding on the respective maturity dates shall be mandatorily converted into new shares of the Company under the same terms mentioned above. The total number of ordinary shares to be converted from the 2008 Convertible Bonds is 5,500,000,000 shares of HK$0.1 each at a conversion price of HK$0.4 per share.

The 2008 Convertible Bonds are considered equity instruments and are included in equity under convertible bonds reserve.

The fair value of the 2008 Convertible Bonds was determined by reference to the quoted market price of the ordinary shares of the Company, being HK$0.66 per share and HK$0.57 per share, at the respective issuance dates of the Tranche 1 Bonds and the Tranche 2 Bonds.

During the year ended 31 December 2011, the 2008 Convertible Bonds with an aggregate carrying amount of HK$102,600,000 (2010: HK$562,800,000) and principal amount of HK$72,000,000 (2010: HK$391,000,000) were converted into 180,000,000 (2010: 977,500,000) shares of the Company. Accordingly, HK$18,000,000 (2010: HK$97,750,000) and HK$84,600,000 (2010: HK$465,050,000) were transferred from convertible bonds reserve to share capital and the contributed surplus accounts, respectively.

If the remaining 2008 Convertible Bonds with an aggregate carrying amount of HK$829,350,000 as at 31 December 2011 (2010: HK$931,950,000) were fully converted, it would result in the issue of 1,455,000,000 (2010:1,635,000,000) additional ordinary shares of the Company, and HK$145,500,000 (2010: HK$163,500,000) would be transferred to the share capital account and the remaining HK$683,850,000 (2010: HK$768,450,000) would be transferred to the contributed surplus account from convertible bonds reserves.

32. CONVERTIBLE BONDS *(Continued)*

2010 Convertible Bonds

On 24 May 2010, the Company issued HK$192,500,000, 8 per cent convertible bonds (the "2010 Convertible Bonds") to two independent third parties, Passion Giant Investment Limited ("PGI") in the amount of HK$154,000,000 and CSOP Asset Management Limited ("CSOP"), in the amount of HK$38,500,000. The 2010 Convertible Bonds mature on 23 May 2013. Interest is paid semi-annually in arrears in May and November of each year.

The bondholders may, at any time before the maturity date, convert in whole or in part the 2010 Convertible Bonds into ordinary shares of the Company at the conversion price of HK$0.55 per share, subject to adjustments. Upon full conversion of the 2010 Convertible Bonds, it would, under the present capital structure of the Company, result in the issue of 350,000,000 new shares of the Company.

Unless previously redeemed or converted or purchased and cancelled as provided in the respective subscription agreements, the 2010 Convertible Bonds will be redeemed on the maturity date at the principal amount plus accrued and unpaid interest, together with an additional amount as premium such that interest plus the said additional amount will be equivalent to a rate of return of 18% per annum throughout the bond issue period.

The bondholders are granted a partial redemption option in which the holders are entitled to request the Company to redeem one-third of the 2010 Convertible Bonds at a redemption price of 92% of the face value of the bonds during the bond issue period. A default redemption option is also granted in which the bondholders are entitled to request the Company to redeem the 2010 Convertible Bonds in full at a redemption price at 25% over the face value of the bonds in the events of default. These options constitute derivative financial liabilities of which the fair values were immaterial at the issue date.

The 2010 Convertible Bonds are secured by the following:

(i) charge over all shares of Rich Key Enterprises Limited, Joy Wisdom International Limited and Huscoke International Investment Limited, wholly-owned subsidiaries of the Group; and

(ii) a pledge by Mr. Wu Jixian, a director and substantial shareholder of the Company, of the Tranche 2 Bonds having an aggregate outstanding principal amount of HK$462,000,000 (2010: HK$577,500,000) and carrying amount of HK$658,350,000 (2010: HK$822,938,000) as at 31 December 2011.

Further details of the 2010 Convertible Bonds are set out in the Company's announcement dated 6 May 2010.

