HUSCOKE RESOURCES HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(stock code: 704)

Annual Report **2010**

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Li Baoqi *(Acting Chairman)*
Mr. Wu Jixian *(Chief Executive Officer)*
Mr. Cheung Ka Fai *(Chief Financial Officer)*
Mr. Chim Kim Lun, Ricky
(resigned on 2 September 2010)

Independent Non-executive Directors

Mr. Lam Hoy Lee, Laurie
Mr. To Wing Tim, Paddy
Mr. Lau Ka Ho
(appointed on 21 April 2011)
Mr. Sun Tak Keung
(resigned on 18 January 2010)
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. Sun Tak Keung
(resigned on 18 January, 2010)
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

I would like to present the annual audited consolidated results of Huscoke Resources Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2010.

RESULTS AND BUSINESS OVERVIEW

2010 was the fast developing year for the Group. It has completed the acquisition of the coking plant with annual capacity of 800,000 tonnes in June. Also, it has obtained the business license in selling coke in domestic market and started to trade coke in the PRC market. With these contributions and the vertical integration of the business, the Group's revenue has been greatly increased by around 81.6% to HK$1.81 billion. Gross profit margin has been improved from 15.4% to 23.3%.

With its owned coking plant, the Group has become an integrated coke producer in the market and such vertical integration has improved the Group's overall gross profit margin in 2010. It is expected that contributions from coking business will expand and most of the refined coals from the coal washing segment will be used internally. For the trading business, with the export quotas, the Group will monitor the international market closely and once net proceeds from the export market are higher than those from the domestic market, the Group will consider selling coke to overseas customers and re-open the export market.

The Group also puts lots of emphasis on environmental protection measures. It has used those by-products in the coal washing process to generate heat and electricity and used the by-products in the coke production process to generate lots of coal chemicals like coal tars and ammonium sulfate. Managements are of the view that apart from profit generation, the Group also has social responsibility to the environment and only those entities have such responsibility can have long term success in the future.

Recognizing the Group's continued development, in 2010, two financial investors have invested into the Group and the Group has issued convertible bonds to finance the acquisition of the Coking plant.

PROSPECTS

The lightening operating results in 2010 re-confirmed the Group's strategy and move forward. In August 2010, the Group has signed a Memorandum of Understanding for the proposed acquisition of coking coal mine in Shanxi ("First MOU"). Management considered that acquiring coal mine can enjoy the contributions from coal mining operations and at the same time, secure the supply of raw materials for the Group's production facilities. The upstream integration will bring synergy effects to the Group operations and hope can further improve the Group's profitability. Also, the targeted mine is located in the same region of the Group's operating facilities which can save lots of transportation costs for the raw materials.

CHAIRMAN'S STATEMENT

In September 2010, the Group has signed another Memorandum of Understanding for the proposed cooperation with the PRC business partner for the construction of a new coking plant with annual capacity of 2 million tones ("Second MOU"). The Shanxi Provincial Government has launched a consolidation plan for coking due to environmental protection concerns. According to the Government's plan, the total production capacity for coke production in the province will be reduced by more than 20% up to 2015. With the annual growth rate of around 8% since 2007 in the production of crude steel in the PRC, it is expected that demand for coke will be increased in the next few years. Reducing supply and increasing demand of coke can only lead to the increase in price and ultimately the margin for coke. In this situation, the Group plans to increase the market share in the industry by participating in the construction of the new plant.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK0.5 cents per share for the year ended 31 December 2010 (2009: Nil).

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 and suppliers for their ongoing support.

Li Baoqi
Acting Chairman

Hong Kong, 29 March 2011

BIOGRAPHICAL DETAILS OF DIRECTORS

Executive Directors

Mr. Li Baoqi, aged 56, has been appointed as an executive Director since June 2008 and as the Acting Chairman of the Company since January 2009. 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 中國集團深圳公司 (China Steel Group Shenzhen Company)).

Mr. Wu Jixian, aged 47, has been appointed as an executive Director and Chief Executive Officer since June 2008. 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.

Mr. Cheung Ka Fai, aged 36, 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 auditing, accounting and finance industry. 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.

Non-executive Directors

Mr. Lau Ka Ho, aged 36, 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 approximately 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. Lau did not hold any directorship in other listed companies in the last three years.

Mr. Lam Hoy Lee, Laurie, aged 52, has been appointed as an independent non-executive Director on September 2008 and is a member of the Audit Committee and the Remuneration Committee and the chairman of Nomination Committee. 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. Lam did not hold any directorship in other listed companies in the last three years.

Mr. To Wing Tim, Paddy, aged 59, has been appointed as an independent non-executive Director of the Company since October 2009. 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.

BUSINESS REVIEW

The Group's subsidiary in the PRC has obtained a new business license which extends its principal activities to include coke production business and the sale of coke in the PRC. In June 2010, the Group completed the acquisition of a coking plant with an annual production capacity of approximately 800,000 tonnes. With the completion of this acquisition, the Group becomes an integrated coke producer in the PRC. It can purchase raw coals from local mines, process it into refined coals and ultimately into coke through the coal washing and the coke production processes.

In 2010, Huscoke was mainly engaged in three areas. These are 1) Coke Trading, 2) Coal Related Ancillary Businesses which mainly include coal washing, using the by-products for heat and electricity generation and transportation services and 3) Coke Production.

In the first half of 2010, for coke export market, there was an indication that the international demand for PRC export coke resumed. However, due to the outbreak of a financial crisis in Europe, the recovering economy of the world was slowed down and the demand for PRC's coke was immediately impacted. In an effort to reduce the reliance on the international market, management of the Group tried to develop the domestic coke market and in April 2010, the Group obtained approval from PRC authorities to trade coke in the PRC.

In coal related ancillary businesses, the external sales of refined coal in 2010 were reduced due to the use of refined coal as raw materials at the Group's recently acquired coking plant. Annualised production utilization rate in 2010 was around 85%. Being located in the Xiaoyi, Shanxi Province, the Group benefits from low transportation costs due to the large number of coal mines in the surrounding area. With an advanced coal washing facility with annual production capacity of 2.4 million tonnes, the Group has relatively better production efficiency rates and lower production costs in the coal washing process.

For coke production business, it was contributed by the newly acquired coking plant and the related coal chemicals production facilities. The annual production capacity of the plant is 800,000 tones. Contributions to the Group started in the third quarter of the year and revenue generated in this six month period was around HK$585.05 million. Most of the materials used in the coking plant have been supplied by our coal washing plant and this vertical integration of business has improved the Group's overall gross profits margin in 2010.

FINANCE COSTS

Finance costs in 2010 were approximately HK$42.71 million, an increase of around 179.07% from HK$15.31 million recorded in 2009. The increase was due to the issue of convertible bonds and of the two promissory notes during the year to finance the acquisition of the coking plant.

CHARGES OVER ASSETS

On 31 December 2010, the Group pledged certain land and buildings which have an aggregate carrying value of approximately HK$111.05 million (31 December 2009: HK$78.58 million) to secure banking facilities granted to the Group. As at 31 December 2009, the Group also pledged investment property with carrying value of approximately HK$37 million.

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 during the year.

LIQUIDITY AND FINANCIAL RESOURCES

Net current assets and current ratio were approximately HK$164.15 million and 1.12:1 as respectively of 31 December 2010. In 31 December 2009, the amount was HK$220.03 million and 1.30:1. The reduction in current ratio is mainly due to the issue of promissory notes and convertible bonds for the acquisition of a coking plant.

The Group's bank balances and cash equivalents amounted to approximately HK$16.98 million (31 December 2009: approximately HK$29.12 million). With the partial repayment of the bank borrowing during the year, bank borrowings has been reduced to current year's HK$231.55 million (31 December 2009: HK$376.45 million). Around HK$193.75 (31 December 2009: HK$333.25 million) of the bank borrowings was the structured trade finance for the coke export business and around HK$37.80 million (31 December 2009: HK$43.2 million) bank borrowings was the mortgaged loan for property located in Hong Kong. Also, in order to finance the acquisition of the coke production assets in the financial year, the Group has issued two tranches of convertible bonds amounting to HK$179.05 million to two independent third parties and two tranches of promissory notes amounting to HK$413.15 million to the non-controlling shareholders of the subsidiary (31 December 2009: only HK$15 million promissory note has been outstanding).

DIVIDENDS

The Directors recommend a final dividend for the year ended 31 December 2010 of HK0.5 cents per share (2009: Nil) to shareholders whose names appear on the Company's Register of Members on 31 May 2011. The final dividend is subject to approval of the shareholders in the forthcoming annual general meeting and is expected to be paid on or around 24 June 2011.

EMPLOYEES AND REMUNERATION

As at 31 December 2010, the Group had 1,835 employees (31 December 2009: 1,124 employees). Approximately, 1,825 employees are located in PRC. The Group's staff costs amounted to approximately HK$55.29 million for the year ended 31 December 2010 and approximately HK$30.51 million was recorded in last corresponding period.

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 individual performance. Up to the date of this report, there are 37,500,000 share options granted under the share option scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

The Group will continue its efforts to control its costs of production while negotiating with more customers for Huscoke's coke, especially in the domestic market. However, the international coke market will still be monitored closely and negotiations with our target customers will begin if demand in the international market rises. In early 2011, there have been serious flooding problems occurring in Australia, forcing many coal mines to close. Australia is currently the largest coking coal exporter in the international market and many coke producers around the world rely on Australian supplies. With the recent closing of these Australian coal mines, there has been a sharp decrease in the world supply of coking coal. This has led to a drastic increase in the contract price of exported coking coal from US$225 per tonne in the first quarter of 2011 to US$330 per tonne in the second quarter. Huscoke, as one of the largest coke exporters in the PRC coke market, will closely examine further developments in the international coke market and once the profit margin from international trade becomes greater than that derived from domestic sales, the Company will consider re-expanding its sales to the international market.

In August and September 2010, the Group signed two non-legally-binding memorandums of understanding ("**First MOU**" and "**Second MOU**," respectively) with the Golden Rock Group ("**GRG**"), a non-controlling shareholder of our Joint Venture in the PRC. The First MOU dealt with the proposed acquisition of coal mines from GRG. After the signing of the First MOU, the Group has engaged in the due-diligence on the targeted coal mine and has already employed an International Competent Person to estimate the available resources according to the JORC standards. The Group plans to further expand its business into coal mining which will 1) secure the raw material supplies for our coal washing plants and 2) reduce the costs of production significantly since over 90% of production costs come from raw material costs.

