金山能源集團有限公司
KING STONE ENERGY GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00663)

Annual Report 2011

Leading the World to a Promising Future

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Da Yong *(Chairman)*
Mr. Tian Wenwei
Mr. Wang Tongtian
Mr. Chen Marlon Ray

Non-Executive Directors

Mr. Li Yi
Mr. Su Bin

Independent Non-Executive Directors

Mr. Cao Kuangyu
Mr. Chiu Sui Keung
Mr. Li Peiming
Mr. Lee Chi Hwa, Joshua

AUDIT COMMITTEE

Mr. Chiu Sui Keung *(Chairman)*
Mr. Cao Kuangyu
Mr. Li Peiming

REMUNERATION COMMITTEE

Mr. Cao Kuangyu *(Chairman)*
Mr. Chiu Sui Keung
Mr. Wang Da Yong
Mr. Li Peiming

STRATEGY AND INVESTMENT COMMITTEE

Mr. Wang Da Yong *(Chairman)*
Mr. Wang Tongtian
Mr. Li Yi
Mr. Cao Kuangyu

ADVISORY COMMITTEE

Mr. Wang Senhao *(Chairman)*
Mr. Chen Biting *(Co-Chairman)*
Mr. Zhang Changsheng

COAL MINE PRODUCTION SAFETY AND TECHNICAL COMMITTEE

Mr. Wang Da Yong *(Chairman)*
Mr. Wang Tongtian
Mr. Li Yi

NOMINATION COMMITTEE

Mr. Li Peiming *(Chairman)*
Mr. Cao Kuangyu
Mr. Chiu Sui Keung
Mr. Lee Chi Hwa, Joshua

AUTHORISED REPRESENTATIVES

Mr. Wang Da Yong
Mr. Tian Wenwei

COMPANY SECRETARY

Ms. Lam Pui Sea

AUDITORS

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22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

LEGAL ADVISERS

Michael Li & Co
19/F, Prosperity Tower
39 Queen's Road Central
Central, Hong Kong

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Central
Hong Kong

SHARE REGISTRAR

Tricor Secretaries Limited
Level 25, Three Pacific Place
1 Queen's Road East, Hong Kong

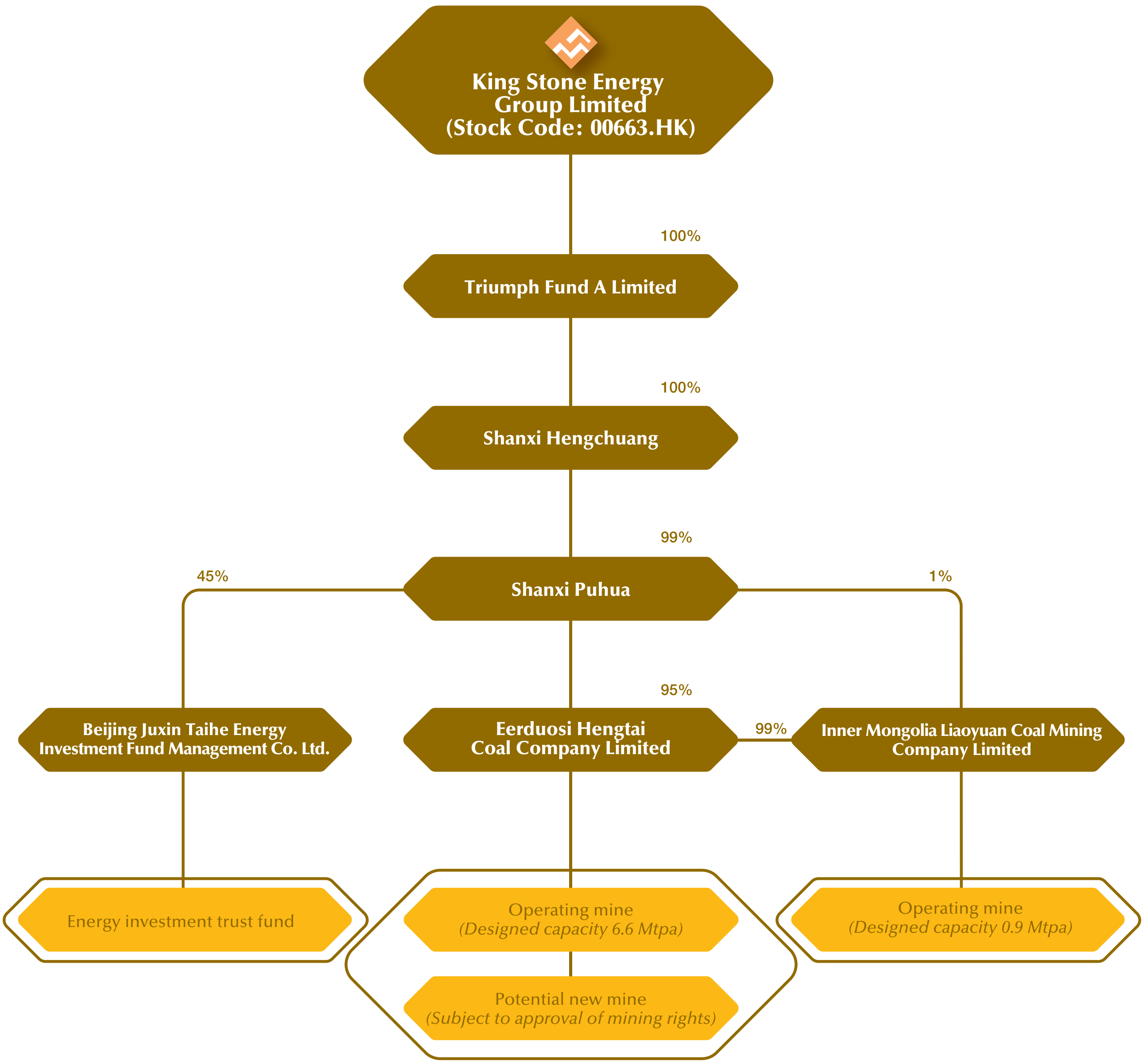
COMPANY WEBSITE

http://www.663hk.com

STOCK CODE

00663

GROUP STRUCTURE



OPERATING MINES

HENGTAI COAL MINE

Name	Eerduosi Hengtai Coal Company Limited (“Hengtai”)
Location	Dongshen Coalfield of Inner Mongolia
Licensed area	~7 km^2
Mining rights validity	2007–2022
Mining Method	Underground
Coal type	Thermal
Designed capacity	6.6 million tonnes per annum
Status	Operating

	Resources (million tonnes)	**Reserves** (million tonnes)
Total resources/reserves (JORC compliant)	203.87	71.86
Actual output in 2010	4.00	4.00
Actual output in 2011	3.60	3.60
Resources/reserves as at 31 December 2011	196.27	64.26

Note: The resources/reserves as at 31 December 2011 are derived from total resources/reserves extracted from technical report issued by John T. Boyd Company dated 18 November 2009 after deduction of actual output up to 31 December 2011 based on Hengtai's record.

LIAOYUAN COAL MINE

Name	Inner Mongolia Liaoyuan Coal Mining Company Limited
Location	YijinhuoLuoqi, Eerduosi, Inner Mongolia
Licensed area	8.396 km^2
Mining rights validity	2008–2013
Mining Method	Underground
Coal type	Thermal
Designed capacity	0.9 million tonnes per annum
Status	Operating

	Resources (million tonnes)
Resources as at 31 December 2011 (JORC equivalent)	15.75

Note: The resources were extracted from technical report issued by Roma Oil and Mining Associated Limited dated 30 March 2012.

CAPITAL EXPENDITURE

The Group's capital expenditure for development and mining production activities was approximately HK$815 million (2010: HK$603 million) during the year.


恒泰煤业

CHAIRMAN STATEMENT

On behalf of the board of directors (the "Board") of King Stone Energy Group Limited (the "Company" or "King Stone Energy", together with its subsidiaries, the "Group"), I am delighted to present the annual results for the year ended 31 December 2011.

Being affected by the volatility in global markets and macro-economic controls exercised by the Chinese government, China's economy experienced a slowdown in 2011. In the first year of the Twelfth Five-Year Plan, the Chinese government has emphasized the importance of optimizing structure and controlling inflation in order to raise living standards.

During the period under review, the Group maintained steady growth of coal production. The Group recorded total coal output of approximately 4.1 million tonnes, with approximately 3.6 million tonnes of coal output from Eerduosi Hengtai Coal Co. Ltd ("Hengtai") and approximately 0.5 million tonnes from Inner Mongolia Liaoyuan Coal Mining Co. Ltd ("Liaoyuan") which was acquired by the Group in August 2011. Liaoyuan, which is located approximately 46 km away from Hengtai, possesses proximity advantage to the Hengtai's mine . The synergy and proximity of the two mines saves a notable amount of construction cost of Hengtai's new mine, and is expected to enhance cost advantages in management and operation which will benefit the Group's long term development. In order to optimize coal production and operation, Hengtai operated a new working face of the Hengtai's mine in December 2011. The height of new working face is approximately 6 meters, with daily coal production of 15,000–18,000 tonnes and monthly production of approximately 450,000 tonnes, which will significantly increase the Group's coal production capacity in future.

In addition to expansion of existing production scales, the Group is constantly looking for strategic partnership externally. In February 2011, the Group entered into a strategic framework agreement with China Railway Materials Energy Company Limited ("China Railway Energy"). China Railway Energy will build or acquire railway stations and logistic parks for coal in regions such as Eerduosi in Inner Mongolia and Shanxi Province, while the Company will invest in these projects. The Company will have priority usage of these facilities for transporting its own coal, which will significantly enhance the Company's cost competitiveness in shipping coal to other provinces. Furthermore, the court has approved the reduction of share premium account in December 2011 which has better reflected the financial position of the Company and strengthened its shareholder base by attracting high quality institutional investors.

Looking ahead, we face considerable domestic and international economic challenges and we thus anticipated that the growth in coal demand will slow down in 2012. On a positive note, with the rapid expansion of industrial development and the growth of high energy-consumption sectors, demand for coal will remain steady and sustainable. As a major source of energy, global demand and consumption for coal will continue to sprout within the next five years, particularly in China.

The coal industry is currently confronting both challenges and opportunities as the government fuel its efforts to tackle pollution. The integration and restructuring of coal enterprises will soon enter a new phase. The Group will embrace this opportunity by actively exploring for potential mergers and acquisitions projects to advance the Group's asset structure. Meanwhile, the Group will pay equal attention on enhancing operational efficiency, improving cost structure, actively searching for partnership, identifying new sales channels and conscientiously building a solid foundation.

On behalf of the Board, I would like to convey our sincere gratitude to all staff, customers and business partners. I would also like to take this opportunity to thank the Shareholders who have been supporting and trusting the Group. We shall keep up our efforts and continue to implement strategic upgrading and restructuring to create new value for our Shareholders.

Wang Da Yong
Chairman

30 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Hengtai

Year 2011 was a year full of challenges and opportunities. In spite of the stagnant global economy plus the volatile financial market, the Group continued to patiently pave its way and strengthen its long-term strategic position to become an integrated diversified energy player in the People's Republic of China ("PRC"). The Company's subsidiary, Eerduosi Hengtai Coal Co. Ltd ("Hengtai"), remained as the major source of revenue and an important arm of business expansion to the Group. Due to various adverse factors including fault layer and relocation of working faces, coal output of Hengtai fell to approximately 3.6 million tonnes from 4 million tonnes last year. The new working face of Hengtai which was under setup during October and November 2011, is approximately 6 meters high with daily production capacity of 15,000–18,000 tonnes and monthly capacity of approximately 450,000 tonnes. Following its commencement of service, Hengtai's output has significantly increased to approximately 482,000 tonnes in December 2011.

Liaoyuan

The Group completed the acquisition of the entire equity interest in Inner Mongolia Liaoyuan Coal Mining Co. Ltd ("Liaoyuan") in August 2011. Liaoyuan is located approximately 46 km away from Hengtai and is adjacent to a new coal mine which Hengtai is currently in application of its mining rights. Liaoyuan produces high quality thermal coal with heat value above 5,000 Kcal/kg and has a designed production capacity of 0.9 million tonnes per annum. In 2011, coal output of Liaoyuan reached 1.2 million tonnes and the Group has started consolidating its results since August 2011. Given the proximity and the types of coal of Liaoyuan and Hengtai, it is expected that the acquisition of Liaoyuan would enhance the operating efficiency and bring in synergistic effects which would benefit the Group as a whole.

Strategic Alliances

During the year, the Company formed strategic alliances with two giant state-owned enterprises in the PRC — China Railway Materials Energy Co., Ltd ("China Railway Energy") and CITIC Trust Co., Ltd ("CITIC Trust") respectively. The alliance with China Railway Energy is primarily set to explore and co-invest in energy and coal-related logistics (e.g. railway stations, coal logistic parks) in Inner Mongolia, Shanxi, Guizhou, Ningxia and Xinjiang. The Company will have priority usage of these facilities for coal transportation in future. The joint venture set up with CITIC Trust aims to jointly develop and invest in high value-added projects including areas of coal resources and clean energy. It is believed that the alliances further reinforced the Group's objective to become a leading diversified energy player in the PRC.

RESULTS REVIEW

Revenue

The Group recorded total revenue of approximately HK$995.1 million (2010: HK$1,007.7 million) during the year. All revenue were generated from the coal mining business where Hengtai contributed revenue of approximately HK$834.2 million (2010: HK$993 million) and the newly acquired Liaoyuan contributed revenue of approximately HK$160.9 million for a five-month period from August 2011 to December 2011. In 2010, the Group recorded income of HK$993 million from its coal mining business.

The average selling prices ("ASPs") of raw coal produced in Hengtai and Liaoyuan during the year were approximately RMB197 (2010: RMB222) and RMB279 per ton respectively. The decrease in ASP of coal in Hengtai was mainly due to the sluggish market in the region during the year.

Cost of sales

Cost of sales was approximately HK$612.2 million (2010: HK$483.1 million) during the year, representing an increase of 27% compared with last year. The increase was mainly attributable to (1) the increase in depreciation charges of Hengtai by HK$47.9 million and (2) the consolidation of Liaoyuan for a five-month period from August 2011 to December 2011.

Gross profit and gross profit margin

Overall gross profit decreased from approximately HK$524.7 million last year to approximately HK$382.9 million, representing a decrease of 27%. The gross profit margin of Hengtai was approximately 39% in 2011 as compared to 52% in last year. The drop was mainly due to the decrease in ASP and the increase in production cost as mentioned above during the year. The gross profit margin of Liaoyuan was approximately 34.7%.

Other income and gains, net

Other income and gains, net was approximately HK$52.2 million (2010: HK$29.8 million) during the year. The increase was mainly due to a fair value gain on derivative component of convertible bonds of approximately HK$35.5 million and other income of HK$10 million arising from the termination of subscription agreements as detailed in "Liquidity and Financial Review" section. No gain on disposal of subsidiaries was recorded in 2011 (2010: HK$24.8 million).

Selling and distribution costs

Selling and distribution costs of HK$4.6 million remained stable during the year as compared with approximately HK$4.2 million for last year.

Administrative expenses

Administrative expenses were approximately HK$182.8 million (2010: HK$118.7 million) during the year. The increase was mainly attributable to (1) write-off of items of property, plant and equipment; (2) the general increase in administrative expenses incurred for Hengtai; (3) the increase in equity-settled share option expenses in relation to share options granted in 2010 and (4) the consolidation of Liaoyuan in this year.

Finance costs

Finance costs were approximately HK$171.8 million (2010: HK$84.1 million) during the year, which represented mainly interest expenses for bank and other loans in the PRC amounting to approximately HK$106.2 million (2010: HK$93.8 million). Interest expenses in respect of convertible bonds and convertible notes amounting to approximately HK$38.7 million (2010: HK$12.7 million) and HK$26.9 million (2010: Nil), respectively, were incurred during the year. No interest expense (2010: HK$22.5 million) was capitalised during the year.

Income tax

Income tax expenses were approximately HK$40.4 million (2010: HK$100.4 million) during the year. It represented provision for taxation for operating profit generated from Hengtai and Liaoyuan of approximately HK$119.1 million (2010: HK$144.8 million) and write-back of deferred taxation of approximately HK$78.7 million (2010: HK$44.4 million). No provision for Hong Kong profits tax has been made during the year (2010: Nil).

Profit/(loss) for the year attributable to owners of the Company

Profit for the year attributable to owners of the Company was approximately HK$55.3 million (2010: loss of HK$905.2 million) during the year. The significant turnaround was mainly attributable to no fair value loss on convertible notes recognised in 2011 (2010: HK$1,133.1 million) after amendments to terms of convertible notes effective from 31 December 2010.

LIQUIDITY AND FINANCIAL REVIEW

The Group mainly financed its day to day operations by internally generated cash flow and banking facilities during the year. As at 31 December 2011, the current ratio of the Group, measured as total current assets to total current liabilities, was 0.37:1 compared with 0.88:1 for the last year.

As at 31 December 2011, the cash and cash equivalents of the Group were approximately HK$51.9 million (2010: HK$625.2 million). During the year, the Group recorded a net cash inflow generated from its operating activities of approximately HK$784.6 million (2010: HK$455.4 million).

As at 31 December 2011, the Group had outstanding interest-bearing bank borrowings amounting to approximately HK$1,233.5 million (2010: HK$1,294.2 million). Of the Group's interest-bearing bank borrowings, 45%, 30% and 25% were repayable within one year, in the second year and in the third to the fifth year, inclusive, respectively. All bank loans of the Group were denominated in Renminbi. Bank loans of approximately HK$863.5 million (2010: HK$941.3 million) were interest-bearing with floating interest rates and bank loans of approximately HK$370 million (2010: HK$352.9 million) were charged at a fixed rate of 6.31% (2010: 5.31%).

