



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

(Incorporated in Hong Kong with limited liability)
(Stock Code: 00663)

Enter a **new era**
with a **strong team**



Annual Report
2009

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Corporate Information

BOARD OF DIRECTORS

Executive Directors:

Wang Da Yong (*Chairman*)

Tian Wenwei

Liu Yee Nee

Louie Mei Po

Non-Executive Directors

Wang Tongtian

Li Yi

Independent Non-Executive Directors

Cao Kuangyu

Chiu Sui Keung

Jacobsen William Keith

AUDIT COMMITTEE

Chiu Sui Keung (*Chairman*)

Cao Kuangyu

Jacobsen William Keith

REMUNERATION COMMITTEE

Cao Kuangyu (*Chairman*)

Chiu Sui Keung

Wang Da Yong

Jacobsen William Keith

STRATEGY AND INVESTMENT COMMITTEE

Wang Da Yong (*Chairman*)

Wang Tongtian

Li Yi

Cao Kuangyu

ADVISORY COMMITTEE

Wang Senhao (*Chairman*)

Chen Biting (*Co-Chairman*)

Zhang Changsheng

AUTHORISED REPRESENTATIVES

Liu Yee Nee

Louie Mei Po

COMPANY SECRETARY

Lee Tao Wai

CHIEF INVESTMENT OFFICER

Ip Wing Wai

AUDITORS

Ernst & Young

Two International Finance Centre

8 Finance Street, Central

Hong Kong

LEGAL ADVISERS

Vincent T.K. Cheung, Yap & Co.

Solicitors & Notaries

11th Floor, Central Building,

1-3 Pedder Street,

Central, Hong Kong

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS HONG KONG

Room 3603, 36/F,

One Exchange Square

Central

Hong Kong

SHARE REGISTRAR

Tricor Secretaries Limited

Level 25, Three Pacific Place,

1 Queen's Road East, Hong Kong

COMPANY WEBSITE

<http://www.663hk.com>

STOCK CODE

00663

Milestone

Target:

to become a leading and diversified coal enterprise in the coal mining industry in China

2010

1 March	The Advisory Committee was established
26 February	Dr. Wang Da Yong was appointed as the chairman of the Group
18 February	The company name was changed to King Stone Energy Group Limited