The Second MOU dealt with the proposed cooperation with GRG for the construction of a new coking plant with an annual capacity of 2 million tonnes. The Provincial Shanxi Government has announced that there will be a consolidation in the Coking Industry under which the provincial government is targeting a reduction in total coking capacity from the existing 150 million tonnes to 120 million tonnes by 2015. GRG has already obtained the approval from the provincial government to construct a new coking plant with an annual capacity of 2 million tonnes. In order to increase market share within the Shanxi province, Huscoke is considering the opportunity to cooperate with GRG for this new project and has already engaged international financial institutions as the arrangers for the proposed projects.

With the successful integration of the Group's coke businesses and an improving market conditions, the Management is optimistic regarding the future prospects of the Group.

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 2010, 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 2010 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 2010 to 31 December 2010.

(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 Acting Chairman of the Company is Mr. Li Baoqi. The Chief Executive Officer is Mr. Wu Jixian. 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), 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 2010. Individual attendance of each Director is set out below.

(3) BOARD OF DIRECTORS *(Continued)*

	Notes	**Number of Meetings attended**
Chairman		
Mr. Li Baoqi		3/5
Executive Directors		
Mr. Wu Jixian		4/5
Mr. Cheung Ka Fai		5/5
Mr. Chim Kim Lun, Ricky	*1*	2/5
Independent Non-executive Directors		
Mr. Lam Hoy Lee, Laurie		3/5
Mr. To Wing Tim, Paddy		3/5
Mr. Sun Tak Keung	*2*	0/5
Mr. Wan Hon Keung	*3*	3/5

Notes:

1. Mr. Chim Kim Lun, Ricky resigned as executive Director with effect from 2 September 2010

2. Mr. Sun Tak Keung resigned as independent, non-executive Director with effect from 18 January 2010

3. Mr. Wan Hon Keung resigned as independent non-executive Director with effect from 21 April 2011 (Subsequent to the date of the Report of the Directors)

4. Mr. Lau Ka Ho was appointed as independent non-executive Director on 21 April 2011 (Subsequent to the date of the Report of the Directors)

(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.

One committee meeting was held during 2010 with an attendance rate of 100 percent.

The work of the Remuneration Committee during 2010 included:

— reviewing the Group's incentive schemes; and

— reviewing the remuneration packages of Directors.

Information relating to the remuneration of each director for 2010 is set out in Note 12 on the accounts.

(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.

One committee meeting was held during the year of 2010 with an attendance rate of 100 percent. It reviewed the composition of the Board.

(7) AUDITORS' REMUNERATION

For the year ended 31 December 2010, the Auditors of the Company received approximately HK$2.13 million for audit services (2009: 1.28 million).

(8) AUDIT COMMITTEE

The Audit Committee currently comprises all three independent non-executive directors and Mr. Wan Hon Keung is the Chairman up to 21 April 2011 and Mr. Lau Ka Ho has been appointed as the Chairman on 21 April 2011 (Subsequent to the date of the Report of the Directors). 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 2010, the Audit Committee held two meetings and had a 100 percent attendance rate.

The work of the Audit Committee during 2010 included:

— reviewing the Directors' Report and full year accounts for the year ended 31 December 2010 and the annual results announcement;

— reviewing the interim accounts for the six months ended 30 June 2010 and the interim results announcement; and

— reviewing the internal audit plan for 2010.

(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 2010. 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 23 and 24.

(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.

The Directors present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its subsidiaries are set out in note 21 to the consolidated financial statements.

RESULTS AND DIVIDENDS

Details of the profit of the Group for the year ended 31 December 2010 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 25 to 123.

The Directors recommend the payment of a final dividend of HK0.5 cents per share for the year ended 31 December 2010 (31 December 2009: Nil).

SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with the reasons therefore, are set out in note 35 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. Li Baoqi *(Acting Chairman)*
Mr. Wu Jixian
Mr. Cheung Ka Fai
Mr. Chim Kim Lun, Ricky (resigned on 2 September 2010)

Independent non-executive directors:

Mr. Lam Hoy Lee, Laurie
Mr. To Wing Tim, Paddy
Mr. Wan Hon Keung
Mr. Sun Tak Keung (resigned on 18 January 2010)

DIRECTORS' SERVICE CONTRACTS

In accordance with Bye-law 99 (as amended by Bye-law 182(vi)) of the Company's Bye-laws, Mr. Li Baoqi and Mr. Wu Jixian 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 2010 were as follows:

	2010	2009
	HK$'000	*HK$'000*
Convertible bonds reserve	**768,450**	1,233,250
Contributed surplus	**335,050**	1,599,000
Retained profits/(accumulated losses)	**54,739**	(1,799,101)
	1,158,239	1,033,149

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 36 to the consolidated 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.

SHARE OPTION SCHEME *(Continued)*

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.

For the year ended 31 December 2010, options were granted to certain directors and eligible employees. Details of which are set out in note 36 to the consolidated financial statements.

Category/Name of participant	Date of grant of share options	Number of share options: At 1 January 2010	Granted during the year	Lapsed during the year	At 31 December 2010	Exercise period of share options	Exercise price on share options HK$ per share
Directors							
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
		1,800,000	3,600,000	—	5,400,000		
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
		1,500,000	3,000,000	—	4,500,000		
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
		1,000,000	2,600,000	—	3,600,000		
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
		1,200,000	2,800,000	—	4,000,000		
		5,500,000	12,000,000	—	17,500,000		

DIRECTORS' INTERESTS

As at 31 December 2010, 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 (%)
Wu Jixian	*(a)*	657,000,000	15.13
To Wing Tim Paddy	*(b)*	860,000	0.02

Long positions in the underlying Shares

Name of Director	*Notes*	Number of underlying shares held	Percentage of issued share capital (%)
Wu Jixian	*(a)*	1,640,400,000	37.77
Li Baoqi		4,500,000	0.10
Cheung Ka Fai	*(e)*	3,600,000	0.08

Short positions in the underlying Shares

Name of Director	*Notes*	Number of underlying shares held	Percentage of issued share capital (%)
Wu Jixian	*(a)*	1,443,750,000	33.24

DIRECTORS' INTERESTS *(Continued)*

Notes:

(a) As at 31 December 2010, Mr. Wu Jixian, an executive Director, beneficially owned 657,000,000 Shares, he was also interested in convertible bonds in the aggregate principal amount of HK$654,000,000, which were convertible into 1,635,000,000 Shares. Mr. Wu was also entitled to share options to subscribe for a maximum of 5,400,000 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$577,500,000 million, which were convertible into 1,443,750,000 Shares to the convertible bonds holders.

(b) Among the 860,000 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 560,000 Shares held by Ms. Leung Yuet Mei, the spouse of Mr. To. Accordingly, Mr. To was deemed to be interested in the said 860,000 Shares under Part XV of the SFO.

(c) As at 31 December 2010, Mr. Li Baoqi, an executive Director was entitled to share options to subscribe for a maximum of 4,500,000 Shares upon exercise of the options in full.

(d) As at 31 December 2010, Mr. Cheung Ka Fai, an executive Director was entitled to share options to subscribe for a maximum of 3,600,000 Shares upon exercise of the options in full.

Save as disclosed above, as at 31 December 2010, 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

So far as is known to the Directors and the chief executive of the Company, as at 31 December 2010, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO discloses no 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 2010.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period from 1 January 2010 to 31 December 2010, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

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 36 to the consolidated 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 15 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 37 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group accounted for approximately 90.23% of the Group's total turnover and the largest customer accounted for approximately 59.03% of the Group's total turnover.

The five largest suppliers of the Group accounted for approximately 41.08% of the Group's total purchases for the year and the largest suppliers accounted for approximately 12.81% 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	Year ended 31 December			
	2010	2009	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
CONTINUING OPERATIONS					
TURNOVER	**1,813,039**	1,266,801	1,371,078	640,635	714,731
PROFIT/(LOSS) BEFORE TAX	**282,260**	148,744	(1,837,800)	(42,486)	16,059
Income tax	**(87,663)**	(41,506)	(14,988)	317	914
PROFIT/(LOSS) FOR THE YEAR	**194,597**	107,238	1,852,788	(42,169)	16,973
Attributable to:					
Owners of the parent	**167,859**	93,736	(1,858,198)	(42,169)	(18,912)
Non-controlling interests	**26,738**	13,502	5,410	—	(1,939)
	194,597	107,238	(1,852,788)	(42,169)	16,973

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December 2010 HK$'000	As at 31 December 2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000
TOTAL ASSETS	**3,979,267**	2,741,239	2,783,528	280,997	394,002
TOTAL LIABILITIES	**(1,817,439)**	(872,998)	(1,023,285)	(104,235)	(171,760)
	2,161,828	1,868,241	1,760,243	176,762	222,242
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**2,018,870**	1,795,861	1,701,365	176,762	222,242
NON-CONTROLLING INTERESTS	**142,958**	72,380	58,878	—	—
	2,161,828	1,868,241	1,760,243	176,762	222,242

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 9 to 14 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 47 to the consolidated financial statements.

AUDITORS

The financial statements for the year have been audited by Ernst & Young who retire at the forthcoming Annual General Meeting and a resolution for their reappointment as auditors of the Company will be proposed at the said Meeting.

During 2010, Deloitte Touche Tohmatsu resigned as the auditors of the Company and Ernst & Young was appointed to fill the causal vacancy.

ON BEHALF OF THE BOARD

Li Baoqi
ACTING CHAIRMAN

Hong Kong
29 March 2011

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 25 to 123, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 these 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.