As at 31 December 2011, the carrying amount of the liability component of the Group's zero coupon redeemable convertible notes was approximately HK$221.8 million (2010: HK$466.3 million). The zero coupon convertible notes, which have a 5-year term from 21 December 2009, are redeemable in whole or in part at face value by the Company at any time after 3 years from the issuance date. In September 2011, 2% one-year convertible bonds with principal amount of HK$159 million has been fully redeemed.

The Group conducted its continuing operational business transactions mainly in Renminbi and Hong Kong dollars. The Group did not arrange any forward currency contracts for hedging purposes.

The Company and two independent subscribers entered into the subscription agreements for subscription of shares of the Company in December 2010. The subscriptions were terminated on 30 June 2011 and the aggregate deposits of HK$10 million received in relation to the subscriptions were forfeited and recognised as other income in profit or loss accordingly.

During the year, the Company repurchased 36,720,000 shares of the Company of par value of HK$0.01 each and 1,558,000 shares of the Company of par value of HK$0.10 each on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration, before expenses, of HK$7,278,000. The Group considers that such repurchases of shares were in the best interests of the shareholders.

GEARING RATIO

The gearing ratio of the Group, measured as net debt, which represents trade and bills payables, other payables and accruals and interest-bearing bank borrowings less cash and cash equivalents to the total capital, which includes liability component of convertible bonds, equity attributable to owners of the Company and convertible notes, was 0.91 as at 31 December 2011, as compared to 0.48 as at 31 December 2010.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

Establishment of a jointly-controlled entity

On 2 June 2011, Shanxi Puhua Deqin Metallurgy Technology Company Limited, a subsidiary of the Company, entered into the joint venture agreement with two independent third parties to establish a limited company in the PRC which is responsible to establish and manage energy investment funds. The joint-venture is classified as a jointly-controlled entity. Share of loss of the said jointly-controlled entity established under the joint venture agreement was approximately HK$28,000 during the year. Details of the joint venture agreement were set out in the announcement dated 2 June 2011.

Acquisition of Inner Mongolia Liaoyuan Coal Mining Co., Ltd

On 25 July 2011, Hengtai entered into a sale and purchase agreement with an independent third party, pursuant to which, Hengtai had conditionally agreed to acquire the entire interest of Liaoyuan, for a cash consideration of approximately RMB512.7 million (approximately HK$625.7 million); including contingent consideration of approximately RMB112.7 million under the sale and purchase agreement. The acquisition was completed in August 2011 and a gain on bargain purchase of a subsidiary of approximately HK$29.9 million was recognised in the profit or loss during the year. Details of the acquisition were set out in the announcement dated 25 July 2011.

Proposed acquisition of Triumph Fund A1 Limited ("Proposed Acquisition")

The Proposed Acquisition (details were set out in the circular dated 9 February 2011) was approved by the shareholders of the Company on 25 February 2011. As there was uncertainty of the fulfillment of one of the conditions precedent of the Proposed Acquisition, the acquisition agreement lapsed on 31 August 2011.

On the same day, the Company entered into a memorandum of understanding (the "MOU") with the vendor of the Proposed Acquisition to acquire not less than 51% equity interest of one of the coal mine of the Proposed Acquisition. The MOU lapsed on 31 January 2012 and the earnest money of HK$180 million paid by the Group has been refunded by the vendor accordingly.

CAPITAL REORGANISATION

On 24 June 2011, the shareholders of the Company approved a proposed capital reorganisation (the "Capital Reorganisation") which comprised:

(i) the share consolidation, i.e. consolidation of 20 existing shares of par value of HK$0.01 each into one consolidated share of par value of HK$0.20;

(ii) the capital reduction, i.e. reduction of the par value of the consolidated shares of HK$0.20 each to HK$0.10 each by cancelling HK$0.10 of the par value in each consolidated share. The paid-up capital so cancelled is transferred to the share premium account of the Company; and

(iii) reduction of share premium account, i.e. reduction of share premium account by HK$2,953,243,000, being a sum representing the accumulated losses of the Company as at 31 December 2010 and the application of the credit arising from such reduction to eliminate the accumulated losses.

Details of the Capital Reorganisation were set out in the circular dated 25 May 2011. The share consolidation and capital reduction were effective on 27 June 2011 when the authorised and issued capital consisted of 300,000,000,000 and 26,385,743,370 ordinary shares of HK$0.01 each, respectively, were reduced by 285,000,000,000 and 25,066,456,202 ordinary shares, respectively. Furthermore, upon completion of the capital reduction, an aggregate of paid-up capital of HK$131,929,000 was cancelled and transferred to the share premium account of the Company. The share consolidation and capital reduction were duly registered with the Companies Registry of Hong Kong on 7 July 2011.

The reduction of share premium account was approved by the court on 23 December 2011 and was effective on 29 December 2011 upon due registration of sealed copy of the court order with the Companies Registry of Hong Kong.

CAPITAL COMMITMENTS, CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2011, the capital commitments of the Group were approximately HK$64.9 million (2010: HK$33.9 million). The capital commitments were mainly related to purchase of machineries for the operation of coal mines.

As at 31 December 2011, bank loans of approximately HK$801.8 million were secured by the Group's mining rights and guarantees given by a former shareholder of Triumph Fund A Limited (a subsidiary of the Company) and a former director of Hengtai.

As at 31 December 2011, time deposits of approximately HK$2.9 million (2010: HK$0.4 million) were pledged for general bank facilities.

Save as disclosed above, the Group had no other pledge of assets as at 31 December 2011.

As at 31 December 2011 and 31 December 2010, the Group did not have any material contingent liability.

HUMAN RESOURCES AND SHARE OPTION SCHEME

As at 31 December 2011, the Group had 804 employees. The total staff costs for the year ended 31 December 2011 were approximately HK$88.6 million (2010: HK$47.3 million). The Group's remuneration policy is primarily based on the individual performance and experience of employees including directors, prevailing industry practice and market rates. In addition to the basic salaries, the Group provides staff benefits including medical insurance and contributions to the provident fund. Discretionary bonuses are also available to the Group's employees depending upon the overall performance of the Group. The Group also provides appropriate training programmes for employees' better personal development and growth.

Pursuant to the Company's share option scheme adopted on 28 May 2002, the Company may offer to any employee of the Group options to subscribe for shares in the Company for a period of 10 years. As at 31 December 2011, a total of 24,616,000 share options were outstanding and were held by directors and employees. No share option was granted or exercised during the year.

FUTURE OUTLOOK

In 2012, against the backdrop of macro-economic slowdown and ever-changing policies, coal mining industry in China is entering an era of further integration and consolidation. The Group is committed to its growth strategy that consists of merger and acquisition and restructuring. After the acquisition of Liaoyuan in 2011, the Group will continue to identify and explore for potential merger and acquisition projects and partnerships, improve the utilization of resources and modernize mining equipment and technique. It is expected that Hengtai, following its new working face in service, together with Liaoyuan will provide stable operating cash flow and profits to the Group in future. The Group will strive to achieve financial health, stability and sustainability and seek fund raising opportunities to raise additional capital.

The Group will step up efforts to strengthen its operational structure, enhance operational efficiency and explore new sales channel. The reduction of share premium account to set off against huge accumulated losses as at 31 December 2010 (mainly arising from recognition of fair value loss of convertible notes in prior years) was effective in December 2011. The Company's shareholders base has been strengthened after the completion of the Capital Reorganisation which attracted high quality institutional investors.

Under the Twelfth Five-Year plan, the Chinese government encouraged energy-saving and made clear its determination to tackle pollution. The Group will increase production and transportation efficiency and focus on railway transportation, both of which will significantly reduce transportation cost. The Group shall continue its efforts to conscientiously carry out its duties to its shareholders and strive to become a leading diversified coal mining company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Wang Da Yong, aged 45, is the Chairman and Chief Executive Officer ("CEO") of the Company and is responsible for the business development and overall management of the Group. He holds a degree in philosophy in Economics at Business School of Ji-Lin University. He has over 20 years experience of investment, finance and management and is familiar with corporate merger and acquisition and direct investment. He has obtained detail knowledge of coal, coal chemical, metal mineral resources industries and maintains strong networks in business field and with central and local government agencies in China. He worked in the Ministry of Agriculture, PRC previously. He was an executive director and CEO of China Best Group Holding Limited (stock code: 370), a company listed on The Stock Exchange of Hong Kong Limited from 16 September 2004 to 5 June 2007. He was also the CEO of Fortune Dragon Group Limited, a company with major coking coal mine operation in Shanxi China, which was acquired by Shougang Fushan Resources Group Limited (stock code: 639) at the consideration of about HK$10 billion in July 2008. He is also the Chairman of Huili Resources (Group) Limited (stock code: 1303). He was appointed as the executive director and CEO of the Company on 1 July 2009 and the Chairman of the Company on 26 February 2010.

Mr. Tian Wenwei, aged 41, holds an MBA at Business School of University of Alberta, Canada. He has over 15 years experience in finance, business and corporate merger and acquisition. He also has solid knowledge and experiences in coal industry. Mr. Tian is responsible for coal business development of the Group in China. Mr. Tian worked in the Bank of Communications, Xian Branch, from 1991 to 1997 and in China Digital Finance Times Company, a subsidiary of China Everbright Group from 2000 to 2001. He was an officer of Puda Coal, Inc., a public company in the United States of America from 2006 to 2009. He has been a director of Triumph Fund A Limited since September 2009, a subsidiary of the Company. He was appointed as the executive director of the Company on 18 January 2010.

Mr. Wang Tongtian, aged 63, worked and held senior position in Beijing Mining Bureau, China National Coal Industry Import and Export Group and China National Coal Development Company from 1975 to 1995. Mr. Wang was the deputy general manager of China Shenhua Group Coal Transportation and Distribution Company for the period of 1996 to 2009. Mr. Wang has more than 40 years experience and possesses extensive knowledge in area of project development, administration, design and engineering of coal mines and import and export of coal, coke and coal related products. He is also familiar with distribution networks and development of coal industry. He was appointed as the non-executive director of the Company on 1 December 2009 and was re-designated as executive director on 20 May 2010.

Mr. Chen Marlon Ray, aged 45, graduated from China University of Mining and Technology with a Bachelor Degree in Ore Processing Engineering. From 1988 to 1994, Mr. Chen has worked for Yanzhou Coal Mining Bureau and China Coal Industry Import and Export Corporation (中國煤炭工業進出口總公司). Mr. Chen currently acts as the chairman of the board of directors in various companies respectively, including Reach Investment Limited (瑞辰投資有限公司), Aray Jet Limited (瑞捷公務航空有限公司) and Aray Capital Limited (瑞辰資本有限公司). He also works as the director of respective companies, including Staray Capital Limited (瑞澤資本有限公司), HD Mining International Ltd. and Link Trade Century Investment Group Limited (環貿世紀投資集團有限公司). Mr. Chen has extensive experience in the management and production of coal mining, sales and distribution of coal, international development of coal resources and the business of aviation industry in China. Mr. Chen has built a broad and solid network in the coal industry. He was appointed as the executive director of the Company on 21 December 2011.

NON-EXECUTIVE DIRECTORS

Mr. Li Yi, aged 63, is a senior engineer and expert specializing in field of coal mine operation and coal technology. He was director of Department of Coal Mine Safety of Xi Ming Coal Mine of Xi Shan Mining Bureau, the director of Xiqu Coal Mine, the deputy director general of Xi Shan Mining Bureau, and the deputy managing director of Xishan Coal Electricity Group Co., Ltd. During the period from 2002 to 2007, he was the chairman of Shanxi Xishan Coal and Electricity Power Co., Ltd, a listed company on Shenzhen Stock Exchange (stock code 000983.sz) and during the period from 2001 to 2009, he was also the vice-chairman of Shanxi Coking Coal Group Co., Ltd, the largest coking coal producer in China. He was appointed as the non-executive director of the Company on 2 February 2010.

Mr. Su Bin, aged 60, has served in the army over a long period of time. Since his retirement from military service in 1998, he has been mainly engaged in equity investments and corporate mergers and acquisitions. He was co-Chairman of the China Coal and Coke Investment Fund LLP (中國煤炭暨焦炭投資基金) from 2005 to 2009. He has been honorary Chairman of the Hong Kong Energy and Minerals United Associations (香港能源礦產聯合會) since 2007. Mr. Su is vastly experienced in corporate management, financing and mergers and acquisitions. He has strong and extensive connections in the political and financial sectors of the PRC. He was appointed as the non-executive director of the Company on 14 July 2010.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cao Kuangyu, aged 61, holds Bachelor of Arts in Economics in University of Hunan and Masters of Science in Financial Management in The School of Oriental and African Studies, University of London. He has more than 30 years working experience in various financial institutions. Currently, he is the vice chairman of Maxdo Group Limited in Hong Kong. He was the senior partner of Rocket Capital from 2007 to 2009, managing director of BOCI Asia Limited from 2003 to 2007, the president of Citic Bank, Shenzhen Branch from 1999 to 2003 and the deputy general manager of Bank of China in Singapore Branch from 1996 to 1999 and in Hunan Branch from 1993 to 1996. Mr. Cao is also an independent non-executive director of JLF Investment Company Limited (stock code: 472) and Huili Resources (Group) Limited (stock code: 1303), and a non-executive director of Continental Holdings Limited (stock code: 513), all the companies are listed on The Stock Exchange of Hong Kong Limited. He also served as an independent non-executive director of Simsen International Corporation Limited (stock code: 993) from April 2010 to June 2010. He was appointed as the independent non-executive director of the Company on 2 February 2010.

Mr. Chiu Sui Keung, aged 45, has over 15 years experience in the strategic management in listed companies, financial industry and accounting field. He has possessed extensive experience in corporate finance including initial public offerings, takeovers, mergers and acquisitions, fund raising and corporate advisory. Mr. Chiu graduated with a Bachelor's Degree in Commerce from the University of Melbourne, Australia and has obtained a Master's Degree in Applied Finance from Macquarie University in Sydney, Australia. He has also obtained a Diploma in Practices in Chinese Laws and Regulations Affecting Foreign Businesses jointly organized by Southwest University of Political Science and Law, the PRC and the Hong Kong Management Association. He is a member of CPA Australia and the American Institute of Certified Public Accountants and the fellow member of Hong Kong Institute of Certified Public Accountants. At present, he is the executive director and chief executive officer of Sino Resources Group Limited (stock code: 223) and was the non-executive director of China New Energy Power Group Limited (stock code: 1041) during the period from September 2008 to July 2009, both companies are listed on The Stock Exchange of Hong Kong Limited. He was appointed as the independent non-executive director of the Company on 18 January 2010.

Mr. Li Peiming, aged 60, has served in the People's Liberation Army for 15 years. After his service in the army, Mr. Li worked in National Audit Office of the People's Republic of China ("CNAO") and possess over 20 years of experience in auditing. During his tenure in CNAO, he has been the director of Tourism and Overseas Chinese Affairs Audit Office and Economic Law Implementation Audit office, and the executive secretary to the Party Committee for CNAO. He is currently the independent director of Wuhan Kaidi Electric Power Co., Ltd, a listed company on Shenzhen Stock Exchange (stock code 000939.sz). He was appointed as the independent non-executive director of the Company on 30 September 2011.

Mr. Lee Chi Hwa, **Joshua**, aged 39, is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Lee has extensive experience in the fields of auditing, accounting and finance. Mr. Lee is an independent non-executive director of China Public Healthcare (Holdings) Limited (stock code: 8116) and CODE Agriculture (Holdings) Limited (stock code: 8153), which are listed on the Growth Enterprise Market board of The Stock Exchange of Hong Kong Limited. He was appointed as the independent non-executive director of the Company on 9 January 2012.

SENIOR MANAGEMENT

Mr. Xu Jianhua, aged 56, is the general manager of Eerduosi Hengtai Coal Company Limited ("Hengtai"). Mr. Xu joined Hengtai in 2011 and is responsible for managing and overseeing Hengtai's operation. He holds a degree in philosophy in Business Administration of Renmin University of China. He was the secretary in mayor office of Sanmenxia City, Luoyang from 1987 to 1992 and general manager in trading department of Zhengzhou Commodity Exchange from 1992 to 2000. He was also the vice chairman of Taiyuan Twin Tower Aluminum Oxide Co. Ltd, a company listed on Shenzhen Stock Exchange (stock code 000795.sz) from 2002 to 2005 and general manager of Beijing Jin Ru Investment Group Limited (北京今儒投資集團公司) from 2005 to 2010. Mr. Xu has extensive connections and possesses solid experience in mineral industry.

Mr. Lee Tao Wai, aged 33, is the chief financial officer of the Company. Mr. Lee is a member of the Hong Kong Institute of Certified Public Accountants and has over 10 years of experience in auditing, accounting and corporate field. Prior to joining the Company, Mr. Lee worked in an international accounting firm and a listed company in Hong Kong as senior executive. Mr. Lee holds a Bachelor Degree in Business Administration in Accounting from the Chinese University of Hong Kong and a Master Degree in Investment Management from The Hong Kong University of Science and Technology. He joined the Group in April 2010.

Ms. Lam Pui Sea, aged 31, is the company secretary of the Company and is a fellow member of the Hong Kong Institute of Certified Public Accountants. She holds a Bachelor Degree in Economics and Finance from the University of Hong Kong. She has worked in an international accounting firm and various companies in Hong Kong and the United States. Ms. Lam has extensive experience in accounting, internal control, corporate secretarial services and corporate administration. She joined the Group in January 2012.

