UP ENERGY

Up Energy Development Group Limited

優派能源發展集團有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 307

UP ENERGY

READY FOR FUTURE

ANNUAL REPORT 2012

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Qin Jun *(Chairman & Chief Executive Officer)*
Jiang Hongwen *(Chief Financial Officer)*

Non-Executive Director

Chau Shing Yim, David

Independent Non-Executive Directors

Li Bao Guo
Lien Jown Jing, Vincent
Shen Shiao-Ming

COMPANY SECRETARY

Foo Man Yee, Carina

AUDIT COMMITTEE

Lien Jown Jing, Vincent *(Chairman)*
Li Bao Guo
Shen Shiao-Ming

NOMINATION COMMITTEE

Qin Jun *(Chairman)*
Li Bao Guo
Shen Shiao-Ming

REMUNERATION COMMITTEE

Shen Shiao-Ming *(Chairman)*
Li Bao Guo
Lien Jown Jing, Vincent
Qin Jun

AUDITOR

Ernst & Young
Certified Public Accountants

PRINCIPAL BANKERS

Hong Kong and Shanghai Banking Corporation
Hang Seng Bank Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2704, 27/F
Tower 1, Admiralty Centre
18 Harcourt Road
Admiralty, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN CHINA

Block A, Commercial Street
Minzu Lane
Fukang City
Xinjiang, China
Postal Code: 831500

PRINCIPAL SHARE REGISTRAR

Butterfield Fung Services (Bermuda) Limited
Rosebank Centre, 11 Bermudiana Road
Pembroke HM08, Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Tricor Secretaries Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

WEBSITE

http://www.upenergy.com
http://hk.todayir.com/en/showcases.php?code=307

STOCK CODE

307

FINANCIAL YEAR END

31 March

Milestone

2007

2 March

Competed the exploration of coal mines

2005

2 November

Established Up Energy (Xinjiang) Mining Limited

2010

September

Officially commenced the construction of Up Energy Coal Coking Project

2008

September

Organised ground breaking ceremony of Up Energy's three new coal mines and commenced construction

November

Received mining licenses for the three coal mines, namely the Xiaohuangshan Mine, the Shizhuanggou Mine and the Quanshuigou Mine

2011

18 January

Up Energy successfully listed on the Main Board of the Hong Kong Stock Exchange

February

Up Energy entered into a framework agreement with Pingan Coal Mine & Gas (Methane) Engineering Research Ltd.

16 March

Up Energy entered into financial cooperative agreements with China Construction Bank Group and Industrial & Commercial Bank of China Group

23 March

Up Energy entered into a strategic cooperative memorandum with Baosteel Resources Company Limited

May

Passed field examination for ISO9001 Quality Certification

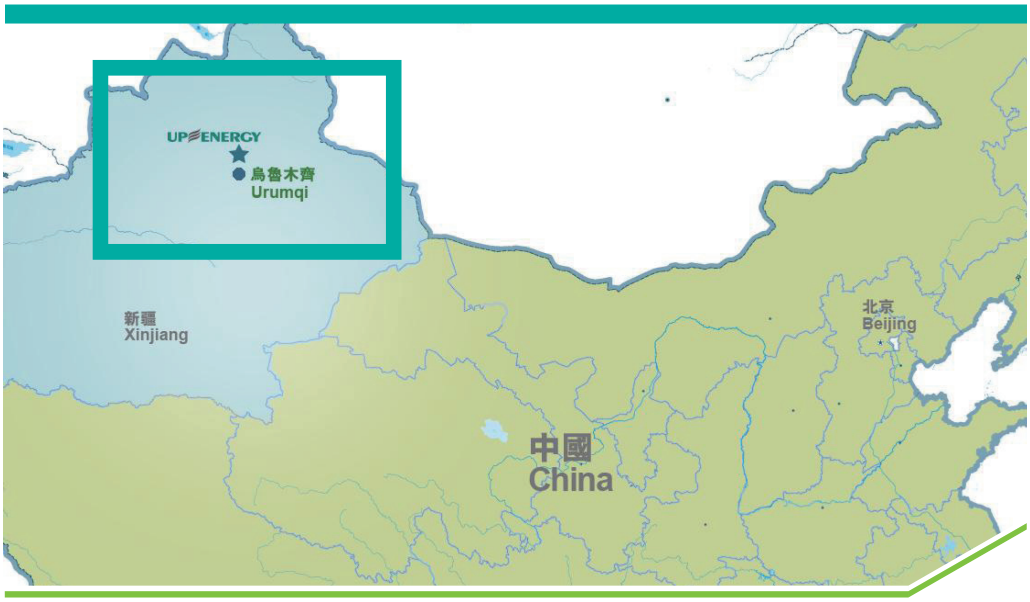
July

Started the construction of Up Energy's Raw Coal Washing Project

Group Profile

UP ENERGY IS:

- a professional and international energy investment group based in Xinjiang, China
- the first listed company in Hong Kong engaged in coking coal business in Xinjiang, China
- one of the largest integrated energy groups with circulative economy business model in Northwestern China
- mainly engaged in mining of coal for coking as well as production and sales of raw coking coal, clean coking coal and coking coal products



Up Energy adheres to the business concept of "increased value in circulation" by extending its production chain and enhancing added value of coal products through effective utilization of coal resources

Profiles of Coal Mines

XIAOHUANGSHAN COAL MINE — 90% OWNED

Location: 18 km to the southeast of Fukang City
Area: 2.178 sq. km
Type of Mine: underground mine
Expected Commencement Date of Production: the 4th Quarter in 2012
Planned Annual Production Capacity of Coking Coal at Full Operation: 2.4 Mt
JORC Code Coal Resources*: 107 Mt
JORC Code Coal Reserves*: 26.13 Mt
Coking Coal Type: mainly fat coal & 1/3 coking coal

SHIZHUANGGOU COAL MINE — 70% OWNED

Location: 40 km to the east of Fukang City
Area: 7.1572 sq. km
Type of Mine: underground mine
Expected Commencement Date of Production: the 1st Quarter in 2013
Planned Annual Production Capacity of Coking Coal at Full Operation: 1.05 Mt
JORC Code Coal Resources*: 73.22 Mt
JORC Code Coal Reserves*: 23.52 Mt
JORC Code Potential Coal Reserves*: 24.75 Mt
Coking Coal Type: mainly gas coal, 1/3 coking coal & lean coal

QUANSHUIGOU COAL MINE — 70% OWNED

Location: 40 km to the east of Fukang City
Area: 6.6052 sq. km
Type of Mine: underground mine
Expected Commencement Date of Production: the 1st Quarter in 2013
Planned Annual Production Capacity of Coking Coal at Full Operation: 1.05 Mt
JORC Code Coal Resources*: 70.61 Mt
JORC Code Coal Reserves*: 20.58 Mt
JORC Code Potential Coal Reserves*: 27.19 Mt
Coking Coal Type: mainly gas coal, 1/3 coking coal & lean coal

Profiles of Phase One Projects

COAL COKING PROJECT — 70% OWNED

Location: next to the Shizhuanggou Coal Mine
Expected Commencement Date of Production: the 4th Quarter in 2012
Daily Processing Capacity: 4,808 tonnes
Annual Processing Capacity: 1,755,000 tonnes
Planned Annual Coke Production Capacity at Full Operation: 1.3 Mt

RAW COAL WASHING PROJECT — 70% OWNED

Location: next to the Shizhuanggou Coal Mine
Expected Commencement Date of Production: the 4th Quarter in 2012
Planned Annual Coal Washing Capacity at Full Operation: 4.5 Mt
Recovery Rate of Clean Coal: 83%
Expected Annual Production of Clean Coal: 3.735 Mt

WATER RECYCLING PROJECT — 70% OWNED

Location: next to the Shizhuanggou Coal Mine
Expected Commencement Date of Production: the 4th Quarter in 2012
Planned Annual Processing Capacity at Full Operation: 5.2 million m^3
Usage of Processed Pit Water: Water for industrial use for the Shizhuanggou Coal Mine, the Quanshuigou Coal Mine, the Raw Coal Washing Project and the Coal Coking Project; Irrigation water

*Source: October 2010 Technical Report of John T. Boyd Company.

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Mr. Qin Jun

Chairman and Chief Executive Officer

Mr. Qin Jun, aged 43, is the Chairman and Chief Executive Officer of the Company. He is responsible for overall strategic development, operation management, planning and decision making of the Group. He is one of the founders of Up Energy Investment (China) Ltd. ("**UE China**"). UE China became the subsidiary of the Group 18 January 2011. He has over 20 years of experience in domestic or international business management and is primarily responsible for the overall strategic planning and management of UE China. Since 2003, Mr. Qin has focused on coking coal exploration and mining opportunities in Xinjiang. Mr. Qin has established a high-quality management team since he founded UE China. He also led the team to identify and acquire gradually UE China's three mines in 2003 and has formulated the overall strategy for the development of UE China. Mr. Qin Jun is the son-in-law of Mr. Wang Mingquan who is the substantial shareholder of the Company.

Mr. Qin graduated from Hefei University of Technology with a bachelor's degree in industrial management (industry accounting) in 1990. From 1999 to 2001, he served as vice president of BOE Technology Group Co., Ltd., which is engaged in research, manufacturing and sales of thin film transistor liquid crystal display (TFT-LCD) products and related business solution services to customers. From 1993 to 1999, he was the chairman and the chief executive officer of Shenzhen Sinor Solar Industry Co., Ltd., which is engaged in the manufacturing and trading of electronic products. He was also a member of the Economic and Planning Department in the Ministry of Machinery and Electronics of the PRC from 1990 to 1993. Mr. Qin obtained a Safety Certificate issued by the Bureau of Xinjiang Coal Mine Safety Supervision in 2009. Mr. Qin has 8 years of relevant experience in coal mining and exploration activities and management of coal mining companies.

Mr. Jiang Hongwen

Executive Director and Chief Financial Officer

Mr. Jiang Hongwen, aged 43, is the Executive Director and Chief Financial Officer of the Company, He also appointed as vice-president, chief financial officer and Director of UE China in August 2008. He is responsible for the overall management of the Group's financial operations. He graduated from Hefei University of Technology with a bachelor's degree in industrial management (industry accounting) in 1990 and the University of Science and Technology of China with a master's degree in business administration in 2005. Mr. Jiang has been a licensed senior accountant awarded by the Senior Accounting Professional Assessment Committee of Anhui Province since 1999 and has extensive experience in financial management. He was an expert on the Senior Accountant Committee and a member of the Institute of Accounting of China. Mr. Jiang has previously held the positions of finance department manager, investment department manager, audit department manager and supervisor of investment holding company and deputy chief accountant in Anhui Garments Import and Export Corporation, a trading company in the PRC. Mr. Jiang also obtained a Safety Certificate issued by the Bureau of Xinjiang Coal Mine Safety Supervision in 2009.

NON-EXECUTIVE DIRECTOR

Mr. Chau Shing Yim, David

Non-Executive Director

Mr. Chau Shing Yim, David, aged 48, a Non-executive Director of the Company. He has over 20 years' experience in corporate finance. He was formerly a partner of one of the big four accounting firms in Hong Kong, heading the Merger and Acquisition and Corporate Advisory Services. He is a member of the Hong Kong Securities Institute, the Institute of Chartered Accountants of England and Wales ("ICAEW") with the Corporate Finance Qualification granted by ICAEW, and the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Mr. Chau was an ex-committee member of the Disciplinary Panel of HKICPA.

He is an Executive Director of Ocean Grand Holdings Limited (To be renamed as Zhidao International (Holdings) Limited (Stock Code: 1220), and an independent non-executive director of Shandong Molong

Petroleum Machinery Company Limited (Stock Code: 568), Varitronix International Limited (Stock Code: 710), Lee & Man Paper Manufacturing Limited (Stock Code: 2314), Evergrande Real Estate Group Limited (Stock Code: 3333) and Man Wah Holdings Limited (Stock Code:1999), all of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Bao Guo

Mr. Li Bao Guo, aged 58, is an Independent Non-Executive Director of the Company. He has over 40 years' experience in the coal-mining industry, specialized in coal mine construction and safety issues. Mr. Li is currently a vice president of the Xinjiang Guanghui Industry Investment Group Co., Ltd. During the period from 1997 to 2010, Mr. Li was the deputy director of Xinjiang Uygur Antonomous Region Coal Geology Bureau. Prior to that, he served as the deputy manager of Xinjiang Coal Construction Engineering Company for 5 years. During the period from 1989 to 1992, Mr. Li was the vice president and vice commander of Beiquan Mine of Xinjiang Hami Coal Bureau. During the period from 1977 to 1989, he was the chief engineer of No. 1 Mine of Xinjiang Hami Coal Bureau. He graduated from Xi'an Mining Institute (renamed to Xi'an University of Science and Technology) with the professional qualification in Coal Geology in 1977. During the period from 1970 to 1974, he worked at the open pit of Xinjiang Hami Coal Bureau. Mr. Li is a professorate senior engineer, an expert in Antonomous Region Safety Production, a registered safety engineer and a registered architect in coal industry.

Mr. Lien Jown Jing, Vincent

Mr. Lien Jown Jing, Vincent, aged 51, is an Independent Non-Executive Director of the Company. He is currently a director of Wah Hin & Company, a Singapore incorporated private investment holding company, an independent non-executive director of Focus Media Network Limited (Stock Code: 8112) which is a company listed on The Growth Enterprise Market of the Stock Exchange of Hong Kong Limited and a director of The Maritime and Port Authority of Singapore. He has over 25 years of experience in the banking industry, specialized in corporate finance and capital management. Mr. Lien graduated from the University of New Brunswick with a Bachelor Degree in business administration. Mr. Lien started his career in the financial industry first in Merrill Lynch & Company as an analyst in the corporate finance division. In the past years, Mr. Lien had been working in senior positions in prestige financial institutions such as Swiss Bank Corporation and Bankers Trust & Company. In year 2000, he became the Director of Wah Hin & Company, managing the financial assets of the group. He also served as the Managing Director in the Financial Institutions & Public Sector division of ABN AMRO Bank from 2007 to 2008. Prior joining our Group, Mr. Lien was the Non-Executive Chairman of eSUN Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited, from 2007 until May 2010.

Dr. Shen Shiao-Ming

Dr. Shen Shiao-Ming, aged 62, is an Independent Non-Executive Director of the Company. Dr. Shen has over 30 years legal and business experience with particular emphasis on business investment and the energy industry. Dr. Shen is currently an international legal consultant with the law firm of Mackenzie & Albritton in San Francisco, California and has previously worked for several other U.S. law firms, including Graham and James in San Francisco, and Kaye, Scholer, Fierman, Hays & Handle in New York. Dr. Shen's work involved multinational corporations in joint venture projects, energy projects and other international business transactions.

Dr. Shen has taught courses and lectured at Universities in Virginia, California, Texas and New York. Since 1998, Dr. Shen has also been a visiting professor of law at Southern Methodist University. Dr. Shen received a Master of Comparative Law Degree from Southern Methodist University School of Law, a Master of Laws Degree from Harvard Law School, and a Doctor of Juridical Science Degree from Boalt Hall School of Law at the University of California at Berkeley.

SENIOR MANAGEMENT

All the executive directors of the Company are respectively responsible for the various aspects of the business and operation of the Group. These executive Directors are regards as the members of the senior management team of the Group.

Chairman's Statement

"With the completion of its transformation, the Group is poised to participate in a full-range of energy and mine development."

On behalf of the board of directors (the "Board") of Up Energy Development Group Limited (the "Company"), I hereby present the annual report of the Company for the year ended 31 March 2012 and the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 March 2012.

In the past year, the Group followed its plan and spared no effort to proceed with the phase one project of the circulative business, i.e. the construction of the three coal mines and the three downstream auxiliary projects. Among which, the phase one shaft sinking and drifting projects of the Xiaohuangshan Mine and the Shizhuanggou Project have been completed and the phase two and three projects are in progress. The construction of ground-level infrastructure is also in good progress. We believe that these two mines will commence production in the fourth quarter in 2012 and the first quarter in 2013 respectively as scheduled.

The Quanshuigou Mine is still at the phase one of the shaft sinking and drifting project, but we believe it will also commence trial production in the first quarter in 2013 at the latest. As for the three downstream auxiliary projects, the water recycling project is at its final stage and is expected to commence trial production in the fourth quarter in 2012. The coal coking project and the raw coal washing project is scheduled to commence trial production in the fourth quarter in 2012.

As the construction of the coal mines and the downstream ancillary projects is nearly completed, the Group is actively preparing for the phase two projects, including the gas gangue cogeneration project, the gas power generation project, coke oven gas-to-methanol project and the fly-ash-based building material project, in order to achieve its aim of a complete business model of circulative economy in the near future.

Looking forward, the Group will continue to adhere to its business concept of "increased value in circulation" by extending its production chain from coal exploration, mining, washing to coking and chemicals. Through investment in coking coal projects in upstream and downstream industry chain and chemical by-products produced during the processing of coking coal, the Group is able to enhance added value of coal products through effective utilization of coal resources with an aim to maximize its profitability.

The Group is not only determined to become a leading professional and integrated energy group in the coking coal industry in Northwestern China, but also has a global vision of seeking local and overseas merger and acquisition opportunities in the coal and energy fields. The Group plans to complete the constructions of eights pairs of shafts through the merger and acquisition of coal mines and enterprises in Fukang. The Group is currently implementing the merger and acquisition of 3 pairs of neighboring shafts.

With a macro perspective, the Board will continue to grasp the opportunities brought by state policies and market demand and to minimize risks and challenges which it may face in the course of development, so as to ensure that the overall business development of the Group is line with the principle of maximizing the interests of the Group and all shareholders. The Board will also from time to time consider different alternatives to further strengthen the Group's capital base.

Upon completion of the acquisition of the three coal mines, everyone in the Group has been concentrating on the new coal business with their full efforts and capacities. With over a year of hard work, the phase one project has entered into its final stage and the fruitful results ahead are much expected. I trust every staff member and shareholder shares the same excitement with me. Taking this opportunity and on behalf of the Board, I would like to express my sincere gratitude to you all for your contribution and support.

Qin Jun
Chairman

Hong Kong, 29 June, 2012

Business Review and Outlook

During the year ended 31 March 2012 ("FY2012" or the "Review Period"), the Group has discontinued most of its multi-media products and components trading operations, with an aim to focus on the development of its coal business plan in Xinjiang, that is to focus on the construction of the three coal mines and the downstream phase one ancillary projects in Fukang of Xinjiang. All the projects have not yet commenced operation as they are still under different construction stages. It is expected that commercial production of these projects will commence successively starting from the fourth quarter of 2012 and the planned annual production capacity of the coal mines will reach a maximum of 4.5 Mt. The Group will then be one of the largest integrated energy groups with circulative economy business model in the coking industry in Northwestern China in terms of planned production capacity. The Group's revenue and profit are then expected to increase significantly. The Group has made every endeavor during the Review Period to ensure successful implementation of the projects.

INDUSTRY REVIEW

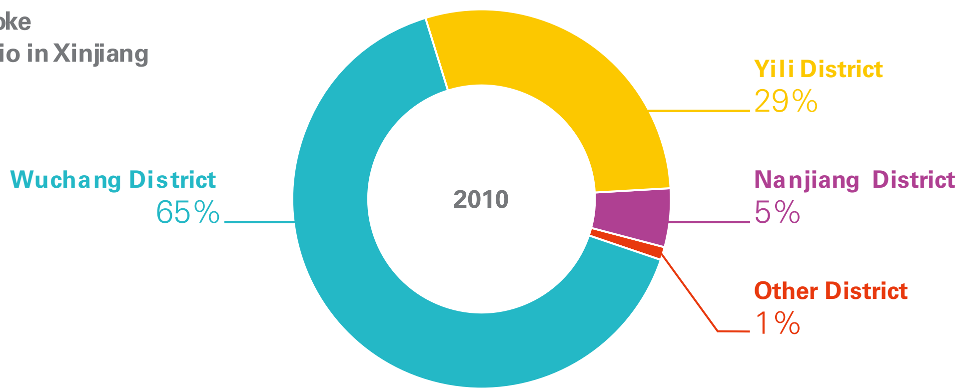
The Group has three coal mines in Fukang, Xinjiang of China, namely the Xiaohuangshan Mine, the Shizhuanggou Mine and the Quanshuigou Mine. Xinjiang is an important market for the sales of coking coal and coke products of the Group. Therefore, the operation environment of Xinjiang has a direct impact on the Group's coal business.