INDEPENDENT AUDITORS' REPORT

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 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

29 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Continuing operations			
REVENUE	5	**1,813,039**	998,376
Cost of sales		**(1,390,434)**	(844,920)
Gross profit		**422,605**	153,456
Other income and gains	5	**19,846**	30,397
Selling and distribution costs		**(48,787)**	(2,703)
Administrative expenses		**(68,692)**	(42,069)
Finance costs	7	**(42,712)**	(15,305)
Profit before tax	6	**282,260**	123,776
Income tax expense	8	**(87,663)**	(41,506)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**194,597**	82,270
Discontinued operations			
Profit for the year from discontinued operations	10	**—**	24,968
PROFIT FOR THE YEAR		**194,597**	107,238
Other comprehensive income for the year:			
Exchange differences arising on translation of foreign operations		**38,400**	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**232,997**	107,238
Profit for the year attributable to:			
Owners of the parent	9	**167,859**	93,736
Non-controlling interests		**26,738**	13,502
		194,597	107,238

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Total comprehensive income attributable to:			
Owners of the parent		**202,419**	93,736
Non-controlling interests		**30,578**	13,502
		232,997	107,238
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT	*14*		
Basic			
— For profit for the year		**HK2.81 cents**	HK1.57 cents
— For profit from continuing operations		**HK2.81 cents**	HK1.15 cents
Diluted			
— For profit for the year		**HK2.81 cents**	HK1.57 cents
— For profit from continuing operations		**HK2.81 cents**	HK1.15 cents

Details of the dividend proposed for the year are disclosed in note 11 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	**31 December 2010 HK$'000**	31 December 2009 HK$'000 (Restated)	1 January 2009 HK$'000 (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment	15	**1,291,806**	547,397	607,022
Prepaid land lease payments	16	**—**	1,942	6,256
Investment property	17	**—**	37,000	26,658
Goodwill	18	**399,262**	399,262	399,262
Other intangible asset	19	**755,974**	799,486	842,998
Available-for-sale investment	22	**2,568**	2,568	3,448
Retirement benefit scheme's assets		**—**	—	3,825
Total non-current assets		**2,449,610**	1,787,655	1,889,469
CURRENT ASSETS				
Inventories	23	**171,711**	59,571	68,867
Trade and bills receivables	24	**280,019**	26,170	73,415
Prepayments, deposits and other receivables	25	**682,938**	562,687	492,506
Amount due from the Non-controlling Shareholder	26	**351,132**	272,623	186,887
Prepaid land lease payments	16	**—**	77	185
Equity investment at fair value through profit or loss	27	**3,351**	3,334	3,243
Pledged deposits	28	**23,529**	—	936
Cash and cash equivalents	28	**16,977**	29,122	68,020
Total current assets		**1,529,657**	953,584	894,059
CURRENT LIABILITIES				
Trade and bills payables	29	**544,896**	123,579	115,558
Other payables and accruals	30	**216,564**	155,726	133,212
Amount due to the Non-controlling Shareholder	26	**13,501**	—	18,955
Amount due to a director		**—**	—	12,000
Promissory notes	31	**214,679**	15,000	96,032
Tax payable		**84,637**	62,799	56,663
Interest-bearing bank borrowings	32	**231,550**	376,450	446,978
Convertible bonds	33	**59,683**	—	—
Total current liabilities		**1,365,510**	733,554	879,398
NET CURRENT ASSETS		**164,147**	220,030	14,661

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	31 December 2010 HK$'000	31 December 2009 HK$'000 (Restated)	1 January 2009 HK$'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,613,757**	2,007,685	1,904,130
NON-CURRENT LIABILITIES				
Convertible bonds	*33*	**(119,367)**	—	—
Deferred tax liabilities	*34*	**(134,096)**	(139,444)	(143,887)
Promissory notes	*31*	**(198,466)**	—	—
Total non-current liabilities		**(451,929)**	(139,444)	(143,887)
Net assets		**2,161,828**	1,868,241	1,760,243
EQUITY				
Equity attributable to the owners of parent				
Issued share capital	*35*	**434,293**	336,543	181,293
Reserves		**1,584,577**	1,459,318	1,520,072
		2,018,870	1,795,861	1,701,365
Non-controlling interests		**142,958**	72,380	58,878
Total equity		**2,161,828**	1,868,241	1,760,243

Director *Director*

		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)	Share options reserve HK$'000	Translation reserve HK$'000	Capital redemption reserve HK$'000	Convertible bonds reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2009		181,293	144,997	747,600	18,236	–	591	85	2,501,400	(1,892,837)	1,701,365	58,878	1,760,243
Profit for the year and total comprehensive income for the year		–	–	–	–	–	–	–	–	93,736	93,736	13,502	107,238
Issue of shares upon conversion of convertible bonds	35(a)	155,250	–	851,400	–	–	–	–	(1,006,650)	–	–	–	–
Equity-settled share option arrangements	36	–	–	–	–	760	–	–	–	–	760	–	760
At 31 December 2009 and 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 operations		–	–	–	–	–	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	33	–	–	–	–	–	–	–	17,788	–	17,788	–	17,788
Issue of shares upon conversion of convertible bonds	35(a)	97,750	–	465,050	–	–	–	–	(562,800)	–	–	–	–
Equity-settled share option arrangements	36	–	–	–	–	2,802	–	–	–	–	2,802	–	2,802
Capital injection from non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	40,000	40,000
Transfer	37(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*	97,758*	2,018,870	142,958	2,161,828

* These reserve accounts comprise the consolidation reserves of HK$1,584,577,000 as at 31 December 2010 (2009: HK$1,459,318,000) in the consolidated statement of financial position.

Notes:

(i) The contributed surplus represents the excess of value of shares converted upon conversion of the 2008 Convertible Bonds (as defined in note 33 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 2010

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:			
From continuing operations		**282,260**	123,776
From discontinued operations		**—**	24,968
Adjustments for:			
Equity-settled share option expense	6	**2,802**	760
Gain on equity investment at fair value through profit or loss	5	**(17)**	(91)
Finance costs		**42,712**	16,159
Interest income		**—**	(10)
Depreciation of items of property, plant and equipment		**65,423**	42,898
Amortisation of prepaid land lease payments		**—**	157
Amortisation of other intangible asset	6	**43,512**	43,512
Gain on disposal of items of property, plant and equipment and prepaid land lease payments		**—**	(437)
Gain on fair value change of investment property	5	**—**	(10,342)
Gain on disposal of subsidiaries	38	**(246)**	(19,056)
Operating cash flows before movements in working capital		**436,446**	222,294
Increase in inventories		**(106,980)**	(3,650)
Increase in trade and bills receivables, prepayments, deposits and other receivables		**(353,246)**	(80,715)
Increase in an amount due from the Non-controlling Shareholder		**(66,507)**	(85,736)
Increase in trade and bills payables, other payables and accruals		**462,077**	103,062
Decrease in an amount due to the Non-controlling Shareholder		**—**	(18,955)
Cash generated from operations		**371,790**	136,300
Income taxes paid		**(75,470)**	(38,870)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**296,320**	97,430

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(348,650)**	(24,975)
Decrease/(increase) in pledged deposits		**(23,529)**	936
Proceeds from disposal of items of property, plant and equipment and prepaid land lease payments		**—**	26,624
Disposal of subsidiaries	38	**15,000**	40,796
Interest received		**—**	10
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		**(357,179)**	43,391
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings		**—**	284,582
Net proceeds from issue of convertible bonds		**181,300**	—
Repayment of bank borrowings		**(144,900)**	(355,110)
Repayment of promissory notes		**(15,000)**	(85,000)
Repayment to a director		**—**	(12,000)
Interest paid		**(15,348)**	(12,191)
Capital injection from non-controlling shareholders of a subsidiary		**40,000**	—
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		**46,052**	(179,719)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(14,807)**	(38,898)
Cash and cash equivalents at beginning of the year		**29,122**	68,020
Effect of foreign currency rate changes, net		**2,662**	—
Cash and cash equivalents at the end of the year		**16,977**	29,122
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	28	**16,977**	29,122

STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	21	**2,120,343**	1,794,295
Total non-current assets		**2,120,343**	1,794,295
CURRENT ASSETS			
Prepayments, deposits and other receivables	25	**1,584**	1,960
Cash and cash equivalents	28	**92**	78
Total current assets		**1,676**	2,038
CURRENT LIABILITIES			
Other payables and accruals	30	**3,229**	2,024
Convertible bonds	33	**59,683**	—
Total current liabilities		**62,912**	2,024
NET CURRENT ASSETS/(LIABILITIES)		**(61,236)**	14
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,059,107**	1,794,309
NON-CURRENT LIABILITY			
Convertible bonds	33	**(119,367)**	—
Net assets		**1,939,740**	1,794,309
EQUITY			
Issued share capital	35	**434,293**	336,543
Reserves	37(b)	**1,505,447**	1,457,766
Total equity		**1,939,740**	1,794,309

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 21 to the financial statements.

2.1 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 investment property, equity investment at fair value through profit or loss and an available-for-sale investment, 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

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2010. 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.

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

Basis of consolidation from 1 January 2010 *(Continued)*

Losses within a subsidiary are 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.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.2 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 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation *4 Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), amendments to HKAS 7 and HKAS 17 included in *Improvements to HKFRSs 2009,* HK Interpretation 4 (Revised in December 2009) and HK Interpretation 5, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 3 (Revised) Business Combinations and HKAS 27 (Revised) Consolidated and Separate Financial Statements

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

(a) HKFRS 3 (Revised) Business Combinations and HKAS 27 (Revised) Consolidated and Separate Financial Statements *(Continued)*

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 Statement of Cash Flows, HKAS 12 Income Taxes, HKAS 21 The Effects of Changes in Foreign Exchange Rates, HKAS 28 Investments in Associates and HKAS 31 Interests in Joint Ventures.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- HKAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

  Amendment to HK Interpretation *4 Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* is revised as a consequence of the amendment to HKAS 17 *Leases included in Improvements to HKFRSs 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

(b) *(Continued)*:

The Group has reassessed its leases in Hong Kong and Mainland China, previously classified as operating leases, upon the adoption of the amendments. The classification of leases in Mainland China remained as operating leases. As substantially all the risks and rewards associated with the leases in Hong Kong have been transferred to the Group, the leases in Hong Kong have been reclassified from operating leases under "prepaid land lease payments" to finance leases under "property, plant and equipment". The corresponding amortisation has also been reclassified to depreciation. The effects of the above changes are summarised below:

	2010	2009
	HK$'000	*HK$'000*
Consolidated profit or loss for the year ended 31 December		
Decrease in amortisation of prepaid land lease payments	**(1,012)**	(668)
Increase in depreciation of property, plant and equipment	**1,012**	668
	—	—
Consolidated statement of financial position at 31 December		
Decrease in prepaid land lease payments, net	**(48,752)**	(49,764)
Increase in property, plant and equipment, net	**48,752**	49,764
	—	—
Consolidated statement of financial position at 1 January		
Decrease in prepaid land lease payments, net		(74,404)
Increase in property, plant and equipment, net		74,404
		—

Due to the retrospective application of the amendments which has resulted in the restatement of items in the consolidated statement of financial position, a consolidated statement of financial position as at 1 January 2009, and the related notes affected by the amendments have been presented in these financial statements.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

(c) HK Interpretation 5 — Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

In November 2010, the HKICPA issued HK Interpretation 5 "*Presentation of Financial Statements-Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*". The Interpretation is effective immediately and is a clarification of an existing standard, HKAS 1 "*Presentation of Financial Statements*". It sets out the conclusion reached by the HKICPA that a term loan which contains a clause giving the lender the unconditional right to demand repayment at any time shall be classified as a current liability in accordance with paragraph 69(d) of HKAS 1 irrespective of the probability that the lender will invoke the clause without cause.