ADVISORY COMMITTEE

Aiming at becoming a leading coal enterprise of multi coal types in the PRC, the Advisory Committee of the Group was established on 1 March 2010 to give advice on industry policies, coal mines operation of the Group as well as acquisition of and investment in coal resources to the Board of Directors. Members invited by the Advisory Committee are all well-experienced in business and have sound reputation. They have good relationship with heads of many large-scale resources enterprises and the related resources and energy departments in the PRC.

The biographies of the members of the Advisory Committee are as follows:

Mr. Wang Senhao, the Chairman of the Advisory Committee of the Company, was graduated from the Mining Faculty of Beijing Institute of Mining and Technology in 1956. He was the Minister of China Ministry of Coal Industry from 1993 to 1998, the Governor and Vice Secretary of Shanxi Province, the biggest and most important coal production province in the PRC, from 1983 to 1992, and the Chief Engineer of China Ministry of Coal Industry from 1982 to 1983. Prior to this, Mr. Wang had worked in Shanxi Da Tong Mining Bureau, the largest coal enterprise in the PRC, and Shanxi Lu'an Mining Bureau for 25 years, held the positions of Technician, Engineer, Head of Mining Department, Chief Engineer of Mining Bureau and Vice Chairman of the Bureau, etc. He was awarded the Kelubinski Award (克魯賓斯基獎章) in the 17th World Mining Conference in October 1997. Mr. Wang has been serving the coal industry for more than 30 years, and has comprehensive qualifications in coal industry and profound experience in production and operation of coal enterprises as well as government management.

Mr. Chen Biting, the co-Chairman of the Advisory Committee of the Company, was graduated from the University of Science and Technology of China. He joined Shenhua Group Corporation Limited in November 2000, served as the General Manager and Chairman of Shenhua Group, and acted as the Executive Director and Chairman of China Shenhua Energy Company Limited (Stock code: 01088) from November 2004 to 30 December 2008. During his office in Shenhua Group, he realised to list "China Shenhua" as Hong Kong H Shares and China A Shares. Prior to joining Shenhua Group, Mr. Chen acted as the Vice Governor of Jiangsu province, the Vice Secretary General of the Jiangsu provincial government and the Director General of the Economic Planning Commission of Jiangsu Province, as well as the Executive Vice Mayor of Yancheng City, Jiangsu Province, respectively. Mr. Chen has over 30 years of experience in macroeconomic and enterprise management.

Mr. Zhang Changsheng, the Vice Chairman of the Advisory Committee of the company, was graduated from the Department of Comprehensive Studies of the Military Academy of the PRC Liberation Army. He served as the Deputy General Manager of China Netcom Communications Group Corporation since 2003 to 2008. Mr. Zhang has also served as the Senior Vice President of China Netcom Communications (Group) Limited Company from 2004 to October 2008, and the General Counsel of it from 2005 to October 2008. Mr. Zhang has acted as the Vice Chairman of the board of and the Independent Non-executive Director of Asian Union New Media (Group) Limited (Stock code: 00419) starting from 11 January 2008 until now. From 1995 to 2003, Mr. Zhang held the positions of Assistant Governor and Secretary General of the People's Government of Jiangsu Province. Prior to that, he served as deputy division chief, division chief, deputy director and director of the Ministry of Personnel of the PRC, and director for Relocating and Arranging New Jobs for Retired Soldiers under the State Council of the PRC respectively. He has profound experience in government and corporate management.

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Company is committed to maintaining a high standard of corporate governance and has taken appropriate steps to adopt and comply with the provisions of its Code on Corporate Governance Practices (the "Code") which adopted practices that meet the requirements set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the year, except for certain deviations as explained on this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the Directors. Having made specific enquiry of all Directors, the Directors confirm that they have complied with the required standard as set out in the Model Code during the year ended 31 December 2011.

BOARD OF DIRECTORS

The Board of Directors (the "Board") is principally accountable to the shareholders and is responsible for the leadership and control of the Group including overseeing the Group's businesses, strategic directions, financial performance, setting objectives and business development plans, and monitoring the performance of the senior management.

The Board, with balance of skills and experience, meets regularly throughout the year to formulate overall strategy, monitor business development as well as the financial performance of the Group and has formal procedures on matters for consideration and decision. The Board has delegated certain authorities to the senior management for the day-to-day management of the Group's operation. The attendance of Directors at the five board meetings held in 2011 is as follows:

Directors		Attended/ Eligible to attend
Executive Directors		
Mr. Wang Da Yong *(Chairman)*		5/5
Mr. Tian Wenwei		5/5
Mr. Wang Tongtian		5/5
Mr. Chen Marlon Ray	(appointed on 21 December 2011)	1/1
Non-executive Directors		
Mr. Li Yi		2/5
Mr. Su Bin		3/5
Mr. Li Feng	(appointed on 25 August 2011 and resigned on 27 February 2012)	0/1
Mr. Wang Daoyuan	(appointed on 25 August 2011 and resigned on 27 February 2012)	0/1

Directors		Attended/ Eligible to attend
Independent Non-executive Directors		
Mr. Jacobsen William Keith	(resigned on 30 September 2011)	2/4
Mr. Cao Kuangyu		4/5
Mr. Chiu Sui Keung		5/5
Mr. Li Peiming	(appointed on 30 September 2011)	0/1
Mr. Lee Chi Hwa, Joshua	(appointed on 9 January 2012)	0/0

The Directors have no financial, business, family or other material/relevant relationship among themselves.

The Company has received the annual confirmation of independence from each of the independent non-executive Directors as required under Rule 3.13 of the Listing Rules. The Company considers all independent non-executive directors to be independent.

ENTERING INTO SERVICE CONTRACTS WITH EXECUTIVE DIRECTORS

The Company has respectively entered into service contracts with Mr. Wang Da Yong, Mr. Tian Wenwei and Mr. Wang Tongtian on 14 July 2010. According to the service contracts entered into with Mr. Wang Da Yong, Mr. Tian Wenwei and Mr. Wang Tongtian, they are appointed for a term of two years commencing on 14 July 2010. Each of Mr. Wang Da Yong, Mr. Tian Wenwei and Mr. Wang Tongtian is subject to retirement and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company (the "Articles of Association"). The Board believes that entering into service contracts with the said Directors will be beneficial for maintaining management stability of the Group.

STRATEGY AND INVESTMENT COMMITTEE

In order to reinforce future expansion and development in coal mining business of the Group, a strategy and investment committee ("Strategy and Investment Committee") was formed on 26 February 2010. Mr. Wang Da Yong is the chairman of the Strategy and Investment Committee and Mr. Wang Tongtian, Mr. Li Yi and Mr. Cao Kuangyu are the members.

AUDIT COMMITTEE

The Company has established an audit committee ("Audit Committee") with written terms of reference which are in line with the code provisions set out in the Code. The Audit Committee meets at least twice a year for reviewing the reporting of annual and interim results and other information to the shareholders, and the effectiveness and objectivity of the audit process. Additional meetings may be held by the Audit Committee from time to time to discuss special projects or other issues which the Audit Committee considers necessary. The external auditors of the Company may request a meeting if they consider that one is necessary. The Audit Committee also provides an important link between the Board and the Company's auditors in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the auditors. The Audit Committee currently consists of Mr. Chiu Sui Keung as chairman and Mr. Cao Kuangyu and Mr. Li Peiming as members.

During the year, the Audit Committee reviewed with the management and the Company's auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the audited annual results for the year ended 31 December 2010 and unaudited interim results for the six months ended 30 June 2011. The members and attendance of the two meetings of the Audit Committee held in 2011 are as follows:

Directors		Attended/ Eligible to attend
Mr. Chiu Sui Keung		2/2
Mr. Cao Kuangyu		2/2
Mr. Li Peiming	(appointed on 30 September 2011)	0/0
Mr. Jacobsen William Keith	(resigned on 30 September 2011)	1/2

ROLES AND RESPONSIBILITIES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Wang Da Yong, the chief executive officer of the company, is also the chairman of the Company. The Board considers that the structure will not impair the balance of power and authority between the Board and the management of the Group. The balance of power and authority is ensured by the operations of the board committees which comprise experienced and high calibre individuals and meet frequently to discuss issues. The Board also considers that the structure enables the effectiveness and efficiency of the Group's operations and is beneficial to the business prospects of the Group.

TERM OF NON-EXECUTIVE DIRECTORS

Under provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, and subject to re-election in accordance with the Articles of Association. Save for Mr. Chiu Sui Keung, who was appointed as independent non-executive Director for a term of one year, all of the existing non-executive Directors and independent non-executive Directors are not appointed for specific terms, however, all of them are subject to retirement by rotation in accordance with the Articles of Association.

According to the Articles of Association, one third of the directors shall retire from office by rotation at the annual general meeting of the Company and every Director shall be subject to retirement by rotation at least once every three years. The Board considers that sufficient measures will be taken to ensure the corporate governance practices of the Company are not less than those in the Code.

REMUNERATION COMMITTEE

The remuneration committee ("Remuneration Committee") of the Group was established in September 2005 with written terms of reference in line with the Code. The responsibilities of the Remuneration Committee include considering and recommending to the Board the Group's remuneration policy and structure and reviewing and determining the remuneration packages of the Directors and senior management. The Directors were remunerated with reference to their respective duties and responsibility with the Company, the Company's performance and current market situation. Details of remunerations of the Directors for the year are disclosed in note 9 to the financial statements.

The Remuneration Committee currently comprises Mr. Cao Kuangyu (Chairman), Mr. Wong Da Yong, Mr. Chiu Sui Keung and Mr. Li Peiming. The members and attendance of the meetings during the year are as follows:

Directors		Attended/ Eligible to attend
Mr. Cao Kuangyu		2/2
Mr. Chiu Sui Keung		2/2
Mr. Wang Da Yong		2/2
Mr. Li Peiming	(appointed on 30 September 2011)	0/0
Mr. Jacobsen William Keith	(resigned on 30 September 2011)	2/2

NOMINATION COMMITTEE

According to the Articles of Association, the Board of Directors has the power to appoint any person as a Director either to fill a causal vacancy or as an addition to the Board. The nomination should take into consideration the nominee's qualification, ability and potential contributions to the Company. All Directors should be subject to re-election in accordance with the Articles of Association.

On 30 March 2012, a nomination committee was established with written terms of reference to (i) review and recommend the structure, size, composition and skills mix of the Board at least annually; (ii) identify and nominate candidates to fill casual vacancies of directors for the Board's approval; (iii) assess the independence of independent non-executive Directors; (iv) regularly review the time required from a director to perform his responsibilities; (v) make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for Directors in particular the chairman of the Board and the chief executive. Mr. Li Peiming was appointed as the chairman, and Mr. Chiu Sui Keung, Mr. Cao Kuangyu and Mr. Lee Chi Hwa, Joshua were appointed as members.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for the Financial Statements

The Directors are responsible for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2011, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors are also responsible for keeping proper accounting records with reasonable accuracy for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Save as disclosed in note 2 to the financial statements, there are no material uncertainties relating to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

The Board has not taken any different view from that of the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

Auditors' Responsibilities and Remuneration

An analysis of remuneration in respect of services provided by the auditors, Ernst and Young, of the Group is as follows:

	HK$'000
Annual audit services	2,480
Agreed-upon procedures on interim financial statements	300
Audit services for the very substantial acquisition	1,200
Audit services for separate financial statements	60
Taxation services	38
	4,078

The statement of the auditors of the Company regarding their reporting responsibilities is set out in the Independent Auditors' Report on page 33 to 34.

Internal Control

During the year, the Company has adopted and reviewed the effectiveness of the Group's internal control procedures which include the policies, procedures, monitoring and communication activities and standard of behavior established for safeguarding the interests of the shareholders of the Company. The system of internal control aims to help achieving the Group's business objectives, safeguarding assets and maintaining proper accounting records for provision of reliable financial information. However, the design of the system is to provide reasonable, but not absolute, assurance against material misstatement in the financial statements or loss of assets and to manage, rather than eliminate, the risks of failure when business objectives are being sought.

Based on its assessment which covers all material controls including financial, operational and compliance controls and risk management functions, the Board believes that for the year ended 31 December 2011, the Company's internal control is effective. The Board is satisfied that there are adequate resources of staff with appropriate qualifications and experience in its accounting and financial reporting team and that sufficient training and budget have been provided.

COMMUNICATION WITH SHAREHOLDERS

The Company believes in regular and timely communication with shareholders as part of its efforts to help shareholders understand its business better and the way the Company operates. To promote effective communication with the public, the Company maintains a website (www.663hk.com) on which comprehensive information about the Company's major businesses, press releases, notices, financial information, announcements, annual and interim reports and shareholders circulars are being made available.

The Board is endeavour to maintain an on-going dialogue with shareholders. The chairman of the Board and members of the Audit Committee should attend the annual general meeting to answer questions. Press conferences and analysts presentations are also held by the Company to answers questions regarding the Group's operations and financial position.

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is mining and selling of coal. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements. There were no other significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 35 to 115.

The Directors do not recommend the payment of any dividend in respect of the year under review.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 116. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL, SHARE OPTIONS, CONVERTIBLE BONDS AND CONVERTIBLE NOTES

Details of movements in the Company's share capital, share options, convertible bonds and convertible notes during the year are set out in notes 29, 30, 26 and 27 to the financial statements respectively.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, the Company repurchased 36,720,000 shares of par value of HK$0.01 each and 1,558,000 shares of par value of HK$0.1 each on The Stock Exchange of Hong Kong Limited as follows:

Month/year	Number of shares in repurchased	Highest prices paid per share HK$	Lowest prices paid per share HK$	Aggregate price paid HK$
June 2011	36,720,000	0.1186	0.1120	4,293,000
July 2011	1,558,000	1.9945	1.78	2,985,000

All the repurchased shares were cancelled during the year.

Save as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2011.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2011, the Company had no retained profits available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance. However, the Company's share premium account, in the amount of HK$1,166,813,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 86.5% of the total sales for the year and sales to the largest customer included therein amounted to 29% of the total sales. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

DIRECTORS

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

Executive Directors:

Mr. Wang Da Yong	
Mr. Tian Wenwei	
Mr. Wang Tongtian	
Mr. Chen Marlon Ray	(appointed on 21 December 2011)

Non-executive Directors:

Mr. Li Yi	
Mr. Su Bin	
Mr. Li Feng	(appointed on 25 August 2011 and resigned on 27 February 2012)
Mr. Wang Daoyuan	(appointed on 25 August 2011 and resigned on 27 February 2012)

Independent non-executive Directors:

Mr. Cao Kuangyu	
Mr. Chiu Sui Keung	
Mr. Li Peiming	(appointed on 30 September 2011)
Mr. Lee Chi Hwa, Joshua	(appointed on 9 January 2012)
Mr. Jacobsen William Keith	(resigned on 30 September 2011)

In accordance with the Company's articles of association, (i) Directors appointed shall hold office until the forthcoming annual general meeting and eligible for re-election and (ii) at each annual general meeting, one-third of Directors shall retire from office by rotation. Mr. Wang Tongtian, Mr. Chen Marlon Ray, Mr. Chiu Sui Keung, Mr. Li Peiming and Mr. Lee Chi Hwa, Joshua will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Messrs. Li Peiming, Cao Kuangyu, Chiu Sui Keung and Mr. Lee Chi Hwa, Joshua, and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 13 to 15 of the annual report.

DIRECTORS' SERVICE CONTRACTS

The Company entered into service contracts with Mr. Wang Da Yong, Mr. Tian Wenwei and Mr. Wang Tongtian on 14 July 2010 for a term of two years. These service contracts are exempt from the shareholders' approval requirement under Rule 13.68 of the Listing Rules.

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

DIRECTORS' REMUNERATION

The remuneration of the Directors are determined by the remuneration committee of the Company with reference to the Directors' duties, responsibilities and performance and the results of the Group. Further details of the Company's remuneration committee are set out in the corporate governance report on pages 17 to 22.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2011, the following Directors or the chief executive of the Company had or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("SFO")) (i) which 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 or short positions which they were taken or deemed to have under such provision of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Name of Director	Capacity	Interest in shares	Interest in underlying shares	Total interest in shares	Approximate percentage of the Company's issued share capital
Mr. Wang Da Yong (notes 1, 2)	Through controlled corporation/ spouse/ beneficial owner	255,809,500	5,000,000	260,809,500	18.25%
Mr. Tian Wenwei (note 2)	Beneficial owner	—	3,750,000	3,750,000	0.26%
Mr. Wang Tongtian (note 2)	Beneficial owner	—	1,500,000	1,500,000	0.10%
Mr. Li Yi (note 2)	Beneficial owner	—	1,000,000	1,000,000	0.07%
Mr. Su Bin (note 2)	Beneficial owner	—	1,000,000	1,000,000	0.07%
Mr. Cao Kuangyu (note 2)	Beneficial owner	—	500,000	500,000	0.03%
Mr. Chiu Sui Keung (note 2)	Beneficial owner	—	500,000	500,000	0.03%

Notes:

1. These shares are held by Mr. Wang Da Yong under the below capacities:

   (a) 6,308,000 shares are held by Mr. Wang Da Yong personally;

   (b) 148,992,000 shares are held by Joint Ascent Limited which is held as to 80% and 20% by Mr. Wang Da Yong and Mr. Tian Wenwei, respectively.

   (c) 97,838,500 shares are held by China Coal and Coke Investment Holding Company Limited which is wholly owned by Sino Bridge Investments Limited, a company wholly owned by Mr. Wang Da Yong.

   (d) 2,671,000 shares are held by Ms. Yuan Hong, the spouse of Mr. Wang Da Yong.

2. Share options were granted to Mr. Tian Wenwei and Mr. Li Yi under the share option scheme of the Company dated 28 May 2002 (the "Scheme") which are exercisable at the subscription price of HK$4.96 per share (subject to adjustments) at any time during a period of two years commencing from and including 12 May 2011 to 11 May 2013.