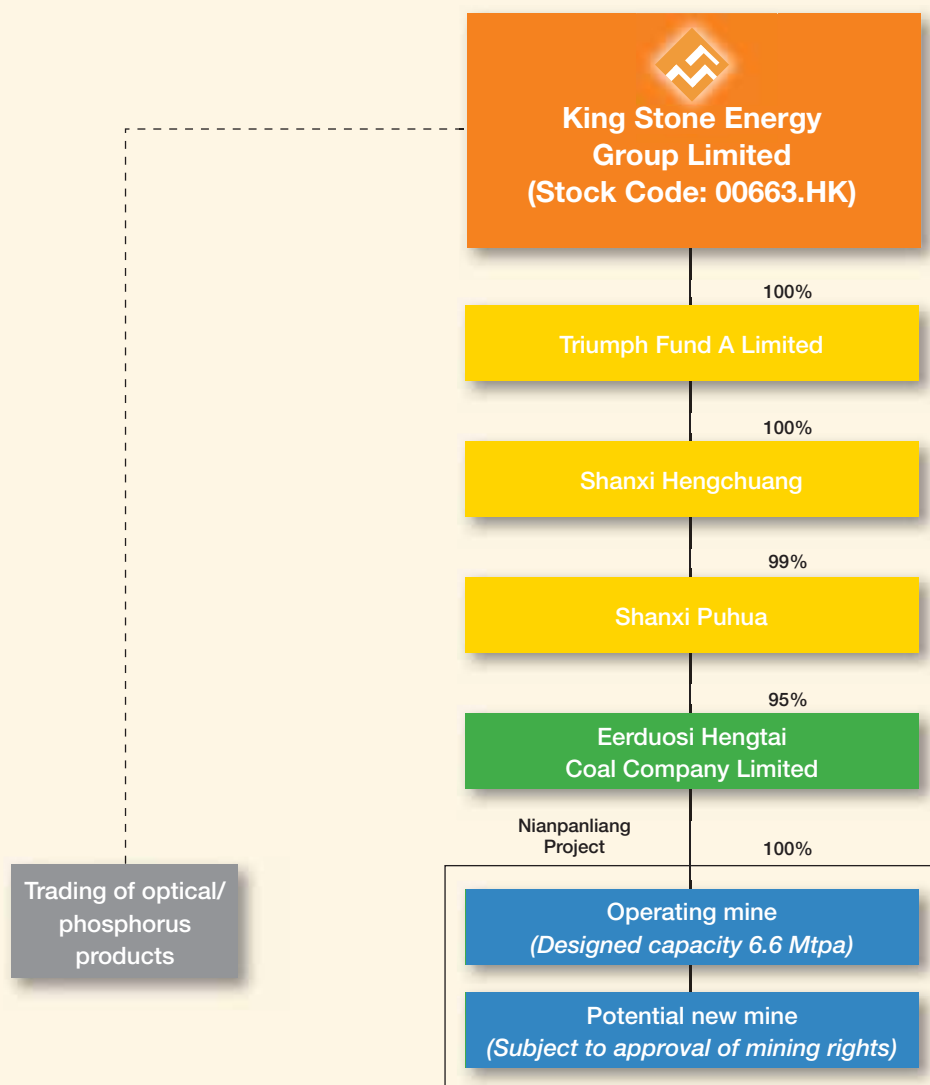
2009

21 December	The acquisition of Triumph Fund A Limited was completed, thus the Group commenced the coal mining business
15 September	The Group entered into a sale and purchase agreement to acquire 100% interest in Triumph Fund A Limited which operates a thermal coal mine situated in Ordos City, Inner Mongolia
1 July	Dr. Wang Da Yong was appointed as an executive director and chief executive officer of the Group

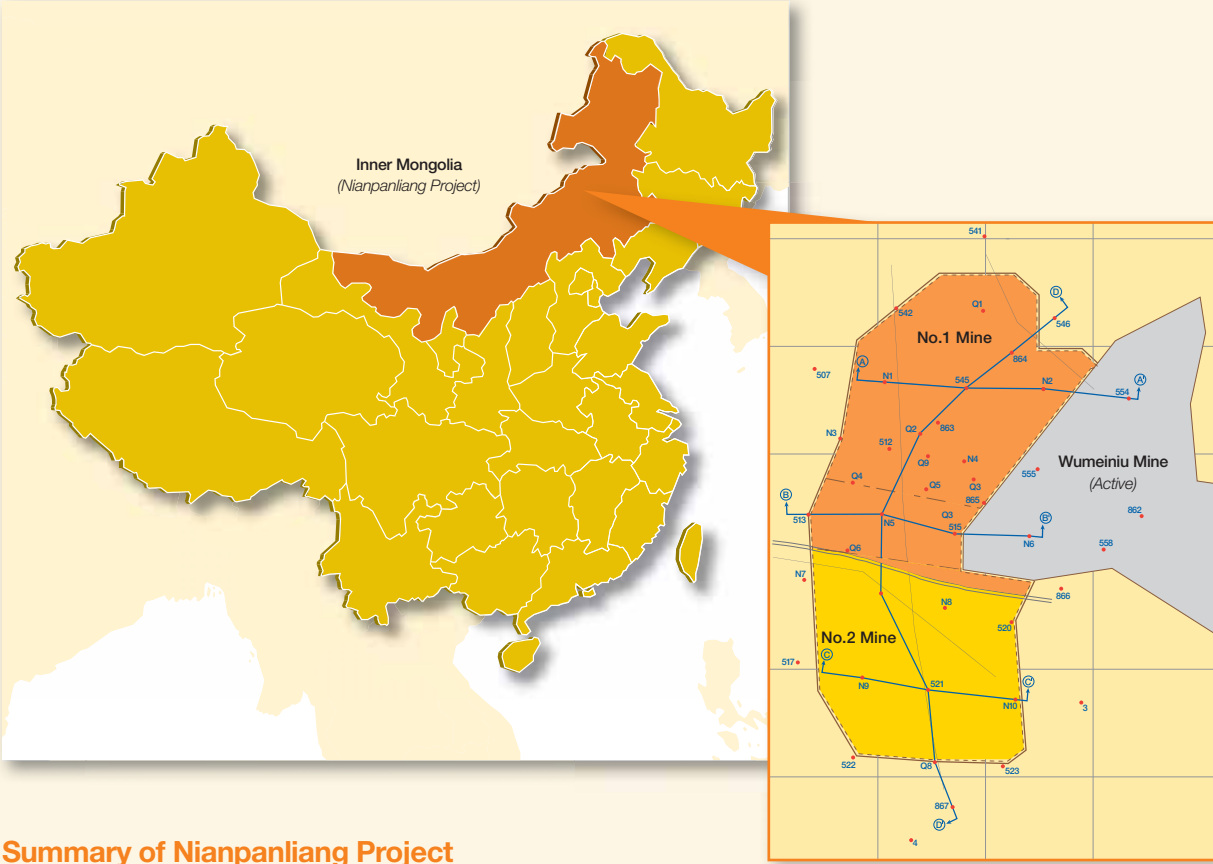
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30 November	Listed on the Main Board of Hong Kong Stock Exchange
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Group Structure