In order to comply with the requirements of HK Interpretation 5, the Company has changed its accounting policy on the classification of term loans that contain a repayment on demand clause. Under the new policy, term loans with clauses which give the lender the unconditional right to call the loan at any time are classified as current liabilities in the consolidated statement of financial position. Previously, such term loans were classified in accordance with the agreed repayment schedule unless the Company had breached any of the loan covenants set out in the agreement as of the reporting date or otherwise had reason to believe that the lender would invoke its right under the immediate repayment clause within the foreseeable future.

The new accounting policy has been applied retrospectively by re-presenting the opening balances at 1 January 2009, with consequential reclassification adjustment to comparative amount for the year ended 31 December 2009. The reclassification has had no effect on the reported profit or loss, total comprehensive income or equity for the periods presented.

Effect of the adoption of HK Interpretation 5 on the consolidated statement of financial position is set out below:

	31 December 2010 *HK$'000*	31 December 2009 *HK$'000*	1 January 2009 *HK$'000*
Increase/(decrease) in			
Current liabilities			
Interest-bearing bank borrowings	**32,400**	37,800	49,518
Non-current liabilities			
Interest-bearing bank borrowings	**(32,400)**	(37,800)	(49,518)

2.3 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 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* [2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets* [4]
HKFRS 9	*Financial Instruments* [5]
HKAS 12 Amendments	Amendments to HKAS 12 Income Taxes: Deferred tax-Recovery of Underlying Assets [6]
HKAS 24 (Revised)	*Related Party Disclosures* [3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation — Classification of Rights Issues* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2013
6 Effective for annual periods beginning on or after 1 January 2012

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.

2.4 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill

Business combinations from 1 January 2010

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 acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. 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 shall not be remeasured until it is finally settled within equity.

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 net identifiable 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

Business combinations from 1 January 2010 *(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.

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

Business combinations prior to 1 January 2010 but after 1 January 2005 *(Continued)*

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

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, investment property 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 depreciation.

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 infrastructures	25 years
Plant and machinery	8 years
Computer equipment	5 years
Furniture and fixtures	5 years
Motor vehicles	5 years

2.4 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 is 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 a owner-occupied property, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use.

2.4 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, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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, quoted financial instruments 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. 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. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with 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.

2.4 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 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 in rare circumstances. 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.

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 other operating expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity 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.

2.4 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 investment valuation 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, at which time the cumulative gain or loss is recognised in profit or loss in other operating expenses and removed from the available-for-sale investment valuation reserve. Interest and dividends earned 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 securities 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 securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When 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 in rare circumstances. 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 entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, 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 expected cash flows 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.

2.4 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, and 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 has 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.

2.4 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.

2.4 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 loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Subsequent measurement

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 method 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.

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 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.

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.

2.4 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. Such 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.

2.4 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 and household 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;

(c) rental income, on a time proportion basis over the lease terms; and

(d) 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.

2.4 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 the Black Schole Model, further details of which are given in note 36 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. All cancellations of equity-settled transaction awards are treated equally.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

The resulting exchange differences are recognised in other comprehensive income and accumulated in the translation 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.

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:

- where 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, where 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

- where 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.

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 value where there is reasonable assurance that the grant 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

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

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.

2.4 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)*

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 discussed 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 2010 was HK$399,262,000 (2009: HK$399,262,000) and HK$755,974,000 (2009: HK$799,486,000). Further details are set out in notes 18 and 19 to the financial statements, respectively.

Other intangible asset

The estimated useful life of other intangible asset, being export distribution right, acquired on acquisition of businesses as set out in note 19 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 2010 were HK$280,019,000 (2009: HK$26,170,000), HK$351,132,000 (2009: HK$272,623,000) and HK$8,294,000 (2009: HK$10,579,000), 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:

Continuing operations

(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)*

Continuing operations *(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) from continuing operations. The adjusted profit/(loss) from continuing operations is measured consistently with the Group's profit/(loss) from continuing operations except that corporate administrative expense, fair value gains/(losses) from the Group's equity investment at fair value through profit or loss, gain on disposal of property, plant and equipment, interest expenses on promissory notes and convertible bonds, and deferred tax on properties for corporate use are excluded from such measurement.

Segment assets exclude assets related to discontinued operations, pledged deposits, cash and cash equivalents, equity investment at fair value through profit or loss, and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude liabilities related to discontinued operations, promissory notes, convertible bonds, 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 with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

On 12 October 2009, the Group completed the disposal of two operating divisions, which engaged in trading of household products, and manufacturing and sales of household products. For HKFRS 8 reporting purposes, on the basis of internal reports reviewed by the chief operating decision maker, these discontinued operations did not constitute separate operating segments.

4. OPERATING SEGMENT INFORMATION *(Continued)*

Segment revenues and results

Year ended 31 December 2010

	Continuing operations					
	Trading of coke *HK$'000*	Coal related ancillary *HK$'000*	Coke production *HK$'000*	Others *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
REVENUE						
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**
Corporate administrative expenses						**(22,886)**
Gain on equity investment at fair value through profit or loss						**17**
Interest on convertible bonds						**(23,238)**
Interest on promissory notes						**(11,826)**
Deferred tax charge on properties (for corporate)						**(1,831)**
Profit for the year from continuing operations						**194,597**

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2009

	Continuing operations			
	Trading of coke	Coal related ancillary	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE				
Segment revenue — external sales	—	997,785	591	998,376
Other income and gains	10,535	8,971	10,342	29,848
	10,535	1,006,756	10,933	1,028,224
RESULTS				
Segment results	(46,245)	135,017	9,800	98,572
Other income and gains				22
Corporate administrative expenses				(10,910)
Gain on equity investment at fair value through profit or loss				91
Gain on disposal of property, plant and equipment				436
Interest on promissory notes				(3,968)
Deferred tax charge on properties (for corporate)				(1,973)
Profit for the year from continuing operations				82,270

4. OPERATING SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

As at 31 December 2010

	Continuing operations				
	Trading of coke HK$'000	Coal related ancillary HK$'000	Coke production HK$'000	Others HK$'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)*

Segment assets and liabilities

As at 31 December 2009

	Continuing operations			
	Trading of coke *HK$'000*	Coal related ancillary *HK$'000*	Others *HK$'000*	Total *HK$'000*
SEGMENT ASSETS				
Segment assets	1,208,915	1,363,927	37,848	2,610,690
Corporate and unallocated assets				130,549
Consolidated assets				2,741,239
SEGMENT LIABILITIES				
Segment liabilities	552,713	252,779	44,800	850,292
Corporate and unallocated liabilities				22,706
Consolidated liabilities				872,998

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2010

	Continuing operations				
	Trading of coke HK$'000	Coal related ancillary HK$'000	Coke production HK$'000	Others HK$'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 borrowings	7,085	—	—	—	7,085
Unallocated					563
					7,648
Income tax expenses	544	57,759	31,151	—	89,454
Unallocated					(1,791)
					87,663

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2009

	Continuing operations			
	Trading of coke *HK$'000*	Coal related ancillary *HK$'000*	Others *HK$'000*	Total *HK$'000* (Restated)
Additions of property, plant and equipment	—	24,488	—	24,488
Unallocated				487
				24,975
Amortisation of other intangible asset	43,512	—	—	43,512
Unallocated				—
				43,512
Amortisation of prepaid land lease payments	—	—	—	—
Unallocated				77
				77
Depreciation	—	39,336	594	39,930
Unallocated				2,177
				42,107
Gain on fair value change of investment property	—	—	10,342	10,342
Unallocated				—
				10,342
Interest expense on bank borrowings	10,742	—	595	11,337
Unallocated				—
				11,337
Income tax (credit)/expenses	(7,179)	45,006	1,706	39,533
Unallocated				1,973
				41,506

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 2010 and 2009. Therefore, no analysis by geographical region is presented.

The revenue information from continuing operations is based on the location of the customers.

(b) Non-current assets

	2010	2009
	HK$'000	*HK$'000*
		(Restated)
Hong Kong	**881,850**	926,566
Mainland China	**1,565,192**	858,521
	2,447,042	1,785,087

The non-current assets information from continuing operations above is based on the location of assets and excludes financial instruments and deferred tax assets.

Information about major customers

Revenue from continuing operations of approximately HK$1,070,212,000 (2009: HK$934,911,000) was derived from sales in the coal related ancillary segment to a single customer, which is the Non-controlling Shareholder of a subsidiary of the Group.

Revenue from continuing operations of approximately HK$360,139,000 (2009: nil) was derived from sales in the coke production segment to a single customer, which is an independent third party of the Group.

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 from continuing operations is as follows:

Revenue

	Notes	2010 HK$'000	2009 HK$'000
Sale of refined coal		**1,033,419**	939,738
Sale of electricity and heat		**64,223**	58,047
Sale of coke and by-products		**715,397**	—
Rental income		**—**	591
		1,813,039	998,376

Other income

	Notes	2010 HK$'000	2009 HK$'000
Interest income on bank deposits		**—**	6
Subsidies from PRC government authorities	*(i)*	**10,818**	8,230
Reimbursement from the Non-controlling Shareholder	*(ii)*	**7,750**	10,535
Sundry income		**1,015**	757
		19,583	19,528

Other gains

	Notes	2010 HK$'000	2009 HK$'000
Gain on fair value change of investment property	*17*	**—**	10,342
Gain on disposal of items of property, plant and equipment and prepaid land lease payments		**—**	436
Gains on equity investment at fair value through profit or loss		**17**	91
Gain on disposal of a subsidiary		**246**	—
		263	10,869
		19,846	30,397

5. REVENUE, OTHER INCOME AND GAINS *(Continued)*

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 subsidies from the government authority for the provision of heat in a city in Mainland China. The subsidies were recognised in profit or loss on a straight-line basis over the subsidy period.

(ii) As further detailed in note 19 to the financial statements, the Group has the 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"). No coke was purchased from the Non-controlling Shareholder during the years ended 31 December 2010 and 2009 for the Group's export trade of coke. The Non-controlling Shareholder agreed to reimburse the Group's interest expenses on the export loans (note 32) which were obtained to finance the advance payments made to it for coke purchases (note 25).