   Share options were granted to Mr. Wang Tongtian under the Scheme which are exercisable at the subscription price of HK$4.96 per share (subject to adjustments) at any time during a period of two years commencing from and including 12 May 2011 to 11 May 2013 and a period of two years commencing from and including 26 August 2011 to 25 August 2013 respectively.

   Share options were granted to Mr. Su Bin, Mr. Cao Kuangyu and Mr. Chiu Sui Keung under the Scheme which are exercisable at the subscription price of HK$4.96 per share (subject to adjustments) at any time during a period of two years commencing from and including 26 August 2011 to 25 August 2013.

   Share options were granted to Mr. Wang Da Yong under the Scheme which are exercisable at the subscription price of HK$4.96 per share (subject to adjustments) at any time during a period of two years commencing from and including 10 November 2011 to 9 November 2013.

   The respective number of underlying shares which they have interest represent the number of shares which would be allotted and issued to them upon the exercise in full of the share options granted.

   Further details of the share options are included in section “Share option scheme” below.

Save as disclosed above, as at 31 December 2011, none of the Directors and chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The Company operates the Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 30 to the financial statements.

The following table discloses movements in the Company's share options outstanding during the year:

		Number of share options*			
Name or category of participant	Notes	At 1 January 2011	Granted during the year	Transfer during the year	At 31 December 2011
Executive Directors:					
Mr. Wang Da Yong	(d)	5,000,000	—	—	5,000,000
Mr. Tian Wenwei	(b)	3,750,000	—	—	3,750,000
Mr. Wang Tongtian	(b)	1,500,000	—	—	1,500,000
Mr. Chen Marlon Ray		—	—	—	—
		10,250,000	—	—	10,250,000
Non-executive Directors:					
Mr. Li Yi	(b)	1,000,000	—	—	1,000,000
Mr. Su Bin	(c)	1,000,000	—	—	1,000,000
Mr. Li Feng		—	—	—	—
Mr. Wang Daoyuan		—	—	—	—
		2,000,000	—	—	2,000,000
Independent non-executive Directors:					
Mr. Jacobsen William Keith	(c)	500,000	—	(500,000)	—
Mr. Cao Kuangyu	(c)	500,000	—	—	500,000
Mr. Chiu Sui Keung	(c)	500,000	—	—	500,000
Mr. Li Peiming		—	—	—	—
		1,500,000	—	(500,000)	1,000,000
Others:					
In aggregate	(a)	616,000	—	—	616,000
	(b)	10,250,000	—	—	10,250,000
	(c)	—	—	500,000	500,000
		10,866,000	—	500,000	11,366,000
Total		24,616,000	—	—	24,616,000

* As adjusted for the twenty-to-one share consolidation (the "Share Consolidation") taken place on 24 June 2011. Further details are disclosed in note 29(f) to the financial statements.

Notes:

(a) These share options were granted on 29 September 2008 at an exercise price of HK$2.5 per ordinary share of the Company. The closing price of the Company's ordinary shares on the Stock Exchange on the trading day immediately prior to the date of grant of the share options was HK$0.125 per share (before adjustment for the Share Consolidation). The share options may be exercised at any time commencing on 29 September 2008, and if not otherwise exercised, all of the share options will lapse on 29 September 2013. The vesting period is from the date of grant to the commencement date of the exercise period. The grantees are entitled to exercise all the share options within three months from the date of termination of their employment with the Company.

(b) These share options were granted on 12 May 2010 at an exercise price of HK$4.96[@] per ordinary share of the Company. The closing price of the Company's ordinary shares on the Stock Exchange on the trading day immediately prior to the date of grant of the share options was HK$0.231 per share (before adjustment for the Share Consolidation). The share options may be exercised in two equal portions. The first 50% portion is exercisable for a period of 2 years commencing on 12 May 2011 and the other 50% portion is exercisable for a period of 1 year commencing on 12 May 2012 and, if not otherwise exercised, all of the share options will lapse on 12 May 2013. The vesting periods of each of the portion is from the date of grant to the respective commencement dates of the exercise periods. The grantees are entitled to exercise all the share options within three months from the date of termination of their employment with the Company.

(c) These share options were granted on 26 August 2010 at an exercise price of HK$4.96[@] per ordinary share of the Company. The closing price of the Company's ordinary shares on the Stock Exchange on the trading day immediately prior to the date of grant of the share options was HK$0.154 per share (before adjustment for the Share Consolidation). The share options may be exercised in two equal portions. The first 50% portion is exercisable for a period of 2 years commencing on 26 August 2011 and the other 50% portion is exercisable for a period of 1 year commencing on 26 August 2012 and, if not otherwise exercised, all of the share options will lapse on 26 August 2013. The vesting periods of each of the portion is from the date of grant to the respective commencement dates of the exercise periods. The grantees are entitled to exercise all the share options within three months from the date of termination of their employment with the Company.

(d) These share options were granted on 10 November 2010 at an exercise price of HK$4.96[@] per share of the Company. The closing price of the Company's ordinary shares on the Stock Exchange on the trading day immediately prior to the date of grant of the share options was HK$0.227 per share (before adjustment for the Share Consolidation). The share options may be exercised in two equal portions. The first 50% portion is exercisable for a period of 2 years commencing on 10 November 2011 and the other 50% portion is exercisable for a period of 1 year commencing on 10 November 2012 and, if not otherwise exercised, all of the share options will lapse on 10 November 2013. The vesting periods of each of the portion is from the date of grant to the respective commencement dates of the exercise periods. The grantees are entitled to exercise all the share options within three months from the date of termination of their employment with the Company.

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

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

CONTRACT OF SIGNIFICANCE

No contracts of significance in relation to the Group's business in which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO

So far as is known to the Directors and the chief executive of the Company, as at 31 December 2011, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Capacity	Total interests in shares/ underlying shares (L): Long position	Approximate percentage of the Company's issued share capital
Simsen International Corporation Limited (note 1)	Beneficial owner	231,364,000 (L)	16.19%
Joint Ascent Limited (note 2)	Beneficial owner	148,992,000 (L)	10.43%
China Coal and Coke Investment Holding Company Limited (note 3)	Beneficial owner	97,838,500 (L)	6.85%
Sino Bridge Investments Limited (note 3)	Through controlled corporation	97,838,500 (L)	6.85%
Chrism Investments Limited (note 4)	Beneficial owner	93,250,000 (L)	6.53%

Notes:

1. Simsen International Corporation Limited, a listed company in Hong Kong with stock code 993, entered into agreements with certain former convertible notes holders on 12 December 2011, to purchase convertible notes which entitle the holder thereof to convert into 231,364,000 shares at the conversion price of HK$1.25 per share. Such transactions were completed on 21 March 2012.

   The above numbers of shares and conversion price have been adjusted for the Share Consolidation.

2. Joint Ascent Limited is held as to 80% and 20% by Mr. Wang Da Yong and Mr. Tian Wenwei, respectively.

3. China Coal and Coke Investment Holding Company Limited is wholly-owned by Sino Bridge Investments Limited, a company wholly beneficially owned by Mr. Wang Da Yong.

4. The number of shares held by Chrism Investments Limited was 1,865,000,000 pursuant to disclosure of interests notice dated 20 May 2011. The number of shares disclosed in the above table has been adjusted for the Share Consolidation.

Save as disclosed above, as at 31 December 2011, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 41 to the financial statements.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Wang Da Yong
Chairman

Hong Kong
30 March 2012

INDEPENDENT AUDITORS' REPORT

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安 永

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To the shareholders of King Stone Energy Group Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of King Stone Energy Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 35 to 115, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the 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 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER ON GOING CONCERN

Without qualifying our opinion, we draw attention to note 2 in the financial statements which indicates that as at 31 December 2011, the Group has current liabilities that exceeded its current assets by HK$1,259 million. This condition, along with other matters as set forth in note 2, indicates the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Should the Group be unable to continue as a going concern, adjustments relating to the carrying amounts and reclassification of assets and liabilities of the Group and the Company would have to be made to the financial statements.

Ernst & Young
Certified Public Accountants
Hong Kong
30 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
REVENUE	6	995,100	1,007,740
Cost of sales		(612,248)	(483,055)
Gross profit		382,852	524,685
Fair value loss on convertible notes	27	—	(1,133,144)
Gain on bargain purchase of a subsidiary	32	29,948	—
Other income and gains, net	6	52,195	29,823
Selling and distribution costs		(4,632)	(4,220)
Administrative expenses		(182,754)	(118,667)
Finance costs	7	(171,751)	(84,066)
Share of loss of a jointly-controlled entity	18	(28)	—
PROFIT/(LOSS) BEFORE TAX	8	105,830	(785,589)
Income tax expense	11	(40,396)	(100,405)
PROFIT/(LOSS) FOR THE YEAR		65,434	(885,994)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Exchange differences on translation of foreign operations:			
— Increase for the year		108,432	74,311
— Reclassification adjustment on disposal of subsidiaries	33	—	(6,769)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		108,432	67,542
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		173,866	(818,452)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Profit/(loss) for the year attributable to:			
Owners of the Company	12	55,339	(905,164)
Non-controlling interests		10,095	19,170
		65,434	(885,994)
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company	12	157,139	(841,869)
Non-controlling interests		16,727	23,417
		173,866	(818,452)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
			(Restated)
Basic and diluted		HK$0.04	(HK$1.15)

The directors of the Company do not recommend the payment of any dividend in respect of the year ended 31 December 2011 (2010: Nil).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	2,151,176	1,305,588
Prepaid land premiums	15	15,080	12,299
Mining rights	16	2,964,936	2,343,144
Investment in a jointly-controlled entity	18	16,623	—
Prepayments for non-current assets	21	155,964	434,743
Total non-current assets		5,303,779	4,095,774
CURRENT ASSETS			
Inventories	19	17,216	4,283
Trade and bills receivables	20	117,100	263,346
Prepayments, deposits and other receivables	21	566,144	171,432
Pledged deposits	22	2,936	417
Cash and cash equivalents	22	51,928	625,216
Total current assets		755,324	1,064,694
CURRENT LIABILITIES			
Trade and bills payables	23	5,048	903
Other payables and accruals	24	1,181,973	484,748
Interest-bearing bank borrowings	25	555,075	411,775
Derivative component of convertible bonds	26(a)	—	35,452
Liability component of convertible bonds	26(b)	—	121,896
Tax payable		272,526	148,413
Total current liabilities		2,014,622	1,203,187
NET CURRENT LIABILITIES		(1,259,298)	(138,493)
TOTAL ASSETS LESS CURRENT LIABILITIES		4,044,481	3,957,281
NON-CURRENT LIABILITIES			
Other payables and accruals	24	—	41,098
Interest-bearing bank borrowings	25	678,425	882,375
Convertible notes	27	221,782	466,288
Deferred tax liabilities	28	646,748	538,786
Total non-current liabilities		1,546,955	1,928,547
Net assets		2,497,526	2,028,734

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	29	142,873	226,298
Reserves	31(a)	2,234,125	1,698,635
		2,376,998	1,924,933
Non-controlling interests		120,528	103,801
Total equity		2,497,526	2,028,734

Wang Da Yong
Director

Tian Wenwei
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

		Attributable to owners of the Company										
	Notes	Issued capital HK$'000 (Note 29)	Share premium account HK$'000 (Note 31(a)(i))	Capital redemption reserve HK$'000	Equity component of convertible notes HK$'000 (Note 27)	Share option reserve HK$'000 (Note 31(a)(ii))	PRC statutory reserves HK$'000 (Note 31(a)(iii))	Exchange fluctuation reserve HK$'000 (Note 31(a)(iv))	Retained earnings/ (Accumulated losses) HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2010		77,338	1,133,198	–	–	764	7,904	6,805	(1,803,560)	(577,551)	80,384	(497,167)
Profit/(loss) for the year		–	–	–	–	–	–	–	(905,164)	(905,164)	19,170	(885,994)
Other comprehensive income for exchange differences on translation of foreign operations during the year		–	–	–	–	–	–	63,295	–	63,295	4,247	67,542
Total comprehensive income/(loss) for the year		–	–	–	–	–	–	63,295	(905,164)	(841,869)	23,417	(818,452)
Disposal of subsidiaries	33	–	–	–	–	–	(7,904)	–	7,904	–	–	–
Issue of new shares	29(a)	10,000	195,000	–	–	–	–	–	–	205,000	–	205,000
Share issue expenses		–	(238)	–	–	–	–	–	–	(238)	–	(238)
Conversion of convertible bonds	29(b)	1,800	36,073	–	–	–	–	–	–	37,873	–	37,873
Conversion of convertible notes	29(c)	137,160	1,701,582	–	–	–	–	–	–	1,838,742	–	1,838,742
Issue of the Amended 2009 CN	27	–	–	–	1,239,114	–	–	–	–	1,239,114	–	1,239,114
Equity-settled share option arrangement	30(a)	–	–	–	–	23,862	–	–	–	23,862	–	23,862
At 31 December 2010 and 1 January 2011		226,298	3,065,615*	–*	1,239,114*	24,626*	–*	70,100*	(2,700,820)*	1,924,933	103,801	2,028,734
Profit for the year		–	–	–	–	–	–	–	55,339	55,339	10,095	65,434
Other comprehensive income for exchange differences on translation of foreign operations during the year		–	–	–	–	–	–	101,800	–	101,800	6,632	108,432
Total comprehensive income for the year		–	–	–	–	–	–	101,800	55,339	157,139	16,727	173,866
Conversion of convertible notes	29(d)	49,027	922,611	–	(700,230)	–	–	–	–	271,408	–	271,408
Share issue expenses		–	(99)	–	–	–	–	–	–	(99)	–	(99)
Repurchase of shares	29(e)	(523)	–	523	–	–	–	–	–	–	–	–
Share repurchase expense	29(e)	–	–	–	–	–	–	–	(7,322)	(7,322)	–	(7,322)
Capital reorganisation	29(f)	(131,929)	131,929	–	–	–	–	–	–	–	–	–
Share premium reduction	29(f)	–	(2,953,243)	–	–	–	–	–	2,953,243	–	–	–
Equity-settled share option arrangement	30(a)	–	–	–	–	30,939	–	–	–	30,939	–	30,939
At 31 December 2011		142,873	1,166,813*	523*	538,884*	55,565*	–*	171,900*	300,440*	2,376,998	120,528	2,497,526

* These reserve accounts comprise the consolidated reserves of HK$2,234,125,000 (2010: HK$1,698,635,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		105,830	(785,589)
Adjustments for:			
Finance costs	7	171,751	84,066
Bank interest income	6	(262)	(813)
Other interest income	6	(6,270)	—
Write-off/(gain on disposal) of items of property, plant and equipment, net	8	22,789	(598)
Gain on bargain purchase of a subsidiary	32	(29,948)	—
Gain on disposal of subsidiaries	6	—	(24,784)
Fair value gain on derivative component of convertible bonds	6, 26(a)	(35,452)	(2,736)
Fair value loss on convertible notes	27	—	1,133,144
Depreciation	8, 14	157,880	109,134
Amortisation of prepaid land premiums	8, 15	357	548
Amortisation of mining rights	8, 16	162,831	124,202
Impairment of trade receivables	8, 20(b)	144	2,308
Impairment of prepayments, deposits and other receivables	8, 21(a)	1,086	8,521
Equity-settled share option expense	8, 30(a)	30,939	23,862
Share of loss of a jointly-controlled entity	18	28	—
		581,703	671,265
Decrease/(increase) in inventories		(7,157)	2,485
Decrease/(increase) in trade and bills receivables		146,102	(234,155)
Decrease/(increase) in prepayments, deposits and other receivables		30,539	(97,430)
Decrease in trade and bills payables		(3,521)	(17,325)
Increase in other payables and accruals		159,572	201,909
Cash generated from operations		907,238	526,749
Interest paid		(107,745)	(71,359)
Income tax paid		(14,927)	(5)
Net cash flows from operating activities		784,566	455,385

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		6,532	813
Purchases of items of property, plant and equipment		(823,160)	(622,599)
Proceeds from disposal of items of property, plant and equipment		625	91,275
Acquisition of a subsidiary	32	(292,887)	—
Disposal of subsidiaries	33	—	(422)
Investment in a jointly-controlled entity	18	(16,651)	—
Decrease/(increase) in prepayments for non-current assets		30,069	(193,219)
Decrease in time deposits with maturity of more than three months when acquired		—	44,285
Increase in pledged time deposits		(2,519)	(417)
Net cash flows used in investing activities		(1,097,991)	(680,284)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	29	—	205,000
Share issue expenses	29	(99)	(238)
Repurchase of shares	29	(7,322)	—
Redemption of convertible bonds	26	(159,000)	—
Net proceeds from issue of convertible bonds	26	—	185,250
New bank loans		431,725	401,730
Repayment of bank loans		(555,075)	(57,390)
Increase in other borrowings included in other payables		37,318	—
Net cash flows from/(used in) financing activities		(252,453)	734,352
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(565,878)	509,453
Cash and cash equivalents at beginning of year		625,216	98,739
Effect of foreign exchange rate changes, net		(7,410)	17,024
CASH AND CASH EQUIVALENTS AT END OF YEAR		51,928	625,216
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	41,928	605,179
Time deposits	22	10,000	20,037
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows	22	51,928	625,216

STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	1,077	1,408
Investments in subsidiaries	17(a)	1,810,195	1,810,195
Prepayment	21	–	180,000
Total non-current assets		1,811,272	1,991,603
CURRENT ASSETS			
Due from subsidiaries	17(b)	237	83
Prepayments, deposits and other receivables	21	211,140	2,145
Cash and cash equivalents	22	19,676	244,184
Total current assets		231,053	246,412
CURRENT LIABILITIES			
Other payables and accruals	24	3,683	11,969
Derivative component of convertible bonds	26(a)	–	35,452
Liability component of convertible bonds	26(b)	–	121,896
Total current liabilities		3,683	169,317
NET CURRENT ASSETS		227,370	77,095
TOTAL ASSETS LESS CURRENT LIABILITIES		2,038,642	2,068,698
NON-CURRENT LIABILITY			
Convertible notes	27	221,782	466,288
Net assets		1,816,860	1,602,410
EQUITY			
Issued capital	29	142,873	226,298
Reserves	31(b)	1,673,987	1,376,112
Total equity		1,816,860	1,602,410

Wang Da Yong
Director

Tian Wenwei
Director

1. CORPORATE INFORMATION

King Stone Energy Group Limited (the "Company") is a limited liability company incorporated in Hong Kong. The registered address of the Company is located at Room 3603, 36/F, One Exchange Square, Central, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were involved in mining and selling of coal.