Operating Mines



Summary of Nianpanliang Project

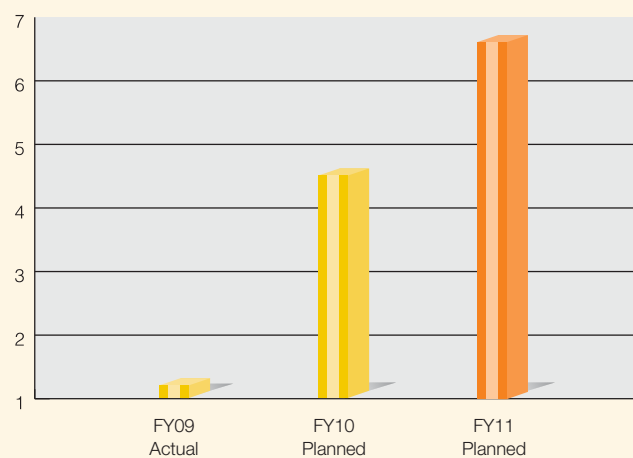
Location	Dongshen Coalfield of Inner Mongolia
Licensed area	~7 km ² (mine 1 and 2)
Mining rights validity	2007 – 2022 (15 years)
Mining Method	Underground
Coal type	Thermal (pulverized coal and lump coal)
Authorized capacity	2.4Mtpa
Designed capacity	6.6Mtpa
Status	<p>Construction commenced in October 2006</p> <ul style="list-style-type: none"> - No. 1 working face (1.8 Mtpa) started production in December 2009 - No. 2 working face (1.8 Mtpa) started production in February 2010 - No. 3 working face (3.0 Mtpa) expected to start production in July 2010
JORG-compliant resources	204Mt (all seams)
JORG-compliant reserves	72Mt (recoverable)