6. PROFIT BEFORE TAX

The Group's profit before tax from continuing operations is arrived at after charging/(crediting):

	Notes	**2010 HK$'000**	2009 HK$'000 (Restated)
Auditors' remuneration		**2,130**	1,280
Cost of inventories sold		**1,346,922**	801,408
Depreciation		**65,423**	42,107
Amortisation of other intangible asset*	*19*	**43,512**	43,512
Amortisation of prepaid land lease payments		**26**	77
Gross rental income		**—**	(591)
Less: outgoing		**—**	112
Net rental income		**—**	(479)
Net foreign exchange losses		**60**	38
Operating lease payments in respect of leasehold interest in land and rented properties		**817**	545
Employee benefit expense (including directors' remuneration)			
Wages and salaries		**52,429**	27,737
Equity-settled share option expense	*36*	**2,802**	760
Pension scheme contribution#		**71**	79
		55,302	28,576

* The item is included in "Cost of sales" on the face of the consolidated statement of comprehensive income.

\# As at 31 December 2010 and 2009, 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 from continuing operations is as follows:

		Group	
		2010	2009
	Note	***HK$'000***	*HK$'000*
Interest on bank borrowings, wholly repayable within five years		**7,648**	11,337
Interest on promissory notes		**11,826**	3,968
Interest on convertible bonds	*33*	**23,238**	—
		42,712	15,305

8. INCOME TAX EXPENSE

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.

	2010	2009
	HK$'000	*HK$'000*
Group:		
Current — Hong Kong		
Charge for the year	**—**	—
Overprovision in prior years	**(3,622)**	—
Current – Elsewhere	**96,633**	45,006
Deferred *(note 34)*	**(5,348)**	(3,500)
Total tax charges for the year	**87,663**	41,506

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:

8. INCOME TAX EXPENSE *(Continued)*

Group — 2010

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax from continuing operations	**(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**

Group — 2009

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax from continuing operations	(56,246)		180,022		123,776	
Tax at the statutory tax rate	(9,281)	(16.5)	45,006	25.0	35,725	28.9
Income not subject to tax	(88)	(0.1)	—	—	(88)	(0.1)
Expenses not deductible for tax	4,221	7.5	—	—	4,221	3.4
Tax losses not recognised	1,648	2.9	—	—	1,648	1.3
Tax (credit)/charge at the Group's effective rate	(3,500)	(6.2)	45,006	25.0	41,506	33.5

9. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2010 includes a profit of HK$124,840,000 (2009: profit of HK$100,674,000) which has been dealt with in the financial statements of the Company (note 37(b)).

10. DISCONTINUED OPERATIONS

	Note	2009 *HK$'000*
Profit from discontinued operations		
— the Frankie Group *(as defined in (i) below)*	*(i)*	24,968
		24,968

Note:

(i) On 19 August 2009, the Group entered into a sale agreement to dispose of Frankie Dominion (Holdings) Limited and its subsidiaries (collectively known as the "Frankie Group") which carried out all of the Group's operations related to trading of household products, and manufacturing and sales of household products. The disposal was effected in order to redeploy resources to other businesses of the Group. The disposal resulted in a gain on disposal of approximately HK$19,056,000 and was completed on 12 October 2009, which was the date control of the Frankie Group was passed to the acquirer.

	Note	2009 *HK$'000*
Profit of the Frankie Group for the year		5,912
Gain on disposal of the Frankie Group	*38*	19,056
		24,968

The results of the Frankie Group for the year ended 31 December 2009, which have been included in the consolidated statement of comprehensive income, were as follows:

	2009 *HK$'000*
Revenue	268,425
Cost of sales	(242,210)
Other income	559
Selling and distribution costs	(2,788)
Administrative expenses	(17,220)
Finance costs	(854)
Profit before taxation	5,912
Taxation	—
Profit for the year from discontinued operations	5,912

10. DISCONTINUED OPERATIONS *(Continued)*

Note: (Continued)

(i) *(Continued)*

	HK$'000 (Restated)
Profit for the year ended 31 December 2009 from discontinued operations was arrived at after charging/(crediting):	
Auditors' remuneration	200
Cost of inventories sold	242,210
Depreciation	791
Amortisation of prepaid land lease payments	80
Gain on disposal of items of property, plant and equipment	(1)
Net foreign exchange loss	599
Operating lease payments in respect of rented properties	598
Employee benefit expense (including directors' remuneration):	
Wage and salaries	10,257
Pension scheme contributions	329
	10,586
Interest expense on bank borrowings wholly repayable within five years	854
Interest income on bank deposits	(4)

10. DISCONTINUED OPERATIONS *(Continued)*

The net cash flows incurred by the Frankie Group for the year ended 31 December 2009 were as follows:

	2009
	HK$'000
Operating activities	(5,385)
Investing activities	1,331
Financing activities	(12,964)
Net cash outflows	(17,018)

Earnings per share:	
Basic, from discontinued operations	HK0.42 cent
Diluted, from discontinued operations	HK0.42 cent

The calculations of basic and diluted earnings per share from discontinued operations for the year ended 31 December 2009 are based on:

Profit attributable to ordinary equity holders of the parent from discontinued operations	HK$24,968,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation *(note 14)*	5,977,926,000
Weighted average number of ordinary shares used in the diluted earnings per share calculation *(note 14)*	5,977,926,000

11. DIVIDEND

	Group	
	2010	2009
	HK$'000	*HK$'000*
Proposed final dividend — HK0.5 cent (2009: Nil) per ordinary share	**21,715**	—

The proposed final dividend for the year ended 31 December 2010 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. These financial statements do not reflect the dividend payable.

12. 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	
	2010	2009
	HK$'000	*HK$'000*
Fees	**2,040**	1,540
Other emoluments:		
Salaries, allowances and benefits in kind	**3,432**	2,412
Bonuses	**2,556**	811
Equity settled share-based payments	**2,149**	456
Pension scheme contributions	**24**	21
	8,161	3,700
	10,201	5,240

During the years ended 31 December 2010 and 2009, 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 36 to the financial statements. The fair value of such 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 2010 and 2009 have been included in the above directors' remuneration disclosures.

12. DIRECTORS' EMOLUMENTS *(Continued)*

2010

	Directors' fees *HK$'000*	Salaries, allowances and benefit in kind *HK$'000*	Bonuses *HK$'000*	Equity settled share-based payments *HK$'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
	2,040	3,432	2,556	2,149	24	10,201

12. DIRECTORS' EMOLUMENTS *(Continued)*

2009

	Directors' fees HK$'000	Salaries, allowances and benefit in kind HK$'000	Bonuses HK$'000	Equity settled share-based payments HK$'000	Pension scheme contributions HK$'000	Total HK$'000
Executive directors:						
Li Baoqi	416	504	200	207	—	1,327
Wu Jixian	780	1,758	425	249	12	3,224
Chim Kim Lun, Ricky	—	—	—	—	—	—
Cheng Kwok Hing, Andy (resigned on 2 November 2009)	310	—	—	—	7	317
Cheung Ka Fai (appointed on 30 October 2009)	34	150	186	—	2	372
Lam Po Kwai, Frankie (resigned on 12 January 2009)	—	—	—	—	—	—
	1,540	2,412	811	456	21	5,240
Independent non-executive directors:						
Lam Hoy Lee, Laurie	—	—	—	—	—	—
Wan Hong Keung	—	—	—	—	—	—
Sun Tak Keung (resigned on 18 January 2010)	—	—	—	—	—	—
To Wing Tim, Paddy (appointed on 30 October 2009)	—	—	—	—	—	—
	1,540	2,412	811	456	21	5,240

12. DIRECTORS' EMOLUMENTS *(Continued)*

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2009: Nil).

During the years ended 31 December 2010 and 2009, 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.

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2009: three) directors details of whose remuneration are set out in note 12 above. Details of the remuneration of the remaining two (2009: two) non-director, highest paid employees for the year are as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**1,197**	2,766
Equity settled share-based payments	**467**	145
Retirement benefit scheme contributions	**18**	24
	1,682	2,935

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

	Number of employees	
	2010	2009
Nil to HK$1,000,000	**2**	1
HK$2,000,001 to HK$2,500,000	**—**	1
	2	2

During the year and in prior year, share options were granted to a non-director, highest paid employee in respect of his service to the Group, further details of which are included in the disclosures in note 36 to the financial statements. The fair value of such 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 have been included in the above non-director, highest paid employees' remuneration disclosures.

14. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to owners of the parent of HK$167,859,000 (2009: HK$93,736,000), and the weighted average number of ordinary shares of 5,977,926,000 (2009: 5,977,926,000) in issue during the year, as adjusted to reflect the full conversion of the convertible bonds issued in 2008 for ordinary shares of the Company during the year.

As disclosed in note 33, the 2008 Convertible Bonds (as defined therein) 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 per share.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to owners of the parent. 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 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 per share are based on:

	2010	2009
	HK$'000	*HK$'000*
Earnings		
Profit attributable to owners of the parent, used in the basic earnings per share calculation:		
From continuing operations	**167,859**	68,768
From discontinued operation	**—**	24,968
	167,859	93,736

14. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT *(Continued)*

	Number of shares	
	2010	2009
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**5,977,926**	5,977,926
Effect of dilution — weighted average number of ordinary shares:		
Share options	**74**	—
	5,978,000*	5,977,926

* Because the diluted earnings per share amount increases when taking into account of the 2010 Convertible Bonds (as defined in note 33), the 2010 Convertible Bonds had an anti-dilutive effect on the basic earnings per share for the year ended 31 December 2010 and were ignored in the calculation of diluted earnings per share. Therefore, diluted earnings per share amounts are based on the profit for the year attributable to continuing operations of HK$167,859,000 and the weighted average number of ordinary shares (after effect of dilution) of 5,978,000,000 in issue during the year.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	Land and buildings HK$'000	Furnaces and infrastructures HK$'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 2009 (Restated)		309,013	—	254,682	41,745	28,679	27,423	36,179	697,721
Additions		—	—	316	3	207	306	24,143	24,975
Disposals		(26,300)	—	—	—	(4)	—	—	(26,304)
Disposal of subsidiaries	38	(14,505)	—	(33,391)	(3,813)	(28,175)	(4,854)	—	(84,738)
At 31 December 2009 (Restated)		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	38	(28,759)	—	—	—	—	—	—	(28,759)
Transfer from investment property	17	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
DEPRECIATION AND IMPAIRMENT									
At 1 January 2009 (Restated)		18,540	—	37,838	4,560	25,964	3,797	—	90,699
Provided for the year		7,719	—	22,811	6,689	604	5,075	—	42,898
Disposals		(150)	—	—	—	(3)	—	—	(153)
Disposal of subsidiaries	38	(2,959)	—	(33,391)	(3,378)	(26,228)	(3,231)	—	(69,187)
At 31 December 2009 (Restated)		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	38	(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
NET CARRYING AMOUNT									
At 31 December 2010		338,993	438,190	295,820	50,606	2,634	21,626	143,937	1,291,806
At 31 December 2009 (Restated)		245,058	—	194,349	30,064	370	17,234	60,322	547,397
At 1 January 2009 (Restated)		290,473	—	216,844	37,185	2,715	23,626	36,179	607,022

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 2010 Promissory Notes with fair values of HK$391,372,000 (note 31) 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.