2. BASIS OF PREPARATION, PRESENTATION AND CONSOLIDATION

Basis of preparation

As at 31 December 2011, the current liabilities of the Group exceeded its current assets by approximately HK$1,259 million, which indicates the existence of a material uncertainty that may cast significant doubt about the Group's ability to operate as a going concern. The consolidated financial statements of the Group have been prepared on a going concern basis, the validity of which depends upon the outcome of various measures adopted by the directors of the Company as mentioned below and the future performance of the Group.

As at the date of approval of these financial statements, the Group is in process of negotiating with certain banks for obtaining new bank loans for the purpose to meet with the Group's liabilities as and when they fall due. Based on the communications with the relevant banks and after taking into account the Group's availability of mining rights, and property, plant and equipment (free of charges and encumbrances) with aggregate carrying value of HK$760 million as at 31 December 2011 for pledging purposes, operating performance and other factors, the directors of the Company are confident that such new bank loans will be obtained.

In March 2012, two customers have entered into contracts to purchase the Group's future coal output up to March 2014, and prepayment totaling HK$311 million will be paid to the Group in April 2012. Such prepayments will be maintained throughout the period until the end of the respective contracts.

A substantial shareholder of the Company has confirmed his ability and agreement to provide continual financial support and adequate funds to the Group to meet with the Group's liabilities as and when they fall due in the foreseeable future.

The directors of the Company are also considering/taking other alternatives to monitor and improve the cash flows of the Group, which included extension of repayment dates of existing bank loans and other liabilities, and other financing arrangements. The directors of the Company expect that payments of certain liabilities of the Group can be extended to twelve months after 31 December 2011.

In light of the measures described above, and after taking into account the performance of the Group and the cash flow projection prepared by the directors of the Company, the directors of the Company are confident that the Group will have sufficient working capital to meet with its financial obligations in the foreseeable future. Accordingly the directors of the Company are of the opinion that it is appropriate to prepare these financial statements on a going concern basis. These financial statements do not include any adjustments that might be necessary should the Group not be able to continue as a going concern.

2. BASIS OF PREPARATION, PRESENTATION AND CONSOLIDATION (Continued)

Basis of presentation

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, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the derivative components of convertible bonds and convertible notes (before their terms were amended on 31 December 2010), which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company. 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. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

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

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

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

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

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of the 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) HKAS 24 (Revised) *Related Party Disclosures*
HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 37 to the consolidated financial statements.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the consolidated statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Further information about those changes that are expected to significantly affect the Group is as follows:

(a) HKFRS 7 Amendments issue new disclosure requirements in relation to the offsetting models of financial assets and financial liabilities. The amendments also improve the transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received. The Group expects to adopt the amendments from 1 January 2013.

(b) HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirely. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015.

(c) HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation — Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

(c) (Continued)

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

(d) HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

(e) Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

(f) HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes — Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt HKAS 12 Amendments from 1 January 2012.

(g) HKAS 32 Amendments clarify the requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria and clarify the meaning of "currently has a legally enforceable right of set-off" and some gross settlement systems may be considered equivalents to net settlements. The Group expects to adopt the amendments from 1 January 2014.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

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 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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in profit or loss and consolidated reserves, respectively.

Business combinations and goodwill

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

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

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

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

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

Impairment of non-financial assets

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation and 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, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

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

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

or

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

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

3.3 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 purchases price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Buildings	Over the lease term
Leasehold improvements	Over the shorter of the lease terms and five years
Plant and machinery	6.7% to 12.5%
Furniture, fixtures and equipment	10% to 20%
Motor vehicles	20%

In addition, certain plant and machinery used in the coal mines are depreciated on the unit of production method based on the actual production volume and over the total estimated proven and probable reserves of the coal mine.

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 is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building or mining structure and other assets 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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating leases

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 lessee, rentals payable under the operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land premiums are stated at cost less accumulated amortisation and any impairment losses, and amortisation is calculated on the straight-line basis over the lease term of 50 years.

Mining rights

Mining rights are stated at cost less accumulated amortisation and any impairment losses, and are amortised on the units of production method based on the actual production volume and over the total estimated proven and probable reserves of the coal mine.

The cost of mining rights acquired in a business combination is the fair value as at the date of acquisition. The mining rights are subsequently assessed for impairment whenever there is an indication that the mining rights may be impaired. The amortisation period and the amortisation method for the mining rights are reviewed at least at each financial year end.

Investments and other financial assets

Initial recognition and measurement

The Group determines the classification of its financial assets at initial recognition. The Group's financial assets included cash and bank balances, trade and bills receivables, other receivables and pledged deposits, which are classified as loans and receivables under HKAS 39. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

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 financial income in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

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

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

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

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

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

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that 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.

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

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 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.

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 other expenses in profit or loss.

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and bills payables, other payables, accruals, interest-bearing loans, and the liability component of convertible bonds and convertible notes.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities designated upon initial recognition as at fair value through profit or loss. Gains or losses on financial liabilities designated upon initial recognition as at fair value through profit or loss are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Loans 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/notes

Convertible bonds/notes which entitle the holder to convert the bonds/notes into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are regarded as combined instruments consisting of a liability component and a derivative component.

When the convertible bonds/notes with a derivative component as a whole are designated as financial liabilities at fair value through profit or loss, the entire convertible bonds/notes are initially recognised at fair value on the date of issue and are subsequently measured at fair value until extinguished on conversion or redemption. Changes in the fair value of the entire convertible bonds/notes are recognised in profit or loss in the year in which they arise.

When the convertible bonds/notes with a derivative component as a whole are not designated as financial liabilities at fair value through profit or loss, on initial recognition, the derivative component of the convertible bonds/notes is measured at fair value and presented as part of the derivative liability. Any excess of net proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Subsequently, changes in the fair value of the derivative component of the convertible bonds/notes are recognised in profit or loss in the year in which they arise and the liability component of the convertible bonds/notes is stated at amortised cost using the effective interest rate method.

Convertible bonds/notes which entitle the holder to convert the bonds/notes into a fixed number of equity instruments at a fixed conversion price are regarded as combined instruments consisting of a liability component and an equity component.

On initial recognition, the component of convertible bonds/notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. The fair value of the liability component is determined using a market rate for an equivalent non-convertible bond/note; and this amount is carried as a liability on the amortised cost basis using the effective interest rate method until extinguished on conversion or redemption. In addition, the fair value of the conversion option is assessed and is recognised and included in shareholders' equity as "Equity component of convertible notes". The carrying amount of the conversion option recognised in shareholders' equity is not remeasured in subsequent years.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Convertible bonds/notes (Continued)

Upon the exercise of the conversion option of the convertible bonds/notes, the resulting ordinary shares issued are recorded by the Company as additional share capital at the nominal value of the ordinary shares issued, and the excess of the total carrying amounts of the derivative, liability and equity components of the convertible bonds/notes over the nominal value of the ordinary shares issued is recorded in the share premium account. No gain or loss is recognised in profit or loss upon conversion of the conversion option.

When the convertible bonds/notes are redeemed, the carrying amount of the equity component of the convertible bonds/notes, if any, is transferred to retained profit or accumulated losses as a movement in reserves and any difference between the amount paid and the carrying amounts of the derivative and liability components is recognised in profit or loss. No gain or loss is recognised in profit or loss upon expiration of the conversion option.

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.

Offsetting of financial instruments

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

Fair value of financial instruments

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Income tax

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

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

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

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries, 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.

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) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest rate 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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 30 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.

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all those employees who are eligible to participate in the MPF Scheme. 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.

Subsidiaries of the Group in the People's Republic of China (the "PRC") contributes on a monthly basis to defined contribution retirement schemes organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefits payable to all existing and future retired employees under these plans and the Group has no further obligations for respective post-retirement benefits beyond the contributions made. The contributions to the schemes are charged to profit or loss as and when incurred.

Borrowing costs

Borrowing costs directly attributable to the construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

The functional currency of certain subsidiaries and a jointly-controlled entity in the PRC is currency 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 rate ruling at the end of the reporting period and their profits or losses are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of subsidiaries and a jointly-controlled entity in the PRC are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries and a jointly-controlled entity in the PRC which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. 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 assets and 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 assets

The Group has to exercise judgement in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, 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 disposal; 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.

Estimation uncertainties

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainties (Continued)

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, the expected usage of the asset, the expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits in the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residues values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed, at each financial year end date based on changes in circumstances. The net carrying amounts of property, plant and equipment in the consolidated statement of financial position of the Group at 31 December 2011 was HK$2,151,176,000 (2010: HK$1,305,588,000) (note 14).

Impairment of property, plant and equipment and mining rights

The Group assesses each cash-generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. The carrying value of property, plant and equipment, including mining structures, is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in the financial statements. Estimating the value in use requires the Group to estimate future cash flows from the cash generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows. The net carrying amount of property, plant and equipment in the consolidated statement of financial position of the Group at 31 December 2011 was HK$2,151,176,000 (2010: HK$1,305,588,000) (note 14). The net carrying amount of mining rights in the consolidated statement of financial position of the Group at 31 December 2011 was HK$2,964,936,000 (2010: HK$2,343,144,000) (note 16).

Mine reserves

Engineering estimates of the Group's mine reserves are inherently imprecise and represent only approximate amounts because of the significant judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as "proved" and "probable". Proved and probable mine reserve estimates are updated on regular intervals taking into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable mine reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in both depreciation and amortisation rates calculated on a unit of production basis. Changes in the estimate of mine reserves are also taking into account in the impairment assessment of mining rights. The net carrying amount of mining rights in the consolidated statements of financial position of the Group at 31 December 2011 was HK$2,964,936,000 (2010: HK$2,343,144,000) (note 16).

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainties (Continued)

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the ageing and estimated net realisable value of inventories. The assessment of the write-down amount requires management's estimates and judgement. Where the actual outcome or expectation in the future is different from the original estimate, such differences will impact the carrying value of inventories and write-down/write-back of inventories in the period in which such estimate has been changed. The net carrying amount of inventories in the consolidated statement of financial position of the Group at 31 December 2011 was HK$17,216,000 (2010: HK$4,283,000) (note 19).

Impairment of trade and bills receivables, prepayments, deposits and other receivables

Impairment of receivables is made based on an assessment of the recoverability of receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact the carrying values of the receivables and impairment loss in the period in which such estimate has been changed. The net carrying amounts of trade and bills receivables, prepayments, deposits and other receivables in the consolidated statement of financial position of the Group at 31 December 2011 were HK$117,100,000 and HK$722,108,000, respectively (2010: HK$263,346,000 and HK$606,175,000, respectively) (notes 20 and 21).

Provision for rehabilitation

Provision for rehabilitation is based on estimates of future expenditures incurred by management to undertake rehabilitation and restoration work a to a coal mine which are discounted at a rate reflecting the term and nature of the obligation. Significant estimates and assumptions are made in determining the provision for rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases and changes in the discount rate. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at the end of the reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognised in the consolidated statements of financial position of the Group by adjusting the rehabilitation liability. At 31 December 2011, the directors of the Company estimated that no provision for rehabilitation is required (2010: Nil).

Fair value assessments of share options granted during the year

All theses fair value assessments were based on valuation techniques for which all inputs which have a significant effect on the recorded fair values are observable, either directly or indirectly. These valuations require the Group to make estimates about credit risk and volatility of the Company's listed shares, and hence they are subject to uncertainty. Where the estimation on these factors is different from those previously estimated, such differences will impact the equity-settled share option expense recognised during the vesting period. Further details are included in note 30 to the financial statements.

5. OPERATING SEGMENT INFORMATION

Over 90% of the Group's revenue, expenses and assets are generated from mining and selling of coal in Mainland China. The management of the Group makes decisions about resources allocation and assesses performance of the Group based on the operating results from these business activities. Accordingly, the directors of the Company are of the opinion that mining and selling of coal in Mainland China is a single reportable segment of the Group.

Analysis of the Group's revenue from external customers for each group of similar products and services are disclosed in note 6 to the financial statements.

The Group's revenue from external customers is derived solely from its operations in the PRC, and all non-current assets (other than financial assets) of the Group are located in the PRC.

During the year, the Group had transactions with three external customers which individually contributed to over 10% of the Group's total revenue (2010: three). The aggregate revenue generated from these three customers amounted to HK$475,296,000 (2010: HK$588,148,000).

6. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents the net value of goods sold after sales tax, value added tax, goods returns and allowances for returns and trade discounts.

An analysis of the Group's revenue, other income and gains, net is as follows:

	2011 HK$'000	2010 HK$'000
Revenue		
Mining and selling of coal	995,100	992,995
Trading of phosphorus products	–	12,336
Trading of optical products	–	2,409
	995,100	1,007,740

6. REVENUE, OTHER INCOME AND GAINS, NET (Continued)

	2011 HK$'000	2010 HK$'000
Other income		
Bank interest income	262	813
Other interest income	6,270	—
Other income from termination of subscription agreements	10,000	—
Others	—	876
	16,532	1,689
Gains, net		
Gain on disposal of items of property, plant and equipment	162	598
Gain on disposal of subsidiaries (note 33)	—	24,784
Fair value gain on derivative component of convertible bonds, net (note 26(a))	35,452	2,736
Others	49	16
	35,663	28,134
Other income and gains, net	52,195	29,823

7. FINANCE COSTS

An analysis of the Group's finance costs is as follows:

	2011 HK$'000	2010 HK$'000
Interest on bank and other loans wholly repayable within five years	106,155	93,825
Imputed interest on convertible bonds (note 26(b))	37,104	12,707
Imputed interest on convertible notes (note 27)	26,902	—
Interest on convertible bonds	1,590	—
Less: Interest capitalised as property, plant and equipment	—	(22,466)
	171,751	84,066

8. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2011 HK$'000	2010 HK$'000
Cost of inventories sold		612,248	483,055
Depreciation	14	157,880	109,134
Amortisation of prepaid land premiums	15	357	548
Amortisation of mining rights	16	162,831	124,202
Employee benefit expense (including directors' remuneration):			
Wages, salaries and other benefits		48,247	20,625
Equity-settled share option expense	30(a)	30,939	23,862
		79,186	44,487
Pension scheme contributions (defined contribution scheme)		9,453	2,783
		88,639	47,270
Auditors' remuneration		2,480	1,650
Impairment on trade receivables	20(b)	144	2,308
Impairment on prepayments, deposits and other receivables	21(a)	1,086	8,521
Operating lease rentals in respect of properties, machinery and equipment		2,376	2,384
Write-off/(gain on disposal) of items of property, plant and equipment, net		22,789	(598)

9. DIRECTORS' REMUNERATION

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

	Group	
	2011	2010
	HK$'000	HK$'000
Fees	1,080	766
Other emoluments:		
Salaries, allowances and benefits in kind	5,170	3,867
Pension scheme contributions	25	8
Equity-settled share option expense	18,220	10,143
	23,415	14,018
	24,495	14,784

During the year ended 31 December 2010, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 30 to the financial statements. The fair value of these options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

9. DIRECTORS' REMUNERATION (Continued)

An analysis of director's remuneration, on a named basis, for the year is as follows:

Group

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Equity-settled share options expense HK$'000	Total remuneration HK$'000
2011					
Executive directors					
Wang Da Yong	–	3,406	13	8,499	11,918
Tian Wenwei	–	1,404	12	4,653	6,069
Wang Tongtian	–	360	–	1,672	2,032
Chen Marlon Ray (appointed on 21 December 2011)	–	–	–	–	–
	–	5,170	25	14,824	20,019
Non-executive directors					
Li Yi	360	–	–	1,241	1,601
Su Bin	180	–	–	862	1,042
Li Feng (appointed on 25 August 2011 and resigned on 27 February 2012)	–	–	–	–	–
Wang Daoyuan (appointed on 25 August 2011 and resigned on 27 February 2012)	–	–	–	–	–
	540	–	–	2,103	2,643
Independent non-executive directors					
Jacobsen William Keith (resigned on 30 September 2011)	135	–	–	431	566
Cao Kuangyu	180	–	–	431	611
Chiu Sui Keung	180	–	–	431	611
Li Peiming (appointed on 30 September 2011)	45	–	–	–	45
	540	–	–	1,293	1,833
Total	1,080	5,170	25	18,220	24,495

9. DIRECTORS' REMUNERATION (Continued)

Group (Continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Equity-settled share options expense HK$'000	Total remuneration HK$'000
2010					
Executive directors					
Wang Da Yong	—	2,800	8	1,295	4,103
Tian Wenwei	—	887	—	5,020	5,907
Wang Tongtian	—	180	—	1,530	1,710
Liu Yee Nee	—	—	—	—	—
Louie Mei Po	—	—	—	—	—
Li Wei	—	—	—	—	—
Zhou Jing	—	—	—	—	—
	—	3,867	8	7,845	11,720
Non-executive directors					
Li Yi	164	—	—	1,339	1,503
Su Bin	84	—	—	383	467
	248	—	—	1,722	1,970
Independent non-executive directors					
Jacobsen William Keith	160	—	—	192	352
Cao Kuangyu	164	—	—	192	356
Chiu Sui Keung	172	—	—	192	364
Ng Wai Hung	16	—	—	—	16
Wu Wang Li	6	—	—	—	6
	518	—	—	576	1,094
Total	766	3,867	8	10,143	14,784

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2010: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2010: two) non-director, highest paid employees for the year are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	2,096	1,271
Pension scheme contributions	24	13
Equity-settled share option expense	4,344	4,685
	6,464	5,969

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

	Number of employees	
	2011	2010
HK$2,500,001 to HK$3,000,000	1	1
HK$3,000,001 to HK$3,500,000	1	1
	2	2

During the year ended 31 December 2010, the non-director, highest paid employees were granted share options of the Company, 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 30 to the financial statements. The fair value of these options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

During the year ended 31 December 2011, no share options have been granted to the above non-director, highest paid employees.

11. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year ended 31 December 2011 (2010: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2011 HK$'000	2010 HK$'000
Group:		
Current — Mainland China	119,108	144,786
Deferred (note 28)	(78,712)	(44,381)
Total tax charge for the year	40,396	100,405

11. INCOME TAX (Continued)

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

Group—2011

	Hong Kong HK$'000	%	Mainland China HK$'000	%	Total HK$'000	%
Profit/(loss) before tax	(80,632)		186,462		105,830	
Tax at the statutory tax rate	(13,304)	16.5	46,616	25.0	33,312	31.5
Income not subject to tax	(7,547)	9.4	(7,487)	(4.0)	(15,034)	(14.2)
Expenses not deductible for tax	18,197	(22.6)	916	0.4	19,113	18.1
Tax losses not recognised	2,654	(3.3)	351	0.2	3,005	2.8
Tax charge at the Group's effective rate	—	—	40,396	21.6	40,396	38.2

Group—2010

	Hong Kong HK$'000	%	Mainland China HK$'000	%	Total HK$'000	%
Profit/(loss) before tax	(1,172,726)		387,137		(785,589)	
Tax at the statutory tax rate	(193,500)	16.5	96,784	25.0	(96,716)	12.3
Income not subject to tax	(4,699)	0.4	—	—	(4,699)	0.6
Expenses not deductible for tax	193,049	(16.5)	2,754	0.7	195,803	(24.9)
Tax losses not recognised	5,150	(0.4)	867	0.2	6,017	(0.8)
Tax charge at the Group's effective rate	—	—	100,405	25.9	100,405	(12.8)

12. PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit/(loss) attributable to owners of the Company for the year ended 31 December 2011 includes a loss of HK$80,476,000 (2010: HK$1,193,633,000) which has been dealt with in the financial statements of the Company (note 31(b)).

13. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,313,416,291 (2010: 787,522,237) in issue during the year. The weighted average numbers of ordinary shares in 2011 and 2010 have been retrospectively adjusted for the twenty-to-one share consolidation which took place on 24 June 2011 (note 29(f)(i)).

The calculation of the diluted earnings per share amounts for the year is based on the profit for the year attributable to ordinary equity holders of the Company, adjusted to reflect the interest on the convertible notes/bonds and fair value gain on the derivative component of the convertible bonds. The weighted average number of ordinary shares used in the calculation is the weighted average 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 and conversion of share options and convertible bonds/notes into ordinary shares.

For the years ended 31 December 2011 and 2010, no adjustment has been made to the basic earnings/(loss) per share amounts presented in respect of a dilution as the share options of the Company outstanding during these years and the deemed conversion of the convertible bonds/notes issued by the Company have either no dilutive effect or an anti-dilutive effect on the basic earnings/(loss) per share amounts for these years.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Note	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2011								
At 31 December 2010 and 1 January 2011:								
Cost		36,941	878	1,256,281	8,221	7,434	107,625	1,417,380
Accumulated depreciation		(2,220)	(132)	(107,659)	(1,330)	(451)	—	(111,792)
Net carrying amount		34,721	746	1,148,622	6,891	6,983	107,625	1,305,588
At 1 January 2011, net of accumulated depreciation		34,721	746	1,148,622	6,891	6,983	107,625	1,305,588
Additions		621	—	524,150	4,618	3,398	290,373	823,160
Disposals and written-off		—	—	—	—	(463)	(22,951)	(23,414)
Acquisition of a subsidiary	32	8,772	—	106,446	496	1,295	5,544	122,553
Depreciation provided during the year		(2,316)	(176)	(150,758)	(2,525)	(2,105)	—	(157,880)
Transfers		3,355	—	1,940	—	—	(5,295)	—
Exchange realignment		1,950	—	66,368	394	373	12,084	81,169
At 31 December 2011, net of accumulated depreciation		47,103	570	1,696,768	9,874	9,481	387,380	2,151,176
At 31 December 2011:								
Cost		52,417	878	1,979,255	14,843	13,102	387,380	2,447,875
Accumulated depreciation		(5,314)	(308)	(282,487)	(4,969)	(3,621)	—	(296,699)
Net carrying amount		47,103	570	1,696,768	9,874	9,481	387,380	2,151,176

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (continued)

	Note	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2010								
At 1 January 2010:								
Cost		35,663	—	797,268	4,582	3,536	11,882	852,931
Accumulated depreciation		(429)	—	(547)	(115)	(25)	—	(1,116)
Net carrying amount		35,234	—	796,721	4,467	3,511	11,882	851,815
At 1 January 2010, net of accumulated depreciation		35,234	—	796,721	4,467	3,511	11,882	851,815
Additions		—	878	294,989	3,623	7,000	316,109	622,599
Disposals		—	—	(88,165)	—	(2,512)	—	(90,677)
Disposal of subsidiaries	33	—	—	—	(52)	—	—	(52)
Depreciation provided during the year		(1,733)	(132)	(104,824)	(1,294)	(1,151)	—	(109,134)
Transfers		—	—	221,367	—	—	(221,367)	—
Exchange realignment		1,220	—	28,534	147	135	1,001	31,037
At 31 December 2010, net of accumulated depreciation		34,721	746	1,148,622	6,891	6,983	107,625	1,305,588
At 31 December 2010:								
Cost		36,941	878	1,256,281	8,221	7,434	107,625	1,417,380
Accumulated depreciation		(2,220)	(132)	(107,659)	(1,330)	(451)	—	(111,792)
Net carrying amount		34,721	746	1,148,622	6,891	6,983	107,625	1,305,588

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2011				
At 31 December 2010 and 1 January 2011:				
Cost	183	878	596	1,657
Accumulated depreciation	(28)	(132)	(89)	(249)
Net carrying amount	155	746	507	1,408
At 1 January 2011, net of accumulated depreciation	155	746	507	1,408
Additions	—	—	—	—
Depreciation provided during the year	(37)	(176)	(118)	(331)
At 31 December 2011, net of accumulated depreciation	118	570	389	1,077
At 31 December 2011:				
Cost	183	878	596	1,657
Accumulated depreciation	(65)	(308)	(207)	(580)
Net carrying amount	118	570	389	1,077

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company (continued)

	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2010				
At 1 January 2010:				
Cost	—	—	—	—
Accumulated depreciation	—	—	—	—
Net carrying amount	—	—	—	—
At 1 January 2010, net of accumulated depreciation	—	—	—	—
Additions	183	878	596	1,657
Depreciation provided during the year	(28)	(132)	(89)	(249)
At 31 December 2010, net of accumulated depreciation	155	746	507	1,408
At 31 December 2010:				
Cost	183	878	596	1,657
Accumulated depreciation	(28)	(132)	(89)	(249)
Net carrying amount	155	746	507	1,408

15. PREPAID LAND PREMIUMS

	Note	Group 2011 HK$'000	2010 HK$'000
Carrying amount at 1 January		12,299	12,416
Acquisition of a subsidiary	32	2,523	—
Amortisation provided during the year		(357)	(548)
Exchange realignment		615	431
Carrying amount at 31 December		15,080	12,299

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

16. MINING RIGHTS

	Note	Group 2011 HK$'000	2010 HK$'000
Cost at 1 January, net of accumulated amortisation		2,343,144	2,384,988
Acquisition of a subsidiary	32	670,646	—
Amortisation provided during the year		(162,831)	(124,202)
Exchange realignment		113,977	82,358
At 31 December		2,964,936	2,343,144
At 31 December:			
Cost		3,055,824	2,385,180
Accumulated amortisation		(287,225)	(124,394)
Exchange realignment		196,337	82,358
Net carrying amount		2,964,936	2,343,144

The Group's mining rights with a carrying amount of approximately HK$2,327,383,000 as at 31 December 2011 (2010: HK$2,343,144,000) were pledged to secure interest-bearing bank borrowings of the Group (note 25).

17. INTERESTS IN SUBSIDIARIES

	Notes	Company 2011 HK$'000	2010 HK$'000
Unlisted shares or investments, at cost	(a)	1,810,195	1,810,195
Due from subsidiaries	(b)	237	83

Notes:

(a) Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Directly	Indirectly	Principal activities
Triumph Fund A Limited	Cayman Islands	US$50,000	—	100	Investment holding
Shanxi Hengchuang Industrial Co., Ltd.#	PRC/Mainland China	US$75,000,000	—	100	Investment holding
Shanxi Puhua Deqin Metallurgy Technology Co., Ltd.#	PRC/Mainland China	RMB150,000,000	—	99	Investment holding
Eerduosi Hengtai Coal Co., Ltd. ("Hengtai")#	PRC/Mainland China	RMB180,000,000	—	95	Mining and selling of coal
Inner Mongolia Liaoyuan Coal Mining Co., Ltd. ("Liaoyuan")#	PRC/Mainland China	RMB5,000,000	—	95	Mining and selling of coal

\# Registered as limited liability companies under PRC law

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

(b) All balances with subsidiaries as at 31 December 2011 and 2010 are unsecured, interest-free and have no fixed terms of repayment.

18. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group 2011 HK$'000
Unlisted investment, at cost	16,651
Share of net assets	(28)
	16,623

Particulars of the jointly-controlled entity are as follows:

Name	Paid-up registered capital	Place of registration	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activity
聚信泰和能源投資基金管理有限責任公司	RMB30,000,000	PRC	45	45	45	Financial management

The above investment in a jointly-controlled entity is indirectly held by the Company.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

	2011 HK$'000
Share of the jointly-controlled entity's assets and liabilities:	
Current assets	15,235
Non-current assets	2,303
Current liabilities	(915)
Non-current liabilities	—
Net assets	16,623
Share of the jointly-controlled entity's results:	
Revenue	2,336
Total expenses	(2,364)
Tax	—
Loss after tax	(28)

19. INVENTORIES

	Group 2011 HK$'000	2010 HK$'000
Raw materials	10,362	3,402
Finished goods	6,672	874
Sub-materials and parts	182	7
	17,216	4,283

20. TRADE AND BILLS RECEIVABLES

	Notes	Group 2011 HK$'000	2010 HK$'000
Trade and bills receivables	(a)	117,100	270,360
Impairment of trade receivables	(b)	—	(7,014)
	(c)	117,100	263,346

20. TRADE AND BILLS RECEIVABLES (Continued)

Notes:

(a) The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to six months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by the management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to various diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing.

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

	Group	
	2011	2010
	HK$'000	HK$'000
0 to 30 days	116,427	251,318
31 to 60 days	—	—
61 to 90 days	—	—
91 to 180 days	—	6,178
181 to 365 days	—	1,477
More than 365 days	673	11,387
	117,100	270,360
Provision for impairment	—	(7,014)
	117,100	263,346

(b) The movements in the provision for impairment of trade receivables are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
At 1 January	7,014	35,612
Impairment losses recognised (note 8)	144	2,308
Amount written off as uncollectible	(7,158)	—
Disposal of subsidiaries	—	(31,418)
Exchange realignment	—	512
At 31 December	—	7,014

As at 31 December 2010, included in the above provision for impairment of trade receivables were full provisions for individually impaired trade receivables of HK$7,014,000. The individually impaired trade receivables in 2010 related to customers that were in financial difficulties and the receivables were not expected to be recovered. As at 31 December 2011, this amount has been fully written off as uncollectible.

20. TRADE AND BILLS RECEIVABLES (Continued)

Notes: (Continued)

(c) An aged analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Neither past due nor impaired	116,427	257,496
Past due for less than 6 months	—	1,477
Past due for over 6 months	673	4,373
	117,100	263,346

Receivables that were neither past due nor impaired relate to various customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. 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 still considered fully recoverable.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2011	2010	2011	2010
	Notes	HK$'000	HK$'000	HK$'000	HK$'000
Balances with third parties		722,108	619,510	211,140	182,145
Balances with related parties	37(b)	—	2,191	—	—
		722,108	621,701	211,140	182,145
Impairment of prepayments, deposits and other receivables	(a)	—	(15,526)	—	—
		722,108	606,175	211,140	182,145
Portion classified as current assets		(566,144)	(171,432)	(211,140)	(2,145)
Non-current portion		155,964	434,743	—	180,000

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

Note:

(a) The movement in the provision for impairment of prepayments, deposits and other receivables is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
At 1 January	15,526	9,987
Impairment loss recognised (note 8)	1,086	8,521
Amount written off as uncollectible	(16,612)	—
Disposal of subsidiaries	–	(3,464)
Exchange realignment	–	482
At 31 December	–	15,526

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2011	2010	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000
Cash and bank balances	44,864	605,179	9,676	224,147
Time deposits	10,000	20,454	10,000	20,037
Less: Time deposits pledged for general bank facilities	(2,936)	(417)	–	—
Cash and cash equivalents	51,928	625,216	19,676	244,184

(a) At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$32,252,000 (2010: HK$381,032,000). The 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.

(b) Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and three months (2010: one day to three months) depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

23. TRADE AND BILLS PAYABLES

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

	Group 2011 HK$'000	Group 2010 HK$'000
0 to 30 days	2,539	604
31 to 60 days	582	82
61 to 90 days	75	—
91 to 180 days	6	71
181 to 365 days	1,805	143
Over 365 days	41	3
	5,048	903

The trade payables are non-interest-bearing and are normally settled on 60-day terms.

24. OTHER PAYABLES AND ACCRUALS

	Notes	Group 2011 HK$'000	Group 2010 HK$'000	Company 2011 HK$'000	Company 2010 HK$'000
Accruals		288,854	183,520	2,480	582
Receipts in advance		29,048	20,970	—	—
Interest payable		16,399	15,641	—	—
Value-added tax and other tax payables		288,845	171,822	—	—
Loans from third parties	(a)	218,347	120,713	—	—
Consideration payable for the acquisition of a subsidiary	(b)	324,007	—	—	—
Other payables	(c)	16,473	13,180	1,203	11,387
		1,181,973	525,846	3,683	11,969
Portion classified as current		(1,181,973)	(484,748)	(3,683)	(11,969)
Non-current portion		—	41,098	—	—

24. OTHER PAYABLES AND ACCRUALS (Continued)

Notes:

(a) Except for a loan from a third party with an outstanding amount of RMB35,776,000 (equivalent to HK$44,005,000) as at 31 December 2011 (2010: RMB68,216,000 (equivalent to HK$80,256,000)) which bears interest at an annual interest rate of 7.4% and is repayable by quarterly instalments up to November 2012, the remaining balances of loans from third parties are unsecured, interest-free and have no fixed terms of repayment.

(b) The balance as at 31 December 2011 represents the unpaid consideration for the acquisition of a subsidiary in 2011, further details of which are included in note 32 to the financial statements.

(c) Other payables are non-interest-bearing and have an average term of three months.

25. INTEREST-BEARING BANK BORROWINGS

Group

	2011			2010		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans — unsecured	6.31–8.58	2012	555,075	5.31–7.97	2011	411,775
Non-current						
Bank loans — secured	8.39–8.58	2013–2015	678,425	8.385–8.58	2013–2015	882,375
			1,233,500			1,294,150
Analysed into:						
Bank loans:						
Within one year or on demand			555,075			411,775
In the second year			370,000			—
In the third to fifth years, inclusive			308,425			882,375
			1,233,500			1,294,150

25. INTEREST-BEARING BANK BORROWINGS (Continued)

All bank loans of the Group are denominated in RMB. The carrying amounts of the Group's interest-bearing bank borrowings approximated to their fair values as at the end of the reporting period.

(i) Bank loan of RMB400,000,000 (equivalent to approximately HK$493,400,000) (2010: RMB500,000,000 (equivalent to approximately HK$588,250,000)) is subject to the floating interest rate for five-year loans published by the People's Bank of China, and is repayable by instalments in 2012 and 2013 (2010: 2011 to 2013). This bank loan is guaranteed by Mr. Zhao Ming ("Mr. Zhao", a former shareholder and a holder of the Amended 2009 CN (as defined in note 27(a) to the financial statements) of the Company and a former shareholder of Triumph Fund A Limited, a subsidiary of the Group) and Mr. Hao Shenhai ("Mr. Hao", a former director of Hengtai), and is secured by Hengtai's mining rights (note 16).

(ii) Bank loan of RMB250,000,000 (equivalent to approximately HK$308,375,000) (2010: RMB250,000,000 (equivalent to approximately HK$294,125,000)) is subject to the floating interest rate for six-year loans published by the People's Bank of China, and is repayable by instalments in 2014 and 2015. This bank loan is guaranteed by Mr. Zhao and Mr. Hao, and is secured by Hengtai's mining rights (note 16).