Coal Quality

	CV (Kcal/kg) (ad)	Sulfur % (dry)	Ash % (dry)	Moisture % (ad)	VM % (daf)
No. 1 Mine	6,199 – 6,540	0.9 – 1.4	10.4 – 16.1	10.9 – 11.8	32.6 – 36.7
Seam 3-1 U	6,330	0.9	12.3	11.8	35.1
Seam 4-1	6,540	1.1	10.4	11.1	36.7
Seam 6-2	6,199	1.4	16.1	10.9	32.6
No. 2 Mine	5,930 – 6,560	0.5 – 1.2	10.4 – 16.4	12.4 – 14.2	32.4 – 36.5
Seam 2-1 L	5,930	0.9	16.4	14.0	34.0
Seam 2-2	6,210	1.0	13.6	14.2	35.4
Seam 3-1 U	6,240	1.0	12.9	13.7	35.2
Seam 4-1	6,560	1.2	10.4	13.9	36.5
Seam 5-1 U	6,210	0.5	15.3	13.8	33.5
Seam 6-2	6,240	0.6	14.9	12.4	32.4

Output for FY09 to FY11

Unit: Million tonnes



Source: Company, BOYD Technical Report (Nov 2009)



Chairman's Statement



The year 2009 was an important one in which King Stone Energy Group Limited embarked on a new development. At a time when its existing phosphorus manufacturing and trading and optical products trading businesses were under extreme difficulties, the Group had, upon considering the long-term interests of all shareholders, decided to switch to a new direction and venture into the highly promising coal business. For long-term development's sake, this new coal business has to be run by professionals. For this, I was appointed by the Group on 1 July 2009 as executive director and chief executive officer to carry out in-depth studies and probing of the coal industry. After much active lobbying, searching and surveying, the Group entered into an agreement in September 2009 to acquire 100% interest in Triumph Fund A Limited, the owner of a thermal coal mine in Dongsheng district, Ordos City, Inner Mongolia of the People's

Republic of China. The deal was subsequently completed on 21 December 2009 and the Group formally entered the coal industry. To fully demonstrate our keenness in building up this new business, the Group started the active recruitment of notables in China's coal industry immediately after the acquisition and set up a strong management team of professionals. This management team is charged with laying a good foundation for the Group's long-term development in the coal industry and seize development opportunities and growth momentum as they come along.

Coal has become one of the major materials in China's energy consumption because of its abundant reserve, extensive distribution and low cost of usage. Moreover, as a result of the rapid growth of the Chinese economy in recent years, the four key industries of thermal power, steel, cement and chemical fertilizers have all undergone breakneck development, leading to a sustained increase in energy consumption and thus drawing a huge demand for coal. The tightness in supply of coal is further aggravated by the government's closing and consolidation of minor coal mines and by bottlenecks caused by inadequate transportation infrastructure. Under circumstances of demand exceeding supply, coal price is expected to move up steadily in general in the long term. At the same time, while the State is implementing policies conducive to the long-term development of the coal industry and ensuring balanced growth of upstream and downstream industries, coal mining has become increasingly efficient as a result of the continuous improvement of mining technologies. All these favourable factors are instrumental in providing developmental momentum to the industry.

In view of the growth potentials of the coal industry, the Group is convinced that making inroads into this industry is a route to sustainable development and raising the Group's incomes and profits. So we have devoted ourselves to seizing related opportunities and seeking suitable targets for merger and acquisition. Upon the completion of the acquisition of Triumph Fund A Limited on 21 December 2009, the Group has started owning and operating the premium coal mine in Ordos City and, with this, it is launching its coal mining and selling business. The advantages of abundant reserves, high quality and superior locations of its coal mines have boosted the Group's confidence in developing its coal business.

The Group has already formed a professional management team with extensive experience in order to lend support to its long-term development. Both our executive director Mr. Tian Wenwei and I have rich experience in the coal industry. In addition, we have invited Mr. Li Yi, former chairman of Shanxi Xishan Coal Electricity Company and Mr. Wang Tongtian, former deputy general manager of China Shenhua Group Coal Trading Company as our non-executive directors. On the other hand, our independent non-executive directors Mr. Cao Kuangyu, Mr. Chiu Sui Keung and Mr. Jacobsen William Keith are all highly experienced in the financial sector. In view of the fact that it is important to have connections and a good grasp of national affairs to develop a coal business in China, the Group has set up an advisory committee in which the members have strong state-owned enterprise background and are heavyweights in the coal industry. They include Mr. Wang Senhao, former minister of the Ministry of Coal Industry, Mr. Chen Biting, former chairman of the Shenhua Group and Mr. Zhang Changsheng, former senior deputy president of China Netcom. Such a strong team would lend support to the Group in expanding its coal business.