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

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

	Group	
	2010	2009
	HK$'000	*HK$'000*
		(Restated)
Properties situated on leasehold interest land:		
In Hong Kong under long lease	**111,052**	78,575
Outside Hong Kong under medium-term lease	**227,941**	166,483
	338,993	245,058

At 31 December 2010, certain of the Group's land and buildings with a net carrying amount of approximately HK$111,052,000 (2009: HK$78,575,000) were pledged to secure general banking facilities granted to the Group (note 32).

16. PREPAID LAND LEASE PAYMENTS

	Group	
	2010	2009
	HK$'000	*HK$'000*
Carrying amount at 1 January (Restated)	**2,019**	6,441
Recognised during the year (Restated)	**(26)**	(157)
Disposal of subsidiaries *(note 38)*	**(1,993)**	(4,265)
Carrying amount as at 31 December (Restated)	—	2,019
Current portion	—	(77)
Non-current portion	—	1,942

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

17. INVESTMENT PROPERTY

		Group	
		2010	2009
	Notes	***HK$'000***	*HK$'000*
Carrying amount at 1 January		**37,000**	26,658
Gain on fair value change	*5*	**—**	10,342
Transfer to property, plant and equipment	*15*	**(37,000)**	—
Carrying amount at 31 December		**—**	37,000

The Group's investment property as at 31 December 2009 was situated in Hong Kong and held under long term lease.

The Group's investment property was revalued on 31 December 2009 by B.I. Appraisals Limited, independent professionally qualified valuers, at HK$37,000,000 on open market, existing use basis.

At 31 December 2009, the Group's investment property was pledged to secure general banking facilities granted to the Group (note 32).

18. GOODWILL

	Group
	HK$'000
Cost:	
At 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010	2,269,645
Accumulated impairment:	
At 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010	(1,870,383)
Net carrying amount:	
At 31 December 2010	399,262
At 31 December 2009	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.

19. OTHER INTANGIBLE ASSET

Export agency	Note	Group HK$'000
Cost:		
At 1 January 2009, at 31 December 2009, 1 January 2010 and 31 December 2010		870,192
Accumulated amortisation:		
At 1 January 2009		27,194
Provided during the year	6	43,512
At 31 December 2009 and 1 January 2010		70,706
Provided during the year	6	43,512
At 31 December 2010		114,218
Net carrying amount:		
At 31 December 2010		755,974
At 31 December 2009		799,486

The export agency 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 entitles the Group to have an exclusive right to handle the export business of coke from the supplier. The agreement is effective for 3 years from the agreement date of 1 January 2007, and will continue to be effective if there is no change related to the contractual parties. The directors of the Company are of 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 will continue to maintain a relationship with the coke supplier such that HIG will continue to handle the export business of coke from the coke supplier for the 20-year duration. Taking into consideration of market and competitive information, the Group estimated that the useful life of the intangible asset is 20 years, being the period over which the Group is expected to generate net cash flows. The discounted cash flow method, with cash flows 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 export agency intangible asset is amortised on a straight-line method over the estimated useful life of 20 years.

19. 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 agrees to continue to grant HIG the exclusive right to handle the export business of the coke from the supplier, and where the export quantity falls short of the export quota granted by the relevant PRC government, the difference will be supplied to HIG or its nominee for domestic sales in Mainland China. The modified export agency agreement is effective for 3 years from 1 July 2010, and will continue to be effective if there is no change to the contractual parties. Taking into account of the above, management considers it appropriate that the estimated useful life of the other intangible asset to remain at 20 years.

20. 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 2010 and 2009 allocated to these units are as follows:

	Goodwill		Export agency		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Coke trading segment	**10,718**	10,718	**755,974**	799,486	**766,692**	810,204
Coal-related ancillary segment	**388,544**	388,544	**—**	—	**388,544**	388,544
	399,262	399,262	**755,974**	799,486	**1,155,236**	1,198,748

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 17-year duration (2009: 18-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 15.40% (2009: 15.40%).

Key assumptions were used in the value in use calculation of the coke trading cash-generating unit for the year ended 31 December 2010. The following describes each key assumption on which management had based its cash flow projections to undertake impairment testing.

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

Coke trading cash-generating unit *(Continued)*

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 and by reference to the terms of the relevant supplier's export contract.

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

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 five-year period on growth rate approved by senior management and cash flows beyond the five-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 15.4% (2009: 15.4%).

Key assumptions were used in the value in use calculation of the coal-related ancillary cash-generating unit as at 31 December 2010. 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.

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 materials price inflation is the forecast inflation indices during the budget year from where the raw materials are sourced.

21. INVESTMENTS IN SUBSIDIARIES

	Company	
	2010	2009
	HK$'000	*HK$'000*
Unlisted shares, at cost	**55,882**	55,882
Amounts due from subsidiaries	**3,751,611**	3,575,236
Amounts due to subsidiaries	**(84,308)**	(74,187)
Impairment#	**(1,602,842)**	(1,762,636)
	2,120,343	1,794,295

The impairment as at 31 December 2010 includes impairment provision of HK$1,557,207,000 (2009: HK$1,762,636,000) 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.

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

	2010	2009
	HK$'000	*HK$'000*
At 1 January	**1,762,636**	1,870,383
Reversal of provision for impairment	**(205,429)**	(107,747)
At 31 December	**1,557,207**	1,762,636

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.

21. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries as at 31 December 2010 are as follows:

Name of company	Place of incorporation/ registration and 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$10,000 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
Frankie Dominion (B.V.I.) Company Limited*	British Virgin Islands/ Hong Kong	US$35,000 Ordinary	100%	—	Investment holding

* 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 amounts 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.

22. AVAILABLE-FOR-SALE INVESTMENT

	Group	
	2010	2009
	HK$'000	*HK$'000*
Club debentures, at fair value	**2,568**	2,568

No gain or loss in respect of the Group's available-for-sale investment was recognised in other comprehensive income for the year ended 31 December 2010 (2009: nil).

23. INVENTORIES

	Group	
	2010	2009
	HK$'000	*HK$'000*
Raw materials	**145,758**	59,571
Work in progress	**12,246**	—
Finished goods	**13,707**	—
	171,711	59,571

24. TRADE AND BILLS RECEIVABLES

	Note	Group 2010 HK$'000	2009 HK$'000
Trade receivables		**574,092**	281,748
Bills receivables		**57,059**	17,045
		631,151	298,793
Less: Trade receivables due from the Non-controlling Shareholder	26	**(351,132)**	(272,623)
		280,019	26,170

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 such arrangement enables the Group to limit its credit risk exposure. As at 31 December 2010, approximately 56% (2009: 91%) and 33% (2009: Nil) of the Group's trade receivables were due from the Group's two customers, there is a significant concentration of credit risk. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

Included in the Group's trade receivables is an amount due from the Non-controlling Shareholder of HK$351,132,000 (2009: HK$272,623,000) which is receivable 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.

An aged analysis of the trade receivables as at the end of the reporting period, based on the payment due date, is as follows:

	Group 2010 HK$'000	2009 HK$'000
Neither past due nor impaired	**595,798**	298,793
More than 3 months past due	**35,353**	—
	631,151	298,793

24. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	Group	
	2010	2009
	HK$'000	*HK$'000*
At 1 January	**—**	2,600
Amount written off as uncollectible	**—**	(2,600)
	—	—

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

Based on past experience, the directors of the Company 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. The Group does not hold any collateral or other credit enhancements over these balances.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
	Notes	**2010**	2009	**2010**	2009
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other receivables and prepayments		**22,647**	12,519	**1,584**	1,960
Advance payments to the Non-controlling Shareholder	*(i)*	**249,957**	387,297	**—**	—
Advance payments to other suppliers	*(ii)*	**410,334**	162,871	**—**	—
		682,938	562,687	**1,584**	1,960

As at 31 December 2010 and 2009, other receivables 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.

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

Notes:

(i) Advance payments are requested by the coke supplier, which is the Non-controlling Shareholder, for purchase of coke for export trading (note 19). The balance is unsecured, non-interest-bearing and is to be settled with future purchases. For the year ended 31 December 2010, there was no purchase of coke for export trading, and the coke supplier had made partial refund of the advance payments upon request by the Group. In the opinion of the directors, the balance at 31 December 2010 will be set off against future purchases from the coke supplier or will be settled within one year upon request by the Group, whichever is earlier.

(ii) Advance payments are requested by the suppliers of raw materials for the coal-related ancillary and the coke production businesses. The balances are unsecured, non-interest-bearing and to be settled with future purchases.

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

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

		Group	
		2010	2009
	Notes	***HK$'000***	*HK$'000*
Trade receivables due from the Non-controlling Shareholder *(Note 24)*	*(i)*	**351,132**	272,623
Amount due to the Non-controlling Shareholder	*(ii)*	**13,501**	—

Notes:

(i) The balance is trade in nature and is unsecured, non-interest-bearing and repayable within the credit term of 120 days (2009: 120 days), which is similar to those granted to major trading customers of the Group. As at 31 December 2010 and 2009, the balances were aged within the credit period.

(ii) The balance represented the remaining cash consideration payable in relation to the acquisition of the coke production assets, further details of which are disclosed in note 15 to the financial statements.

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

27. EQUITY INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2010	2009
	HK$'000	*HK$'000*
Mutual funds	**3,351**	3,334

At 31 December 2010 and 2009, the portfolio of mutual funds held by the Group included equity securities listed in Hong Kong.

28. CASH AND CASH EQUIVALENTS, AND PLEDGED DEPOSITS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**16,977**	29,122	**92**	78
Time deposits	**23,529**	—	**—**	—
	40,506	29,122	**92**	78
Less: Pledged time deposits for bills payables	**(23,529)**	—	**—**	—
Cash and cash equivalents	**16,977**	29,122	**92**	78

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$12,530,000 (2009: HK$1,084,734). 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.