(iii) Bank loan of RMB300,000,000 (equivalent to approximately HK$370,050,000) (2010: Nil) is subject to a fixed annual interest rate of 6.31% and the maturity date was 20 June 2012. This bank loan is guaranteed by 山西普大煤業集團有限公司 (an entity in which Mr. Zhao has certain shareholdings), 內蒙古伊東集團恒東能源有限責任公司 (an independent third party), and Mr. Xu Jianhua (a director of Hengtai, "Mr. Xu").

(iv) Bank loan of RMB30,000,000 (equivalent to approximately HK37,005,000) (2010: Nil) is subject to a floating interest rate based on 130% of the financial institution one-year borrowing rate published by the People's Bank of China and the maturity date is 10 May 2012. This bank loan is guaranteed by an independent third party, 內蒙古東達蒙古王有限公司.

(v) Bank loan of RMB20,000,000 (equivalent to approximately HK24,670,000) (2010: Nil) is subject to a floating interest rate based on 150% of the financial institution one-year borrowing rate published by the People's Bank of China and the maturity date is 28 December 2012. This bank loan is guaranteed by 山西普大煤業集團有限公司, an entity in which Mr. Zhao has certain shareholdings.

(vi) As at 31 December 2010, a bank loan of RMB100,000,000 (equivalent to approximately HK$117,650,000) was subject to a fixed annual interest rate of 5.31% and the maturity date was 25 February 2011. This bank loan was guaranteed by Mr. Hao.

(vii) As at 31 December 2010, a bank loan of RMB30,000,000 (equivalent to approximately HK$35,295,000) was subject to a floating interest rate based on 130% of the financial institution one-year borrowing rate published by the People's Bank of China and the maturity date was 28 March 2011. Such bank loan was guaranteed by Mr. Hao, and two other independent third parties, 內蒙古東達蒙古王有限公司 and Ms. Bian Xiao Yan.

(viii) As at 31 December 2010, a bank loan of RMB200,000,000 (equivalent to approximately HK$235,300,000) was subject to a fixed annual interest rate of 5.31% and the maturity date was 6 April 2011. Such bank loan was guaranteed by Mr. Hao.

(ix) As at 31 December 2010, a bank loan of RMB20,000,000 (equivalent to approximately HK$23,530,000) was subject to a floating interest rate based on 120% of the financial institution one-year borrowing rate published by the People's Bank of China and was matured on 19 December 2011. Such bank loan is guaranteed by 山西普大煤業集團有限公司, an entity in which Mr. Zhao has certain shareholdings therein.

26. CONVERTIBLE BONDS

On 24 September 2010, the Company issued one-year convertible bonds in the principal amount of HK$195,000,000 which bear interest at a rate of 2% per annum payable semi-annually in advance (the "2010 CB"). The 2010 CB can be converted into ordinary shares at an initial conversion price of HK$4.0 per share, which has been adjusted for the twenty-to-one share consolidation taken place on 24 June 2011 (note 29 (f)(i)).

The conversion option of the 2010 CB exhibited characteristics of an embedded derivative, thus is separated from its liability component. On initial recognition, the derivative component of the 2010 CB is measured at fair value as determined by reference to a valuation performed by independent professionally qualified valuers, and presented as part of the derivative liability. Any excess of the net proceeds received by the Company over the amount initially recognised as the derivative component is recognised as the liability component. Subsequently, changes in the fair value of the derivative component of the convertible bonds are recognised in profit or loss within the year in which they arise and the liability component of the convertible bonds is stated at amortised cost.

During the year, the outstanding 2010 CB was fully redeemed at maturity and the difference between the amount paid and the carrying amounts of liability and derivative components was recognised in profit or loss.

On initial recognition, the 2010 CB have been split as to the derivative and liability components, as follows:

Group and Company

	Notes	HK$'000
Proceeds of nominal value of the 2010 CB issued during the year		195,000
Less: Direct transaction costs attributable to the liability component		(9,750)
Net proceeds from issue of the 2010 CB		185,250
Derivative component at the issuance date	(a)	(49,833)
Liability component at the issuance date	(b)	135,417

Notes:

(a) The movements of the derivative component of the 2010 CB are as follows:

	Notes	HK$'000
At 1 January 2010		—
At the issuance date		49,833
Fair value change, net	6	(2,736)
Converted into ordinary shares of the Company	(c)	(11,645)
At 31 December 2010 and 1 January 2011		35,452
Fair value change, net	6	(35,452)
At 31 December 2011		—

26. CONVERTIBLE BONDS (Continued)

Notes: (continued)

(a) (continued)

The fair values of the derivative component of the 2010 CB at the issuance date, at each of the dates of conversion and as at 31 December 2010 were estimated, using a binomial option pricing model, taking into account the terms and conditions of the derivative. The following table lists the inputs to the model used:

	2010
Expected volatility (%)	58–88
Risk-free interest rate (%)	0.25–0.29
Expected life of options (year)	0.73–1
Effective interest rate (%)	7.8–8.3
Share price of the Company (HK$ per share)	0.175–0.227

The 2010 CB matured on 24 September 2011 and the outstanding amount thereof has been fully redeemed on 26 September 2011 in accordance with the terms of the 2010 CB, therefore, the carrying amount of the derivative component of the 2010 CB was recognised in profit or loss during the year ended 31 December 2011.

(b) The movements of the liability component of the 2010 CB during the year are as follows:

	Notes	2011 HK$'000	2010 HK$'000
At 1 January		121,896	—
At the issuance date		—	135,417
Imputed interest expense	7	37,104	12,707
Converted into ordinary shares of the Company	(c)	—	(26,228)
Redeem on maturity	(d)	(159,000)	—
At 31 December		—	121,896

(c) During the year ended 31 December 2010, the 2010 CB with a principal amount of HK$36,000,000 were converted into 180,000,000 ordinary shares of the Company at the conversion price of HK$0.2 each (before the adjustment for the twenty-to-one share consolidation which took place on 24 June 2011), and a total of HK$37,873,000 (representing the sum of the derivative and the liability components of these converted 2010 CB, which amounted to HK$11,645,000 and HK$26,228,000, respectively) was transferred to the share capital and share premium accounts upon the conversion (note 29(b)).

(d) The 2010 CB matured on 24 September 2011 and the outstanding amount thereof has been fully redeemed on 26 September 2011 in accordance with the terms of the 2010 CB.

27. CONVERTIBLE NOTES

On 21 December 2009, the Company issued zero coupon redeemable convertible notes in an aggregate principal amount of HK$1,805,000,000 (the "2009 CN"), for the acquisition of Triumph Fund A Limited and its subsidiaries. These convertible notes have a maturity term of five years, however, the Company has the right at any time after three years of the issuance date to redeem in whole or in part of the 2009 CN at par value. The 2009 CN can be converted into ordinary shares at the initial conversion price of HK$1.25 per share, which has been adjusted for the twenty-to-one share consolidation taken place on 24 June 2011 (note 29 (f)(i)).

Upon initial recognition on 21 December 2009, the 2009 CN were designated as financial liabilities at fair value through profit or loss with gains or losses on changes in fair value recognised in profit or loss in the year in which they arise.

During the year ended 31 December 2011, the 2009 CN with a principal amount of HK$324,545,000 (2010: HK$857,250,000) were converted into 3,903,720,000 (2010: 13,716,000,000) ordinary shares at the conversion price of HK$1.25 each (note 29(d)), which has been adjusted for the twenty-to-one share consolidation which took place on 24 June 2011 (note 29(f)(i)).

The movements in the carrying amounts and the principal amount of the 2009 CN are as follows:

Group and Company

	Notes	2011 Carrying amount HK$'000	2011 Principal amount HK$'000	2010 Carrying amount HK$'000	2010 Principal amount HK$'000
At 1 January		466,288	665,000	2,411,000	1,522,250
Converted into ordinary shares of the Company	29(b), 29(d)	(271,408)	(375,795)	(1,838,742)	(857,250)
Changes in fair value		—	—	1,133,144	—
Derecognition of the 2009 CN	(a)	—	—	(1,705,402)	(665,000)
Issue of the Amended 2009 CN (as defined below)	(a)	—	—	466,288	665,000
Imputed interest expense	7	26,902	—	—	—
At 31 December		221,782	289,205	466,288	665,000

27. CONVERTIBLE NOTES (Continued)

Note:

(a) On 31 December 2010, as agreed with the bond holders and approved by the independent shareholders, certain terms of the 2009 CN were amended such that its conversion options would entitle its holder to convert the 2009 CN into a fixed number of equity instruments at a fixed conversion price (the "Amended 2009 CN"). Accordingly, the component of the Amended 2009 CN that exhibits characteristics of a liability is recognised as a liability in the statement of financial position and the conversion option is accounted for as an equity component and included in shareholders' equity as "Equity component of convertible notes".

Since the existing financial liability (i.e., the 2009 CN) is replaced by another from the same lender of which the terms of an existing liability are substantially modified, such a modification is treated as a derecognition of the original liability (i.e., the 2009 CN) and a recognition of a new liability (i.e., the Amended 2009 CN).

Upon initial recognition of the Amended 2009 CN, the then fair value of the entire 2009 CN of HK$1,705,402,000 was derecognised and the Amended 2009 CN was recognised separately as a liability component of HK$466,288,000 and an equity component of HK$1,239,114,000.

The fair value of the liability component of the Amended 2009 CN of HK$466,288,000 was determined using a market rate for an equivalent non-convertible note and is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. In addition, the fair value of the conversion option with an amount of HK$1,239,114,000 is included in shareholders' equity as "Equity component of convertible notes" (note 31(b)). The carrying amount of the conversion option recognised in shareholders' equity is not remeasured in subsequent years.

28. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities during the year are as follows:

Group

	Losses available for offsetting future taxable profits HK$'000	Accruals of salary and welfare HK$'000	Depreciation and amortisation of non-current assets HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Total HK$'000
At 1 January 2010	(3,611)	(4,296)	6,153	565,818	564,064
Deferred tax charged/ (credited) to profit or loss during the year (note 11)	3,649	(18,336)	(353)	(29,341)	(44,381)
Exchange realignment	(38)	(612)	212	19,541	19,103
At 31 December 2010 and 1 January 2011	—	(23,244)	6,012	556,018	538,786
Acquisition of a subsidiary (note 32)	—	(3,080)	—	165,009	161,929
Deferred tax charged/ (credited) to profit or loss during the year (note 11)	—	(40,341)	756	(39,127)	(78,712)
Exchange realignment	—	(2,205)	311	26,639	24,745
At 31 December 2011	—	(68,870)	7,079	708,539	646,748

At 31 December 2011, deferred tax assets have not been recognised in respect of unused tax losses of HK$223,230,000 (2010: HK$199,288,000) as they have arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which such 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 tax treaty between Mainland China and jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2011, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China (2010: Nil). In the opinion of the directors of the Company, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. There were no temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised (2010: Nil) as at 31 December 2011.

29. SHARE CAPITAL

Shares

	2011 HK$'000	2010 HK$'000
Authorised: 15,000,000,000 (2010: 300,000,000,000) ordinary shares of HK$0.1 (2010: HK$0.01) each	1,500,000	3,000,000
Issued and fully paid: 1,428,729,168 (2010: 22,629,743,370) ordinary shares of HK$0.1 (2010: HK$0.01) each	142,873	226,298

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

	Notes	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2010		7,733,743,370	77,338	1,133,198	1,210,536
Issue of new shares	(a)	1,000,000,000	10,000	195,000	205,000
Conversion of the 2010 CB	(b)	180,000,000	1,800	36,073	37,873
Conversion of the 2009 CN	(c)	13,716,000,000	137,160	1,701,582	1,838,742
Share issue expenses		—	—	(238)	(238)
At 31 December 2010 and 1 January 2011		22,629,743,370	226,298	3,065,615	3,291,913
Conversion of the Amended 2009 CN	(d)	3,903,720,000	49,027	922,611	971,638
Repurchase of shares	(e)	(38,278,000)	(523)	—	(523)
Share premium reduction	(f)	—	—	(2,953,243)	(2,953,243)
Capital reorganisation	(f)	(25,066,456,202)	(131,929)	131,929	—
Share issue expenses		—	—	(99)	(99)
At 31 December 2011		1,428,729,168	142,873	1,166,813	1,309,686

29. SHARE CAPITAL (Continued)

Shares (Continued)

Notes:

(a) On 30 December 2010, 1,000,000,000 ordinary shares of a par value of HK$0.01 each were issued, at the issue price of HK$0.205 per share, for a total cash consideration, before expenses, of HK$205,000,000.

(b) On 8 November 2010, 180,000,000 ordinary shares of a par value of HK$0.01 each were issued upon partial conversion of the 2010 CB with a principal amount of HK$36,000,000. The aggregate value of the derivative and liability components of the 2010 CB was HK$37,873,000 (note 26), and the excess of the amount over the par value of HK$1,800,000 for the ordinary shares issued, which amounted to HK$36,073,000 was credited to the share premium account of the Company.

(c) During the year ended 31 December 2010, 13,176,000,000 ordinary shares of a par value of HK$0.01 each were issued upon partial conversion of the 2009 CN with a principal amount of HK$857,250,000. The fair value of these convertible notes was HK$1,838,742,000, and the excess of this amount over the aggregate par value of HK$137,160,000 for the ordinary shares issued, which amounted to HK$1,701,582,000 was credited to the share premium account of the Company.

(d) During the year ended 31 December 2011, 3,792,720,000 ordinary shares of a par value of HK$0.01 each and 111,000,000 ordinary shares of a par value of HK$0.1 each were issued upon partial conversion of the Amended 2009 CN with aggregate principal amount of HK$324,545,000. The carrying amount of these convertible notes (including liability component of HK$271,408,000 and equity component of HK$700,230,000) was HK$971,638,000, and the excess of the carrying amount of the convertible notes over the aggregate par value of HK$49,027,000 for the ordinary shares issued, which amounted to HK$922,611,000, was credited to the share premium account of the Company.

(e) During the year ended 31 December 2011, 36,720,000 ordinary shares of the Company of a par value of HK$0.01 each and 1,558,000 shares of par value of HK$0.1 each were repurchased on the Stock Exchange at a total consideration, before expenses, of HK$7,278,000.

Details of the shares repurchased are as follows:

Month/year	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate price paid HK$
June 2011	36,720,000	0.1186	0.1120	4,293,000
July 2011	1,558,000	1.9945	1.78	2,985,000

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to Section 49H of the Hong Kong Companies Ordinance, an amount equivalent to the par value of the shares cancelled of HK$523,000 was transferred to the capital redemption reserve. The premium paid for the repurchase of the shares, including expenses incurred for repurchase, of approximately HK$7,322,000 was charged to the accumulated losses.

29. SHARE CAPITAL (Continued)

Shares (Continued)

Notes: (continued)

(f) On 24 June 2011, the shareholders of the Company approved a proposed capital reorganisation (the “Capital Reorganisation”) which comprised:

(i) the share consolidation, i.e. consolidation of 20 existing shares of par value of HK$0.01 each into one consolidated share of par value of HK$0.20;

(ii) the capital reduction, i.e. reduction of the par value of the consolidated shares of HK$0.20 each to HK$0.10 each by cancelling HK$0.10 of the par value in each consolidated share. The paid up capital so cancelled is transferred to the share premium account of the Company; and

(iii) reduction of share premium account, i.e. reduction of share premium account by HK$2,953,243,000, being a sum representing the accumulated losses of the Company as at 31 December 2010 and the application of the credit arising from such reduction to eliminate the accumulated losses.

Details of the Capital Reorganisation were set out in the Company’s announcement dated 12 May 2011 and the circular dated 25 May 2011. The share consolidation and capital reduction were effective on 27 June 2011 when the authorised and issued capital consisted of 300,000,000,000 and 26,385,743,370 ordinary shares of HK$0.01 each, respectively, were reduced by 285,000,000,000 and 25,066,456,202 ordinary shares, respectively. Furthermore, upon completion of the capital reduction, an aggregate of paid-up capital of HK$131,929,000 was cancelled and transferred to the share premium account of the Company. The share consolidation and capital reduction were duly registered in the Companies Registry of Hong Kong on 7 July 2011. The reduction of share premium account was approved by the court on 23 December 2011 and the sealed copy of the court order has been duly registered in the Company Registry of Hong Kong on 29 December 2011. Accordingly, the reduction of share premium account was effective on 29 December 2011.

Share option

Details of the Company’s share option scheme (the “Scheme”) and the share options issued under the Scheme are included in note 30 to the financial statements.

30. SHARE OPTION SCHEME

The Company operates 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, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, and any non-controlling shareholders in the Company's subsidiaries. The Scheme became effective on 28 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, up to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options 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.

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 or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The share option may be exercised under the Scheme at any time during a period not exceeding five years after the date when the scheme option is granted and expiring on the last date of such period.

The exercise price (which has been adjusted for the twenty-to-one share consolidation which took place on 24 June 2011 (note 29(f)(i)) is determined by the directors of the Company, but shall not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of an ordinary share.

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

30. SHARE OPTION SCHEME (Continued)

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

		2011		2010	
	Notes	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		4.80	24,616	2.50	616
Granted during the year	(a)		–	4.96	24,000
At 31 December	(b)	4.80	24,616	4.80	24,616

Notes:

(a) The aggregate fair value of the 480,000,000 share options granted under the Scheme during the year ended 31 December 2010 was HK$62,830,000, which was estimated as at the respective dates of grant using a binominal 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:

	2010
Expected turnover rate (%)	5–7
Expected volatility (%)	105–111
Risk-free interest rate (%)	0.53–1.02
Expected life of options (year)	3
Closing share price at the date of grant (HK$ per share)	0.154–0.231

Equity-settled share option expense of HK$30,939,000 (2010: HK$23,862,000) was recognised in profit or loss during the year ended 31 December 2011 in respect of the share options granted under the Scheme.