32. CONVERTIBLE BONDS *(Continued)*

2010 Convertible Bonds *(Continued)*

The 2010 Convertible Bonds have been split into the liability and equity components on the issue date, as follows:

	Note	Group and Company HK$'000
Nominal value		192,500
Equity component before direct transaction costs		(18,887)
Direct transaction costs attributable to the liability component		(10,101)
Liability component at the issue date		163,512
Interest expense for the year	7	23,238
Interest paid for the year		(7,700)
Liability component at 31 December 2010		179,050
Current portion at 31 December 2010		(59,683)
Non-current portion at 31 December 2010		119,367

On 25 May 2011, the 30 trading day average closing price of the Company's share was HK$0.384, which was less that 70% of the original conversion price of the 2010 Convertible Bonds of HK$0.55. This constituted an event of default. This allows the bondholders to request the Company to redeem the 2010 Convertible Bonds in full at a redemption price of 25% over the face value of the bonds.

On 29 June 2011, PGI gave confirmation that it would refrain from exercising the early redemption right and sanctioned the modification of the 2010 Convertible Bonds it held (the "PGI CB"), pursuant to which, and among other matters, the conversion price was adjusted from HK$0.55 to HK$0.30 per share. The other principle terms including the coupon rate, the default redemption premium and the redemption premium, the partial redemption option and the maturity date remained the same. Such modification of terms constituted a material modification and was accounted for as an extinguishment of the original PGI CB and an issue of a new PGI CB. The Company reassessed the fair value of the new PGI CB in light of the modification of terms set out above, whereby the fair value of the liability component was determined as HK$169,283,000, and fair values of the derivative financial liabilities relating to the partial redemption option and the default redemption option, together with the equity component, were immaterial. The net effect of the above is a recognition of loss of HK$17,272,000 charged to the income statement and a transfer of HK$14,011,000 from the convertible bond reserves to retained earnings.

32. CONVERTIBLE BONDS *(Continued)*

2010 Convertible Bonds *(Continued)*

On 7 September 2011, the Company and CSOP came to an agreement to change the terms of the 2010 Convertible Bonds held by CSOP (the "CSOP CB") which allowed the Company to early redeem the CSOP CB at HK$45,872,000. The difference between the redemption value of the CSOP CB of HK$44,849,000 and its carrying value at the early redemption date of 7 September 2011 was a loss of HK$3,353,000, and had been charged to the income statement for the year. The corresponding equity component in the amount of HK$2,753,000 was transferred from the convertible bonds reserve to retained earnings.

On 28 September 2011, the 30 trading day average closing price of the Company's shares was HK$0.209, which was less than 70% of the adjusted conversion price of the PGI CB of HK$0.30. This constituted an event of default. After negotiation, the Company and PGI entered into an amendment agreement and supplemental deed (the "Second PGI Amendment Agreement and Second PGI Supplemental Deed") on 30 December 2011, pursuant to which, PGI gave confirmation that it would refrain from exercising the early redemption right and sanctioned the modifications of certain terms of the PGI CB, including i) the conversion price of HK$0.30 per share was to be adjusted to HK$0.22 per share, ii) the deletion of the event that "if, at any time, the average 30 consecutive trading days' closing price per share is less than 70% of the conversion price" from one of the events of default under the original Convertible Bond Agreement and iii) the addition of a new clause, "where the average closing price per share ("Relevant Average Price") for the period of 30 consecutive trading days ending on (and inclusive of) 31 December 2012 is less than the then prevailing conversion price (i.e. HK$0.22 per share or such other amount as may be adjusted in accordance with the other conditions set out therein), with effect from 31 December 2012, the conversion price shall be adjusted to such amount as is equal to the Relevant Average Price. For avoidance of doubt, where the Relevant Average Price is equal to or more than the then prevailing conversion price, the above adjustment shall not be made".

The Second PGI Amendment Agreement and the Second PGI Supplemental Deed were conditional as at 31 December 2011, subject to the fulfillment for certain conditions including the approval of shareholders at a special general meeting. Accordingly, the carrying value of the PGI CB of HK$180,556,000 was classified as current liability at 31 December 2011. The approval of shareholders was obtained, and fulfillment of other conditions was achieved, on 28 February 2012.

The derivative financial instrument of HK$36,751,000 at 31 December 2011 (2010: nil) represented the fair value of the default redemption option on the PGI CB at the end of the reporting period.