(1) Demand, Supply and Pricing Trend of Coking Coal in the Mainland

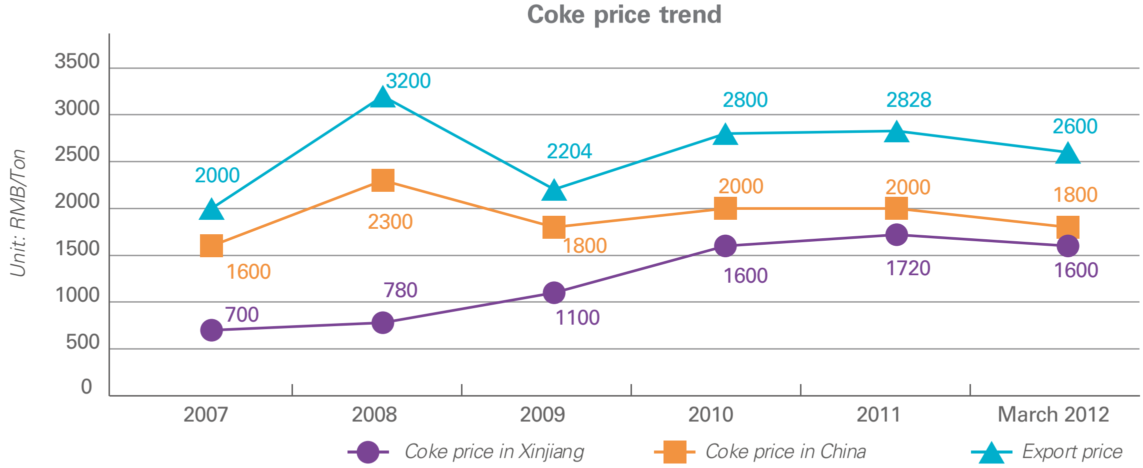
During the first quarter of 2011, the coking coal market in China was affected by the international market, whereby steel manufacturers in China significantly increased their purchase price of coking coal to a range from RMB1,580 to RMB1,780 per tonne. Production of steel manufacturers resumed to full capacity in the second quarter, thus bringing about an inelastic demand for coking coal and maintaining the price of which at a relative high level. Despite the falling demand for steel in China in the third quarter of 2011, there was a drop in the growth rate of coking coal supply due to the consolidation of coking coal producers in China. As a result, the price of coking coal fluctuated significantly within a certain range. However, rapid development in Xinjiang simulated the demand for steel products and the steel manufacturers had increased their investment in order to upgrade production capacity. The scarcity and uneven distribution of coking coal resources in Xinjiang, coupled with the problem of over demand, has led to a continuous growth in the price of coking coal.

Since the development of coking coal industry in Xinjiang is still at the preliminary stage, the output decreased slightly because of the consolidation activities of, and regulatory measures imposed on local coal mines. As a result, the supply of coking coal was tight and Xinjiang has to purchase around 8 Mt of coking coal from other areas of China during the first three quarters in 2011. Coking coal price witnessed significant growth and the coking coal price in Xinjiang remained strong. In September 2011, the Xinjiang price of coking coal ranged from RMB680 to RMB920 per tonne, subject to the category of coking coal. Currently, the price of coke in Xinjiang is around RMB1,680 per tonne, which is expected to rise further in the future.

2010 Regional coke consumption ratio in Xinjiang



Coke price trend



We are poised to add value with our input

(2) Demand, Supply and Pricing Trend of Coking Coal in the International Market

The disastrous floods in Australia in early 2011 resulted in a significant shortage of coking coal which led to a price surge in the international coking coal market. In the first quarter, the international basis price of coking coal jumped to the second historical high of US$250 per tonne, and the price further increased to US$290 and US$315 per tonne in the second and third quarter respectively.

BUSINESS REVIEW

(1) Coal Resources and Reserves

As at 31 March 2012, the Group had a total of 251.15 Mt of JORC-compliant measured, indicated and inferred coal resources and a total of 70.24 Mt of JORC-compliant proved and probable marketable coal reserves. In addition, the potential coal reserves of the Shizhuanggou Mine and Quanshuigou Mine are totalling to 51.94 Mt.

As of 31 March 2012, the JORC-compliant measured, indicated and inferred coal resources as well as the JORC-compliant proved and probable marketable coal reserves of the Group are categorized as follows:

Unit: Mt

Name	Coal Resources			Marketable Coal Reserves	
Category	Measured	Indicated	Inferred	Proved	Probable
Amount	148.516	61.199	41.437	51.958	18.277
Total	**251.152**			**70.235**	

(2) Additional Exploration Activities

During the Review Period, the original exploration report of the Xiaohuangshan Mine has been completed and six more new holes were drilled. A total of 3,382 metres were drilled. No. 156 Coalfield Geological Exploration Team of Xinjiang Uygur Autonomous Region Coalfield Geology Bureau has been summarising findings from the drilling activities and the preliminary analysis showed that the Group's resource is expected to be increased.

(3) Construction Progress of Coal Mines and Projects

During the fiscal year, construction progress of the three mines and the three downstream ancillary projects basically met the schedule set by the Group. The phase one shaft sinking and drifting project of the Xiaohuangshan Mine, which includes the construction of main vertical shaft, auxiliary vertical shaft and vertical ventilation shaft, was completed. Certain construction of the phase two shaft sinking and drifting project has started, which includes shaft bottom, underground chamber, haulage crosscuts and main ventilation drift. Construction of ground-level infrastructure, such as 35kv electricity transmitting and transforming facilities, staff quarter, warehouse for explosives, road outside the mine area and water supply of the Xiaohuangshan Mine, has been finished.

Construction of main inclined shaft, auxiliary inclined shaft and cross heading for the phase one shaft sinking and drifting project of the Shizhuanggou Mine was completed. Certain parts in the phase two shaft sinking and drifting project, namely shaft bottom, underground chamber were also completed. Ground-level infrastructure such as site grading, 10kv electricity transmitting and transforming facilities for ventilation shafts, warehouse for explosives, medical centre, concrete pouring for main building at shaft entrance, roads outside the mine area and water supply was completed.

For the Quanshuigou Mine, construction of main inclined shaft and auxiliary inclined shaft in the phase one shaft sinking and drifting project was basically completed. Ground-level infrastructure including the main body of 35kv electricity transformers, 35kv double circuit wiring system, 10kv electricity transmitting and transforming facilities, staff training centre, warehouse for explosives, road outside the mine area and water supply was completed.

With regard to the three downstream ancillary projects, construction of coal preparation, coking coal selection and quenching system, ancillary facilities as well as procurement of equipment of the coal coking project were all under good progress. Framework construction for the main body of pre-crushing chamber, coal blending plant and coking coal selection building of the coal preparation and selection systems were completed. 90% of cokery brick work for the coking coal quenching system was finished. Building of smoke vents at both sides of the cokery, high-rise chimney, main body of the high-rise coal tower, cokery platform, main body of the segregation platform, track for coking coal vehicles and main body of the pump station for quenching tanks were all completed. As for ancillary facilities, construction of storerooms for endurable materials and general materials were completed. Main body of integrated water supply system and 201 main electricity transforming station, office building for coking activities, centralised chemical laboratory and canteen were built.

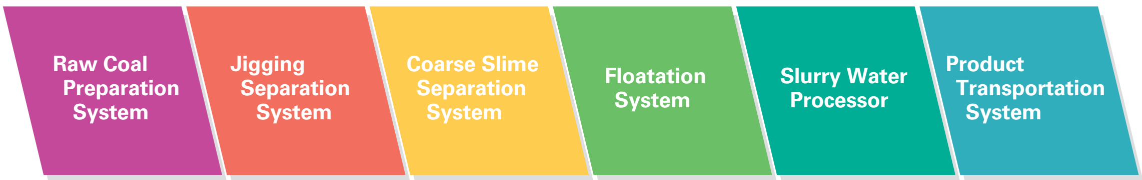
For the raw coal washing project, construction of the main plant, storage tank and the laboratory building were finished. The building of main body of the concentrating plant was basically completed.

Further, 90% of the construction of the 10 km D300 pit water pipeline project of the water recycling project was completed, and the site grading and construction of the administration office building were finished.

As the construction of the three mines and the phase one downstream ancillary projects is nearly completed, the Group is actively preparing for the phase two project, with the coal gangue cogeneration project as its first focus. The project will use gangue to generate electricity for self-consumption.

Raw Coal Washing Project

Washing Method – Jigging Separation (Two production lines Washing Process Flow)



	Coal Washing
Washing capacity (T-000/a)	4,500
Recovery rate of clean coal (%)	83%
Production (clean coal) (T-000/a)	3,735

BUSINESS PROSPECT

(1) Supplementary Exploration

The Group will launch a supplementary exploration on the Xiaohuangshan Mine and scheduled to finish eight additional drilling holes in the north of the original exploration M1 report in 2012. A total of 5,360 metres will be drilled by then.

(2) Construction Progress and Scheduled Date for Trial Production

The three coal mines of the Group in Xinjiang are scheduled to commence production successively starting from the fourth quarter of 2012. Planned annual production capacity of coking coal is expected to reach a maximum of 4.5 Mt upon full operation.

During the third quarter of 2012, construction of remaining second phase and third phase shaft sinking and drifting project of the Xiaohuangshan Mine, together with the remaining ground-level infrastructure will be completed. It is expected that the trial production will kick off in the fourth quarter in 2012. For the Shizhuanggou Mine, construction of remaining second and third phases shaft sinking and drifting project and the whole ground-level infrastructure will be finished and the Group expects that the trial production will start by the end of 2012. As for the Quanshuigou Mine, construction of the remaining first and second phases and a majority of third phase project will be completed and all the ground-level infrastructure will be finished. Trial run is scheduled to commence by the first quarter in 2013.

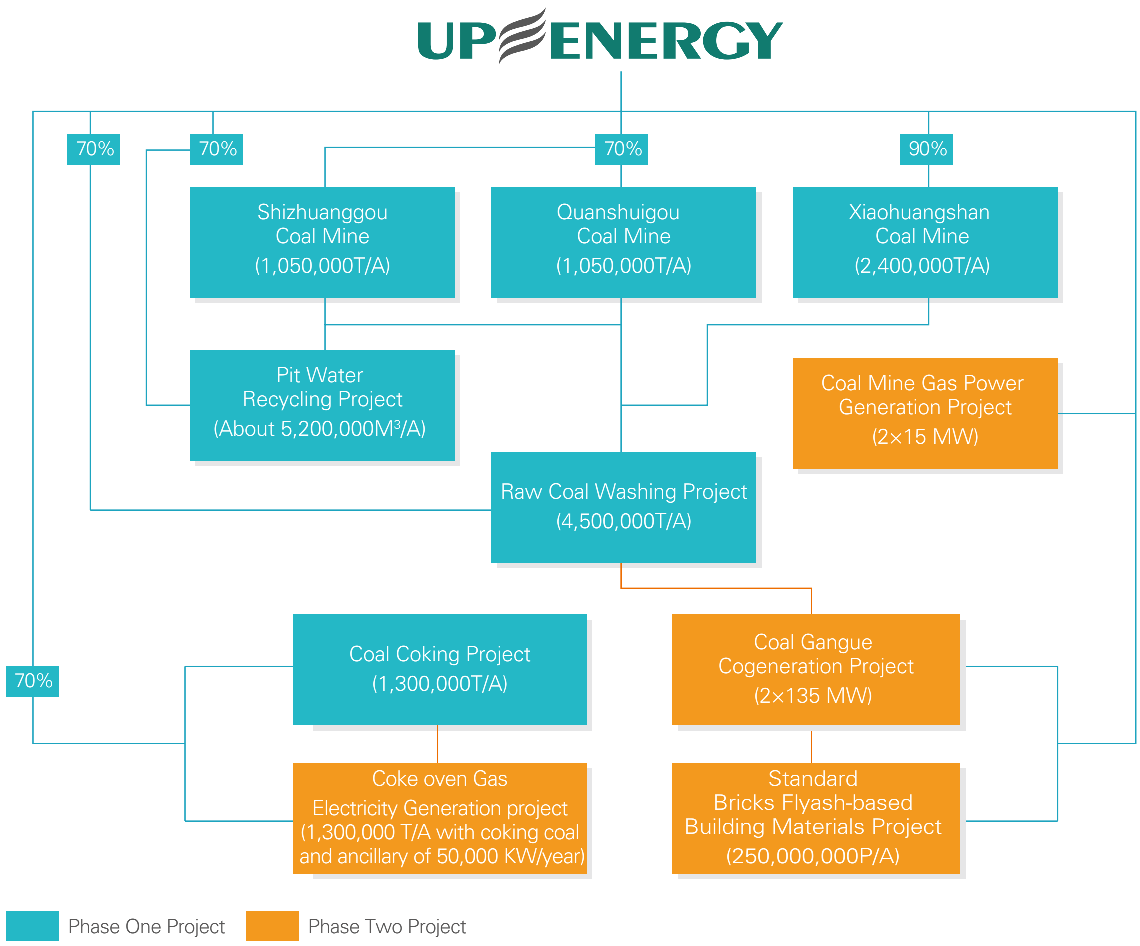
Procurement of equipment with extended working cycle for the coal coking project has been completed in February 2012 and remaining equipment and materials procurement has been completed in June 2012. Equipment installation for systems of coal preparation, coking coal selection and quenching has been completed in June 2012 and the cokery will be ready for trial heating and examination. In addition, the installation of chemical recovery equipment will be completed. Equipment installation for ancillary facilities including air compression station, refrigerating station, soft water station, furnace, centralised chemical laboratory, integrated water supply, electricity supply and distribution, integrated tank yard, foam station, unloading station and biochemical sewage treatment facilities will be completed. The Group expects to initiate the trial production of the coal coking project and the Xiaohuangshan Mine simultaneously.

As for the construction progress of the raw coal washing project in the coming year, procurement of equipment with extended working cycle has been completed in February 2012 and procurement of other equipment has been finished by May 2012. The installation of the preparation plant system, comprising a coal yard, an underground transportation network and equipment for selection and crushing, will be completed in the first half of the coming year. The equipment installation of the main processing system, including a coal transportation corridor and coal washing equipment, and the ancillary processing system, including a concentrating plant and a pressing plant, is expected to be completed in the first half of the coming year. Besides, equipment installation of the ancillary facilities, including an air compressing station, a centralised chemistry laboratory, water supply, electricity supply and distribution and a pharmacy storeroom will also be completed in the first half of 2013. The Group expects that the trial run of the raw coal washing project will commence together with the Xiaohuangshan Mine.

For the water recycling project, procurement of equipment with extended working cycle, purifying system of the purification plant, construction and equipment installation of the filtering system have all been completed in the first half of 2012. For the ancillary processing system, construction and equipment installation of a sludge concentrating plant and water tanks will be completed. The Group expects the water recycling project will begin trial operation in the fourth quarter in 2012.

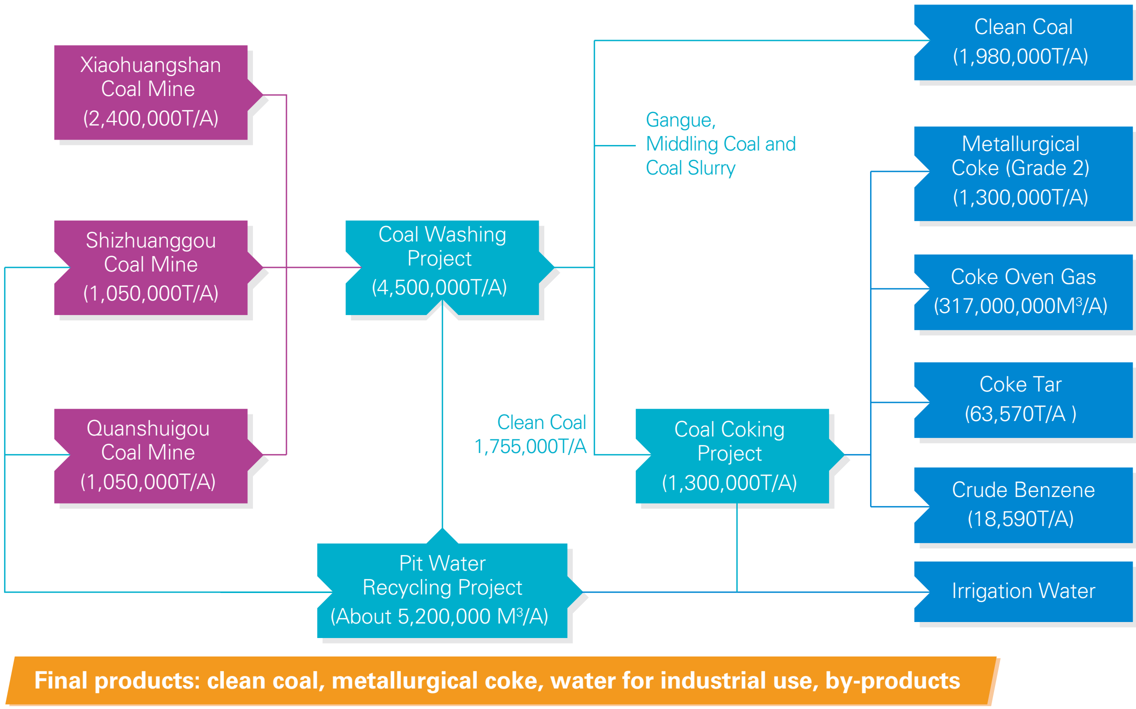
Phase One and Phase Two Projects

Since 2005, Up Energy has started its business from coal resources exploration, and gradually established a complete set of projects with the circulative economy business model which includes raw coal mining, raw coal washing, coal coking, cogenerating, coal mine gas utilizing. Currently there are three new coal mines and three downstream ancillary projects under construction. Up Energy plans to invest four correlated circulative business projects in the second phase.



Note: All Phase One projects are in progress; Phase Two projects are under preparation

Coal & Coking Coal Circulative Production Chain (Phase One Project)



(3) Enhancement of Strategic Co-operation

The Group strives to identify strategic partners along the industry chain as well as from the financial sector in order to enhance its competitiveness in the coal industry. In 2011, the Group entered into co-operation agreements with Pingan Coal Mine and Gas (Methane) Engineering Research Limited, China Construction Bank, Industrial and Commercial Bank of China and Baosteel Resources Company Limited. The scope of cooperation covers mine planning, finance, management and sharing of technology, etc. The Group will continue to seek strategic partners for synergy effects so as to further enhance its competitiveness.

BUSINESS STRATEGIES

(1) Prospect of Coking Coal Industry in Xinjiang

The central government introduced a series of preference policies in Xinjiang recently and "Developing Xinjiang" has been upgraded as a national strategy. Xinjiang Autonomous Region continues to be the focus of investment of the central government. Fixed asset investment in Xinjiang during the period of "12th Five-Year Plan" would double that of the "11th Five-Year Plan". Driven by these favourable policies, economic and social development of Xinjiang will witness rapid growth and demand for steel products will be stimulated by burgeoning construction activities in local infrastructure and property sector and flourishing industrial production activities. Steel manufacturers will increase their investment to boost production capacity, thereby fueling the demand for coke which serves as a critical ancillary material in steel production.

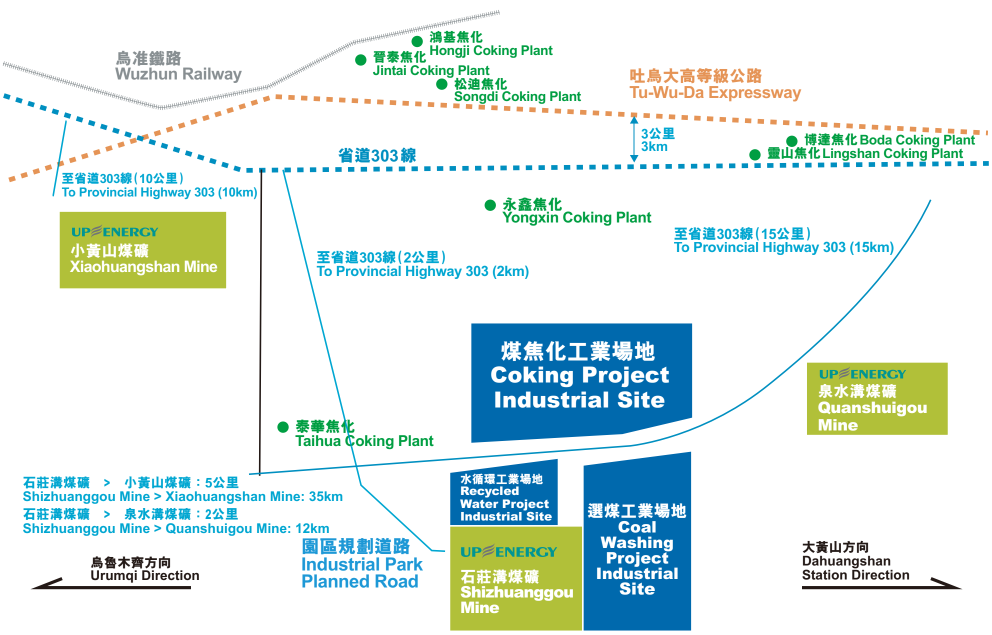
Business Review and Outlook

Prime Locations

Up Energy's coal mines, plants and auxiliary facilities are located in Fukang city, a key industrial city in Wuchang district of northern Xinjiang, adjacent to the target customers, railway and highway networks. Construction of the coal mines, plants and auxiliary facilities are in progress and expected to be completed and commence production successively starting from 2012

Coal Mines and Projects are in Close Proximity

Up Energy's three coal mines, plants and auxiliary facilities are in close proximity and can therefore save cost by sharing resources. Proximity to railways and highways significantly reduces transportation costs



As a basic material for steel manufacturing, the growing demand for coking coal, coupled with its scarcity nature in Xinjiang, has led to a continuous tight supply. The situation of over-demand would be further worsened and the price of coking coal is expected to surge in the future. This provides a positive and favourable environment for the coking coal business of the Group. Taking transportation costs into consideration, steel manufacturers in Xinjiang certainly prefer purchasing coking coal locally. As the Group's coal mines are adjacent to railways and expressways and are connected to provincial and national highways, the resulting transportation convenience and low transportation costs are favorable to both the Group and its potential customers including the local steel manufacturers.

Xinjiang is rich in electricity and coal resources. The production capacity of PVC, the raw material of which is calcium carbide, is gradually shifted to Xinjiang and a number of PVC projects including new projects and rebuilding and expansion projects are ongoing. According to the future planning that PVC production enterprises located in Xinjiang made for the PVC production capacity, the production capacity of PVC will reach 520 Mt in 2015, doubling the figure in 2010. Therefore, the demand for gas coal char and gas coal will increase continuously in the future.