To improve its governance structure, the Group has set up strategy and investment committee, remuneration committee and audit committee, which are all composed of directors with extensive industrial or corporate governance experience. These committees should be able to provide guidance in the Group's direction and supervision in its governance. We believe that, with such a sound foundation, the leadership of an excellent management team and the efforts of all staff, the Group will definitely develop steadily and bring quality services to our customers and steady returns to our shareholders.

The Group has been engaging in the manufacturing and trading of phosphorus and the trading of optical products. Incomes and profits from the phosphorus business have been declining precipitously due to such unfavourable factors as rises in raw material prices and energy costs and decrease in market demand. On the other hand, while the trading of optical products which was begun in the second half of 2008 has been bringing in steady incomes to the Group, performance has fallen short of expectation and has not been able to bring about material breakthrough to the Group's business development. For these reasons, we are now shifting the business direction to focus our resources in developing our coal business.

Since the Group only completed the acquisition of its coal business at the end of 2009, returns from this business accounted for only a minor share in the Group's results in 2009. Nevertheless there is no doubt that there are huge development potentials in the coal industry. With the industry experience and connections of the Group's management, we are fully confident of the long-term development of the coal sector and so our business transformation is indeed a wise decision. I am honoured to be appointed chairman of the Group on 26 February this year to lead it towards further development. In a bid to become a leading and diversified enterprise in the coal industry, we shall, in addition to raising existing coal production capacity, strive to seize opportunities in the field by actively seeking new merger and acquisition targets and developing diversified product range as a way to enhance the Group's competitiveness and increase its income sources.

I would like to convey on behalf of King Stone Energy Group Limited our gratitude to all staff, customers and business partners who have contributed towards the development of the Group. I would also like to take this opportunity to thank the shareholders who have been supporting and trusting the Group all along. We shall continue our efforts and conscientiously carry out our duties in order to return the favour of support from all quarters with better business results!

Wang Da Yong
Chairman

26 April 2010

Management Discussion and Analysis

RESULTS AND BUSINESS REVIEW

The Group's revenue during the year comprised of the revenue generated from trading of optical products, manufacturing and trading of phosphorus products and mining and selling of coal.

The Group recorded a total revenue of approximately HK\$88.7 million (2008: HK\$ 627.1 million) representing a decrease of approximately 86% compared with last year. Overall gross profit decreased from approximately HK\$28.8 million for last year to approximately HK\$6.3 million representing a decrease of approximately 78%. The significant decreases in revenue and gross profit were mainly attributable to decline of phosphorus business as a result of weak market demand and the unremarkable performance of the trading of optical products during the year.

Selling and distribution costs, and administrative expenses were approximately HK\$5.7 million and HK\$20.4 million respectively during the year compared with approximately HK\$17.8 million and HK\$19.5 million respectively for last year.

Loss for the year from the continuing operations was approximately HK\$1,078.7 million during the year (2008: HK\$20.5 million). The significant increase in loss for the year was mainly attributable to fair value loss of convertible notes issued by the Company in December 2009 amounting to HK\$1,053.8 million.