33. DEFERRED TAX

Movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group

	2011				
	Accelerated tax depreciation	**Tax losses**	**Revaluation of investment properties**	**Fair value adjustments arising from acquisition of subsidiaries**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
At 1 January 2011	**7,759**	**—**	**1,600**	**124,737**	**134,096**
Deferred tax credited to profit or loss during the year *(note 10)*	**(171)**	**—**	**—**	**(80,727)**	**(80,898)**
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2011	**7,588**	**—**	**1,600**	**44,010**	**53,198**

Group

	2010				
	Accelerated tax depreciation	Tax losses	Revaluation of investment properties	Fair value adjustments arising from acquisition of subsidiaries	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2010	6,062	(134)	1,600	131,916	139,444
Deferred tax charged/(credited) to profit or loss during the year *(note 10)*	1,697	134	—	(7,179)	(5,348)
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2010	7,759	—	1,600	124,737	134,096

33. DEFERRED TAX *(Continued)*

The Group has tax losses arising in Hong Kong of HK$45,050,000 (2010: HK$30,933,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

As at 31 December 2011, no deferred tax assets have been recognised (2010: Nil) in respect of the losses of HK$45,050,000 (2010: HK$30,933,000) as they have arisen in subsidiaries that have been loss-making for some time and it is uncertain that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007.

A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2011, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subjected to withholding taxes of the Group's subsidiary established in Mainland China. In the opinion of the directors, it is not probable that this subsidiary will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in a subsidiary in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$506,144,000 at 31 December 2011 (2010: HK$465,994,000).

34. SHARE CAPITAL

Shares

	2011	2010
	HK$'000	*HK$'000*
Authorised:		
20,000,000,000 (2010: 20,000,000,000)		
ordinary shares of HK$0.1 each	**2,000,000**	2,000,000
Issued and fully paid:		
4,522,926,292 (2010: 4,342,926,292)		
ordinary shares of HK$0.1 each	**452,293**	434,293

34. SHARE CAPITAL *(Continued)*

A summary of movements during the year in the Company's issued share capital is as follows:

	Note	**Number of share in issue**	**Issued capital** *HK$'000*
At 1 January 2010		3,365,426,292	336,543
Issue of shares upon conversion of the 2008 Convertible Bonds	*(a)*	977,500,000	97,750
At 31 December 2010 and 1 January 2011		4,342,926,292	434,293
Issue of shares upon conversion of the 2008 Convertible Bonds	*(a)*	180,000,000	18,000
At 31 December 2011		4,522,926,292	452,293

Note:

(a) During the year ended 31 December 2011, 180,000,000 (2010: 977,500,000) ordinary shares of the Company of HK$0.1 each were issued upon partial conversion of the 2008 Convertible Bonds with an aggregate principal amount of HK$72,000,000 (2010: HK$391,000,000) at a conversion price of HK$0.4 each (note 32).

Share option

Details of the Company's share option scheme and the share options issued under the scheme are included in note 35 to the financial statements.

35. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors and employees of the Group. The Scheme became effective on 31 May 2002 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the total number of shares in issue as at the date of approval of the Scheme. The maximum number of shares issuable under share options granted to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting of the Company

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting of the Company.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. Options may be exercised at any time from the date of grant of the share option to the expiration of the Scheme.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares on the Stock Exchange on the date of grant of the share options; (ii) the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of grant, and (iii) the nominal value of the share of the Company.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings of the Company.

35. SHARE OPTION SCHEME *(Continued)*

The following share options were outstanding under the Scheme during the year:

	2011		2010	
	Weighted average exercise price ***HK$ per share***	**Number of options** ***'000***	Weighted average exercise price *HK$ per share*	2010 Number of options *'000*
At 1 January	**0.623**	**17,500**	0.5	5,500
Granted during the year	**0.4**	**20,000**	0.68	12,000
Forfeited during the year	**—**	**—**	—	—
Exercised during the year	**—**	**—**	—	—
Lapsed during the year#	**0.4**	**(1,800)**	—	—
At 31 December	**0.510**	**35,700**	0.623	17,500

The exercise prices and exercise periods of the share options outstanding as at the end of the respective reporting periods are as follows:

2011

Number of options ***'000***	**Exercise price*** ***HK$ per share***	**Exercise period**
5,500	0.5	27-02-09 to 26-02-14
12,000	0.68	11-01-10 to 10-01-15
18,200	0.4	27-01-11 to 26-01-16
35,700		

35. SHARE OPTION SCHEME *(Continued)*

2010

Number of options	Exercise price*	Exercise period
'000	*HK$ per share*	
5,500	0.5	27-02-09 to 26-02-14
12,000	0.68	11-01-10 to 10-01-15
17,500		

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

\# During the year ended 31 December 2011, 1,800,000 (2010: Nil) share options lapsed upon cessation of employment of a participant in accordance with terms of the Scheme.