(2) Production Safety

Production safety is considered important to coal mining operation by the Group since its establishment. The Group issued various comprehensive guidelines for safe operation internally and co-operated with third-party professional bodies externally. The Group entered into various agreements in technological cooperation framework, technological co-operation and technological consultation with the Pingan Coal Mine and Gas (Methane) Engineering Research Limited (lead by Mr. Yuan Liang, the Academician of the Chinese Academy of Engineering), the China University of Mining and Technology and other reputable universities and research institutions for providing a safe and efficient environment for shaft construction and future production through researches in safety of mine gas, pit water and advanced mining technologies.

(3) Merger and Acquisition in Xinjiang and Overseas Countries

Merger and acquisition is crucial for the long term development of a company. The Group will adhere to the principle of low-cost expansion, pay close attention to the country's policy to eliminate small coal mines and prudently identify merger and acquisition opportunities in Xinjiang which coincide with its business strategy and philosophy. Through gradual expansion of coal reserves and scale of mining activities, the Group will be able to secure its leading position in the coking coal industry in Northwestern China. In respect of merger and acquisition in overseas countries, management of the Group regularly arranges overseas site visits and actively identifies investment opportunities in resource consolidation, merger and acquisition of coking coal and energy industries in foreign countries.

(4) Challenges ahead

The Group's business may be subject to a variety of uncertainties and challenges in relation to operational, policy and market risks.

As for operational risks, mine exploration, mining operations and production are subject to a number of social and natural risks and hazards, the Group may also encounter different unpredicted difficulties and technical issues. All these could delay the production and delivery of coal products, or may increase cost of mining or result in accidents in coal mines.

In respect of policy risks, the Group is of no assurance that the central and local governments will not impose additional or more stringent laws and regulations governing mining operations and exploration activities. Changes in regulations and policies or failure to comply with the relevant laws and regulations in coal mining or coal production may adversely affect the Group.

For market risks, as the Group's results of operations are highly dependent on coking coal price which tends to be cyclical and subject to fluctuations, the volatility and cyclicality in coal price is linked to various factors such as the Chinese economy, the global financial environment and the steel manufacturing industry. Negative trends in coal price may adversely affect the Group.

Despite the risk factors which may be encountered during business operation, the Group will strive to find the best solution to ensure smooth business development.

Looking ahead, the Group will continue to adhere to its business concept of "increased value in circulation" by extending its production chain from coal exploration, mining, washing to coking and chemicals. Through investment in coking coal projects in upstream and downstream industry chain and chemical by-products produced during the processing of coking coal, the Group is able to enhance added value of coal products through effective utilization of coal resources with an aim to maximize its profitability. The Group is determined to become a leading professional and integrated energy group in the coking coal industry in Northwestern China.

FINANCIAL REVIEW

Other Income and Gains, Net

Other income and gains, net decreased by 63.4% from HK$11,750,000 in FY2011 to HK$4,305,000 in FY2012. The decrease was primarily attributable to a gain on disposal of a subsidiary of HK$11,731,000 recorded in FY2011. Meanwhile, a bank interest income which is amounting to HK$3,645,000 and sundry and other income of HK$660,000 were recorded in FY2012.

Gain on Bargain Purchase

On 18 January 2011, the Group acquired the 100% issued shares of Up Energy Investment (China) Ltd. for a total consideration of HK$7.8 billion. The total consideration of HK$7.8 billion was satisfied by the Group in the following manner: (a) HK$20 million cash; (b) the Group issued two tranches of convertible notes, including the issue of the Tranche A convertible notes with a principal amount of HK$3,480,000,000 and the Tranche B convertible notes with a principal amount of HK$4,300,000,000.

The gain on bargain purchase represented the difference between the fair value of the net identifiable assets acquired and fair value of the cost of investment.

Administrative Expenses

Administrative expenses increased by 354% from HK$18,767,000 in FY2011 to HK$85,168,000 in FY2012, primarily due to an increase in directors' remuneration, salaries, allowances, provident fund contributions, legal and professional fee, depreciation and amortization and office expenses.

Result for Continuing Operations

For the aforementioned reasons, the Group's loss from continuing operations increased by 1.47 times from HK$32,836,000 in FY2011 to HK$81,133,000 in FY2012.

Finance Costs

Finance costs increased from HK$8,448,000 in FY2011 to HK$16,568,000 in FY2012. The increase was primarily due to amortised interest expense on convertible notes in FY2012.

Income Tax Expense

The Group recorded income tax expenses of HK$3,576,000 in FY2012 and deferred income tax credit for FY2011 was HK$84,000.

Management Discussion and Analysis

Result for the Year

The Group's result for the year recorded a loss of HK$101,266,000 in FY2012 comparing to a profit of HK$943,654,000 for FY2011.

Charges on Assets

The Company has entered into a share charge in connection with the issue of the convertible notes of the Company. Pursuant to the share charge, the charge is created over (i) entire issued share capital of Up Energy Investment (China) Ltd., (ii) the entire issued share capital of Up Energy International Ltd.; and (iii) the entire issued share capital of Up Energy (Hong Kong) Limited. All of the companies are wholly owned subsidiaries of the Company.

Save as above, the Group did not have any charges on assets as at 31 March 2012.

Liquidity and Financial Resources

As at 31 March 2012, the Group's current ratio was 6.9 (2011: 17.3), with current assets of approximately HK$876,221,000 (2011: HK$1,344,377,000) against current liabilities of approximately HK$127,080,000 (2011: HK$77,710,000). Cash and cash equivalents were approximately HK$801,019,000 (2011: HK$1,257,526,000). The Group's gearing ratio was 108% as at 31 March 2012 (2011: 140%). The Group's working capital is mainly financed through internal generated cash flows, borrowings and equity financing. There has not been any change in the Group's funding and treasury policies during the year, and the Group continues to follow the practice of prudent cash management.

Treasury Policies

The Group adopts a balance funding and treasury policies in cash and financial management. Cash is generally placed in short-term deposits mostly denominated in Hong Kong dollar ("**HKD**"), United States dollar ("**USD**") and Renminbi ("**RMB**"). The Group's financing requirements are regularly reviewed by the management.

Foreign Exchange Risk

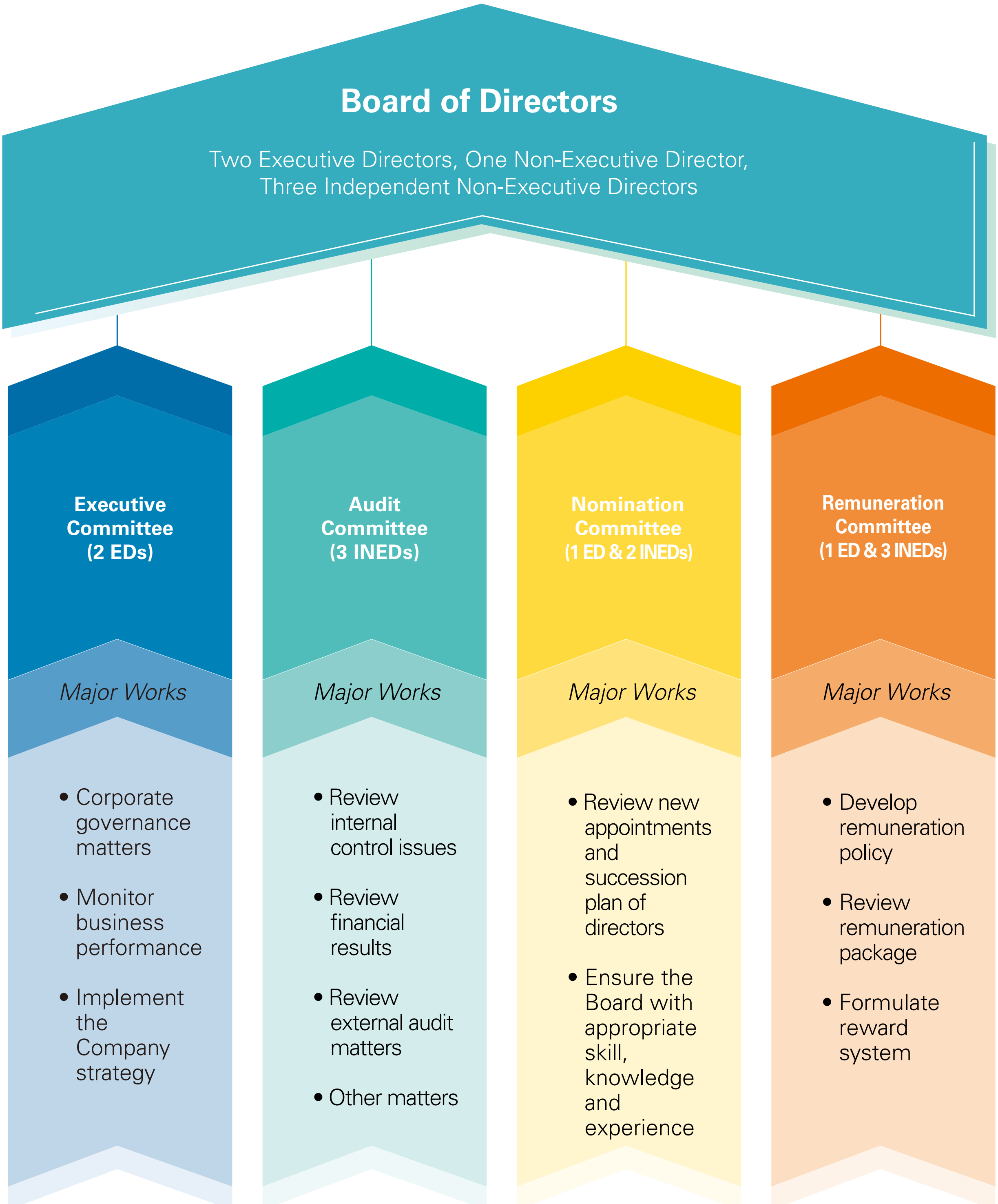
Other than bank deposits made in HKD, USD and RMB, the Group is not exposed to significant foreign currency exchange risks as their transactions and balances were substantially denominated in their respective functional currencies.

Cash Flow and Fair Value Interest Rate Risk

Except for cash and cash equivalents, the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group does not anticipate significant impact on interest-bearing assets resulting from changes in interest rates because the interest rates of its bank deposits are not expected to change significantly.

Human Resources

As at 31 March 2012, the Group had a total of 236 employees (2011: 175) in PRC and Hong Kong. Employees' remuneration packages are reviewed and determined by reference to the market pay and individual performance. The staff benefits include contributions to mandatory provident fund, medical scheme and share option scheme.



Notes:

ED = Executive Director
NED = Non-Executive Director
INED = Independent Non-Executive Director

INTERNAL ORGANIZATION STRUCTURE

A. Allocation of tasks within the Board of Directors

Board of Committee/ Name of Director	Audit Committee	Executive Committee	Nomination Committee	Remuneration Committee
Qin Jun		C	C	M
Jiang Hongwen		M		
Li Bao Guo	M		M	M
Lien Jown Jing, Vincent	C			M
Shen Shiao-Ming	M		M	C

Notes:

C Chairman of the relevant Board Committee
M Member of the relevant Board Committee

B. Board Members

Executive Directors

Name	Position	Current Function/Experience
Qin Jun	Chairman & Chief Executive Officer	• development of corporate operation and strategies
Jiang Hongwen	Executive Director & Chief Financial Officer	• finance and internal control, tax and treasury

Non-Executive Director

Name	Position	Experience
Chau Shing Yim, David	Non-Executive Director	• corporate finance, investment, merger and acquisition

Independent Non-Executive Directors

Name	Independence[1]	Experience
Li Bao Guo	√	Coal-mining expert
Lien Jown Jing, Vincent	√	Accounting and risk management
Shen Shiao-Ming	√	legal and compliance

Note 1: none of the independent non-executive director has engaged in any business or has any relationship that can materially interfere their independent judgement.

Corporate Governance Report

The Board is committed to uphold good corporate governance practices in the Company such that of the Company's business can be conducted in accordance with all applicable laws and regulations, and the interests of the Company's shareholders can be safeguarded.

CORPORATE GOVERNANCE PRACTICES

During the year under review, the Company has applied the principles of the code provisions prescribed in the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 of the Listing Rules.

During the year under review, the Company has complied with all code provisions of the CG Code except for deviations from code provision A.2.1 of the CG Code as summarized below:

Under the code provision A.2.1 of the CG Code, the role of chairman and chief executive should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and executive officer should be clearly established.

Mr. Qin Jun currently assumes the role of both Chairman and Chief Executive Officer (the "CEO") of the Company. The Board considers that this structure could enhance efficiency in formulation and implementation of the Company's strategies. The Board will review the need of appointing suitable candidate to assume the role of CEO when necessary.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Director of the Listed Issuers as set out in Appendix 10 of the Listing Rules as the code for directors' securities transactions (the "Model Code"). The Model Code applies to all Directors and all employees of the Company who have been informed that they are subject to its provisions. The Company has made specific enquiry of all Directors and that all the Directors confirmed their compliance with the required standard set out in the Model Code throughout the year under review.

BOARD OF DIRECTORS

As at the date of this annual report, the Board comprised two executive Directors, namely Mr. Qin Jun and Mr. Jiang Hongwen, one non-executive Director, namely Mr. Chau Shing Yim, David and three independent non-executive Directors, namely, Mr. Li Bao Guo, Mr. Lien Jown Jing, Vincent and Dr. Shen Shiao-Ming. There is no relationship (including financial, business, family or other material/relevant relationship(s)) among the Directors.

The Directors come from diverse background with varied expertise in finance, legal and business field. Biographical details of the Directors are set out in the section headed "Directors and Senior Management Profile" of this annual report.

The Board is mainly responsible for formulating of the Group's long term strategies and development plans, deciding major financial and capital projects and reviewing internal control and risks.

The Board delegates aspects of its management and administration functions to the management for implementing day-to-day operation. It has given clear directions to the management as to its powers, in particular, with respect to different circumstances. While allowing management to enjoy substantial autonomy to run and develop the Company's business, the Board also plays a key role in structuring and monitoring the reporting systems and internal controls. The composition and functions of each Board committee and their major roles and functions are described below. The final decision still rests with the Board unless otherwise provide for in the terms of reference of the relevant committees.

The Directors including Independent Non-executive Directors may seek legal advices at the Company's expenses to discharge their duties.

NON-EXECUTIVE DIRECTORS

All Non-executive Directors including Independent Non-executive Directors were appointed for a term of two years.

CONFIRMATION OF INDEPENDENCE

The Company has received annual confirmations of independence from each of the Independent Non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Directors consider that the Independent Non-executive Directors are independent.

COMPANY SECRETARY

The company secretary of the Company (the "Company Secretary") is responsible to the Board for ensuring that Board procedures are followed and that Board activities are carried out efficiently and effectively. The Company Secretary also advises the Board on the compliance of different laws and regulations.

The Company Secretary attends all Board and Board Committees' meetings and ensures good information flows within the Board and its committees and between management and the non-executive Directors.

The Board is fully involved in and responsible for the appointment and removal of the Company Secretary.

The Company Secretary has complied with all qualifications, experience and training requirements as required by the Listing Rules.

ACCESS TO INFORMATION

The Company will update all Directors the major changes of the Group's business as well as in relevant rules and regulations from time to time. They have the right to access the advices and services of the Company Secretary who are responsible to provide them the Board papers and related materials. In addition, the Chairman holds regular meetings with non-executive Directors (including Independent Non-executive Directors) without the presence of executive Directors annually.

The management will provide the Board with appropriate and sufficient information through financial reports, business and operational reports and budget statements in a timely manner to keep them informed of the latest development of the Company.

The Directors are also provided with names and contact details of the Company's senior management and the Company Secretary to facilitate direct access to senior management and the Company Secretary.

DIRECTORS' AND OFFICERS' LIABILITIES

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions against the Directors and officers arising from corporate activities.

CONTINUOUS PROFESSIONAL DEVELOPMENT

The Directors are conscious of the importance of providing continuous professional training to all Directors in areas such as legal, regulatory responsibility and accounting to update and refresh them on matters that may affect their performance as a Director of the Company. The Company circulates to the Directors articles or reports and press releases issued by the Stock Exchange and the external lawyers which are relevant to their roles as Directors. During the year, all the Directors have attended a comprehensive orientation program organized by the Company.

Newly appointed director is given professional training on continuous obligation as a Director in different laws and regulations especially in the Listing Rules to enable them to have better understandings of the Group, and their role, function and duties as a Director of a listed company in Hong Kong.

BOARD MEETINGS

The Board scheduled to meet at least 4 times in the beginning of the year under review, and the Board would also meet on a particular matter when a board-level decision is required. All Directors are invited to participate in these meetings in person. For those Directors who are not able to attend these meeting in persons, they are given the opportunities to participate by telephone conferencing.

Throughout the year, the Directors participated in the approval of routine and operation matters of the Company by way of written resolutions or physical Board meeting together with supporting documentation.

The Company Secretary has throughout the year assisted the Chairman in preparing the agenda for the meeting. The Directors have received the agenda with supporting Board papers no less than three days prior to the Board meetings. The Director(s) have also abstained from voting on the relevant resolutions if he/she has a material interest in any contract and arrangement. Such Director would not be counted for quorum for the relevant resolutions. The draft minutes are circulated to all Directors for comments as soon as practicable after the meetings.

The following table shows the records of the regular Board Meetings held during the year:–

Directors	No. of Meetings eligible to attend*/ No. of Meetings held
Executive Directors	
Qin Jun	6/6
Jiang Hongwen	6/6
Non-Executive Director	
Chau Shing Yim, David	6/6
Independent Non-executive Directors	
Li Bao Guo	6/6
Lien Jown Jing, Vincent (appointed on 1 April, 2011)	5/5
Shen Shiao-Ming (appointed on 20 May, 2011)	2/2
Lau Kwok Kuen (resigned on 20 June, 2011)	5/5
Wong Siu Kang (resigned on 20 May, 2011)	4/4

* The attendance rates are calculated by reference to the number of Board Meetings held during the tenure of each individual directors.

NOMINATION COMMITTEE

The Nomination Committee ("NC") is established on 25 November, 2011. The members of the NC are as follows:–

Shen Shiao-Ming *(Chairman)*
Qin Jun
Li Bao Guo

The principal responsibilities of the NC are as follows:

a) Selection, Appointment and Re-appointment of Directors

Pursuant to Bye-law 84 of the Bye-laws of the Company, every Director shall be subject to retirement by rotation at least once every three years. Any Director appointed to fill a casual vacancy or as an additional Director shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that general meeting.

Executive Directors are not appointed for specific term, while Non-executive Director and Independent Non-executive Directors are appointed for a term of two years. Each of the Directors is subject to retirement by rotation and re-election in accordance with the Bye-laws of Company. Thus, no Director have a term of appointment longer than three years.

The NC assesses the potential candidate(s) and makes recommendations to the Board for the selection and approval of new Director(s) as follows:–

a) the NC evaluates the balance of skills, knowledge and experience of the Board and the desirable competencies needed for a particular appointment;

b) the NC assesses the suitability of potential candidate(s) and to ensure that the candidate(s) are aware of the expectations of the Company and the level of commitment required; and

c) the NC makes recommendation to the Board for approval.

The NC also assesses and recommends the Board whether the retiring Directors are suitable for re-election by taking into consideration the range of expertise, skills and attributes of the Directors to the Board.

The NC determines the independence of Director annually in accordance with the guidelines set out in the Listing Rules.

b) Board Evaluation

The NC will undertake an informal assessment on the performance of the Board to identify key areas for improvement and requisite follow-up actions. These areas include under assessment includes the Board structure, the Board dynamics and relationships, and the composition of the Board Committee.

The NC also reviews whether each Director has given sufficient time and attention to the affairs of the Group. The NC will consider a Director's level of participation at meetings and company events, his level of engagement when discussing issues at meetings or over the phone and whether he has given sufficient time and attention in addressing matters or issues raised by the Board.

For the year under review, all Directors have contributed sufficient time to meet the expectations of their role as Directors of the Company through their attendance records as follows:–

Appropriate attendance rates at Board and Board Committee Meetings are as follows:

Board Meeting*	Executive Committee Meeting*	Audit Committee Meeting*	Remuneration Committee Meeting*
100%	100%	100%	100%

Note

* The attendance rates are calculated by reference to the number of Board Meetings or Board Committee Meetings held during the tenure of each individual directors.

During the year, no meeting was held by the NC.

AUDIT COMMITTEE

The major roles and functions of the Audit Committee ("AC") are to review and supervise the financial reporting process, financial controls, internal controls and risk management system of the Group and to provide recommendations and advices to the Board on the appointment, reappointment and removal of external auditor as well as their terms of appointment. In addition, the terms of reference of AC have been reviewed and revised with reference to the recent amendments to CG Code and adopted by the Board of the Company.

The members of AC of the Company during the year are as follows:–

Lien Jown Jing, Vincent *(Chairman)*
Li Bao Guo
Shen Shiao-Ming
Lau Kwok Kuen (resigned on 20 June, 2011)

All the members of AC are Independent Non-executive Directors. The Chairman of AC has accounting and risk management expertise and experience. The other members provide expertise in legal and business issues.

The AC met two times during the year under review. During the meetings, the AC reviewed the results and the financial reports with the management, discussed the annual audit issues with the external auditor and made recommendations to the Board on the re-appointment of the external auditor. All members of the AC attended the meetings.