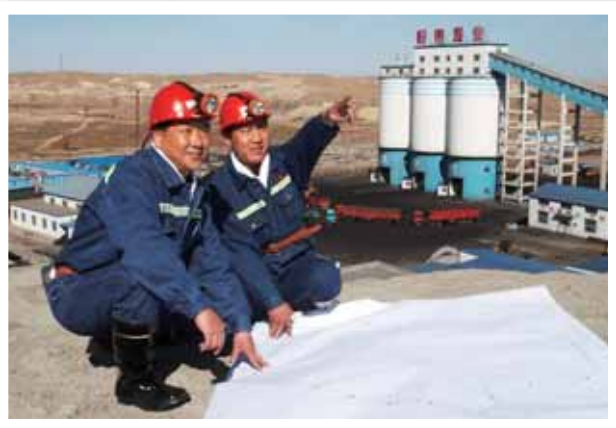
Coal mining business

Following the completion of the acquisition of Triumph Fund A Limited and its subsidiaries which owns thermal coal mine located in Ordos City, Inner Mongolia, the PRC on 21 December 2009, the Group has since then started the coal mining business. In this connection, the results of the Group during the year only accounted for the operating results of the said business from 21 December 2009 to 31 December 2009. The said business contributed approximately HK\$2.6 million to the revenue of the Group during the year.

Nevertheless, it is expected that the coal mining business will make remarkable contribution to the revenue and profit of the Group and will account for a significant proportion to the total assets of the Group in the foreseeable future.

Production safety

Realizing the importance of production safety in coal production and operation, the Group has adopted a series of measures to ensure production safety in coal mining. During the course of construction, the Group has complied with the stringent requirements on production safety, assuring safety of facilities like ventilation, drainage and supportive roof structure, etc. in the coal mines. In addition, there are comprehensive surveillance and monitoring systems in important sites of the mines. A scientific and efficient code of practice in relation to production safety is formulated to ensure that regulations are in place for the production and operation of coal mines. Intensive trainings on production safety are provided to all staff to make sure they could understand the knowledge and master the relevant techniques. Through all said measures, no obituary and serious injury is recorded by the Group ever since the commencement of operation of the coal mines.



Environmental protection

The Group puts high emphasis on the importance of environmental protection. During the course of operations of the mines, the Group takes into consideration through the requirements in respect of soil conservation, controls on pollutant emission and resource recycling in pursuant to the “Environmental Protection and Soil Conservation Standards” promulgated by the PRC government. Effective measures have been in place to ensure full compliance of the relevant rules and regulations.

FUTURE OUTLOOK

Looking forward, it is expected that, with the steady development of China’s economy, domestic demand for coal will increase continuously in the next few years and coal prices will be maintained at a high level, thereby providing enormous opportunities for the Group’s development in the industry. The Company will benefit from the national policy to carry out structure adjustments in the industry by weeding out the weak and tightening supplies. Moreover, the market’s increasing demand for stable supplies of high quality coal would also be favourable to the Group’s future development. On the other hand, venturing into the coal industry will provide us with a stable cash flow and the resulting firm capital base would allow full latitude for the Group to expand within the industry.

Upon expanding the production capacity for coal, the Company will strive to expand its customer network so as to establish long-term partnership relations with more customers. The Company will also increase the share of supplies to large companies and actively seek out strategic partners so as to ensure stable incomes for the Group.

With development of the coal business, relatively more resources will be shifted from the Company’s phosphorus manufacturing and optical product trading businesses towards the coal business which has huge potentials for development. As the Company expand the business, the Group will also uphold the principle of safe, environmentally friendly and high efficiency operations. This, together with the high quality and standard compliant corporate governance, would help towards establishing a sound corporate image, building an excellent brand and laying a solid foundation for the sustainable development of the Group.

Through months of groundwork, the Company has already built up a strong management team to lead the Group’s business expansion. In addition to expanding the production capacities of existing mines, the Company has the intention of expanding our business scope to areas such as Shanxi and Shaanxi where mine conditions, product quality and operation basics are good. The Group is also seeking suitable targets for mergers and acquisitions and keen on adding production volume and product categories such as coke and anthracite in the efforts to establish the Group as a leading and diversified coal enterprise.