29. TRADE AND BILLS PAYABLES

	Group	
	2010	2009
	HK$'000	*HK$'000*
Trade payables	**521,366**	123,579
Bills payables	**23,530**	—
	544,896	123,579

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	
	2010	2009
	HK$'000	*HK$'000*
Within 1 month	**141,326**	35,369
1 to 2 months	**107,344**	52,150
2 to 3 months	**50,081**	27,174
Over 3 months	**246,145**	8,886
	544,896	123,579

The trade payables are non-interest-bearing and are normally settled on a 120 days term.

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

30. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other payables and accrued charges	**142,849**	85,922	**3,229**	2,024
Advance received from a customer	**73,715**	69,804	**—**	—
	216,564	155,726	**3,229**	2,024

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

The carrying amounts of other payables approximate their fair values.

31. PROMISSORY NOTES

	Group	
	2010	2009
	HK$'000	*HK$'000*
2008 Promissory Notes	**—**	15,000
2010 Promissory Notes	**413,145**	—
	413,145	15,000
Current portion	**(214,679)**	(15,000)
Non current portion	**198,466**	—

2008 Promissory Notes

On 11 January 2008, the Company and Mr. Wu Jixian, who was appointed as an executive director of the Company on 1 June 2008, entered into a sale and purchase agreement (the "Agreement") pursuant to which the Company issued two unsecured, interest-free promissory notes (the "2008 Promissory Notes") with the principal amount of HK$100 million each on 16 May 2008 and 31 October 2008, with a maturity date of 12 months from the respective dates of issue, to Mr. Wu Jixian for the partial settlement of the consideration for the acquisitions of the Pride Eagle Group and the Joy Wisdom Group, respectively. The effective interest rate of the 2008 Promissory Notes was 5% per annum. Balance as at 31 December 2009 represented the remaining payable of the 2008 Promissory Notes, which was fully settled during the year ended 31 December 2010.

2010 Promissory Notes

On 10 June 2010, the Company issued two unsecured, interest-free promissory notes (the "2010 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 15). The effective interest rate of the 2010 Promissory Notes is 5.4% per annum. Each of the 2010 Promissory Notes matures on 9 December 2011 and 9 June 2013, respectively. The carrying values of the promissory notes approximate their fair values.

32. INTEREST-BEARING BANK BORROWINGS

Group

	31 December 2010			31 December 2009			1 January 2009		
	Effective contractual interest rate	Maturity	HK$'000	Effective contractual interest rate	Maturity	HK$'000	Effective contractual interest rate	Maturity	HK$'000
Export loans	1 month LIBOR+ 2.5%	2011	193,750	1 month LIBOR+ 2.5%	2010	333,250	1 month LIBOR+ 2.5%	2009	387,500
Mortgage loans	1 month HIBOR + 1.25%	On demand	37,800	1 month HIBOR + 1.25%	On demand	43,200	1 month HIBOR + 1.25%	On demand	55,994
Other bank loans			—			—	1 month LIBOR+ 2.5%	2009	3,484
			231,550			376,450			446,978
Secured			231,550			376,450			443,494
Unsecured			—			—			3,484
			231,550			376,450			446,978
Carrying amounts repayable On demand or within one year			231,550			376,450			446,978

Notes:

(a) Except for the export loans of HK$193,750,000 (2009: HK$333,250,000) which are denominated in United States dollars, all bank borrowings are denominated in Hong Kong dollars.

(b) Secured bank borrowings are secured by:

(i) mortgages over the Group's land and buildings, and investment property situated in Hong Kong, which had an aggregate carrying value at 31 December 2010 of HK$111,052,000 (2009: HK$78,575,000) (note 15) and nil (2009: HK$37,000,000) (note 17), respectively; and

(ii) mutual fund investment with a carrying value of HK$3,351,000 (2009: HK$3,334,000) (note 27).

(c) Export loans represent loans obtained by the Group to make advance payments to the Non-controlling Shareholder for purchases of coke for export trade as set out in note 25 to the financial statements. At 31 December 2010, the balance was to be settled within one year, or upon receipt of export sales of coke, whichever is earlier.

(d) As further explained in notes 2.2 and 46 to the financial statements, due to the adoption of HK Interpretation 5 in the current reporting period, the Group's bank loan in the amount of HK$32,400,000 (2009: HK$37,800,000) 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 borrowings and analysed into bank loans repayable within one year or on demand.

(e) Based on the maturity terms of the bank loans, the amounts repayable in respect of the bank loans are HK$199,500,000 (2009: HK$338,650,000) payable within one year; HK$5,400,000 (2009: HK$5,400,000) payable in the second year; HK$16,200,000 (2009: HK$16,200,000) payable in the third to fifth years, inclusive and HK$10,800,000 (2009: HK$16,200,000) payable beyond five years.

33. CONVERTIBLE BONDS

2008 Convertible Bonds

The Company issued two tranches of zero coupon convertible bonds, each with a principal amount of HK$1,100 million, 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.

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 million 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 2010, the 2008 Convertible Bonds with an aggregate carrying amount of HK$562,800,000 (2009: HK$1,006,650,000) and principal amount of HK$391,000,000 (2009: HK$621,000,000) were converted into 977,500,000 (2009: 1,552,500,000) shares of the Company. Accordingly, HK$97,750,000 (2009: HK$155,250,000) and HK$465,050,000 (2009: HK$851,400,000) 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$931,950,000 as at 31 December 2010 (2009: HK$1,494,750,000) were fully converted, it would result in the issue of 1,635,000,000 (2009: 2,612,500,000) additional ordinary shares of the Company, and HK$163,500,000 (2009: HK$261,250,000) would be transferred to the share capital account and the remaining HK$768,450,000 (2009: HK$1,233,500,000) would be transferred to the contributed surplus account from convertible bonds reserves.

33. CONVERTIBLE BONDS *(Continued)*

2010 Convertible Bonds

On 24 May 2010, the Company issued HK$192.5 million, 8 per cent convertible bonds (the "2010 Convertible Bonds") to two independent third parties with maturity date 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 purchase and cancelled as provided in the respective subscription agreements, the 2010 Convertible Bonds will be redeemed on maturity date at the principal amount plus the 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 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. Their fair values at the end of the reporting period were nil.

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$577,500,000 and carrying amount of HK$822,937,500 as at 31 December 2010.

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

33. 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		(59,683)
Non-current portion		119,367

On initial recognition, the fair value of the liability component of the 2010 Convertible Bonds was determined using the prevailing market interest of a similar convertible bond without a conversion option. The residual amount was assigned as the equity component and was included in equity.

34. DEFERRED TAX

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

Deferred tax liabilities

Group

	2010				
	Accelerated tax depreciation *HK$'000*	Tax losses *HK$'000*	Revaluation of investment properties *HK$'000*	Fair value adjustments arising from acquisition of subsidiaries *HK$'000*	Total *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 8)*	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

Group

	2009				
	Accelerated tax depreciation *HK$'000*	Tax losses *HK$'000*	Revaluation of investment properties *HK$'000*	Fair value adjustments arising from acquisition of subsidiaries *HK$'000*	Total *HK$'000*
At 1 January 2009	5,340	(442)	(106)	139,095	143,887
Deferred tax charged/(credited) to profit or loss during the year *(note 8)*	1,665	308	1,706	(7,179)	(3,500)
Disposal of subsidiaries *(note 38)*	(943)	—	—	—	(943)
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2009	6,062	(134)	1,600	131,916	139,444

34. DEFERRED TAX *(Continued)*

The Group has tax losses arising in Hong Kong of HK$30,933,000 (2009: HK$10,801,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

As at 31 December 2010, no deferred tax assets have been recognised (2009: Nil) in respect of the losses of HK$30,933,000 (2009: HK$9,988,000) 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 2010, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject 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$465,994,000 at 31 December 2010 (2009: HK$187,315,000).

35. SHARE CAPITAL

Shares

	2010	2009
	HK$'000	*HK$'000*
Authorised:		
20,000,000,000 (2009: 20,000,000,000) ordinary shares of HK$0.1 each	**2,000,000**	2,000,000
Issued and fully paid:		
4,342,926,292 (2009: 3,365,426,292) ordinary shares of HK$0.1 each	**434,293**	336,543

35. 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 2009		1,812,926,292	181,293
Issue of shares upon conversion of the 2008 Convertible Bonds	*(a)*	1,552,500,000	155,250
At 31 December 2009 and 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		4,342,926,292	434,293

Note:

(a) During the year ended 31 December 2010, 977,500,000 (2009: 1,552,500,000) 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$391,000,000 (2009: HK$621,000,000) at a conversion price of HK$0.4 each (note 33).

Share option

Details of the Company's share option scheme and the share options issued under the scheme are included in note 36 to the financial statements.

36. 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 10 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 million, 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; and (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.

36. SHARE OPTION SCHEME *(Continued)*

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

	2010		2009	
	Weighted average exercise price *HK$ per share*	**Number of options** *'000*	Weighted average exercise price *HK$ per share*	Number of options *'000*
At 1 January	**0.5**	**5,500**	—	—
Granted during the year	**0.68**	**12,000**	0.5	5,500
Forfeited during the year	**—**	**—**	—	—
Exercised during the year	**—**	**—**	—	—
Lapsed during the year	**—**	**—**	—	—
At 31 December	**0.623**	**17,500**	0.5	5,500

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

2010

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
17,500		

2009

Number of options *'000*	Exercise price* *HK$ per share*	Exercise period
5,500	0.5	27-02-09 to 26-02-14
5,500		

* 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.

36. SHARE OPTION SCHEME *(Continued)*

The fair value of the share options granted during the year was HK$2,802,000 (2009: HK$760,000) which the Group recognised a share option expense of HK$2,802,000 (2009: HK$760,000) during the year ended 31 December 2010.

The fair value of equity-settled share options granted during 2010 and 2009 was estimated as at the date of grant, using Black-Scholes option pricing 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	**11 January 2010**	27 February 2009
Dividend yield (%)	**—**	—
Expected volatility (%)	**55.12%**	44.36%
Historical volatility (%)	**55.12%**	44.36%
Risk-free interest rate (%)	**0.7675%**	0.92%
Expected life of options (year)	**2.5 years**	2.5 years
Weighted average share price (HK$ per share)	**HK$0.68**	HK$0.50

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 17,500,000 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 17,500,000 additional ordinary shares of the Company and additional share capital of HK$1,750,000 and share premium of HK$9,160,000 (before issue expenses).

Subsequent to the end of the reporting period, on 27 January 2011, a total of 20,000,000 share options were granted to certain of the directors, chief executive and a substantial shareholder of the Company in respect of their services to the Group in the forthcoming year. These share options vest on 27 February 2011, have an exercise price of HK$0.4 per share and an exercise period starting from 27 January 2011 and ending on 26 January 2016. The price of the Company's shares at the date of grant was HK$0.40 per share.