The following table shows the records of the AC meetings held during the year:–

Directors	No. of Meetings eligible to attend*/ No. of Meetings held
Lien Jown Jing, Vincent	2/2
Li Bao Guo	2/2
Shen Shiao-Ming	2/2
Lau Kwok Kuen (resigned on 20 June, 2011)	1/1

The detailed work of the AC for the year ended 31 March, 2012 was set out in the "Audit Committee Report" of this report.

Note

* The attendance rates are calculated by reference to the number of AC Meetings held during the tenure of each individual directors.

ACCOUNTABILITY AND AUDIT

The AC and the Board have reviewed the Company's consolidated financial statements for the year ended 31 March, 2012. The Directors acknowledge their responsibility for the preparation and the true and fair presentation of the consolidated financial statements in accordance with the Hong Kong Financial Reporting Standards and the Hong Kong Accounting Standard. The Directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgement and estimates have been made in the preparation of the consolidated financial statements. The Board is not aware of any material uncertainties relating to events or conditions that may affect the business of the Company or cast doubts on its ability to continue as a going concern.

The external auditors of the Company, Messrs. Ernst & Young, acknowledge their reporting responsibilities in the auditors' report on the consolidated financial statements for the year ended 31 March, 2012.

For the year ended 31 March 2012, the fee payable to the Messrs. Ernst & Young in respect of their audit and non-audit services are set out below:

	2012 *HK$'000*
Audit Service	2,743
Non-Audit Services	447

INTERNAL CONTROL

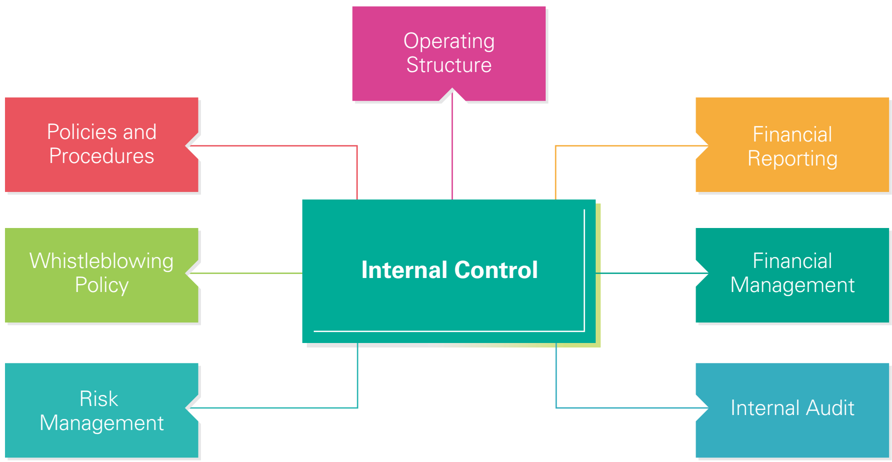
The Group's internal control system is designed to provide reasonable, but not absolute assurance of no material misstatement or loss and to manage rather than eliminate risk of failure in operational systems and achievements of the Group's objectives.

The AC reviews on the adequacy of the Company's internal financial controls, operational and compliance controls and risk management policies and systems established by the management. The system of internal controls and risk management established by the Company is designed to manage, rather than eliminate the risk of failure in achieving the Company's strategic objectives. The management is involved in regular reviews of the risks that are significant to the fulfillment of the objectives of the business. However, it should be noted that such systems are designed to provide reasonable assurance, but not an absolute guarantee against material misstatement or loss.

The chief financial officer ("CFO") of the Company reports directly to the Board and the AC and monitors the internal control systems of the Group. The process used by the AC to review the effectiveness of the internal control includes:

- reviewing the internal audit plan;
- reviewing the significant issues arising from the external auditors; and
- reviewing of the implementation status of action plans developed by the management.

INTERNAL CONTROL SYSTEM OF THE GROUP



The key elements of the internal control system of the Group are as follows:–

a) Operating Structure

The Company has a Document Approval Authority Matrix which sets the authorization and approval limits for various transactions of different threshold limits. Apart from transactions which exceed the threshold limits and are subject to the Board's approval, the Board delegates certain authority to the executive Directors to approve transactions within the threshold limits so as to optimize operational efficiency of the Group.

b) Policies and Procedures

Certain formal procedures and manuals have been adopted by the Company. The Offices Administrative System was used by the Group to verify payment requests and instructions approval from different departments.

c) Whistleblowing Policy

A whistleblowing policy is established by the Company to encourage the employees to report of any suspected fraud, corruption, and dishonest practices or other misconduct in the matters of business activities, financial reporting or other matters.

The policy is communicated through email or correspondence to secure and protect the whistleblowers. In addition, a whistleblower is able to disclose directly to the AC chairman or the CEO.

Investigation will vary depending on the nature and particular circumstances of each complaint made. The matters raised may be investigated internally or referred to the regulatory bodies in Hong Kong or Mainland China.

All reporting cases are reviewed by the AC and the AC will take appropriate action depending on the seriousness of the matter.

d) Financial Reporting

The Board is regularly updated on the Group's financial performance by the senior management of the Company. These reports provide explanations in comparison of corresponding periods in the preceding year. In addition, the senior management also provides the Board with updated key operational activities periodically.

e) Financial Management

The management reviews the performance of each business unit on monthly basis to instill financial and operational discipline at all levels of the organization. Each business unit have been clearly communicated the reporting requirements of the Group.

f) Internal Audit

Messrs. Ernst & Young, the external auditors of the Group, report their findings on certain aspects of the internal financial controls system observed during their audit work to the AC.

g) Risk Management

The objective of risk management is to provide reasonable assurance to the Board and stakeholders that the business objective of the Group can be achieved as the identification and management of risk will reduce the uncertainty and allow the Group to capitalize on opportunities.

The major risk of the Group and the mitigation measures in place are listed as follows:

Risk Factors	Impact	Mitigation
Technical Risk	• The projects may not perform in accordance with the Group's expectation under the conditions found at the mines	• We will closely monitor the projects to ensure the projects can perform in schedule • We will improve the coal mining technology to increase the production capacity
Operational and Geological Risk	• Mining operations and production are subject to a number of operational risks and hazards which include but not limited to rock bursts, slides, fires or natural disasters, political and social instability due to the inclement or hazardous weather conditions	• Operational reviews are held with senior management to discuss the performance against plan and to decide and implement any actions required • We manage our mining risks by having a well structured risk management policy and experienced personnel to ensure any operational difficulties are mitigated where possible to ensure a continuous production process throughout the year
Market Risk	• The demand and supply of coal and coal-related products will affect the turnover and results of the operations of the Group	• We endeavor to secure long term contracts with major strategic partners
Liquidity and Financial Risk	• The Group requires significant working capital during the construction phase of our projects	• We aim to further diversify our funding sources and maintain an appropriate mix of credit facilities • We adopt prudent financing treasury policy and cost control policy to maintain stable cash flow position
Policy Risk	• Mining operations and exploration activities are required to comply with a number of laws and regulations and therefore government regulations and policies will have extensive impact on the business	• We adopt safety measures to eradicate accidents in order to establish a long term safe production environment • We continue to improve on safety and environment protection in mines to reflect changing business environment and government regulations

REMUNERATION COMMITTEE

The major function of the Remuneration Committee ("RC") is to make recommendations to the Board on the remuneration policy and remuneration structure for the Directors.

The members of the RC are as follows:–

Shen Shiao-Ming *(Chairman)*
Qin Jun
Li Bao Guo
Lien Jown Jing, Vincent

During the year of review, the RC reviewed and made recommendations on the remuneration package, including discretionary bonus of the Directors and their remuneration policies. In addition, the terms of reference of RC have been reviewed and revised with reference to the recent amendments to CG Code and adopted by the Board of the Company.

The following table shows the attendance records of the RC Meetings held during the year:–

Directors	No. of Meeting eligible to attend/ No. of Meeting held
Shen Shiao-Ming	1/1
Qin Jun	1/1
Li Bao Guo	1/1
Lien Jown Jing, Vincent	1/1

The emoluments of the Directors for the year ended 31 March, 2012 are set out in note 8 of the financial statements.

The detailed works of the RC for the year ended 31 March, 2012 was set out in "Remuneration Committee Report" of this report.

EXECUTIVE COMMITTEE

An Executive Committee established on 20 June, 2011 (the "EC") with specific written terms of reference and comprises two members namely Mr. Qin Jun (Chairman) and Mr. Jiang Hongwen.

During the year, the terms of reference of Executive Committee have been reviewed and revised with reference to the recent amendment to CG Code (i.e. the corporate governance functions) and adopted by the Board of the Company.

The Executive Committee is responsible for the day-to-day management of the Group's business operations and the corporate governance matters as defined in the terms of reference.

The Committee reports their discussion and recommendation to the Board from time to time.

SHAREHOLDERS' RIGHTS

a) Convening of a Special General Meeting (SGM)

Shareholder(s) holding not less than one-tenth of the Company's paid up capital can submit a written requisition to convene an SGM pursuant to Bermuda Company Act 1981.

The requisition must state the purpose of the meeting and signed by the requisitionists and deposited at the registered office of the Company and may consist of several documents in like form each signed by one or more requisitionists.

If the directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

b) Proposing a candidate for election as a Director at an Annual General Meeting

Pursuant to Bye-laws 85 of the Company's Bye-laws, if a shareholder wish to propose a person other than a retiring director of the Company for election as a director of the Company at the AGM, he/she should give a written notice of nomination to the Company Secretary within the 7-day period commencing the day after the despatch of the notice of the meeting (or such other period as may be determined and announced by the directors of the Company from time to time). Details for the relevant requirements and procedures can be found on the "Shareholders' Right" section of the Company's website.

SHAREHOLDER PARTICIPATION

The Board encourages shareholders to attend the AGM and to meet with the Board so as to stay informed of the Company's developments and raise issues to the Board. The Directors including the chairman of the AC as well as external auditors will be present at general meeting to address shareholder's issue.

Shareholders can vote in person or appoint a proxy to attend and vote on behalf of the Shareholders. All resolutions at general meeting are decided by poll and scrutinized by the share registrars of the Company. The poll results are published on the websites of the Company and the Stock Exchange respectively.

Shareholders may raise enquiries to the Board by contacting our investor relationship team through email (email: info@upenergy.com) or by mail (Room 2704, 27/F., Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong).

The last shareholders' meeting was 2011 AGM which held on 29 August, 2011 at Plaza 3, Lower Bobby, Novotel Century Hong Kong Hotel, 23 Jaffe Road, Wanchai, Hong Kong.

Separate resolutions were proposed at the 2011 AGM and the results of the meeting are set out as follows:–

Resolutions proposed at 2011 AGM	Approximate Percentage of Votes
Ordinary Resolutions	
1. Adoption of Audited Accounts and the Reports of Directors for the year ended 31 March, 2011	100%
2. Re-election of Mr. Qin Jun as a Director	98.65%
3. Re-election of Mr. Jiang Hongwen as a Director	100%
4. Re-election of Mr. Chau Shing Yim, David as a Director	98.65%
5. Re-election of Mr. Li Bao Guo as a Director	100%
6. Re-election of Mr. Lien Jown Jing, Vincent as a Director	100%
7. Re-election of Dr. Shen Shiao-Ming as a Director	100%
8. Appointment of Auditors and to authorize the Board to fix their remuneration	100%
9. Granting the general mandate to Directors to allot shares of the Company	98.65%
10. Granting the general mandate to Directors to repurchase shares of the Company	100%
11. Extension of the general mandate regarding issue of additional shares of the Company	98.65%
12. Adoption of new Share Option Scheme	98.65%
Special Resolution	
13. Adoption of new Bye-laws of the Company	100%

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company actively promotes effective communications with shareholders and investors. All material information including financial reports, announcements and circulars are published regularly on a timely manner basis via the Company and the Stock Exchange's website.

The Chairman and the CEO or the CFO regularly communicate with research analysts, fund managers and institutional investors through face-to-face meetings, email communication and teleconference to update them the latest corporate developments and address their queries. All discussions are limited to explain published material and non-price sensitive information.

During the year, the Company also arranged analysts to visit the Group's mining sites to provide them with more detailed knowledge of the Group.

SIGNIFICANT CHANGES IN BYE-LAWS

During the year, there is no significant change to the Company's Bye-laws.

Audit Committee Report

Audit Committee (the "AC") assisted the Board in discharging its statutory and other responsibilities relating to internal controls, financial and account matters, compliance and financial risk management. This report provides details of the role of the Audit Committee (the "AC") and the work it has undertaken by them during the year.

The members of the AC during the year were:

Lien Jown Jing, Vincent *(Chairman)*
Li Bao Guo
Shen Shiao-Ming
Lau Kwok Kuen (resigned on 20 June 2011)

MEETINGS AND ATTENDANCE

The Committee met two times during the year. Members' attendance at the meetings held during the year is set out on page 33. The Chief Financial Officer, the external auditors and the Company Secretary are normally invited to attend these meetings. These meetings enable the auditors to raise issues encountered in the course of their work directly to the AC.

SUMMARY OF MAJOR WORKS DONE DURING THE YEAR

During the year, the major works done by AC were summarized as follows:

- reviewed the Group's half-yearly and annual financial statements and related notes and announcements, accounting principles adopted and the auditors' report prior to the submission to the Board's approval;

- reviewed the internal control manual and evaluated the internal controls systems and compliance functions of the Group;

- reviewed any significant judgments and estimates made by the management so as to ensure the integrity of the financial statements of the Group;

- considered and pre-approved the re-appointment of auditors; and

- reviewed and monitored the external auditor's independence and objectivity and the effectiveness during the audit process.

FINANCIAL REPORTING

The AC reviewed with the management for the accounting principles and practices adopted by the Group and the financial reporting matters including a review of the audited financial statements for the year ended 31 March, 2012. In addition, the AC met the external auditors at least once a year without the presence of management. Therefore, The AC recommended the consolidated financial statements for the year ended 31 March, 2012 for the Board's approval.

INTERNAL CONTROL

During the year, the AC reviewed the internal control manual to assess the adequacy of the current existing control systems including financial, operational and compliance controls and risk management systems established by the Company. The AC considered that the current internal control systems are reasonably implemented by the Company to meet the need of current business environment. There were no matters concerns to be brought to the attention to the Board.

EXTERNAL AUDITORS

The AC satisfied with the works, independence and objectivity of Messrs. Ernst & Young, the external auditors of the Company and therefore recommended their re-appointment as auditors of the Group for the financial year 2012/2013 in the forthcoming AGM.

Members of Audit Committee

Lien Jown Jing, Vincent *(Chairman)*
Li Bao Guo
Shen Shiao-Ming

Hong Kong, 29 June, 2012

Remuneration Committee Report

The primary function of Remuneration Committee (the "RC") is to assist the Board in fulfilling its duties in developing formal and transparent policies on remuneration matters of the Company. No Director is involved in deciding their own remuneration. RC makes recommendations to the Board on the remuneration packages of individual executive directors and management.

MEMBERSHIP OF THE REMUNERATION COMMITTEE

During the year, the members of the RC were as follows:–

Shen Shiao-Ming *(Chairman)*
Qin Jun
Li Bao Guo
Lien Jown Jing, Vincent

Most of the members of the RC were independent non-executive Directors.

REMUNERATION POLICY

RC decides a framework of remuneration policy for the Group. The aims of the remuneration policy are to :–

1. Attract and retain those people with the ability, experience and skill to deliver the strategy;

2. Create a direct and recognizable alignment between the rewards and performance of an individual;

3. Incentivize employees to deliver sustained performance consistent with strategic goals and to reward success in this; and

4. Pay the remuneration that is affordable and reasonable and alignment with the market practices.

ACTIVITIES OF THE REMUNERATION COMMITTEE

During the year, the RC met two times and the major business of those meetings included the following activities:–

- conducting the annual review of annual salaries and bonus (if any) for all Executive Directors and make appropriate recommendation to the Board; and

- reviewed the remuneration level for Non-executive Director and Independent Non-Executive Directors and recommend to the Board.

In setting remuneration package, the Company keeps in mind the pay and employment conditions within the industry and in comparable companies. The Company will engage professional advice to provide guidance on remuneration matters, if required.

The following table illustrates the annual remuneration of the current Directors during the financial year under reviews:

	Per annum (HK$) 2011/2012
Executive Directors (salaries)	
Qin Jun	$4,803,000
Jiang Hongwen	$441,000
Non-executive Director (Fees)	
Chau Sing Yim, David	$363,000
Independent Non-executive Directors (Fees)	
Li Bao Guo	$147,000
Lien Jown Jiny, Vincent	$135,000
Shen Shiao Ming	$128,000

All the Executive Directors of the Company are respectively responsible for various aspects of the business and operation of the Group. These Executive Directors are regards as the members of the senior management team of the Group.

The following table illustrates the breakdown of the level and mix of the remuneration or fees of the Directors during the financial year under review:–

	Salary	Fees	Allowances, Benefits in kind	Total
Executive Directors	90%	--	10%	100%
Non-Executive Director	--	100%	--	100%
Independent Non-Executive Directors	--	100%	--	100%

As at the date of this report, no share options have been granted to any Director pursuant to the Share Option Scheme of the Company.

Details of the amount of Directors' remuneration during the year ended 31 March, 2012 are set out in note 8 to the financial statements and details of the Share Option Scheme during the year are set out in Report of the Directors and note 26 to the financial statements.

Members of the Remuneration Committee

Shen Shiao-Ming *(Chairman)*
Qin Jun
Li Bao Guo
Lien Jown Jing, Vincent

Hong Kong, 29 June, 2012

Corporate Responsibility Report

The Group believes that the undertaking of responsibility to the stakeholders and society is of vital importance to the long term development of a company. Apart from generating satisfactory returns for its shareholders, the Group also values its corporate social responsibility, which is shown in five different aspects:

ENVIRONMENTAL PROTECTION

The Group strictly follows respective laws and regulations of the central and local governments and compiles environmental impact assessment reports. The Group also implements environmental protection plan to minimize impacts of the business on the ecological environment, with an aim to reserve a better environment for our future generations.

The Group have plans to reserve the environment of its mines, which include sprinkling water on the road regularly, constructing temporary stockpile storage and other coals and rocks processing facilities to control dust emission, applying temporary covers to control dust emission of coal trucks, using dust-free materials for pavement construction, and replanting vegetation destroyed by dust. In addition, the water processing plant of Shizhuanggou Mine helps reduce pollution of water in the area through processing and recycling of waste water produced by Quanshuigou Mine and Shizhuanggou Mine. The Group will also install ventilation with noise controlling system on the surface ground to minimize noise pollution.

These environmental protection facilities and plans of The Group are aim to alleviate impacts on local environment caused by the mine construction and mining operations.

CIRCULATIVE BUSINESS

The Group sticks to its philosophy of "increased value in circulation" and actively develops downstream industry chain projects. By utilizing associated resources, the Group aims to build a circulative business chain with coal exploring, mining, washing, coking and chemicals as its core.

Through the development of circulative business, the Group will witness business growth with enhanced economic efficiency, thus providing more job opportunities to the area of its business and promoting local social and economic development.

SAFETY MANAGEMENT

The Group considers safety a crucial issue to operation and therefore invests resources and adopts advanced mining technique and facilities to compile with related mining safety laws in China. The Group endeavors to provide healthy and safe working environment and sets up a department to formulate management system for healthy and safety production, supervise safety operations of coal business and strengthen pre-control of risk, so as to put safety management and supervision in the top priority of its daily operation.

The Group plans to apply integrated mechanical mining method to minimize mining accidents and create a safety working environment for its employees during production. Moreover, the Group has set up a specified fire control system in each of its mines and joined hands with the most advanced research institutions in China to design and construct gas drainage and safety control systems with an aim to minimize risk of gas explosion and improve safety of working condition in the mines.

OCCUPATIONAL PROTECTION

The PRC Government formulated important regulations regarding occupational safety for mine operation. The Group values the importance of occupational safety and plans to carry out a series of measures to strictly compile with the relevant regulations.

The Group strives to maintain a high safety standard for its production facilities. When the tunnel construction and surface mining commences, the Group plans to use gas drainage system in the mines to extract coal seam gas to conform to the gas level benchmark of the national coal mining regulations. The Group will enhance the operation safety in the mines using advanced shaft drilling equipment which are equipped with protection system for over winding, over weighting, rope breaking, power-off and power surge. These facilities help reduce risk of gas explosion and enhance safety level of the mines.

The Group plans to offer monthly training courses for its employees regularly, with an aim to enhance their awareness and knowledge in safety operation. Currently, the Group provides its existing staff with various medical benefits in accordance with applicable laws and regulations, and will continue to offer the same benefits for all of its employees in the future.

CHARITY

The Group committed to cultivate a caring corporate culture and allocates resources in supporting and actively participating in social charitable activities in the district where its business is located. The Group cares for the needy people and shows concern towards different classes and groups in the community. The Group will mobilize its manpower to realize its commitment in social responsibility.

Report of the Directors

The Directors have pleasure in presenting their annual report and the audited consolidated financial statements of the Group for the year ended 31 March, 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in the financial statements on page 75.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 March, 2012 are set out in the consolidated income statement on page 67.

No interim dividend was declared (2011: Nil) and the Directors do not recommend the payment of any final dividend for the year ended 31 March, 2012 (2011: Nil).

SHARE CAPITAL

Details of movements of the share capital of the Company during the year ended 31 March, 2012 are set out in note 25 to the financial statements.