The fair value of the share options granted during the year was HK$2,560,000, HK$0.128 each (2010: HK$2,802,000, HK$0.234 each) which the Group recognised a share option expense of HK$2,560,000 (2010: HK$2,802,000) during the year ended 31 December 2011.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Date of grant	**27 January 2011**	11 January 2010
Dividend yield (%)	**—**	—
Expected volatility (%)	**67.27%**	55.12%
Historical volatility (%)	**67.27%**	55.12%
Risk-free interest rate (%)	**1.681%**	0.7675%
Expected life of options (year)	**5 years**	2.5 years
Weighted average share price (HK$ per share)	**HK$0.4**	HK$0.68

35. SHARE OPTION SCHEME *(Continued)*

The expected life of the options is based on the historical data over the past two years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which also may not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 35,700,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 35,700,000 additional ordinary shares of the Company and additional share capital of HK$3,570,000 and share premium of HK$14,620,000 (before issue expenses).

Subsequent to the end of the reporting period, on 5 January 2012, a total of 10,000,000 share options were granted to certain of the directors, chief executive and employees of the Company in respect of their services to the Group in the forthcoming year. These share options vest on 6 January 2012, have an exercise price of HK$0.16 per share and an exercise period starting from 6 January 2012 and ending on 5 January 2017. The price of the Company's shares at the date of grant was HK$0.16 per share.

At the date of approval of these financial statements, the Company had 45,700,000 share options outstanding under the Scheme, which represented approximately 1.01% of the Company's shares in issue as at that date.

36. RESERVES

(a) Group

The amounts of 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.

36. RESERVES *(Continued)*

(b) Company

	Notes	Share premium HK$'000	Contributed surplus HK$'000 (note i)	Special reserve HK$'000 (notes ii)	Capital redemption reserve HK$'000	Share options reserve HK$'000	Convertible bonds reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2010		144,997	1,599,000	17,275	85	760	1,494,750	(1,799,101)	1,457,766
Profit for the year and total comprehensive income for the year	11	—	—	—	—	—	—	124,840	124,840
Issue of the 2010 Convertible Bonds	32	—	—	—	—	—	17,789	—	17,789
Issue of shares	34(a)	—	465,050	—	—	—	(562,800)	—	(97,750)
Equity-settled share option arrangement	35	—	—	—	—	2,802	—	—	2,802
Transfer	(iii)	—	(1,729,000)	—	—	—	—	1,729,000	—
Proposed final 2010 dividend	12	—	—	—	—	—	—	(21,715)	(21,715)
At 31 December 2010 and 1 January 2011		144,997	335,050	17,275	85	3,562	949,739	33,024	1,483,732
Loss for the year and total comprehensive loss for the year	11	—	—	—	—	—	—	(664,424)	(664,424)
Final 2010 dividend paid	12	—	—	—	—	—	—	(900)	(900)
Issue of shares	34(a)	—	84,600	—	—	—	(102,600)	—	(18,000)
Equity-settled share option arrangement	35	—	—	—	—	2,560	—	—	2,560
Lapsed share options	35	—	—	—	—	(230)	—	230	—
Arising from modification of convertible bonds		—	—	—	—	—	(14,011)	14,011	—
Arising from early redemption of convertible bonds		—	—	—	—	—	(3,778)	2,753	(1,025)
At 31 December 2011		144,997	419,650	17,275	85	5,892	829,350	(615,306)	801,943

Notes:

(i) The contributed surplus represents the excess of value of shares converted upon conversion of the 2008 Convertible Bonds over the nominal amount of the ordinary shares issued pursuant to Section 40(1) of the Bermuda Companies Act 1981.

(ii) The Company's special reserve represents the excess of the combined net assets of the subsidiaries acquired over the nominal amount of the Company's shares issued for the acquisition.

(iii) Movement represented a capital reorganisation effected on 5 November 2010, pursuant to which the fund in the contributed surplus account to the extent of HK$1,729,000,000 was utilised to eliminate the accumulated losses of the Company in the same amount, further details of which are disclosed in the Company's announcement dated 27 September 2010.