At the date of approval of these financial statements, the Company had 37,500,000 share options outstanding under the Scheme, which represented approximately 0.9% of the Company's shares in issue as at that date.

37. 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.

(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 2009		144,997	747,600	17,275	85	—	2,501,400	(1,899,775)	1,511,582
Profit for the year and total comprehensive income for the year	9	—	—	—	—	—	—	100,674	100,674
Issue of shares upon conversion of the 2008 Convertible Bonds	35(a)	—	851,400	—	—	—	(1,006,650)	—	(155,250)
Equity-settled share option arrangements	36	—	—		—	760	—	—	760
At 31 December 2009 and 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	9	—	—	—	—	—	—	124,840	124,840
Issue of the 2010 Convertible Bonds	33	—	—	—	—	—	17,789	—	17,789
Issue of shares upon conversion of the 2008 Convertible Bonds	35(a)	—	465,050	—	—	—	(562,800)	—	(97,750)
Equity-settled share option arrangement	36	—	—	—	—	2,802	—	—	2,802
Transfer	(iii)	—	(1,729,000)	—	—	—	—	1,729,000	—
At 31 December 2010		144,997	335,050	17,275	85	3,562	949,739	54,739	1,505,447

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.

38. DISPOSAL OF SUBSIDIARIES

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

As disclosed in note 10 to the financial statements, the Group disposed of the Frankie Group on 12 October 2009.

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

	Notes	**2010** **HK$'000**	2009 HK$'000 (Restated)
Net assets disposed of:			
Property, plant and equipment	15	**12,969**	15,551
Prepaid land lease payments	16	**1,993**	4,265
Retirement benefit scheme's assets		**—**	3,825
Available-for-sale investment		**—**	880
Inventories		**—**	12,946
Trade and bills receivables, and prepayments		**—**	57,779
Cash and bank balances		**—**	19,204
Trade and bills payables, and accrued charges		**(208)**	(72,563)
Deferred tax liabilities	34	**—**	(943)
Shareholder's loan		**(14,918)**	—
		(164)	40,944
Assignment of shareholder's loan		**14,918**	—
Gain on disposal of subsidiaries		**246**	19,056
		15,000	60,000
Satisfied by:			
Cash		**15,000**	60,000

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

	2010 **HK$'000**	2009 HK$'000
Cash consideration	**15,000**	60,000
Cash and bank balances disposed of	**—**	(19,204)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**15,000**	40,796

39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

During the year ended 31 December 2010, the Group acquired the coke production assets for a consideration of approximately HK$663,187,000. The consideration was satisfied by the issue of the 2010 Promissory Notes with fair values of HK$391,372,000 on the acquisition date and cash consideration of HK$271,815,000 to be payable within one year from the date of acquisition. During the year, the Group made a partial settlement of the cash consideration payable of HK$258,314,000.

40. PLEDGE OF ASSETS

Details of the Group's bank borrowings, which are secured by certain assets of the Group, are included in notes 15, 17, 22, 32 and 33 to the financial statements.

41. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 42 below, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Acquisition of plant and equipment:		
Authorised, but not contracted for	**83,299**	212,857
Contracted, but not provided for	**—**	3,130

In addition to the above, on 10 December 2009, the Group entered into a conditional sale and purchase agreement for the acquisition of coke production assets, accessories and work-in-progress materials from the Non-controlling Shareholder, for a consideration of approximately HK$726,280,000 (equivalent to RMB639,130,000). The consideration was to be satisfied by issue of two zero-coupon promissory notes and cash. The acquisition was completed during the year ended 31 December 2010.

42. 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 a term of ten years (2009: twenty years).

At 31 December 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Within one year	**1,176**	545
In the second to fifth years, inclusive	**4,706**	2,182
After five years	**5,196**	7,455
	11,078	10,182

43. 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:

		2010	2009
	Notes	***HK$'000***	*HK$'000*
With the Non-controlling Shareholder:			
Sales of refined coal and electricity	*(i)*	**1,009,534**	934,911
Sales of mid coal	*(i)*	**26,118**	—
Sales of coal by-products	*(i)*	**29,182**	—
Transportation income	*(i)*	**5,378**	—
Purchases of coke	*(i)*	**91,367**	—
Rental expenses	*(ii)*	**817**	480
Reimbursement of finance costs	*(i)*	**7,750**	10,535
Acquisition of coke production assets	*(iii)*	**663,187**	—
Acquisition of accessories and work in progress	*(iv)*	**21,478**	—

43. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

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.

(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.

(b) Outstanding balances with related parties

Details of the Group's balances with the Non-controlling Shareholder are disclosed in notes 24, 25 and 26 to the financial statements.

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

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

	Group	
	2010	2009
	HK$'000	*HK$'000*
Salaries and other benefits	**8,028**	4,763
Equity settled share-based payments	**2,149**	456
Pension scheme contribution	**24**	21
	10,201	5,240

Further details of directors' emoluments are included in note 12 to the financial statements.

44. 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:

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 investment	—	—	2,568	2,568
Trade and bills receivables	—	280,019	—	280,019
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
Other payables	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

44. 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)*

2009 — Group

Financial assets

	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 investment	—	—	2,568	2,568
Trade and bills receivables	—	26,170	—	26,170
Other receivables	—	10,579	—	10,579
Amount due from the Non-controlling Shareholder	—	272,623	—	272,623
Equity investment at fair value through profit or loss	3,334	—	—	3,334
Cash and cash equivalents	—	29,122	—	29,122
	3,334	338,494	2,568	344,396

Financial liabilities

	Financial liabilities at amortised cost *HK$'000*
Trade and bills payables	123,579
Other payables	68,781
Promissory notes	15,000
Interest-bearing bank borrowings	376,450
	583,810

44. 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)*

	Company	
Financial assets	**2010**	2009
	Loan and receivables	Loan and receivables
	HK$'000	*HK$'000*
Other receivables	**—**	1,960
Amounts due from subsidiaries *(note 21)*	**2,194,404**	1,812,600
	2,194,404	1,814,560

Financial liabilities	**2010**	2009
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	HK$'000	*HK$'000*
Convertible bonds	**179,050**	—
Amounts due to subsidiaries *(note 21)*	**84,308**	74,187
	263,358	74,187

45. 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)

45. FAIR VALUE HIERARCHY *(Continued)*

Assets measured at fair value:

Group

As at 31 December 2010

	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Available-for-sale investment	**2,568**	**—**	**—**	**2,568**
Equity investment at fair value through profit or loss	**3,351**	**—**	**—**	**3,351**
	5,919	**—**	**—**	**5,919**

As at 31 December 2009

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

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise promissory notes, convertible bonds 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, an amount due from/(to) the Non-controlling Shareholder, cash and cash equivalents, pledged deposits, trade and bills payables, which arise directly from its operations.

46. 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 bank borrowings in relation to movements in the London InterBank Offered Rates and Hong Kong InterBank Offered Rates.

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 before tax (through the impact on floating rate borrowings) and the Group's equity.

		Group	
	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**
2009			
Hong Kong dollar	100	(2,900)	(2,900)
Hong Kong dollar	(100)	2,900	2,900

46. 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 derivative financial instruments or hedging instruments outstanding. The Group will constantly review the economic situation and its foreign currency risk profile, and will consider appropriate hedging measures in 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 US$ exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	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**
2009		
If the Hong Kong dollar weakens against the USD	0.5%	(1,615)
If the Hong Kong dollar strengthens against the USD	0.5%	1,615

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, an available for sale investment, equity investment at fair value through profit or loss, 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 advance payments to the Non-controlling Shareholder (note 25), the Group had a concentration of credit risk as 56% (2009: 91%) and 33% (2009: Nil) of the Group's trade receivables were due from the Non-controlling Shareholder and an independent third party, respectively, as at 31 December 2010.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 24 to the financial statements.

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

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:

Group

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

	On demand or less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2009					
Trade and bills payables	123,579	—	—	—	123,579
Other payables	—	33,149	—	—	33,149
Promissory notes	—	15,000	—	—	15,000
Interest-bearing bank borrowings*	376,450	—	—	—	376,450
	500,029	48,149	—	—	548,178

46. 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
2010					
Other payables	—	3,229	—	—	3,229
Convertible bonds	59,033	10,267	191,345	—	260,645
Amount due to subsidiaries	—	—	84,308	—	84,308
	59,033	13,496	275,653	—	348,182

	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
2009					
Other payables	—	2,024	—	—	2,024
Amount due to subsidiaries	—	—	74,187	—	74,187
	—	2,024	74,187	—	76,211

* Included in interest-bearing bank borrowings are mortgaged term loan and export loans which the related agreements contain a repayment on-demand clause giving the bank 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 financial position of the Group; the Group's compliance with the loan covenants; the lack of events of default, and the fact that the Group has made all previously scheduled repayments on time.

In accordance with the terms of the loans, the contracted undiscounted payments as at 31 December 2010 are HK$202,412,000 in 2011, HK$22,875,000 during 2012 to 2015 and HK$10,965,000 in 2016 and beyond. The contractual undiscounted payments as at 31 December 2009 are HK$346,298,000 in 2010, HK$23,186,000 during 2011 to 2014 and HK$16,565,000 in 2015 and beyond.

46. 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. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2010 and 31 December 2009.

The Group monitors regularly 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 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

	2010	2009
	HK$'000	*HK$'000*
Promissory notes	**413,145**	15,000
Amount due to the Non-controlling Shareholder	**13,501**	—
Trade and bills payables	**544,896**	123,579
Other payables and accruals	**216,564**	155,726
Interest-bearing bank borrowings	**231,550**	376,450
Less: Cash and cash equivalents	**(16,977)**	(29,122)
Net debt	**1,402,679**	641,633
Convertible bonds, the liability component	**179,050**	—
Equity attributable to owners of the parent	**2,018,870**	1,795,861
Adjusted capital	**2,197,920**	1,795,861
Capital and net debt	**3,600,599**	2,437,494
Gearing ratio	**39%**	26%

47. EVENTS AFTER THE REPORTING PERIOD

On 14 September 2010, the Group entered into a non-binding memorandum of understanding with the Non-controlling Shareholder on the proposed construction of a coke production plant with a projected annual production capacity of approximately two million tonnes. On 14 March 2011, the validity of the memorandum was extended for 3 months from 14 March 2011 upon mutual agreement of the contractual parties. No formal agreement had been entered into as at the date of issue of these financial statements.

48. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, certain comparative amounts have been reclassified and revised to conform with the current year's presentation and accounting treatments.

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2011.

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