CONVERTIBLE NOTES

Details of the convertible notes are set out in note 23 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the Group's property, plant and equipment during the year ended 31 March, 2012 are set out in note 15 to the financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 136. This summary does not form part of the audited consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year ended 31 March, 2012 are set out in note 27 to the financial statements.

DISTRIBUTABLE RESERVES

Pursuant to the Company Act 1981 of Bermuda, as at 31 March, 2012, the Company cannot distribute any of its reserves to the shareholders of the Company. Movements in the distributable reserves of the Company during the year ended 31 March, 2012 are set out in note 27 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchase and sales for the year attributable to the Group's major suppliers and customers are as follows:–

Purchases

The Group only operating segment, coal mining business was under trial production during the financial year, therefore, there were no major purchases during the year.

Sales

The Group's only operating segment, coal mining business, was under trial production during the financial year, there were no sales during the year.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has any interest in the Group's five largest suppliers.

DIRECTORS

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

Executive Directors

Qin Jun
Jiang Hongwen

Non-Executive Director

Chau Shing Yim, David (re-designated to Non-executive Director on 20 June, 2011)

Independent Non-Executive Directors

Li Bao Guo
Lien Jown Jing, Vincent (appointed on 1 April, 2011)
Shen Shiao-Ming (appointed on 20 May, 2011)
Lau Kwok Kuen (resigned on 20 June, 2011)
Wong Siu Kang (resigned on 20 May, 2011)

Pursuant to By-law 84 of the Company's Bye-laws, Chau Shing Yim, David and Li Bao Guo will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rule") and as at the date of this report still considers that all of the independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

As at 31 March, 2012, none of the 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.

EMOLUMENT POLICY

The emoluments of the Directors of the Company are recommended by the Remuneration Committee, and decided by the Board, as authorised by shareholders in the annual general meeting, having regard to the Company's operating results, individual performance, experience, responsibility, workload and comparable market securities. No Director is involved in deciding his own remuneration.

The Company has adopted a share option scheme as an incentive to the Directors and eligible employees, details of the scheme are set out under the heading "Share Option Scheme" below.

Details of the Directors and senior management's remuneration of the Group are set out in note 8 to the financial statements of the Company.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors of the Company and the five highest paid individuals of the Group during the year ended 31 March, 2012 are set out in notes 8 and 9 to the financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES OF THE COMPANY (THE "SHARES"), UNDERLYING SHARES AND DEBENTURES

As at 31 March, 2012, the interests and short positions of the Directors and Chief Executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (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 provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"), were as follows:

(a) Interests and short positions in Shares and underlying Shares in the Company

		Number of shares/underlying shares held by the Company			
Name of Director	Capacity	Number of shares	Number of underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of issued share capital of the Company as at 31.3.2012
Qin Jun	Beneficiary Interests	345,566,949 (L)	2,124,119,289 (L)	2,607,186,238[1] (L)	225.76%
	Corporate Interests		137,500,000[2] (L)		
			1,241,875,000 (S)	1,241,875,000[1] (S)	107.53%

Abbreviations:
"L" stands for long position
"S" stands for short position

Notes:

1. Mr. Qin Jun and his wife, Ms. Wang Jue, are the beneficiaries of the J&J Trust. J&J Trust is a discretionary trust found by Mr. Wang Mingquan, the father in-law of Mr. Qin Jun. Mr. Qin Jun and Ms. Wang Jue are therefore taken to be interested in the relevant shares and short position by virtue of the SFO.

2. 137,500,000 derivatives interests out of the total interests of 2,607,186,238 shares are beneficially owned by Up Energy Capital Limited. Up Energy Capital Limited is a company wholly owned by Mr. Qin Jun. Mr. Qin Jun is therefore taken to be interested in the relevant shares by virtue of the SFO

3. As at 31 March, 2012, the total issued share capital of the Company amounted to 1,154,859,788 shares.

Save as disclosed above, as at 31 March, 2012, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required (a) 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 provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

A new share option scheme was approved by the shareholders of the Company on 29 August, 2011 (the "Scheme") and had a life of 10 years from its adoption for the purpose of recognising the contribution of certain executive directors and employees of the Group and retaining them for the continual operation and development of the Group.

Under the Scheme, the Board may, at its discretion, offer to any employee (including any non-executive Director), consultants, advisors or customers of the Group, options to subscribe for shares of the Company subject to the terms and conditions stipulated in the Scheme.

(a) Purpose of the Scheme

The Company adopted the Share Option Scheme on 29 August, 2011. The purpose of the Scheme is to provide incentives to:–

- award the eligible persons who have made contributions to the Group;
- provide incentives and help the Group to retain its existing employees and recruiting additional employees; and
- provide employees with a direct economic interest in attaining the long-term business objectives of the Group.

(b) Participants of the Scheme

Pursuant to the Scheme, the Company may at its absolute discretion grant options to any employee, contracted celebrity, advisor, consultant, service provider, agent, customer, partner or joint-venture partner of the Company or its subsidiaries (including any director, whether executive or non-executive and whether independent or not, of the Company or its subsidiaries) who is in full-time or part-time employment with the Company or its subsidiaries at the time when an option is granted to such employee, or any person who, in the sole discretion of the Board, have contributed or may contribute to the Group.

(c) Total number of shares available for issue under the Scheme

The total number of shares available for issue under the Scheme is 105,317,772 shares.

The maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company shall not exceed 30% of the total number of shares of the Company in issue from time to time.

(d) Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the total number of shares of the Company in issue, unless approved by the shareholders of the Company in the manner as stipulated in the Scheme.

(e) Time of exercise of options

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on the date on which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. No minimum period for which the option must be held before it can exercised is specified in the Scheme.

(f) The subscription price per share

The subscription price per share in respect of an option granted under the Scheme is such price as determined by the Board of the Company at the time of the grant of the options, but in any case the subscription price shall not be lower than the higher of:

- the closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the date on which the options are offered, which must be a business day;

- the price being the average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of the options; and

- the nominal value of a share of the Company on the date of offer.

(g) Payment on acceptance of option

A non-refundable sum of HK$1.00 by way of consideration for the grant of an option is required to be paid by each of the grantee upon acceptance of the granted option.

(h) Remaining life of the Scheme

The Scheme will expire on 28 August, 2021 and no further options may be granted but the provisions of the Scheme shall in all other respects remain in force and effect and options which are granted during the life of the Scheme may continue to exercise in accordance with their respective terms of grant.

As at the date of this report, no option had been granted by the Company.

INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE SUBSTANTIAL SHAREHOLDERS

Long and short positions in the Shares and underlying Shares

As at 31 March 2012, so far as is known to the Directors of the Company, the following, not being a Director or the Chief Executive of the Company, have an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO and are recorded in the register kept by the Company under section 336 of SFO:

Long positions in the Shares and Underlying Shares

Name	Capacity	Number of Ordinary Shares	Number of underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of total interests in issued capital of the Company as at 31.3.2012	*Notes*
Cai Cheng	Corporate Interest	402,424,349 (L)	3,279,381,789 (L)	3,681,806,138 (L)	318.81%	*2*
Golden Energy Holdings Limited	Corporate Interest	402,424,349 (L)	3,279,381,789 (L)	3,681,806,138 (L)	318.81%	*2*
Synergy Investment International Company Limited	Corporate Interest	402,424,349 (L)	3,279,381,789 (L)	3,681,806,138 (L)	318.81%	*2*
Bank of America Corporation	Corporate Interest	46,267,800 (L)	2,818,986,412 (L)	2,865,254,212 (L)	248.10%	*3*
Credit Suisse Trust Limited	Trustee	345,566,949 (L) –	2,124,119,289 (L) 1,241,875,000 (S)	2,469,686,238 (L) 1,241,875,000 (S)	213.85% 107.53%	*5*
Perfect Harmony Holdings Limited	Corporate Interest	345,566,949 (L) –	2,124,119,289 (L) 1,241,875,000 (S)	2,469,686,238 (L) 1,241,875,000 (S)	213.85% 107.53%	*4*
Seletar Limited	Corporate Interest	345,566,949 (L) –	2,124,119,289 (L) 1,241,875,000 (S)	2,469,686,238 (L) 1,241,875,000 (S)	213.85% 107.53%	*4*
Serangoon Limited	Corporate Interest	345,566,949 (L) –	2,124,119,289 (L) 1,241,875,000 (S)	2,469,686,238 (L) 1,241,875,000 (S)	213.85% 107.53%	*4*
Liu Huihua	Spouse Interest	345,566,949 (L) –	2,124,119,289 (L) 1,241,875,000 (S)	2,469,686,238 (L) 1,241,875,000 (S)	213.85% 107.53%	*6*
Wang Mingquan	Founder of Trust	345,566,949 (L) –	2,124,119,289 (L) 1,241,875,000 (S)	2,469,686,238 (L) 1,241,875,000 (S)	213.85% 107.53%	*6*
Wang Jue	Beneficiary Interest of Trust/ Spouse Interest	345,566,949 (L) – –	2,124,119,289 (L) 1,241,875,000 (S) 137,500,000 (L)	2,469,686,238 (L) 1,241,875,000 (S) 137,500,000 (L)	213.86% 107.53% 11.90%	*7*
Up Energy Holding Ltd.	Corporate Interest	345,566,949 (L) –	2,124,119,289 (L) 1,241,875,000 (S)	2,469,686,238 (L) 1,241,875,000 (S)	213.85% 107.53%	*4*

Name	Capacity	Number of Ordinary Shares	Number of underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of total interests in issued capital of the Company as at 31.3.2012	*Notes*
Up Energy Group Limited	Beneficiary Interest	337,066,949 (L) –	2,132,619,289 (L) 1,241,875,000 (S)	2,469,686,238 (L) 1,241,875,000 (S)	213.85% 107.53%	*4*
Up Energy Capital Limited	Corporate Interests	–	137,500,000 (L)	137,500,000 (L)	11.91%	*8*
Baosteel Group Corporation	Corporate Interest	12,073,800 (L) –	370,000,000 (L) 97,500,000 (S)	382,073,800 (L) 97,500,000 (S)	33.08% 8.44%	*9*
Baosteel Resources International Company Limited	Beneficiary Interest/ Security Interests	12,073,800 (L) – –	– 370,000,000 (L) 97,500,000 (S)	12,073,800 (L) 370,000,000 (L) 97,500,000 (S)	1.04% 32.03% 8.44%	*9*
Capital Sunlight Limited	Beneficiary Interest	1,556,425 (L)	277,393,929 (L)	278,950,354 (L)	24.15%	*10*
ICBC International Holdings Limited	Corporate Interest	1,556,425 (L)	277,393,929 (L)	278,950,354 (L)	24.15%	*10*
ICBC International Investment Management Limited	Corporate Interest	1,556,425 (L)	277,393,929 (L)	278,950,354 (L)	24.15%	*10*
Industrial and Commercial Bank of China Limited	Corporate Interest	1,556,425 (L)	277,393,929 (L)	278,950,354 (L)	24.15%	*10*
Central Huijin Investment Ltd.	Corporate Interest	16,716,000 (L)	480,865,496 (L)	497,581,496 (L)	43.09%	*11 to 13*
CCB International Asset Management Limited	Investment Manager/ Beneficiary Interest	12,448,000 (L) 4,268,000 (L)	201,915,143 (L)	218,631,143 (L)	18.93%	*11*
CCB International (Holdings) Limited	Corporate Interest/ Beneficiary Interest	4,268,000 (L) 12,448,000 (L)	201,915,143 (L)	218,631,143 (L)	18.93%	*11*
CCB Financial Holdings Limited	Corporate Interest	16,716,000 (L)	201,915,143 (L)	218,631,143 (L)	18.93%	*11*

Name	Capacity	Number of Ordinary Shares	Number of underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of total interests in issued capital of the Company as at 31.3.2012	*Notes*
CCB International Group Holdings Limited	Corporate Interest	16,716,000 (L)	201,915,143 (L)	218,631,143 (L)	18.93%	*11*
China Construction Bank Corporation	Corporate Interest	16,716,000 (L)	201,915,143 (L)	218,631,143 (L)	18.93%	*11*
Dwight Walter Anderson	Corporate Interest	42,476,897 (L)	114,931,468 (L)	157,408,365 (L)	13.63%	*14 & 15*
Ospraie Holding I, L.P.	Corporate Interest	42,476,897 (L)	114,931,468 (L)	157,408,365 (L)	13.63%	*14 & 15*
Ospraie Management, Inc.	Corporate Interest	42,476,897 (L)	114,931,468 (L)	157,408,365 (L)	13.63%	*14 & 15*
Ospraie Management, LLC	Investment Manager	42,476,897 (L)	114,931,468 (L)	157,408,365 (L)	13.63%	*14 & 15*
Ospraie Advisors L.P.	Investment Manager	25,902,432 (L)	70,049,759 (L)	95,952,191 (L)	8.31%	*14 & 15*
Ospraie Advisors LLC	Corporate Interest	25,902,432 (L)	70,049,759 (L)	95,952,191 (L)	8.31%	*14 & 15*
The Ospraie Portfolio Ltd.	Beneficiary Interest	16,574,465 (L)	44,881,709 (L)	61,456,174 (L)	5.32%	*14 & 15*
Ospraie Special Opportunities Master Holdings Ltd.	Beneficiary Interest	25,902,432 (L)	70,049,759 (L)	95,952,191 (L)	8.31%	*14 & 15*
Credit Suisse Group AG	Corporate Interest	– –	75,000,000 (L) 75,000,000 (S)	75,000,000 (L) 75,000,000 (S)	6.49% 6.49%	
Powerplant Limited	Beneficiary Interest	–	71,928,179 (L)	71,928,179 (L)	6.23%	
Proper Way Profits Limited	Beneficiary Interest	–	320,028,420 (L)	320,028,420 (L)*	27.71%	

Abbreviations:
"L" stands for long position
"S" stands for short position
* The total number of shares is shown without any adjustment on the share consolidation of the Company on 12 May 2012.

Notes:

1. Pursuant to Section 336 of the SFO, the shareholders of the Company are required to file disclosure of interests forms (the "DI Forms") when certain criteria are fulfilled and the full details of the requirements are available on the Stock Exchange's website. When a shareholder's shareholding in the Company changes, it is not necessary to notify the Company and the Stock Exchange unless certain criteria are fulfilled. Therefore, substantial shareholders' latest shareholding in the Company may be different from the shareholding filed with the Company and the Stock Exchange. The above statements of substantial shareholders' interests are prepared based on the information in the relevant DI Forms received by the Company. The Company may not have sufficient information on the breakdown of the relevant interests and cannot verify the accuracy of information on the D1 Forms. Therefore, some substantial shareholders' interests in shares or underlying shares may not have breakdown in their relevant interests.

2. Golden Energy Holdings Limited (the "Golden Energy") was wholly owned by Synergy Investment International Company Limited ("Synergy"). Synergy was 100% held by Mr. Cai Cheng. Accordingly, Mr. Cai Cheng, Golden Energy and Synergy are deemed to be interested in the shares and security interests in the Company by virtue of SFO.

3. Bank of America Corporation holds shares and security interests of the Company through companies controlled or indirectly controlled by it.

4. These shares were the same parcel of shares held by a J&J Trust of which Mr. Wang Mingquan was the founder. Up Energy Group Limited is 100% wholly owned by Up Energy Holdings Limited. Up Energy Holdings Limited is 100% wholly owned by Perfect Harmony Holdings Limited ("Perfect Harmony"). Perfect Harmony is a company incorporated in Bahamas and owned by Seletar Limited ("Seletar") and Serangoon Limited ("Serangoon") as nominees in trust of Credit Suisse Trust Limited, the trustee of J&J Trust. Accordingly, Up Energy Group Limited, Up Energy Holding Ltd., Seletar, Serangoon and Perfect Harmony are also deemed to be interested in the relevant shares and short position by virtue of SFO.

5. Credit Suisse Trust Ltd., as a trustee of the J&J Trust, is deemed to be interested in the relevant Shares and the short position by virtue of SFO.

6. Mr. Wang Mingquan is the founder of the J&J Trust and Ms. Liu Huihua is the spouse of Mr. Wang Mingquan. Mr. Wang Mingquan and Ms. Lui Huihua are therefore taken to be interested in the relevant shares and short position by virtue of the SFO.

7. Ms. Wang Jue is the beneficiary of the J&J Trust, the daughter of Mr. Wang Mingquan and the wife of Mr. Qin Jun, the director of the Company. Ms. Wang Jue is therefore taken to be interested in the relevant shares and short position by virtue of SFO.

8. Up Energy Capital Limited is a company wholly owned by Mr. Qin Jun, a director of the Company. Accordingly, Mr. Qin Jun is deemed to be interested in the shares and security interests in the Company by virtue of SFO.

9. Baosteel Resources International Company Limited is 99% owned by Baosteel Group Corporation. Accordingly, Baosteel Group Corporation is deemed to be interested in the shares, security interest and short position in the Company held by Baosteel Resources International Company Limited.

10. ICBC International Holdings Limited ("ICBC Holdings") was wholly owned by Industrial and Commercial Bank of China Limited ("ICBC"). ICBC International Investment Management Limited ("ICBC Investment") was wholly owned by ICBC Holdings. Capital Sunlight Limited ("Capital Sunlight") was wholly owned by ICBC International Investment. By virtue of the SFO, Capital Sunlight, ICBC Holdings, ICBC, and ICBC Investment are deemed to be interested in the relevant shares and short position.

11. CCB International Asset Management Limited ("CCB-IAM") is wholly owned by CCB International (Holdings) Limited ("CCB International"). CCB International is wholly owned by CCB Financial Holdings Limited ("CCB Finance"). CCB Finance is wholly owned by CCB International Group Holdings Limited (CCBI Group"). CCBI Group is wholly owned by China Construction Bank Corporation ("CCB Corp"). Central Huijin Investment Ltd. ("Central Huijin") in turn holds 57.10% in CCB Corp. By virtue of the SFO, CCB-IAM, CCB International, CCB Finance, CCBI Group, CCB Corp, Central Huijin are deemed to be interested in the shares which CCB Asset is interested.

12. CCBC is in turn beneficially 57.10% owned by Central Huijin Investment Ltd. ("Central Huijin"). By virtue of the SFO, Central Huijin was deemed to be interested in the shares with CCBC was interested.

13. Industrial and Commercial Bank of China Limited is in turn beneficially 35.42% owned by Central Huijin Investment Ltd. ("Central Huijin"). By virtue of the SFO, Central Huijin was deemed to be interested in the shares which ICBC was interested.

14. Ospraie Management, Inc. ("Ospraie Management") was owned by Mr. Dwight Walter Anderson. Ospraie Holding I.L.P ("Ospraie Holding") was owned by Ospraie Management. Ospraie Management, LLC ("Ospraie LLC") was owned by Ospraie Holding I. L.P. ("Ospraie I. L.P."). By virtue of the SFO, Mr. Dwight Walter Anderson, Ospraie Management, Ospraie Holding, Ospraie LLC and Ospraie I.L.P. are deemed to be interested in the same relevant shares and short position.

15. Ospraie Advisors LLC ("Ospraie Advisors") was wholly owned by Ospraie Management. Ospraie Advisors L.P. was owned by Ospraie Advisors. Ospraie Special Opportunities Master Holdings Ltd. ("Ospraie Special") was owned by Ospraie Advisors LP. By virtue of the SFO, Ospraie Advisors, Ospraie Management and Ospraie Special are deemed to be interested in the same relevant shares and short position.

16. As at 31 March, 2012, the issued share capital of the Company is 1,154,859,788 shares.

Save as disclosed above, as at 31 March, 2012, the Directors and the chief executive of the Company were not aware of any person who has an interest or short position 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, or who was recorded in the register kept by the Company under section 336 of SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors or the chief executives of the Company or any of their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS

No contract of significance, to which the Company, any of its holding companies, subsidiaries or fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the year, ended 31 March, 2012, nor had there been any contract of significance entered into between the Group, and a controlling shareholder of the Company or any of its subsidiaries or for the provision of services to the Group by a controlling shareholder or any of its subsidiaries during the year ended 31 March, 2012.

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

During the year ended 31 March, 2012, the Company had repurchased a total of 38,908,000 shares of HK$0.2 each in the capital of the Company on the Stock Exchange at an aggregate purchase price of HK$61,903,258.85. A total of 38,908,000 shares had been cancelled by the Company. Details of the repurchase are set out below:–

Month of repurchase	**Number of shares repurchased**	**Purchase price per share**		**Aggregate purchase price**
		Highest	Lowest	
2011		HK$	HK$	HK$
September	6,776,000	$1.75	$1.63	$11,623,581.71
October	15,502,000	$1.75	$1.55	$25,714,157.14
November	7,000,000	$1.58	$1.50	$10,819,780.00
December	7,830,000	$1.57	$1.32	$11,533,780.00
2012				
January	1,800,000	$1.25	$1.19	$2,211,960.00
				$61,903,258.85
Total	38,908,000	Total expenses on shares repurchased		$241,849.70
		Total		$62,145,108.55

The repurchases were made by Directors, pursuant to the mandate granted by the shareholders of the Company, with a view to benefit the Company and the shareholders as a whole in the enhancement of the net assets per share and earnings per share.

Save as disclosed above, none of the Company or any of its subsidiaries had purchased, sold or redeemed any of the securities of the Company or its subsidiaries during the year ended 31 March, 2012.