30. SHARE OPTION SCHEME (Continued)

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

Number of options*	Exercise price*	Exercise period	
	HK$ per share	From	To
At 31 December 2011			
616,000	2.50	29 September 2008	28 September 2013
16,000,000	4.96	12 May 2011	11 May 2013
3,000,000	4.96	26 August 2011	25 August 2013
5,000,000	4.96	10 November 2011	9 November 2013
24,616,000			
At 31 December 2010			
616,000	2.50	29 September 2008	28 September 2013
16,000,000	4.96	12 May 2011	11 May 2013
3,000,000	4.96	26 August 2011	25 August 2013
5,000,000	4.96	10 November 2011	9 November 2013
24,616,000			

* The exercise price and the number of the share options are subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital. As at 31 December 2011 and 2010, the exercise price and the number of the share options have been adjusted for the twenty-to-one share consolidation which took place on 24 June 2011 (note 29(f)(i)).

At the end of the reporting period, the Company had 24,616,000 (2010: 24,616,000) 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 24,616,000 additional ordinary shares of the Company and additional share capital of HK$2,461,600 and share premium of HK$118,118,400 (before issue expenses and without taking into account of any transfer of share option reserve to the share premium account).

At the date of approval of these financial statements, the Company had 24,616,000 share options outstanding under the Scheme, which represented approximately 1.72% of the Company's shares in issue as at that date.

31. 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 on page 39 the financial statements.

Notes:

(i) The share premium account represents the excess of the issued price net of any share issue expenses over the par value of the shares issued.

(ii) The share option reserve comprises the fair value of share options vested which are yet to be exercised, as further explained in the accounting policy of share-based payment transactions in note 3.3 to the financial statements. The amount will either be transferred to the share premium account when the related share options are exercised, or transferred to accumulated losses should the related share options expire or be forfeited.

(iii) The PRC statutory reserves refer to the PRC statutory reserve fund. Appropriations to this reserve fund are made out of the profit after tax of the statutory financial statements of the PRC subsidiaries and the amount should not be less than 10% of the profit after tax unless the aggregate amount standing to the credit of this reserve exceeds 50% of the registered capital of the PRC subsidiaries. The statutory reserve fund can be used to make up prior year losses of the PRC subsidiaries.

(iv) The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations not denominated in presentation currency of the Company.

31. RESERVES (Continued)

(b) Company

	Notes	Share premium account HK$'000 (note 31(a)(i))	Capital redemption reserve HK$'000	Equity component of convertible notes HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010		1,133,198	—	—	764	(1,759,610)	(625,648)
Loss for the year and total comprehensive loss for the year	12	—	—	—	—	(1,193,633)	(1,193,633)
Issue of new shares	29(a)	195,000	—	—	—	—	195,000
Share issue expenses		(238)	—	—	—	—	(238)
Conversion of the 2010 CB	29(b)	36,073	—	—	—	—	36,073
Conversion of the 2009 CN	29(c)	1,701,582	—	—	—	—	1,701,582
Issue of the Amended 2009 CN	27	—	—	1,239,114	—	—	1,239,114
Equity-settled share option arrangement	30(a)	—	—	—	23,862	—	23,862
At 31 December 2010 and 1 January 2011		3,065,615	—	1,239,114	24,626	(2,953,243)	1,376,112
Loss for the year and total comprehensive loss for the year	12	—	—	—	—	(80,476)	(80,476)
Share issue expenses		(99)	—	—	—	—	(99)
Conversion of the 2009 CN	29(d)	922,611	—	(700,230)	—	—	222,381
Share repurchase expenses	29(e)	—	—	—	—	(7,322)	(7,322)
Repurchase of shares	29(e)	—	523	—	—	—	523
Share premium Reduction	29(f)	(2,953,243)	—	—	—	2,953,243	—
Share capital reduction	29(f)	131,929	—	—	—	—	131,929
Equity-settled share option arrangement	30(a)	—	—	—	30,939	—	30,939
At 31 December 2011		1,166,813	523	538,884	55,565	(87,798)	1,673,987

32. BUSINESS COMBINATION

On 11 August 2011, the Group acquired a 100% equity interest in a coal mine in the PRC, Liaoyuan, which owns and operates a thermal coal mine in Eerduosi City, Inner Mongolia, at a consideration of RMB512,673,000 (equivalent to approximately HK$625,668,000), inclusive of contingent consideration of RMB112,673,000 (equivalent to approximately HK$137,507,000) which is determined with reference to the net profit of Liaoyuan for the post-acquisition period up to 31 December 2011. The acquisition aims to boost the Group's annual coal production capacity.

The fair values of the identifiable assets and liabilities of Liaoyuan as at the date of the acquisition were as follows:

	Notes	**Fair value recognised on acquisition HK$'000**	**Previous carrying amount HK$'000**
Property, plant and equipment	14	122,553	122,553
Prepaid land premiums	15	2,523	2,523
Mining rights	16	670,646	10,609
Deferred tax asset	28	3,080	3,080
Prepayments for non-current assets		1,348	1,348
Inventories		5,776	5,776
Prepayments, deposits and other receivables		2,487	2,487
Cash and bank balances		12,214	12,214
Trade and bills payables		(7,666)	(7,666)
Other payables and accruals		(122,346)	(122,346)
Other non-current liabilities		(13,410)	(13,410)
Tax payable		(9,309)	(9,309)
Deferred tax liabilities	28	(165,009)	—
		502,887	7,859
An indemnification asset	(a)	152,729	
Gain on bargain purchase		(29,948)	
		625,668	
Satisfied by:			
Cash		305,101	
Other payable		320,567	
		625,668	

32. BUSINESS COMBINATION (Continued)

An analysis of the net outflow of cash and cash equivalents in respect of the above acquisition for the year ended 31 December 2011 is as follows:

	2011 HK$'000
Cash consideration paid	305,101
Cash and bank balances acquired	(12,214)
Net outflow of cash and cash equivalents included in cash flows from investing activities	292,887

Notes:

(a) The balance of RMB125 million (equivalent to approximately HK$153 million) as at 31 December 2011 represented an amount receivable from the vendor (the "Vendor") in relation to the acquisition of Liaoyuan. Pursuant to the relevant sale and purchase agreement, the Vendor had agreed to undertake the repayment of all liabilities of Liaoyuan existed prior to the completion of the acquisition. Therefore, the Group has recognised such liabilities undertaken by the Vendor upon the completion of the acquisition as an indemnification asset due from the Vendor which is included in other receivables in the consolidated statement of financial position. As at 31 December 2011 and up to the date of approval of these financial statements, the balance has remained unsettled.

In the opinion of the directors of the Company, this indemnification asset of RMB125 million (equivalent to approximately HK$153 million) is fully recoverable because the management is currently negotiating with the Vendor to set off the aforesaid indemnification asset against the unpaid consideration and other payable to the Vendor, which amounted to RMB128 million (equivalent to approximately HK$157 million) in aggregate, as at the date of approval of these financial statements. Therefore, the directors of the Company considered that no impairment is necessary for the aforesaid indemnification asset.

(b) Since the acquisition, Liaoyuan contributed HK$160,871,000 to the Group's revenue and HK$62,971,000 to the consolidated profit for the year ended 31 December 2011.

Had the combination taken place in the beginning of the year ended 31 December 2011, the revenue of the Group for the year ended 31 December 2011 would have been HK$1,218,333,000. Due to the fact that profit or loss attributed by the combination involves assessments of fair values of consideration and the identifiable assets and liabilities of Liaoyuan as at the date of acquisition, the directors of the Company were of the opinion that it was impractical to disclose the profit or loss of the Group had the combination taken place at the beginning of the year ended 31 December 2011.

33. DISPOSAL OF SUBSIDIARIES

During the year end 31 December 2010, on 17 June 2010, the Group entered into a sale and purchase agreement with an independent third party, pursuant to which the Group agreed to dispose of its entire equity interests in Anchorage Trading Limited and Kunming Huadian Chemicals Co. Ltd., subsidiaries of the Company, for a cash consideration of HK$1,000,000. No disposal of a subsidiary occurred in the current year.

	Notes	2010 HK$'000
Net assets disposed of:		
Property, plant and equipment	14	52
Trade receivables		2,587
Prepayments, deposits and other receivables		1,295
Cash and bank balances		1,422
Trade payables		(7,330)
Other payables and accruals		(15,041)
		(17,015)
Exchange fluctuation reserve released		(6,769)
Gain on disposal of subsidiaries	6	24,784
		1,000
Satisfied by:		
Cash		1,000
		1,000

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

	2010 HK$'000
Cash and bank balances disposed of	(1,422)
Cash consideration	1,000
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(422)

34. CONTINGENT LIABILITIES

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities (2010: Nil).

35. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office premises under operating lease arrangements. Leases for office premises are negotiated for terms ranging from one to three years.

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

	Group		Company	
	2011	2010	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000
Within one year	2,765	2,663	2,765	2,663
In the second to fifth years, inclusive	2,953	3,356	2,953	3,356
	5,718	6,019	5,718	6,019

36. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 35 above, the Group and the Company had the following capital commitments in respect of the acquisition of items of property, plant and equipment at the end of the reporting period:

	Group	
	2011	2010
	HK$'000	HK$'000
Authorised, but not contracted for	64,854	33,859

At the end of the reporting period, the Company had no material capital commitments.

37. RELATED PARTY TRANSACTIONS

(a) Except for those transactions detailed elsewhere in these financial statements, the Group had no transactions with related parties during the year (2010: Nil).

(b) Details of the Group's balances with related parties are disclosed in note 21 to the financial statements.

Outstanding balances with related parties are unsecured, interest-free and have no fixed terms of repayment.

(c) Compensation of key management personnel of the Group

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 9 and certain of the highest paid employees as disclosed in note 10, is as follows:

	2011 HK$'000	2010 HK$'000
Short-term employee benefits	8,346	5,904
Post-employment benefits	49	21
Equity-settled share option expense	22,564	14,828
Total compensation paid to key management personnel	30,959	20,753

38. FINANCIAL INSTRUMENTS BY CATEGORY

Other than the derivative component of convertible bonds as at 31 December 2010 which was stated at fair value (note 26), all financial assets and liabilities of the Group and the Company as at 31 December 2011 and 2010 were loans and receivables and financial liabilities stated at amortised cost, respectively.

39. FAIR VALUE AND FAIR VALUE HIERARCHY

Group

	Carrying amounts		Fair values	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Financial assets				
Trade and bills receivables	117,100	263,346	117,100	263,346
Financial assets included in prepayments, deposits and other receivables	333,754	169,987	333,754	169,987
Pledged deposits	2,936	417	2,936	417
Cash and cash equivalents	51,928	625,216	51,928	625,216
	505,718	1,058,966	505,718	1,058,966
Financial liabilities				
Trade and bills payables	5,048	903	5,048	903
Financial liabilities included in other payables and accruals	1,152,925	509,622	1,152,925	509,622
Derivative component of convertible bonds	—	35,452	—	35,452
Liability component of convertible bonds	—	121,896	—	121,896
Convertible notes	221,782	466,288	221,782	466,288
Interest-bearing bank borrowings	1,233,500	1,294,150	1,233,500	1,294,150
	2,613,255	2,428,311	2,613,255	2,428,311

39. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Company

	Carrying amounts		Fair values	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Financial assets				
Financial assets included in prepayments, deposits and other receivables	30,790	700	30,790	700
Due from subsidiaries	237	83	237	83
Cash and cash equivalents	19,676	244,184	19,676	244,184
	50,703	244,967	50,703	244,967
Financial liabilities				
Financial liabilities included in other payables and accruals	3,683	11,387	3,683	11,387
Derivative component of convertible bonds	—	35,452	—	35,452
Liability component of convertible bonds	—	121,896	—	121,896
Convertible notes	221,782	466,288	221,782	466,288
	225,465	635,023	225,465	635,023

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, and balances with subsidiaries and related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities. The fair values of the liabilities component of the convertible bonds and convertible notes are estimated using an equivalent market interest rate for a similar convertible bond.

39. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values 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)

During the year ended 31 December 2010, the fair values of the Group's 2009 CN, the Amended 2009 CN upon their initial recognition, derivative component of the 2010 CB and share options granted to employees at grant date were measured based on Level 2 of the fair value hierarchy as referred above.

During the year ended 31 December 2011, there were no transfers into or out of Level 3 fair value measurements (2010: Nil).

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise other receivables and payables, cash and short term deposits, and balances with related parties. 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 and trade and bills payables, which arise directly from its operations.

It is the Group's policy that no trading in financial instruments shall be undertaken.

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.

(a) Interest rate risk

The Group's and Company's exposure to the risk of changes in market interest rates relates primarily to the Group's and Company's cash at banks and the Group's interest-bearing bank borrowings with floating interest rates. Nevertheless, in the opinion of the directors, the Group had no significant concentration of interest rate risk for the year ended 31 December 2011.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. As a result of its significant investment operations in Mainland China, the PRC, the Group's financial position and performance can be affected significantly by movements in the RMB/HK$ exchange rate.

The Group has minimal transactional currency exposure which arises from sales or purchases by operating units in currencies other than the units' functional currencies.

(c) Credit risk

The Group trades only with recognised and creditworthy third 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 credit risk of the Group's other financial assets, which comprise cash and cash equivalents, and prepayments, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

At 31 December 2011 and 2010, trade and bills receivables from external customers which individually contributed to over 10% of the Group's total revenue for the years ended 31 December 2011 and 2010 were:

	2011 HK$'000	2010 HK$'000
Number of individual external customers which contributed to over 10% of the Group's total revenue for the year	3	3
Trade and bills receivables (before impairment) from the above customers	39,419	127,648
Percentage of total trade and bills receivables (before impairment) as at the end of the reporting period	34%	48%

Save as aforesaid, at the end of each of reporting period, there was no significant concentration of credit risk.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of financing facilities. The Group's financing activities are managed centrally by maintaining an adequate level of cash and cash equivalents to finance the Group's operations.

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

Group

	On demand HK$'000	Within 1 year HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
At 31 December 2011					
Trade and bills payables	—	5,048	—	—	5,048
Other payables and accruals	—	1,152,925	—	—	1,152,925
Interest-bearing bank borrowings	—	631,934	769,904	—	1,401,838
Convertible notes	—	—	289,205	—	289,205
	—	1,789,907	1,059,109	—	2,849,016
At 31 December 2010					
Trade and bills payables	—	903	—	—	903
Other payables and accruals	—	485,573	44,139	—	529,712
Interest-bearing bank borrowings	—	485,826	1,037,373	—	1,523,199
Convertible bonds	—	159,000	—	—	159,000
Convertible notes	—	—	665,000	—	665,000
	—	1,131,302	1,746,512	—	2,877,814

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Liquidity risk (continued)

Company

	On demand HK$'000	Within 1 year HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
At 31 December 2011					
Other payables and accruals	—	3,683	—	—	3,683
Convertible notes	—	—	289,205	—	289,205
	—	3,683	289,205	—	292,888
At 31 December 2010					
Other payables and accruals	—	11,969	—	—	11,969
Convertible bonds	—	159,000	—	—	159,000
Convertible notes	—	—	665,000	—	665,000
	—	170,969	665,000	—	835,969

(e) 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. To maintain or adjust the capital structure, the Group may adjust the dividend payment 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 2011 and 31 December 2010.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the capital. The Group's policy is to maintain a gearing ratio appropriate to the Group's level of operation. Net debt includes trade and bills payables, other payables and accruals, interest-bearing bank borrowings, less cash and cash equivalents. Capital includes liability component of convertible bonds, convertible notes and equity attributable to owners of the Company. The gearing ratios as at the ends of the reporting periods were as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Trade and bills payables	5,048	903
Other payables and accruals	1,181,973	525,846
Interest-bearing bank borrowings	1,233,500	1,294,150
Less: Cash and cash equivalents	(51,928)	(625,216)
Net debt	2,368,593	1,195,683
Liability component of convertible bonds	–	121,896
Convertible notes	221,782	466,288
Equity attributable to owners of the Company	2,376,998	1,924,933
Capital	2,598,780	2,513,117
Gearing ratio	0.91	0.48

41. EVENTS AFTER THE REPORTING PERIOD

The memorandum of understanding in relation to the Group's proposed acquisition of the interests in a coal mine in Shanxi Province, which the Company entered into with an independent third party on 31 August 2011, has been lapsed since 31 January 2012. The earnest money of HK$180 million paid was subsequently refunded to the Group in February 2012.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2012.

FIVE YEAR FINANCIAL SUMMARY

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

RESULTS

	Year ended 31 December				
	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
CONTINUING OPERATIONS					
REVENUE	995,100	1,007,740	88,710	627,056	467,006
PROFIT/(LOSS) BEFORE TAX	105,830	(785,589)	(1,078,819)	(20,457)	104,211
Tax credit/(charge)	(40,396)	(100,405)	159	—	—
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	65,434	(885,994)	(1,078,660)	(20,457)	104,211
DISCONTINUED OPERATIONS					
Loss for the year from discontinued operations	—	—	—	(57,574)	(91,435)
PROFITS/(LOSS) FOR THE YEAR	65,434	(885,994)	(1,078,660)	(78,031)	12,776
Attributable to:					
Owners of the Company	55,339	(905,164)	(1,078,519)	(78,031)	11,811
Non-controlling interests	10,095	19,170	(141)	—	965
	65,434	(885,994)	(1,078,660)	(78,031)	12,776

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
TOTAL ASSETS	6,059,103	5,160,468	3,751,078	191,063	260,198
TOTAL LIABILITIES	(3,561,577)	(3,131,734)	(4,248,245)	(139,008)	(137,576)
NON-CONTROLLING INTERESTS	(120,528)	(103,801)	(80,384)	—	—
	2,376,998	1,924,933	(577,551)	52,055	122,622