37. DISPOSAL OF A SUBSIDIARY

The Group disposed of Dominion Trading Limited which engaged in property holding during the year ended 31 December 2010.

The net assets of Dominion Trading Limited at the date of the disposal were as follows:

	Notes	2010 HK$'000
Net assets disposed of:		
Property, plant and equipment	14	12,969
Prepaid land lease payments	15	1,993
Trade and bills payables, and accrued charges		(208)
Shareholder's loan		(14,918)
		(164)
Assignment of shareholder's loan		14,918
Gain on disposal of a subsidiary		246
		15,000
Satisfied by:		
Cash		15,000

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2010 HK$'000
Cash consideration and net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	15,000

38. PLEDGE OF ASSETS

Details of the Group's bank and other borrowings, which are secured by certain assets of the Group, are included in notes 14, 26, 31 and 32 to the financial statements.

39. CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Acquisition of plant and equipment:		
Authorised, but not contracted for	**17,290**	83,299
Contracted, but not provided for	**31,771**	—

40. OPERATING LEASE COMMITMENTS

As lessee

The Group leases certain of its leasehold interests in land and properties under operating lease arrangements. Leases for properties are negotiated for term ranging from two to ten years (2010: ten years).

At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Within one year	**1,812**	1,176
In the second to fifth years, inclusive	**4,878**	4,706
After five years	**4,166**	5,196
	10,856	11,078

41. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, during the year, the Group had the following related party transactions:

	Notes	**2011** **HK$'000**	2010 HK$'000
With the Non-controlling Shareholder:			
Sales of refined coal and electricity	*(i)*	**416,161**	1,009,534
Sales of mid coal	*(i)*	**7,311**	26,118
Sales of coal by-products	*(i)*	**44,326**	29,182
Transportation income	*(i)*	**7,961**	5,378
Purchases of coke	*(i)*	**134,997**	91,367
Rental expenses	*(ii)*	**1,205**	817
Reimbursement of finance costs	*(i)*	**3,555**	7,750
Reimbursement of amendment fee and legal fee for export loan	*(i)*	**2,300**	—
Acquisition of coke production assets	*(iii)*	**—**	663,187
Acquisition of accessories and work in progress	*(iv)*	**—**	21,478
With an associate of the Non-controlling Shareholder:			
Sales of electricity	*(i)*	**6,733**	3,691
Purchases of raw coal	*(i)*	**112,861**	196,765

Notes:

(i) The transactions were conducted on basis mutually agreed by the respective parties, with reference to prevailing market rates or prices transacted with the Group's third parties customers/suppliers or prevailing market rates.

(ii) The rental expense was charged based on the terms mutually agreed between the contractual parties.

(iii) The acquisition price was determined with reference to valuation performed by independent professional valuers.

(iv) The price was determined with reference to the carrying amount.

41. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balance with Non-controlling Shareholder at the end of the reporting period are set out in note 25. A summary of the Group's balances with other related parties are set out below.

(i) Included in prepayments, deposits and other receivables (note 24) are prepayments and deposits of HK$70,624,000 (2010: HK$139,879,000) to an associate of the Non-controlling Shareholder for the purchase of raw materials. The balances are unsecured, non-interest bearing and to be settled with future purchases.

(ii) Included in the trade and bills payables (note 28) are trade payables of HK$24,078,000 (2010: HK$108,542,000) due to an associate of the Non-controlling Shareholder which are unsecured, interest free and repayable within 120 days, which are on similar credit terms to those offered by the related party to their major customers.

(c) Commitments with related party

On 30 May 2010, a 金岩和嘉 entered into a 10-year operating lease arrangement ending 29 May 2020 with the Non-controlling Shareholder, to lease the land for the Group's production plants. The total rental expenses paid to the Non-controlling Shareholder for the year are included in note 41(a)(ii) to the financial statements. The Group expects the annual rental expense to the Non-controlling Shareholder to be approximately HK$1,205,000.

(d) Compensation of key management personnel of the Group:

The remuneration of directors and other members of key management during the year were as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**5,750**	8,028
Equity-settled share option expense	**1,920**	2,149
Pension scheme contribution	**21**	24
	7,691	10,201

Further details of directors' emoluments are included in note 8 to the financial statements.

42. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting periods are as follows:

2011

Financial assets	Group			
	Financial assets at fair value through profit or loss-held for trading HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments	—	—	4,660	4,660
Trade and bills receivables	—	112,323	—	112,323
Financial assets included in prepayments, deposits and other receivables	—	8,307	—	8,307
Amount due from the Non-controlling Shareholder	—	311,621	—	311,621
Pledged deposits	—	121,951	—	121,951
Cash and cash equivalents	—	11,380	—	11,380
	—	565,582	4,660	570,242

Financial liabilities	Financial liabilities at fair value through profit or loss-held for trading HK$'000	Financial liabilities at amortised costs HK$'000	Total HK$'000
Trade and bills payables	—	479,463	479,463
Financial liabilities included in other payables and accruals	—	111,181	111,181
Interest-bearing bank borrowings	—	193,196	193,196
Convertible bonds	—	180,556	180,556
Derivative financial instrument	36,751	—	36,751
Amount due to the Non-controlling Shareholder	—	7,201	7,201
Promissory notes	—	216,836	216,836
	36,751	1,188,433	1,225,184

42. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting periods are as follows: *(continued)*

2010

Financial assets	Group			
	Financial assets at fair value through profit or loss-held for trading *HK$'000*	Loans and receivables *HK$'000*	Available-for-sale financial assets *HK$'000*	Total *HK$'000*
Available-for-sale investments	—	—	2,568	2,568
Trade and bills receivables	—	280,019	—	280,019
Financial assets included in prepayments, deposits and other receivables	—	8,294	—	8,294
Amount due from the Non-controlling Shareholder	—	351,132	—	351,132
Equity investment at fair value through profit or loss	3,351	—	—	3,351
Pledged deposits	—	23,529	—	23,529
Cash and cash equivalents	—	16,977	—	16,977
	3,351	679,951	2,568	685,870

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and bills payables	544,896
Financial liabilities included in other payables and accruals	111,421
Amount due to the Non-controlling Shareholder	13,501
Promissory notes	413,145
Interest-bearing bank borrowings	231,550
Convertible bonds	179,050
	1,493,563

42. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting periods are as follows: *(continued)*

Financial assets	Company	
	2011	2010
	Loan and receivables	Loan and receivables
	HK$'000	*HK$'000*
Amounts due from subsidiaries *(note 20)*	**1,590,935**	2,194,404
Cash and cash equivalents	**244**	92
	1,591,179	2,194,496

2011

Financial liabilities

	Financial liabilities at fair value through profit or loss-held for trading	Financial liabilities at amortised costs	Total
	HK$'000	***HK$'000***	***HK$'000***
Financial liabilities included in other payables and accruals	**—**	**3,094**	**3,094**
Amounts due to subsidiaries *(note 20)*	**—**	**116,542**	**116,542**
Convertible bonds	**—**	**180,556**	**180,556**
Derivative financial instrument	**36,751**	**—**	**36,751**
	36,751	**300,192**	**336,943**

42. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

2010

Financial liabilities

	Financial liabilities at amortised costs *HK$'000*
Financial liabilities included in other payables and accruals	3,229
Amounts due to subsidiaries	84,308
Convertible bonds	179,050
	266,587

43. FAIR VALUE HIERARCHY

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

43. FAIR VALUE HIERARCHY *(Continued)*

Assets measured at fair value:

Group

As at 31 December 2011

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Available-for-sale investments	**2,221**	**—**	**—**	**2,221**
Derivative financial instrument	**—**	**36,751**	**—**	**36,751**
	2,221	**36,751**	**—**	**38,972**

As at 31 December 2010

	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Available-for-sale investments	2,568	—	—	2,568
Equity investment at fair value through profit or loss	3,334	—	—	3,334
	5,902	—	—	5,902

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise promissory notes, convertible bonds, derivative financial instrument and interest-bearing bank borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, other receivables and deposits, amounts due from/(to) the Non-controlling Shareholder, pledged deposits, cash and cash equivalents, trade and bills payables and other payables and accruals, which arise directly from its operations.

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

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's fair value interest rate risk relates primarily to short term pledged bank deposits. The Group is also exposed to cash flow interest rate risk through the impact of interest rate changes on deposits with banks and floating interest rate bank borrowings. It is the Group's policy to keep its borrowings at floating rate of interest so as to minimise the fair value interest rate risk. The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

The Group's concentration of cash flow interest rate risk is mainly on pledged bank deposits and bank borrowings in relation to movements in the interest at rates with relevance to the People's Bank of China and Hong Kong Inter-Bank Offered Rate, respectively.

Sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit/(loss) before tax (through the impact on floating rate borrowings) and the Group's equity.

		Group	
	Increase/ (decrease) in basis points	**Increase/ (decrease) in loss before tax**	**Increase/ (decrease) in equity**
		HK$'000	*HK$'000*
2011			
Hong Kong dollar	**100**	**(896)**	**896**
Hong Kong dollar	**(100)**	**896**	**(896)**

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
		HK$'000	*HK$'000*
2010			
Hong Kong dollar	100	(2,080)	(2,080)
Hong Kong dollar	(100)	2,080	2,080

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

Foreign currency risk

The Group's monetary assets, liabilities and transactions are principally denominated in Renminbi ("RMB"), United States dollars ("USD") and Hong Kong dollars ("HKD"). The Group is exposed to foreign currency risk arising from the monetary assets and liabilities that are denominated in other than functional currency of the respective group entities.

The Group does not have any hedging instruments outstanding. The Group will constantly review the economic situation and its foreign currency risk profile, and will consider appropriate hedging measures in the future as may be necessary.

The following table demonstrates the sensitivity at the end of the reporting periods to a reasonably possible change in the USD exchange rate, with all other variables held constant, of the Group's profit/(loss) before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in USD rate	**Increase/ (decrease) in loss before tax**
	%	*HK$'000*
2011		
If the Hong Kong dollar weakens against the USD	**0.5%**	**331**
If the Hong Kong dollar strengthens against the USD	**0.5%**	**(331)**

	Increase/ (decrease) in USD rate	Increase/ (decrease) in profit before tax
	%	*HK$'000*
2010		
If the Hong Kong dollar weakens against the USD	0.5%	(952)
If the Hong Kong dollar strengthens against the USD	0.5%	952

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

Credit risk

The Group trades only with recognised and creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. The Group reviews the recoverable amount of each amount due from individual debtors at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposits, available-for-sale investments, and other receivables, arises from default of the counterparty, with a maximum exposure equals to the carrying amounts of these instruments.

In addition to the concentration of credit risk on prepayments to the Non-controlling Shareholder (note 24), the Group had a concentration of credit risk as 74% (2010: 56%) and 6% (2010: 33%) of the Group's trade receivables were due from the Non-controlling Shareholder and an independent third party, respectively, as at 31 December 2011.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 23 to the financial statements.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of convertible bonds, promissory notes and interest-bearing bank loans.

The maturity profile of the Group's financial liabilities of the Group and the Company as at the end of the reporting periods, based on the contractual undiscounted payments, is as follows:

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

Liquidity risk *(Continued)*

Group

	On demand or less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
2011					
Trade and bills payables	**388,908**	**90,555**	**—**	**—**	**479,463**
Financial liabilities included in other payables and accruals	**111,181**	**—**	**—**	**—**	**111,181**
Promissory notes	**—**	**—**	**233,829**	**—**	**233,829**
Interest-bearing bank borrowings*	**193,196**	**—**	**—**	**—**	**193,196**
Convertible bonds#	**203,934**	**—**	**—**	**—**	**203,934**
Amount due to the Non-controlling Shareholder	**—**	**—**	**7,201**	**—**	**7,201**
	897,219	**90,555**	**241,030**	**—**	**1,228,804**

	On demand or less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
2010					
Trade and bills payables	298,751	246,145	—	—	544,896
Financial liabilities included in other payables and accruals	—	11,763	—	—	11,763
Amount due to the Non-controlling Shareholder	—	13,501	—	—	13,501
Promissory notes	—	225,576	225,576	—	451,152
Interest-bearing bank borrowings*	231,550	—	—	—	231,550
Convertible bonds	59,033	10,267	191,345	—	260,645
	589,334	507,252	416,921	—	1,513,507

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

Liquidity risk *(Continued)*

Company

	Less than 3 months *HK$'000*	3 to less than 12 months *HK$'000*	1 to 5 years *HK$'000*	Over 5 years *HK$'000*	Total *HK$'000*
2011					
Financial liabilities included in other payables and accruals	**3,094**	**—**	**—**	**—**	**3,094**
Amounts due to subsidiaries	**116,542**	**—**	**—**	**—**	**116,542**
Convertible bonds[#]	**203,934**	**—**	**—**	**—**	**203,934**
	323,570	**—**	**—**	**—**	**323,570**