COMPETING INTERESTS

As at 31 March, 2012, in so far as the Directors were aware, none of the Directors or their respective associates had any interest in a business that competed or was likely to compete with the business of the Group.

CHANGE IN INFORMATION OF DIRECTORS PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Pursuant to rule 13.51B(1) of the Listing Rules, change in the information of Directors of the Company since the date of the 2011 Interim Report of the Company required to be disclosed in this report is as follows:–

1. Mr. Chau Shing Yim, David resigned as an independent non-executive director of Duoyuan Global Water Inc. on 4 May, 2012.

2. Mr. Lien Jown Jing, Vincent was appointed a director of The Maritime and Ports Authority of Singapore effective 2 February, 2012.

PRE-EMPTIVE RIGHTS

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

LITIGATIONS

As disclosed in 2010 Annual Report of the Company, on 10 July, 2006, a legal action for damages of approximately HK$76,682,000 for breach of agreements was brought against the Company by four independent third parties. Details of the legal action were set out in note 30 to the financial statements.

On 5 May, 2010, an application for striking out the plaintiffs claim was made and then the plaintiffs' claim was dismissed. However, the plaintiffs appealed the High Court decision on 11 August, 2010 and hearing date is fixed on 23 March, 2011.

Subsequent to the hearing on 23 March, 2011, the Company received a judgement awarded by the High Court, in which the appeal order under the litigation lodged by the plaintiff against the Company for damages of approximately HK$76,862,000 for breach of agreements was dismissed by the Court First Instance.

On 29 April, 2011, the Company received a Notice of Appeal, whereas the plaintiffs wish to appeal to the High Court's decision again. A further appeal at Court of Appeal by the plaintiffs would be held on 23 September, 2011.

On 23 September, 2011, the plaintiff's appeal was dismissed with cost by the Court of Appeal. The Company had not received further appeal from the plaintiffs and we have instructed our lawyer to recover the legal cost incurred in the litigation from the plaintiffs.

On 2 March, 2012, the Company successfully received a total of HK$560,000 from the plaintiffs.

PUBLIC FLOAT

Based on the information that was publicly available to the Company and within the knowledge of its Directors, as at the date of this report, there was sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Listing Rules. The current audit committee comprises of Mr. Lien Jown Jing, Vincent (chairman), Mr. Li Bao Guo, and Dr. Shen Shiao-Ming, all of whom are independent non-executive Directors.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group, and to review the Company's annual report and half-yearly reports and to provide advices and comments thereon to the Board.

The audit committee has reviewed the Group's annual results for the year ended 31 March, 2012, including the accounting principles and practices adopted by the Group.

CORPORATE GOVERNANCE

The Company is committed to adopt good corporate governance practices. The Company's corporate governance practices are set out in the Corporate Governance Report on pages 26 to 41 of this annual report.

AUDITORS

Messrs. Ting Ho Kwan & Chan, who had acted as the auditors of the Company in the preceding years, resigned as auditors of the Company with effect from 3 May, 2011 and Messrs. Ernst & Young were appointed as auditors of the Company, following the resignation of Messrs. Ting Ho Kwan & Chan as auditors of the Company.

The financial statements for the year ended 31 March, 2012 have been audited by Ernst & Young who will retire and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution will be submitted to the forthcoming annual general meeting of the Company for the re-appointment of Messrs. Ernst & Young as auditors of the Company.

On behalf of the Board

Qin Jun
Chairman
Hong Kong

29 June, 2012

Independent Auditors' Report

ERNST & YOUNG
安 永

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To the shareholders of Up Energy Development Group Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Up Energy Development Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on page 67 to 135, which comprise the consolidated and company statements of financial position as at 31 March 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

Independent Auditors' Report

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 March 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong

29 June 2012

Consolidated Income Statement

Year ended 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000 (Restated)
CONTINUING OPERATION			
REVENUE	5	**–**	–
Cost of sales		**–**	–
Gross profit		**–**	–
Other income and gains	5	**4,305**	11,750
Selling and distribution expenses		**–**	(529)
Administrative expenses		**(85,168)**	(18,767)
Other expenses		**(270)**	(25,262)
Share of loss of a jointly-controlled entity		**–**	(28)
LOSS BEFORE TAX FROM CONTINUING OPERATING ACTIVITIES		**(81,133)**	(32,836)
Gain on bargain purchase	28	**–**	985,024
Finance costs	7	**(16,568)**	(8,448)
(LOSS)/PROFIT BEFORE TAX FROM CONTINUING OPERATION		**(97,701)**	943,740
Income tax expense	10	**(3,576)**	84
(LOSS)/PROFIT FOR THE YEAR FROM CONTINUING OPERATION		**(101,277)**	943,824
DISCONTINUED OPERATIONS			
Profit/(loss) for the year from discontinued operations	12	**11**	(170)
(LOSS)/PROFIT FOR THE YEAR		**(101,266)**	943,654
Attributable to:			
Owners of the Company		**(91,357)**	944,656
Non-controlling interests		**(9,909)**	(1,002)
		(101,266)	943,654
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	14		
Basic			
– For (loss)/profit for the year		**(9.83 cents)**	1,365.79 cents
– For (loss)/profit from continuing operation		**(9.83 cents)**	1,366.03 cents
Diluted			
– For (loss)/profit for the year		**(9.83 cents)**	107.34 cents
– For (loss)/profit from continuing operation		**(9.83 cents)**	107.36 cents

Details of the dividends payable and proposed for the year are disclosed in note 13 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
(LOSS)/PROFIT FOR THE YEAR		**(101,266)**	943,654
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**18,922**	5,079
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**18,922**	5,079
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**(82,344)**	948,733
Attributable to:			
Owners of the Company		**(76,852)**	948,544
Non-controlling interests		**(5,492)**	189
		(82,344)	948,733

Consolidated Statement of Financial Position

31 March 2012

	Notes	2012 HK$'000	2011 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	15	**14,803,369**	14,108,835
Prepaid land lease payments	16	**68,579**	68,411
Restricted bank deposits	20(a)	**10,954**	9,907
Total non-current assets		**14,882,902**	14,187,153
CURRENT ASSETS			
Inventories	18	**5,680**	14,272
Prepayments, deposits and other receivables	19	**61,545**	46,693
Restricted bank deposits	20(a)	**7,977**	25,886
Cash and cash equivalents	20	**801,019**	1,257,526
Total current assets		**876,221**	1,344,377
CURRENT LIABILITIES			
Bills payable	21	**7,977**	22,052
Other payables and accruals	22	**118,114**	55,658
Tax payable		**989**	–
Total current liabilities		**127,080**	77,710
NET CURRENT ASSETS		**749,141**	1,266,667
TOTAL ASSETS LESS CURRENT LIABILITIES		**15,632,043**	15,453,820
NON-CURRENT LIABILITIES			
Convertible notes	23	**4,698,926**	5,566,664
Deferred tax liabilities	24	**3,430,799**	3,428,193
Total non-current liabilities		**8,129,725**	8,994,857
NET ASSETS		**7,502,318**	6,458,963
EQUITY			
Equity attributable to owners of the Company			
Issued capital	25	**230,972**	61,184
Equity component of convertible notes	23	**1,665,493**	2,299,100
Reserves	27(a)	**2,952,535**	1,439,869
		4,849,000	3,800,153
Non-controlling interests		**2,653,318**	2,658,810
TOTAL EQUITY		**7,502,318**	6,458,963

Qin Jun
Director

Jiang Hongwen
Director

Consolidated Statement of Changes in Equity

Year ended 31 March 2012

	Attributable to owners of the Company									
	Issued capital	**Share premium account**	**Contributed surplus**	**Exchange reserve**	**Capital reserve**	**Equity component of convertible notes**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2011	61,184	497,819*	84,798*	3,888*	3,490*	2,299,100	849,874*	3,800,153	2,658,810	6,458,963
Loss for the year	–	–	–	–	–	–	(91,357)	(91,357)	(9,909)	(101,266)
Other comprehensive income for the year										
Exchange differences on translation of foreign operations	–	–	–	14,505	–	–	–	14,505	4,417	18,922
Total comprehensive loss for the year	–	–	–	14,505	–	–	(91,357)	(76,852)	(5,492)	(82,344)
Conversion of convertible notes (note 23 and note 25)	177,569	1,643,882	–	–	–	(633,607)	–	1,187,844	–	1,187,844
Shares repurchased (note 25)	(7,781)	(54,364)	–	–	–	–	–	(62,145)	–	(62,145)
At 31 March 2012	230,972	2,087,337*	84,798*	18,393*	3,490*	1,665,493	758,517*	4,849,000	2,653,318	7,502,318

	Attributable to owners of the Company										
	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Capital reserve HK$'000	Share option reserve HK$'000	Equity component of convertible notes HK$'000	Retained earnings/ (accumulated losses) HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 April 2010	10,009	37,161	84,798	(651)	3,490	38	–	(94,782)	40,063	–	40,063
Profit for the year	–	–	–	–	–	–	–	944,656	944,656	(1,002)	943,654
Other comprehensive income for the year											
Exchange differences on translation of foreign operations	–	–	–	3,888	–	–	–	–	3,888	1,191	5,079
Total comprehensive income for the year	–	–	–	3,888	–	–	–	944,656	948,544	189	948,733
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	2,645,167	2,645,167
Disposal of subsidiaries	–	–	–	651	–	–	–	–	651	–	651
Exercise of share options	6	132	–	–	–	(38)	–	–	100	–	100
Issue of convertible notes	–	–	–	–	–	–	2,299,100	–	2,299,100	–	2,299,100
Conversion of convertible notes (note 23 and note 25)	51,169	460,526	–	–	–	–	–	–	511,695	–	511,695
Capital injection from non-controlling interests	–	–	–	–	–	–	–	–	–	13,454	13,454
At 31 March 2011	61,184	497,819*	84,798*	3,888*	3,490*	–	2,299,100	849,874*	3,800,153	2,658,810	6,458,963

* These reserve accounts comprise the consolidated reserves of HK$2,952,535,000 (2011: HK$1,439,869,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000 (Restated)
Cash flows from operating activities			
(Loss)/profit before tax:			
From continuing operation		**(97,701)**	943,740
From discontinued operations	12	**11**	(170)
Adjustments for:			
Finance costs	7	**16,568**	8,448
Interest income	6	**(3,646)**	(302)
Share of loss of a jointly-controlled entity		**–**	28
Dividend income	5	**–**	(30)
Net realised and unrealised loss on trading securities	5	**–**	1,590
Gain on disposal of items of property, plant and equipment	5	**–**	(1,252)
Gain on bargain purchase	28	**–**	(985,024)
Gain on disposal of subsidiaries	5	**–**	(11,731)
Depreciation of property, plant and equipment	6	**9,348**	874
Amortisation of prepaid land lease payments	6	**2,111**	455
Transaction costs of the acquisition	28	**–**	16,901
Cash flows before working capital changes		**(73,309)**	(26,473)
Decrease in prepayments, deposits and other receivables		**16**	3,246
Decrease/(increase) in inventories		**8,592**	(14,249)
Decrease in trade and bills receivables		**–**	15,137
Increase in other payables and accruals		**10,160**	4,758
Cash used in operations		**(54,541)**	(17,581)
Net cash flows used in operating activities		**(54,541)**	(17,581)

	Notes	2012 HK$'000	2011 HK$'000 (Restated)
Cash flows from investing activities			
Interest received		**3,646**	302
Disposal of subsidiaries		**–**	56
Acquisition of a subsidiary	28	**–**	735,177
Purchase of items of property, plant and equipment		**(362,332)**	(21,745)
Proceeds from sale of trading securities		**–**	14,976
Additions of prepaid land lease payments	16	**(1,406)**	–
Dividend received		**–**	30
Decrease/(increase) in pledged bank deposits		**16,862**	(9,813)
Exercise of share options		**–**	100
Net cash flows (used in)/from investing activities		**(343,230)**	719,083
Cash flows from financing activities			
Proceeds from issue of convertible notes		**–**	520,000
Capital contribution by non-controlling shareholders		**–**	13,454
Payments of share repurchase		**(62,145)**	–
Net cash flows (used in)/from financing activities		**(62,145)**	533,454
Net (decrease)/increase in cash and cash equivalents		**(459,916)**	1,234,956
Cash and cash equivalents at beginning of financial year		**1,257,526**	22,420
Effect of foreign exchange rate changes, net		**3,409**	150
Cash and cash equivalents at end of financial year	20	**801,019**	1,257,526

Statement of Financial Position

31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	17	**7,800,000**	7,800,000
Total non-current assets		**7,800,000**	7,800,000
CURRENT ASSETS			
Prepayments, deposits and other receivables	19	**759**	685
Amounts due from subsidiaries	17	**52,979**	17,654
Cash and cash equivalents	20	**607,232**	510,942
Total current assets		**660,970**	529,281
CURRENT LIABILITIES			
Amounts due to subsidiaries	17	**209,898**	–
Other payables and accruals	22	**7,947**	9,851
Total current liabilities		**217,845**	9,851
NET CURRENT ASSETS		**443,125**	519,430
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,243,125**	8,319,430
NON-CURRENT LIABILITIES			
Convertible notes	23	**4,698,926**	5,566,664
Total non-current liabilities		**4,698,926**	5,566,664
NET ASSETS		**3,544,199**	2,752,766
EQUITY			
Issued capital	25	**230,972**	61,184
Equity component of convertible notes	23	**1,665,493**	2,299,100
Reserves	27(b)	**1,647,734**	392,482
TOTAL EQUITY		**3,544,199**	2,752,766

Qin Jun
Director

Jiang Hongwen
Director

Notes to Financial Statements

31 March 2012

1. CORPORATE INFORMATION

Up Energy Development Group Limited (the "Company", formerly known as Tidetime Sun (Group) Limited) was incorporated as an exempted company with limited liability in Bermuda on 30 October 1992 under the Companies Act 1981 of Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and the principal place of business of the Company in Hong Kong is Room 2704, 27/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong.

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

- Trading of multi-media products
- Development and construction of coal mining and coke processing facilities

On 31 March 2012, the business of multi-media products trading was discontinued as the sole director of Goldmax Trading Limited, a subsidiary of the Company, resolved to terminate the said business, and the Group now only has one continuing segment.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. 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 March 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

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.

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

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 earnings, as appropriate.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 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*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in Improvements to HKFRSs 2010, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these 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.

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

(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 amendment 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 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.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 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 1 Amendments	*Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	Amendment 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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

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

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 scooped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. 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 April 2015.

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. The Group expects to adopt HKFRS 10, and the consequential amendments to HKAS 27 from 1 April 2013.

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 April 2013.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

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 April 2013.

HK(IFRIC)-Int 20 address the recognition of waste removal costs that are incurred in surface mining activity during the production phase of a mine as an asset. To the extent that the benefit from the stripping activity is realised in the form of inventory produced, the costs incurred are accounted for in accordance with HKAS 2 *Inventories*. To the extent that the benefit is improved access to ore and when criteria set out in the interpretation are met, the waste removal costs are recognised as stripping activity asset under non-current assets. The Group expects to adopt the interpretation from 1 April 2013.

The Group has already commenced an assessment of the impact of these new or revised standards, amendments to standards and interpretations, certain of which may be relevant to the Group's operations and may give rise to changes in accounting policies, changes in disclosures and remeasurement of certain items in the financial statements. The Group is not yet in a position to ascertain their impact on its results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties, goodwill and non-current assets/a disposal group classified as held for sale), 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets *(continued)*

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 the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

Related parties

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

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

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

  (ii) has significant influence over the Group; or

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

  or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

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

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Depreciation of items of property, plant and equipment, other than mine properties, 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:

Plant and machinery	4.75% to 31.67%
Motor vehicles	18% to 19%
Office furniture and fixtures	18% to 31.67%
Equipment and others	19% to 31.67%
Vessel	20%

Depreciation of mine properties is calculated using the units of production ("UOP") method to depreciate the cost of the assets proportionately to the extraction of the proved and probable mineral reserves.

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 the income statement 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 items of property, plant and equipment under construction, which are stated at cost less any impairment losses, and are 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.

Exploration rights and assets

Exploration rights are stated at cost less accumulated amortisation and any impairment losses and exploration assets are stated at cost less impairment losses. Exploration rights and assets include the cost of acquiring exploration rights, topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and deferred amortisation and depreciation charges in respect of assets consumed during the exploration activities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Exploration rights and assets *(continued)*

Exploration rights are amortised over the term of rights. Equipment used in exploration is depreciated over its useful life, or, if dedicated to a particular exploration project, over the life of the project on the straight-line basis, whichever is shorter. Amortisation and depreciation is included, in the first instance, in exploration rights and assets and are transferred to mining rights when it can be reasonably ascertained that an exploration property is capable of commercial production.

Exploration and evaluation costs include expenditure incurred to secure further mineralisation in existing ore bodies as well as in new areas of interest. Expenditure incurred prior to acquiring legal rights to explore an area is written off as incurred.

Once the legal right to explore has been acquired, exploration and evaluation expenditure is charged to the consolidated income statement as incurred, unless the directors of the Company conclude that a future economic benefit is more likely to be realised than not. When it can be reasonably ascertained that an exploration property is capable of commercial production, exploration and evaluation costs capitalised are transferred to mine properties and amortised using the UOP method based on the proved and probable mineral reserves. Exploration and evaluation assets are written off to the consolidated income statement if the exploration property is abandoned.

Leases

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets

Initial recognition and measurement

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

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

The Group's financial assets include cash and cash equivalents, deposits and other receivables and restricted bank deposits.

Subsequent measurement

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

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

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

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

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

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

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

Impairment of financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Initial recognition and measurement *(continued)*

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

The Group's financial liabilities include bills payable, other payables and accruals, tax payable and convertible notes.

Subsequent measurement

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

Convertible notes

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

If the conversion option of convertible notes exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible notes based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the consolidated income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

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 the consolidated income statement.

Offsetting of financial instruments

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

Fair value of financial instruments

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out 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.

2.4 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 consolidated 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

General provision

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 the consolidated income statement.

Rehabilitation provision

The Group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the production location. When the liability is initially recognised, the present value of the estimated costs is capitalised by increasing the carrying amount of the related mining assets to the extent that it was incurred by the development/construction of the mine. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions *(continued)*

Rehabilitation provision *(continued)*

The periodic unwinding of the discount is recognised in profit or loss as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognised as additions or charges to the corresponding assets and rehabilitation liability when they occur.

The Group assesses its rehabilitation provision annually, and numerous factors that will affect the ultimate liability payable are considered in determining the provision. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, and changes in discount rates. Changes to estimated future costs are recognised in the statement of financial position by either increasing or decreasing the rehabilitation liability and rehabilitation asset (if the initial estimate was originally recognised as part of an asset measured in accordance with HKAS 16 Property, Plant and Equipment).

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.

2.4 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;

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment transactions

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 26 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 the income statement 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 is reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits

Pension schemes

The Company operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Company in an independently administered fund. The Company's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 20% of their payroll costs to the central pension scheme. The contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, 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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. 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.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging from 6.4% to 6.7% (2011: 6.7%) has been applied to the expenditure on the individual assets.

Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Discontinued operations *(continued)*

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the consolidated income statement, which comprises:

- the post-tax profit or loss of the discontinued operation; and
- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal groups constituting the discontinued operation.

Comparative information for prior periods is represented in the financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented. The classification of discontinued operations in the current year had no impact on the comparative statement of financial position.

The classification, measurement and presentation requirements above are also applied to non-current assets that are held for distribution, or distributed to shareholders acting in their capacity as shareholders.

Dividends

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements 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 reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated income statement.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Impairment provision of receivables

The provision policy for doubtful debts of the Group is based on the ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

Impairment of non-financial assets

The Group has to exercise judgements 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 continuing 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 and the growth rate assumptions in the cash flow projections, could materially affect the net present value result in the impairment test.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgements and estimates of the outcome of future events.

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

Judgements *(continued)*

Production start date

The Group assesses the stage of each mine under construction to determine when a mine moves into the production stage. The criteria used to assess the start date are determined based on the unique nature of each mine construction project, such as the complexity of a plant and its location. The Group considers various relevant criteria to assess when the mine is substantially complete, ready for its intended use and is reclassified from "Construction in progress" to "Mine properties". Some of the criteria will include, but are not limited, to the following:

- The level of capital expenditure compared to the construction cost estimates
- Completion of a reasonable period of testing of the mine plant and equipment
- Ability to produce coals in saleable form (within specifications)
- Ability to sustain ongoing production of coals

When a mine construction project moves into the production stage, the capitalisation of certain mine construction costs ceases and costs are either regarded as inventories or expensed, except for costs that qualify for capitalisation relating to mining asset additions or improvements, underground mine development or mineable reserve development. It is also at this point that depreciation/amortisation commences.

Estimation uncertainty

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

Useful lives and residual values of items of property, plant and equipment, other than mine properties

In determining the useful lives and residual values of items of property, plant and equipment (other than mine properties), the Group periodically reviews the changes in market conditions, expected physical wear and tear, and the maintenance of items of property, plant and equipment. The estimation of the useful life of an item of property, plant and equipment is based on historical experience of the Group with similar assets that are used in a similar way. Depreciation amounts will be adjusted if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed, at least at the end of each reporting period, based on changes in circumstances.

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

Estimation uncertainty *(continued)*

Coal reserve and resource estimates

Coal reserves are estimates of the amount of coal that can be economically and legally extracted from the Group's mining properties. The Group estimates its coal reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the coal body, and this requires complex geological judgements to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of commodity prices, future capital requirements, and production costs along with geological assumptions and judgements made in estimating the size and grade of the coal body. Changes in the reserve or resource estimates may impact upon the carrying value of exploration and evaluation assets, mine properties, property, plant and equipment, goodwill, provision for rehabilitation, recognition of deferred tax assets, and depreciation and amortisation charges.

Mine rehabilitation provision

Significant estimates and assumptions are made in determining the provision for mine 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 as compared to the inflation rate, and changes in discount rates. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at the reporting date presents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognised in the statement of financial position by either increasing or decreasing the rehabilitation liability and rehabilitation asset if the initial estimate was originally recognised as part of an asset. Any reduction in the rehabilitation liability and therefore any deduction from the rehabilitation asset may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to profit or loss.

If the changes in estimate results in an increase in the rehabilitation liability and therefore an addition to the carrying value of the rehabilitation asset, the Group is required to consider whether it is an indication of impairment of the asset as a whole and test for impairment in accordance with HKAS 36. For closed mining sites, changes to estimated costs are recognised immediately in profit or loss. Also, rehabilitation obligations that arose as a result of the production phase of a mine, should be expensed as incurred.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services. During the year, the Group had two business segments as follows:

(a) Trading of multi-media products; and

(b) Development and construction of coal mines and coke processing facilities ("coal mining").

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax from continuing operation. The adjusted profit/(loss) before tax from continuing operation is measured consistently with the Group's profit/(loss) before tax from continuing operation except that interest income, finance costs, dividend income, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude restricted bank deposits, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude convertible notes, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

On 31 March 2012, the business of multi-media products trading was discontinued as the sole director of Goldmax Trading Limited, a subsidiary of the Company, resolved to terminate the said business, and the Group now only has one continuing segment which is coal mining. Therefore, for the year ended 31 March 2012, there is no presentation of operating segment information. In addition, segment information on the discontinued operations has been disclosed in note 12.

Furthermore, for the year ended 31 March 2012, the coal mines and coke processing facilities are still in construction and as the majority of the Group's non-current assets is located in the Xinjiang Uyghur Autonomous Region, the People's Republic of China ("Mainland China" or the "PRC"), no geographical information and information about major customers are presented.

5. REVENUE, OTHER INCOME AND GAINS

The Group has no revenue or turnover from continuing operation as at 31 March 2012. The revenue from the discontinued multi-media products trading operation during the year represents the invoiced value of goods sold, after allowances for returns and trade discounts.

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

	Group	
	2012	2011
	HK$'000	HK$'000
		(Restated)
Revenue	**–**	–
Other income		
Bank interest income	**3,645**	301
Dividend income	**–**	30
Sundry income	**595**	–
Others	**65**	26
	4,305	357
Gains		
Gain on disposal of items of property, plant and equipment	**–**	1,252
Gain on disposal of subsidiaries	**–**	11,731
Loss on trading securities	**–**	(1,590)
	–	11,393
Total other income and gains	**4,305**	11,750

6. (LOSS)/PROFIT BEFORE TAX

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

	Notes	**2012 HK$'000**	2011 HK$'000 (Restated)
Depreciation of items of property, plant and equipment		**9,348**	874
Amortisation of prepaid land lease payments	16	**2,111**	455
Total depreciation and amortisation		**11,459**	1,329
Gain on disposal of items of property, plant and equipment, net		**–**	(1,252)
Gain on bargain purchase	28	**–**	(985,024)
Gain on disposal of subsidiaries		**–**	(11,731)
Employee benefit expense (excluding directors' remuneration (note 8)):			
Wages, salaries and other employees' benefits		**7,488**	1,811
Pension scheme contributions – defined contribution scheme		**492**	150
		7,980	1,961
Auditors' remuneration:			
Audit services		**2,743**	2,240
Acquisition related services		**447**	1,435
		3,190	3,675
Minimum lease payments under operating leases:			
Property rentals		**2,290**	673
Foreign exchange differences, net	7	**(2,691)**	(732)
Bank interest income	5	**(3,645)**	(301)

7. FINANCE COSTS

An analysis of finance costs from continuing operation is as follows:

	Group 2012 HK$'000	2011 HK$'000 (Restated)
Foreign exchange gain	**(2,691)**	(732)
Amortised interest of convertible notes (note 23)	**320,106**	77,459
Less: Interest capitalised	**(300,847)**	(68,279)
	19,259	9,180
	16,568	8,448

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group 2012 HK$'000	2011 HK$'000
Fees	**452**	363
Other emoluments:		
Salaries, allowances and benefits in kind	**6,207**	1,740
Pension scheme contributions	**53**	38
	6,260	1,778
	6,712	2,141

8. DIRECTORS' REMUNERATION *(continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Mr. Lau Kwok Kuen (resigned on 20 June 2011)	**26**	120
Mr. Lui Sai Wah (resigned on 22 February 2011)	**–**	108
Mr. Wong Siu Kang (resigned on 20 May 2011)	**16**	120
Mr. Li Bao Guo (appointed on 22 February 2011)	**147**	15
Mr. Lien Jown Jing, Vincent (appointed on 1 April 2011)	**135**	–
Dr. Shen Shiao-Ming (appointed on 20 May 2011)	**128**	–
	452	363

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

(b) Executive directors and a non-executive director

2012	**Salaries, allowances and benefits in kind HK$'000**	**Pension scheme contributions HK$'000**	**Total HK$'000**
Mr. Chau Shing Yim, David	**363**	**12**	**375**
Mr. Qin Jun	**5,403**	**14**	**5,417**
Mr. Jiang Hongwen	**441**	**27**	**468**
	6,207	**53**	**6,260**

8. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and a non-executive director *(continued)*

2011	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total HK$'000
Mr. Chen Ping (resigned on 10 March 2011)	339	11	350
Mr. Pu Fuzhong (resigned on 14 February 2011)	122	–	122
Ms. Ma Jian Ying (resigned on 10 March 2011)	226	11	237
Mr. Chau Shing Yim, David (re-designated to non-executive director on 20 June 2011)	372	12	384
Mr. Qin Jun (appointed on 19 January 2011)	626	1	627
Mr. Jiang Hongwen (appointed on 22 February 2011)	55	3	58
	1,740	38	1,778

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2011: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2011: two) non-director, highest paid employees for the year are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,095**	937
Pension scheme contributions	**21**	24
	1,116	961

9. FIVE HIGHEST PAID EMPLOYEES *(continued)*

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

	2012 Number of employees	2011 Number of employees
Nil to HK$1,000,000	**2**	2

10. INCOME TAX

	Group	
	2012 HK$'000	2011 HK$'000 (Restated)
Income tax:		
Current tax – Hong Kong		
Charge for the year	**–**	–
Current tax – Mainland China	**970**	–
Deferred tax (note 24)	**2,606**	(84)
Total income tax charge/(credit) for the year	**3,576**	(84)

10. INCOME TAX *(continued)*

A reconciliation of the tax expense applicable to (loss)/profit before tax at the statutory income tax rate of 25% in Mainland China (where the main operating entities of the Group are domiciled) to the tax expense at the effective tax rates are as follows:

Group

	2012 HK$'000	**%**
Loss before tax from continuing operation	**(97,701)**	
Tax at the statutory tax rate	**(24,426)**	**25**
Income not subject to tax	**(867)**	**1**
Expenses not deductible for tax	**19,111**	**(20)**
Tax effect of unused tax losses not recognised	**10,289**	**(11)**
Effect of withholding tax on the interest income from PRC's subsidiaries	**963**	**(1)**
Effect of different taxation rates used in other tax jurisdictions	**(1,494)**	**2**
Tax charge at the Group's effective rate	**3,576**	**(4)**

	2011 HK$'000 (Restated)	%
Profit before tax from continuing operation	943,740	
Tax at the statutory tax rate	235,935	25
Income not subject to tax	(251,385)	(26.6)
Expenses not deductible for tax	13,541	1.4
Tax effect of unused tax losses not recognised	1,729	0.2
Effect of different taxation rates used in other tax jurisdictions	96	–
Tax credit at the Group's effective rate	(84)	–

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

The consolidated (loss)/profit attributable to owners of the Company for the year ended 31 March 2012 includes a loss of HK$334,266,000 (2011: HK$97,864,000) which has been dealt with in the financial statements of the Company (note 27(b)).

12. DISCONTINUED OPERATIONS

Broadcasting and content production and VCD trading

The Group disposed of its entire 80% interest in a subsidiary, STR Media Limited ("STR"), on 16 July 2010. The principal asset of STR is a 60% equity interest in a subsidiary, Shanghai New Culture TV and Radio Making Company Limited which is engaged in the business of broadcasting and content production and VCD trading. The total consideration for the disposal of STR together with the shareholder's loan due to Group by STR assigned to the acquirer amounted to HK$300,000. Upon completion of the disposal, the Group discontinued the business of broadcasting and content production and related services in the PRC. For the year ended 31 March 2011, STR was classified as a discontinued operation.

Multi-media products trading

On 31 March 2012, the sole director of Goldmax Trading Limited, a subsidiary of the Company, resolved that the business of multi-media products trading be terminated with immediate effect. Accordingly, for the year ended 31 March 2012, the multi-media products trading business was classified as a discontinued operation.

12. DISCONTINUED OPERATIONS *(continued)*

The results of discontinued operations are presented below:

	Multi-media products trading		Broadcasting and content production and VCD trading		Total	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)
Revenue	**5,078**	26,077	**–**	44	**5,078**	26,121
Other income	**1**	1	**–**	12	**1**	13
Expenses	**(5,068)**	(26,138)	**–**	(166)	**(5,068)**	(26,304)
Profit/(loss) before tax from discontinued operations	**11**	(60)	**–**	(110)	**11**	(170)
Income tax	**–**	–	**–**	–	**–**	–
Profit/(loss) for the year from discontinued operations	**11**	(60)	**–**	(110)	**11**	(170)

13. DIVIDENDS

The directors do not recommend the payment of dividends in respect of the year ended 31 March 2012 (2011: Nil).

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

The calculation of basic (loss)/earnings per share amounts is based on the (loss)/profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 929,414,200 (2011: 69,165,716) in issue during the year, as adjusted to reflect (1) the conversion of the Tranche A, B and C convertible notes; (2) the share repurchase; and (3) the share consolidation in proportion of 20 to 1 on 12 May 2011.

The calculation of diluted (loss)/earnings per share amounts is based on the (loss)/profit for the year attributable to ordinary equity holders of the Company, adjusted to reflect the interest on the convertible notes, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic (loss)/earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

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

	Notes	**2012** **HK$'000**	2011 HK$'000 (Restated)
(Loss)/earnings			
(Loss)/profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation			
From continuing operation		**(91,368)**	944,826
From discontinued operations	12	**11**	(170)
		(91,357)	944,656
Interest on convertible notes	7	**19,259**	–
(Loss)/profit attributable to ordinary equity holders of the Company before interest on convertible notes		**(72,098)**	944,656
Attributable to:			
Continuing operation		**(72,109)**	944,826
Discontinued operations		**11**	(170)
		(72,098)	944,656

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

Shares		**Number of shares**	
		2012	2011
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	(1)	**929,414,200**	69,165,716
Effect of dilution – weighted average number of ordinary shares: Convertible notes	(1)	**3,255,080,985**	810,892,311
		4,184,495,185	880,058,027

(Loss)/earnings per share			
Basic			
– For (loss)/profit for the year		**(9.83 cents)**	1,365.79 cents
– For (loss)/profit from continuing operation		**(9.83 cents)**	1,366.03 cents
Diluted	(2)		
– For (loss)/profit for the year		**(9.83 cents)**	107.34 cents
– For (loss)/profit from continuing operation		**(9.83 cents)**	107.36 cents

(1) Adjustment has been made to the share numbers presented for the years ended 31 March 2011 in respect of the share consolidation on 12 May 2011 (note 25).

(2) Because the potential ordinary shares arising from the conversion of convertible notes had an anti-dilutive effect on the basic loss per share for the year ended 31 March 2012, hence they were ignored in the calculation of diluted loss per share.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Plant and machinery HK$'000	Motor vehicles HK$'000	Office furniture and fixtures HK$'000	Equipment and others HK$'000	Mine properties HK$'000	Construction in progress HK$'000	Vessel HK$'000	Total HK$'000
At 1 April 2011								
Cost	10,337	7,533	833	1,725	13,780,143	309,197	–	14,109,768
Accumulated depreciation	(262)	(472)	(16)	(183)	–	–	–	(933)
Net carrying amount	10,075	7,061	817	1,542	13,780,143	309,197	–	14,108,835
At 1 April 2011, net of accumulated depreciation	10,075	7,061	817	1,542	13,780,143	309,197	–	14,108,835
Additions	18,840	3,482	140	3,072	–	632,715	32,238	690,487
Depreciation provided during the year	(1,510)	(2,685)	(148)	(1,116)	–	–	(5,211)	(10,670)
Exchange realignment	394	276	–	60	4,566	9,421	–	14,717
At 31 March 2012, net of accumulated depreciation	27,799	8,134	809	3,558	13,784,709	951,333	27,027	14,803,369
At 31 March 2012:								
Cost	29,612	11,426	973	4,893	13,784,709	951,333	32,238	14,815,184
Accumulated depreciation	(1,813)	(3,292)	(164)	(1,335)	–	–	(5,211)	(11,815)
Net carrying amount	27,799	8,134	809	3,558	13,784,709*	951,333	27,027	14,803,369

* Mine properties mainly represented costs to obtain the rights for the mining of coal reserves in Shizhuanggou coal mine, Quanshuigou coal mine and Xiaohuangshan coal mine located in Fukang City, the Xinjiang Uyghur Autonomous Region, the PRC. No depreciation had been provided as all mines had not yet commenced production.

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

Group

	Plant and machinery HK$'000	Motor vehicles HK$'000	Office furniture and fixtures HK$'000	Equipment and others HK$'000	Mine properties HK$'000	Construction in progress HK$'000	Total HK$'000
At 1 April 2010							
Cost	3,787	–	5	–	–	–	3,792
Accumulated depreciation	(3,079)	–	(1)	–	–	–	(3,080)
Net carrying amount	708	–	4	–	–	–	712
At 1 April 2010, net of accumulated depreciation	708	–	4	–	–	–	712
Acquisition of a subsidiary	10,125	5,543	–	1,568	13,778,964	215,367	14,011,567
Additions	107	2,346	828	140	–	91,631	95,052
Depreciation provided during the year	(272)	(534)	(15)	(183)	–	–	(1,004)
Disposals	(697)	(351)	–	–	–	–	(1,048)
Exchange realignment	104	57	–	17	1,179	2,199	3,556
At 31 March 2011, net of accumulated depreciation	10,075	7,061	817	1,542	13,780,143	309,197	14,108,835
At 31 March 2011:							
Cost	10,337	7,533	833	1,725	13,780,143	309,197	14,109,768
Accumulated depreciation	(262)	(472)	(16)	(183)	–	–	(933)
Net carrying amount	10,075	7,061	817	1,542	13,780,143	309,197	14,108,835

16. PREPAID LAND LEASE PAYMENTS

		Group	
		2012	2011
	Notes	**HK$'000**	HK$'000
Carrying amount at beginning of year		**70,529**	–
Additions	(a)	**1,406**	–
Acquisition of a subsidiary	(b)	**–**	70,769
Amortisation for the year		**(2,111)**	(455)
Exchange realignment		**814**	215
Carrying amount at end of year		**70,638**	70,529
Current portion included in prepayments, deposits and other receivables		**(2,059)**	(2,118)
Non-current portion		**68,579**	68,411

Notes:

(a) During the year, Up Energy (Xinjiang) Mining Co., Ltd. acquired a usage right of two pieces of land amounting to HK$1,406,000 from the PRC government with lease terms of 50 years. The land use right certificates will expire in June and July 2061 respectively.

(b) On 18 January 2011, the Group acquired 100% issued shares of Up Energy Investment (China) Ltd.. The fair value of the prepaid land lease of Up Energy Investment (China) Ltd. as at the date of acquisition was HK$70,769,000, which represented the value of the land use rights of three pieces of land leased from the PRC government with lease terms of 50 years. The land use right certificates will expire in June 2060, June 2060 and January 2061 respectively.

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	HK$'000	HK$'000
Unlisted shares, at cost	**7,800,000**	7,800,000

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of HK$52,979,000 (2011: HK$17,654,000) and HK$209,898,000 (2011: Nil), respectively, are unsecured, interest-free and have no fixed terms of repayment.

17. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of Subsidiaries	Place and date of incorporation/ registration	Nominal value of issued share/ registered capital	Percentage of equity attributable to the Company Direct	Principal activities
Up Energy Investment (China) Ltd. ("UE China")	BVI 31 October 2003	US$50,000	100.00%	Investment holding
Up Energy (Xinjiang) Mining Co., Ltd. ("UE Xinjiang", 優派能源（新疆）礦業有限公司)	PRC 2 November 2005	US$30,000,000	70.00%	Coal mining, manufacture and sale of coke and clean coke
Up Energy (Hong Kong) Limited ("UE HK")	Hong Kong 29 December 2009	HK$10,000	100.00%	Investment holding
Up Energy International Ltd. ("UE International")	BVI 22 January 2010	US$50,000	100.00%	Investment holding
Up Energy (Fukang) Coal Mining Ltd. ("UE Coal Ming")	PRC 4 February 2010	US$15,000,000	90.00%	Mine construction
Up Energy (Fukang) Coking Ltd. ("UE Coking")	PRC 4 February 2010	US$11,500,000	70.00%	Manufacture and sale of coke and clean coke
Up Energy (Fukang) Coal Washing Ltd. ("UE Coal Washing")	PRC 4 February 2010	US$5,000,000	70.00%	Coal washing
Up Energy (Fukang) Recycled Water Project Ltd. ("UE Water")	PRC 4 February 2010	US$3,200,000	70.00%	Water recycling
Up Energy Development (HK) Limited	Hong Kong 4 November 2010	HK$1	100.00%	Investment holding
Up Energy Management Limited (formerly known as 'Sun Arts Ltd.')	Hong Kong 2 November 1993	HK$2	100.00%	Provision of corporate services to related companies
Goldmax Trading Limited	Hong Kong 19 February 2009	HK$1	100.00%	Multi-media products and component trading
Up Energy Development Group (BVI) Co., Ltd. (formerly known as Silver Brilliant International Limited)	BVI 5 January 2011	US$1	100.00%	Investment holding

17. INVESTMENTS IN SUBSIDIARIES *(continued)*

The Company has entered into a share charge in connection with the issue of the convertible notes (see note 23) of the Company. Pursuant to the share charge, the charge is created over (i) the entire issued share capital of UE China, (ii) the entire issued share capital of UE International; and (iii) the entire issued share capital of UE HK. All of these companies are wholly-owned subsidiaries of the Company. Save as above, the Group did not have any charges on assets as at 31 March 2012.

18. INVENTORIES

	Group	
	2012	2011
	HK$'000	HK$'000
Raw materials and spare parts	**5,680**	14,272

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Advance to suppliers	**36,188**	38,378	**–**	–
Deposits	**1,082**	913	**501**	381
Advance to employees	**414**	148	**–**	–
Valued-added tax	**22,874**	5,723	**–**	–
Others	**987**	1,531	**258**	304
	61,545	46,693	**759**	685

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

20.CASH AND CASH EQUIVALENTS

		Group		Company	
		2012	2011	**2012**	2011
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Cash and bank balances		**819,950**	1,293,319	**607,232**	510,942
Less: Restricted bank deposits	(a)	**(18,931)**	(35,793)	**–**	–
Cash and cash equivalents		**801,019**	1,257,526	**607,232**	510,942
Denominated in RMB	(b)	**45,773**	210,805	**–**	–
Denominated in USD		**133,417**	284,667	**41**	2
Denominated in HK$		**621,749**	761,974	**607,191**	510,940
Denominated in CAD		**80**	80	**–**	–
		801,019	1,257,526	**607,232**	510,942

Notes:

(a) As at 31 March 2012, the Group's bank balances of approximately HK$10,954,000 (2011: HK$9,907,000) were deposited at banks as a mine geological environment protection guarantee fund pursuant to the related government regulations. Such guarantee deposit will be released when the obligations of environment protection are fulfilled and accepted by the competent government entities.

As at 31 March 2012, the Group's bank balances of approximately HK$7,977,000 (2011: HK$25,886,000) were deposited at banks as a bank acceptance notes margin for construction equipment purchased with a term of six months.

(b) At at 31 March 2012, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$45,773,000 (2011: HK$210,805,000). 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.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and restricted bank deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the restricted bank deposits approximate to their fair values.

21. BILLS PAYABLE

	Group	
	2012	2011
	HK$'000	HK$'000
Bills payable	**7,977**	22,052

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

	Group	
	2012	2011
	HK$'000	HK$'000
Within 1 month	**–**	6,884
1 to 2 months	**4,424**	–
2 to 3 months	**3,553**	–
Over 3 months	**–**	15,168
	7,977	22,052

The bills payable are non-interest-bearing and are normally settled on terms of within 180 days.

22. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accrued salaries, wages and benefits	**1,119**	567	**–**	–
Other taxes payables	**907**	2	**–**	–
Other payables	**113,088**	51,970	**7,306**	8,743
Accruals	**3,000**	3,119	**641**	1,108
	118,114	55,658	**7,947**	9,851

Other payables mainly include payables to suppliers or contractors for the Group's addition of items of property, plant and equipment, which are non-interest-bearing and have an average term of three months.