	Less than 3 months *HK$'000*	3 to less than 12 months *HK$'000*	1 to 5 years *HK$'000*	Over 5 years *HK$'000*	Total *HK$'000*
2010					
Financial liabilities included in other payables and accruals	—	3,229	—	—	3,229
Amounts due to subsidiaries	—	—	84,308	—	84,308
Convertible bonds	59,033	10,267	191,345	—	260,645
	59,033	13,496	275,653	—	348,182

* Included in interest-bearing bank borrowings are a mortgage loan, an export loan and other bank loans for which the related agreements contain a repayment on-demand clause giving the bank the unconditional right to call in the loan at any time and therefore, for the purpose of the above maturity profile, the total amount is classified as "on demand".

Notwithstanding the above clause, the directors consider that the loan will be repaid in accordance with the scheduled repayment dates as set out in the loan agreements. This evaluation was made considering the Group's compliance with the loan covenants and loan terms, and the fact that the Group has made all previously scheduled repayments on time.

In accordance with the terms of the interest-bearing bank borrowings, the contractual undiscounted payments as at 31 December 2011 are HK$170,659,000 in 2012, HK$22,620,000 during 2013 to 2016 and HK$5,445,000 in 2017 and beyond. The contractual undiscounted payments as at 31 December 2010 were HK$202,412,000 in 2011, HK$22,875,000 during 2012 to 2015 and HK$10,965,000 in 2016 and beyond.

The balance represented the convertible bonds held by PGI. As stated in note 32 of the financial statements, the Second PGI Amendment Agreement and the Second PGI Supplemental Deed were conditional as at 31 December 2011, subject to the fulfilment for certain conditions including the approval of shareholders at a special general meeting and therefore, for the purpose of the above maturity profile, the total amount is classified as "on demand".

Notwithstanding the above condition, the directors consider that the convertible bonds will be repaid in accordance with the scheduled repayment dates as set out in the convertible bonds agreements. This evaluation was made considering the approval from shareholders and fulfilment of other certain conditions on 28 February 2012.

In accordance with the original maturity of PGI CB, the contractual undiscounted payments as at 31 December 2011 are HK$55,782,000 in 2012 and HK$148,151,000 in 2013.

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

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011 and 31 December 2010.

The Group regularly monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. Net debt includes promissory notes, an amount due to the Non-controlling Shareholder, trade and bills payables, other payables and accruals, and interest-bearing bank and other borrowings, net of cash and cash equivalents. Capital includes convertible bonds and equity attributable to owners of the parent. The gearing ratios as at the end of the respective reporting period were as follows:

Group

	2011	2010
	HK$'000	*HK$'000*
Trade and bills payables	**479,463**	544,896
Other payables and accruals	**212,195**	216,564
Interest-bearing bank borrowings	**193,196**	231,550
Amount due to the Non-controlling Shareholder	**7,201**	13,501
Promissory notes	**216,836**	413,145
Less: Cash and cash equivalents	**(11,380)**	(16,977)
Net debt	**1,097,511**	1,402,679
Convertible bonds, the liability component	**180,556**	179,050
Derivative financial instrument	**36,751**	—
Equity attributable to owners of the parent	**1,551,413**	2,018,870
Adjusted capital	**1,768,720**	2,197,920
Capital and net debt	**2,866,231**	3,600,599
Gearing ratio	**38%**	39%

45. EVENTS AFTER THE REPORTING PERIOD

On 20 February 2012, the Company held a special general meeting and passed the resolution that the Second PGI Amendment Agreement and the Second PGI Supplemental Deed dated 30 December 2011 was approved. Further details are set out in the Company's circular dated 2 February 2012.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2012.

Particulars of Properties

Name/location	Lease term	Type	Gross floor area *(sq.m.)*	Attributable interest
Properties Held for the Group's Own Use				
HONG KONG				
Units 4203, 4205, 4206 and 4208 42nd Floor Far East Finance Centre 16 Harcourt Road Hong Kong	Long lease	C	409	100%
The People's Republic of China				
山西省孝義市經濟開發區金岩路1號	Medium term lease	C & I	29,148	90%

C Commercial
I Industrial