23. CONVERTIBLE NOTES

On 18 January 2011, the Company issued three tranches of convertible notes, namely Tranche A, Tranche B and Tranche C convertible notes.

Tranche A and Tranche B

Tranche A convertible notes with a principal amount of HK$3,480,000,000 and Tranche B convertible notes with a principal amount of HK$4,300,000,000 were issued as part of the consideration of HK$7.8 billion for the acquisition of UE China (note 28).

Tranche A and Tranche B convertible notes are convertible at the option of the noteholders into ordinary shares on the basis of 10 ordinary shares for every HK$1 convertible note held. The conversion period for Tranche A and Tranche B convertible notes commences on 18 January 2011 (the issue date) and 19 July 2011 (the day following the end of six months after the issue date) respectively, and expiring on 11 January 2016 (five business days preceding the maturity date). The maturity date for these convertible notes is 18 January 2016 (the business day falling on the fifth anniversary of their issue date). These convertible notes are non-interest-bearing and may be redeemed by the Company on the maturity date at their respective principle amounts outstanding.

In the period from 1 April 2011 to 12 May 2011, HK$236,172,000 Tranche A convertible notes were converted by noteholders into ordinary shares on the basis of 10 ordinary shares for every HK$1 convertible note held. As such, an aggregate amount of HK$747,867,000 Tranche A convertible notes were converted by noteholders into ordinary shares during the period from 18 January 2011 (the date of issuance) to 12 May 2011 on the basis of 10 ordinary shares for every HK$1 convertible note held.

On 12 May 2011, the Company had a share consolidation for its ordinary shares. After that, HK$445,282,000 Tranche A convertible notes and HK$574,241,000 Tranche B convertible notes were converted by noteholders into ordinary shares in the period from 13 May 2011 to 31 March 2012 on the basis of one ordinary share for every HK$2 convertible note held.

Tranche C

The Company issued Tranche C convertible notes with a principal amount of HK$520,000,000, in order to finance the capital expenditures and operating costs required by the Group, subsequent to the acquisition, for the construction and development of the coal mines and the related coke processing facilities.

The conversion period for Tranche C convertible notes is the period commencing on 18 January 2011 and expiring on 11 January 2016. The maturity date is 18 January 2016.

23. CONVERTIBLE NOTES *(continued)*

Tranche C *(continued)*

Further, the Company may at its absolute discretion, elect to redeem the whole of or any part of the outstanding amount under Tranche C convertible notes at any time prior to the maturity date.

Tranche C convertible notes contain an early redemption option, however, as the directors believe that the convertible notes bear no interest, the early redemption price at par value approximates to the amortised cost of the host contract and the early redemption option is considered as closely related to the host contract. Hence, the early redemption option need not be separated from the host contract and not be measured at fair value with changes in fair value recognised in the consolidated income statement.

HK$436,198,000 Tranche C convertible notes were converted by noteholders into ordinary shares in the period from 1 April 2011 to 12 May 2011 on the basis of 10 ordinary shares for every HK$1 convertible note held. After that, the remaining HK$83,802,000 Tranche C convertible notes were converted by noteholders into ordinary shares in the period from 13 May 2011 to 31 March 2012 on the basis of one ordinary share for every HK$2 convertible note held.

The fair value of the liability component of these convertible notes was estimated at the issue date and amortised using an equivalent market interest rate of 6.7% per annum. The residual amount is assigned as the equity component and is included in shareholders' equity.

The convertible notes have been split as to the liability and equity components as follows:

	Convertible notes		
	Liability component	**Equity component**	**Total**
	HK$'000	HK$'000	HK$'000
Group and Company:			
Nominal value of convertible notes issued during the year of 2011	6,000,900	2,299,100	8,300,000
Amortised interest expense on convertible notes	77,459	–	77,459
Conversion of convertible notes	(511,695)	–	(511,695)
Carrying amount at 31 March 2011	5,566,664	2,299,100	7,865,764
Amortised interest expense on convertible notes	320,106	–	320,106
Conversion of convertible notes	(1,187,844)	(633,607)	(1,821,451)
Carrying amount at 31 March 2012	4,698,926	1,665,493	6,364,419

24. DEFERRED TAX

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

Deferred tax liabilities

Group

	2012		
	Fair value adjustment arising from acquisition of a subsidiary HK$'000	**Depreciation allowance in excess of related depreciation HK$'000**	**Total HK$'000**
At 1 April 2011	**3,428,193**	**–**	**3,428,193**
Deferred tax charged/(credited) to the income statement during the year (note 10)	**(336)**	**2,942**	**2,606**
Gross deferred tax liabilities at 31 March 2012	**3,427,857**	**2,942**	**3,430,799**

	2011		
	Fair value adjustment arising from acquisition of a subsidiary HK$'000	Depreciation allowance in excess of related depreciation HK$'000	Total HK$'000
At 1 April 2010	–	–	–
Fair value adjustment arising from acquisition of a subsidiary	3,428,277	–	3,428,277
Deferred tax credited to the income statement during the year (note 10)	(84)	–	(84)
Gross deferred tax liabilities at 31 March 2011	3,428,193	–	3,428,193

24. DEFERRED TAX *(continued)*

Temporary differences of deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000
Tax losses	**145,884**	104,731	**85,880**	90,166
Accelerated tax depreciation	**–**	(276)	**–**	–
	145,884	104,455	**85,880**	90,166

The above tax losses are available indefinitely or not more than five years (depending on the jurisdiction in which such tax losses were incurred) for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

25. SHARE CAPITAL

Shares

	Company	
	2012	2011
	HK$'000	HK$'000
Authorised:		
6,000,000,000 ordinary shares of HK$0.2 each (31 March 2011: 120,000,000,000 ordinary shares of HK$0.01 each)	**1,200,000**	1,200,000
2,000,000,000 (31 March 2011: 2,000,000,000) convertible non-voting preference shares of HK$0.02 each	**40,000**	40,000
Total authorised share capital	**1,240,000**	1,240,000
Issued and fully paid:		
1,154,859,788 ordinary shares of HK$0.2 each (31 March 2011: 6,118,410,913 ordinary shares of HK$0.01 each)	**230,972**	61,184

During the year, the movements in share capital were as follows:

a) On 12 May 2011, the Company had a 20 to 1 share consolidation for its ordinary shares and thus the authorised share capital of the Company decreased to 6,000,000,000 shares with a par value of HK$0.2 each and the issued share capital of the Company decreased to 1,154,859,788 shares with a par value of HK$0.2 each for the year ended 31 March 2012.

25. SHARE CAPITAL *(continued)*

b) HK$236,172,000 Tranche A convertible notes, and HK$436,198,000 Tranche C convertible notes were converted by noteholders into ordinary shares in the period from 1 April 2011 to 12 May 2011 on the basis of 10 ordinary shares for every HK$1 convertible note held. HK$445,282,000 Tranche A convertible notes, HK$574,241,000 Tranche B convertible notes and HK$83,802,000 Tranche C convertible notes were converted by noteholders into ordinary shares from 13 May 2011 to 31 March 2012 on the basis of one ordinary share for every HK$2 convertible note held. During the year, an approximate amount of HK$177,569,000 was transferred from the convertible notes to the share capital account, and the remaining HK$1,643,882,000 was transferred to the share premium account.

c) During the year, the Company repurchased 38,908,000 shares on the Stock Exchange at an aggregate consideration HK$62,145,000 and these shares were subsequently cancelled by the Company. The purchased shares were cancelled during the year and the issued share capital of the Company was reduced by 38,908,000 shares with a par value of HK$0.2 each.

All ordinary shares and per share amounts presented in the accompanying consolidated financial statements have been retrospectively adjusted for all periods to give effect to the share consolidation. The par value of each ordinary share has been retrospectively adjusted for the 20 to 1 share consolidation.

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

	Notes	**Number of shares in issue** '000	**Issued capital** HK$'000	**Share premium account** HK$'000	**Total** HK$'000
At 1 April 2010		50,043	10,009	37,161	47,170
Conversion of convertible notes		255,848	51,169	460,526	511,695
Share options exercised		30	6	132	138
At 31 March 2011		305,921	61,184	497,819	559,003
At 1 April 2011		**305,921**	**61,184**	**497,819**	**559,003**
Conversion of convertible notes	(b)	**887,847**	**177,569**	**1,643,882**	**1,821,451**
Shares repurchased	(c)	**(38,908)**	**(7,781)**	**(54,364)**	**(62,145)**
At 31 March 2012		**1,154,860**	**230,972**	**2,087,337**	**2,318,309**

26. SHARE OPTION SCHEME

The Company operates a share option scheme, approved on 29 August 2011 (the "Share Option Scheme") to replace the share option scheme adopted by the Company on 29 October 2002, for the purpose of enabling the Company to continue to grant options to the eligible participants who, in the sole discretion of the Board, have made or may make contribution to the Group as well as to provide incentives and help the Group in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Group. Eligible participants of the Share Option Scheme include any employee, contracted celebrity, advisor, consultant, service provider, agent, customer, partner or joint-venture partner of the Company or any subsidiary (including any director, whether executive or non-executive and whether independent or not, of the Company or any subsidiary) who is in full time employment when an option is granted to such employee, or any person who, in the sole discretion of the Board, have contributed or may contribute to the Group. The Share Option Scheme became effective on 29 August 2011, the date on which the Share Option Scheme are conditionally adopted by an ordinary resolution of the shareholder and, unless otherwise cancelled or amended, will remain in force for 10 years from the adoption date.

During the year ended 31 March 2012, and at the end of the reporting period and at the date of approval of these financial statements, no option has been granted under the Scheme.

27. 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 pages 70 to 71 of the financial statements.

(b) Company

	Share premium account HK$'000	**Contributed surplus** HK$'000	**Share option reserve** HK$'000	**Accumulated losses** HK$'000	**Total equity** HK$'000
At 1 April 2010	37,161	84,798	38	(92,271)	29,726
Total comprehensive loss for the year	–	–	–	(97,864)	(97,864)
Conversion of convertible notes	460,526	–	–	–	460,526
Exercise of share options	132	–	(38)	–	94
At 31 March 2011 and 1 April 2011	497,819	84,798	–	(190,135)	392,482
Total comprehensive loss for the year	–	–	–	(334,266)	(334,266)
Conversion of convertible notes	1,643,882	–	–	–	1,643,882
Share repurchase	(54,364)	–	–	–	(54,364)
At 31 March 2012	2,087,337	84,798	–	(524,401)	1,647,734

28. BUSINESS COMBINATION

Business combination in 2011

On 18 January 2011, the Group acquired 100% issued shares of UE China at a total consideration of HK$7.8 billion. The total consideration of HK$7.8 billion was satisfied by the Group in the following manner: (a) a HK$10 million cash deposits was paid by the Group to Up Energy Holding Ltd. on 26 July 2010 and the remaining HK$10 million cash deposits was paid on 30 November 2010; and (b) the Group issued two tranches of convertible notes, including the issue of the Tranche A convertible notes with a principal amount of HK$3,480,000,000 and the Tranche B convertible notes with a principal amount of HK$4,300,000,000 as part of the consideration of HK$7.8 billion.

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

	Fair value of net identifiable assets and liabilities acquired HK$'000
Property, plant and equipment	14,011,567
Prepaid land lease payments	70,769
Inventories	26
Prepayments, deposits and other receivables	33,127
Restricted cash	25,618
Cash and cash equivalents	772,078
Other payables and accruals	(38,905)
Bills payable	(15,812)
Deferred tax liabilities	(3,428,277)
Non-controlling interests	(2,645,167)
Net identifiable assets acquired	8,785,024
Gain on bargain purchase recognised	(985,024)
Fair value of cost of investment	7,800,000
Satisfied by cash	20,000
Satisfied by convertible notes	7,780,000
	7,800,000

28. BUSINESS COMBINATION *(continued)*

Business combination in 2011 *(continued)*

The Group incurred transaction costs of approximately HK$25,274,000 for this acquisition. These transaction costs have been expensed and are included in other expenses in the consolidated income statement.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	2011 HK$'000
Cash consideration	(20,000)
Restricted cash	25,618
Cash and bank balances acquired	772,078
	777,696
Less: Restricted cash	(25,618)
Net inflow of cash and cash equivalents included in cash flows from investing activities	752,078
Transaction costs of the acquisition included in cash flows from operating activities	(16,901)
	735,177

Business combination in 2012

There was no business combination transaction in the current year.

29. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

As disclosed in note 25(b), HK$236,172,000 Tranche A convertible notes, and HK$436,198,000 Tranche C convertible notes were converted by noteholders into ordinary shares from 1 April 2011 to 12 May 2011 on the basis of 10 ordinary shares for every HK$1 convertible note held. HK$445,282,000 Tranche A convertible notes, HK$574,241,000 Tranche B convertible notes and HK$83,802,000 Tranche C convertible notes were converted by noteholders into ordinary shares from 13 May 2011 to 31 March 2012 on the basis of one ordinary share for every HK$2 convertible note held.

30. CONTINGENT LIABILITIES

On 10 July 2006, a legal action for damages of approximately HK$76,862,000 for breach of agreements was brought up by four plaintiffs (the "Plaintiffs"), who were the holders of the previous non-controlling interests of a former subsidiary of the Company. The Company is the first defendant and Investsource Limited (formerly known as "Sun Television Cybernetworks Company Limited") ("Investsource"), a former wholly-owned subsidiary of the Company that was disposed of by the Company in June 2004, is the second defendant.

It is alleged that in view of the failure by the Company and Investsource to acquire from the Plaintiffs the 60% equity interest in TV Viagens (Macau), S.A.R.L. ("TV Viagens") and to finance TV Viagens, TV Viagens is not financially able to continue its business due to the lack of working capital and therefore the shareholding of the Plaintiffs in TV Viagens has become valueless.

The Plaintiffs claimed against the Company for damages of approximately HK$76,862,000 or such an amount as the court may determine, interest thereon, costs and/or other relief due to the Company's alleged breach of agreements to provide finance to TV Viagens for its operational costs and for the service fees payable by TV Viagens.

The case was supposed to be set down for trial by the Plaintiffs on or before 18 January 2008 but the Plaintiffs have failed to do so, and the application by the Company to strike out the Plaintiffs' claim was successful.

The Plaintiffs had appealed the decision to the High Court and on 23 March 2011, the Company received a judgement awarded by the Hong Kong High Court, in which the appeal lodged by the Plaintiffs was dismissed with costs awarded to the Company.

On 29 April 2011, the Company received a Notice of Appeal, whereas the Plaintiffs wish to appeal to the High Court's decision again. Hearing was held on 23 September 2011, and the Plaintiffs' appeal was dismissed with cost by the Court of Appeal and no further appeal has been made by the Plaintiffs. Thus the Directors is of the opinion that no provision is required to be made for any losses or expenses which might arise from the above legal action.

31. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases offices under operating lease arrangements, with leases negotiated for terms of two years.

At 31 March 2012, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
With one year	**2,260**	1,554	**2,022**	1,554
In the second to fifth years, inclusive	**69**	915	**22**	915
	2,329	2,469	**2,044**	2,469

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2012	2011
	HK$'000	HK$'000
Contracted, but not provided for:		
Property, plant and equipment	**393,714**	232,451

33.FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

Financial assets

	Loans and receivables	
	2012	2011
	HK$'000	HK$'000
Financial assets included in prepayments, deposits and other receivables	**25,357**	8,315
Restricted bank deposits (note 20)	**18,931**	35,793
Cash and cash equivalents (note 20)	**801,019**	1,257,526
	845,307	1,301,634

Financial liabilities

	Financial liabilities at amortised cost	
	2012	2011
	HK$'000	HK$'000
Bills payable (note 21)	**7,977**	22,052
Financial liabilities included in other payables and accruals (note 22)	**31,034**	23,915
Tax payable	**989**	–
Convertible notes (note 23)	**4,698,926**	5,566,664
	4,738,926	5,612,631

33. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Company

Financial assets

	Loans and receivables	
	2012	2011
	HK$'000	HK$'000
Financial assets included in prepayments, deposits and other receivables (note 19)	**759**	685
Amounts due from subsidiaries (note 17)	**52,979**	17,654
Cash and cash equivalents (note 20)	**607,232**	510,942
	660,970	529,281

Financial liabilities

	Financial liabilities at amortised cost	
	2012	2011
	HK$'000	HK$'000
Financial liabilities included in other payables and accruals (note 22)	**7,947**	9,851
Amounts due to subsidiaries (note 17)	**209,898**	–
Convertible notes (note 23)	**4,698,926**	5,566,664
	4,916,771	5,576,515

34. FAIR VALUE AND FAIR VALUE HIERARCHY

Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

As 31 March 2012 and 2011, the Company did not hold any financial instruments that were measured at fair value.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The financial assets of the Group mainly include cash and bank balances, deposits and other receivables and restricted bank deposits, which arise directly from its operations. Financial liabilities of the Group mainly include bills payable, other payables and accruals, tax payable and convertible notes.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk.

The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders. The directors of the Company review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's interest-bearing assets consist of cash deposits with fixed interest rates. The Group and the Company did not have any interest-bearing liability. The Group's policy is to manage its interest cost and income using fixed rate instruments. Therefore, the Group considers that the exposure to interest rate risk is insignificant.

Foreign currency risk

Other than the exposure of bank deposits made in foreign currencies, the Company and its subsidiaries are not exposed to significant foreign currency exchange risks as their transactions and balances were substantially denominated in their respective functional currencies.

Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents, deposits and other receivable, included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets.

Bank deposits are placed in banks with a strong credit rating. Management does not expect any losses from non-performance by these banks.

The credit risk of the Group's other financial assets, which comprise other receivables and restricted cash, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Group has no other financial assets which carry significant exposure to credit risk.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk

The Group monitors its exposure to a shortage of funds by considering the maturity of both its financial instruments and financial assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the funding from equity holders and the use of payables to related parties.

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

Group

2012	**On demand**	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Bills payable	**–**	**–**	**7,977**	**–**	**7,977**
Other payables and accruals	**7,855**	**75,841**	**34,418**	**–**	**118,114**
Convertible notes	**–**	**–**	**–**	**4,698,926**	**4,698,926**
	7,855	**75,841**	**42,395**	**4,698,926**	**4,825,017**

2011	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Bills payable	–	22,052	–	–	22,052
Other payables and accruals	48,491	7,167	–	–	55,658
Convertible notes	–	–	–	5,566,664	5,566,664
	48,491	29,219	–	5,566,664	5,644,374

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

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

Company

2012	**On demand HK$'000**	**Less than 3 months HK$'000**	**3 to less than 12 months HK$'000**	**1 to 5 years HK$'000**	**Total HK$'000**
Other payables and accruals	**7,306**	**641**	**–**	**–**	**7,947**
Amounts due to subsidiaries	**209,898**	**–**	**–**	**–**	**209,898**
Convertible notes	**–**	**–**	**–**	**4,698,926**	**4,698,926**
	217,204	**641**	**–**	**4,698,926**	**4,916,771**

2011	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Other payables and accruals	–	2,545	7,306	–	9,851
Convertible notes	–	–	–	5,566,664	5,566,664
	–	2,545	7,306	5,566,664	5,576,515

Capital management

The Group's objectives for managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the directors of the Company review the capital structure on a regular basis. During the development and construction stage of the coal mines and coke processing facilities, the shareholders of the Company contributed capital based on the needs of these entities. Management regularly review the capital structure.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management *(continued)*

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and a healthy capital ratio in order to support its business and maximise shareholders' value. The Group's financial liability is mainly in respect of the liability component of its convertible notes, details of which have been closed in note 23.

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 raise new capital from its investors.

No changes were made in the objectives, policies or processes for managing capital during the year.

36. COMPARATIVE AMOUNTS

Reclassification of certain comparative amounts has been made to conform to changes in presentation in the current year.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 June 2012.

Five-Year Financial Summary

RESULTS

	Year ended 31 March				
	2008 HK$'000	2009 HK$'000	2010 HK$'000 (Restated)	2011 HK$'000 (Restated)	**2012** **HK$'000**
TURNOVER					
Continuing operations	50,686	27,988	74,454	–	**–**
Discontinued operation	–	–	296	26,121	**5,078**
	50,686	27,988	74,750	26,121	**5,078**
OPERATING PROFIT/(LOSS)					
Continuing operations	(722)	1,937	8,595	943,740	**(97,701)**
Discontinued operation	–	–	163	(170)	**11**
PROFIT/(LOSS) BEFORE TAX	(722)	1,937	8,758	943,570	**(97,690)**
Income tax expense	–	–	(1,185)	84	**(3,576)**
PROFIT/(LOSS) FOR THE YEAR	(722)	1,937	7,573	943,654	**(101,266)**
Attributable to:					
Owners of the Company	(722)	1,937	7,573	944,656	**(91,357)**
Non-controlling interests	–	–	–	(1,002)	**(9,909)**
	(722)	1,937	7,573	943,654	**(101,266)**

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 March				
	2008 HK$'000	2009 HK$'000	2010 HK$'000	2011 HK$'000 (Restated)	**2012** **HK$'000**
TOTAL ASSETS	66,192	55,807	59,416	15,531,530	**15,759,123**
TOTAL LIABILITIES	(62,681)	(23,103)	(19,353)	(9,072,567)	**(8,256,805)**
	3,511	32,704	40,063	6,458,963	**7,502,318**
TOTAL EQUITY					
Attributable to:					
Owners of the Company	3,511	32,704	40,063	3,800,153	**4,849,000**
Non-controlling interests	–	–	–	2,658,810	**2,653,318**
	3,511	32,704	40,063	6,458,963	**7,502,318**

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