In the areas of phosphorus manufacturing and optical product sales, though efforts and resources to developing the businesses have been increased, given the challenges and uncertainties ahead, the Company is still maintaining a cautious stance. To ensure the profitability of the Group, the Company is shifting the business direction from sunset industries to the growing energy industry. This will not only improve our income and profitability, but will also provide room for the long-term development. The Company believes that the successful transformation will provide our shareholders with better returns.



LIQUIDITY AND FINANCIAL REVIEW

The Group mainly financed its day to day operations by internally generated cash flow, banking facilities and equity financing during the year. As at 31 December 2009, the current ratio of the Group, measured as total current assets to total current liabilities, was 0.70:1 compared with 1.36:1 for the last year.

As at 31 December 2009, the cash and cash equivalents of the Group were approximately HK\$143 million (2008: HK\$84.4 million). During the year, the Group recorded a net cash outflow generated from its operating activities of approximately HK\$36 million (2008: net cash inflow of HK\$49.1 million).

As at 31 December 2009, the Group had outstanding interest-bearing bank borrowings amounted to approximately HK\$908.6 million. Of the Group's interest-bearing bank borrowings, 6%, 13%, 62% and 19% respectively were repayable within one year, in the second year, in the third to the fifth year, inclusive, and beyond the fifth year. All bank loans of the Group were denominated in RMB. As at 31 December 2009, bank loans of approximately HK\$874.6 million were interest-bearing with floating interest rates and bank loans of approximately HK\$34 million was charged at a rate of 7.97% per annum. The Group had no bank loans as at 31 December 2008.

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

GEARING RATIO

The gearing ratio of the Group, measured as net debt, which represents total debt excluding tax payable, deferred tax liabilities and convertible notes, less cash and cash equivalents to the capital, which represents convertible notes and equity attributable to owners of the Company, was 0.62 as at 31 December 2009, as compared to 1.05 as at 31 December 2008.

SUBSCRIPTION OF SHARES

On 8 January 2009, the Company entered into the subscription agreement with an independent third party, pursuant to which the Company has agreed to issue and allot 84,880,636 ordinary shares of the Company of HK\$0.01 each at a subscription price of HK\$0.09425 per share (the "Subscription"). Details of the Subscription were set out in the announcements dated 8 January 2009 and 9 January 2009. The Subscription was completed on 6 February 2009 raising net proceeds of approximately HK\$8 million, which were used as general working capital.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

Acquisition of Triumph Fund A Limited

On 15 September 2009, Magic Field International Limited ("Magic Field"), a direct wholly-owned subsidiary of the Company, as the purchaser entered into a conditional sale and purchase agreement (the "Sale and Purchase Agreement") with Mr. Zhao Ming (the "Vendor"), an independent third party, as the vendor to acquire the entire issued share capital of Triumph Fund A Limited at a consideration of HK\$1,855 million (the "Consideration"), subject to adjustment (the "Acquisition"). The Consideration was to be settled in full by the issue of the convertible notes ("CN") at the initial conversion price of HK\$0.0625 per share (subject to adjustment) by the Company upon completion. Details of the Acquisition were set out in the announcement and the circular dated 23 September 2009 and 18 November 2009 respectively.

Triumph Fund A Limited and its subsidiaries (the "Triumph Group") hold the mining licences for coal mine located in Dongsheng District of Ordos City, Inner Mongolia Autonomous Region, the PRC and are engaged in the business of coal mining.

Pursuant to the Sale and Purchase Agreement, the Vendor has (in consideration of HK\$10) granted to Magic Field the put option (“Put Option”) under which Magic Field can require the Vendor to buy back the entire issued share capital of Triumph Fund A Limited within one year from the completion date of the Acquisition (the “Completion Date”). The exercise price of the Put Option is equal to (i) the Consideration under the Sale and Purchase Agreement; plus (ii) total fund contributed by Magic Field to the Triumph Group from the Completion Date up to the date of the exercise of the Put Option; and minus (iii) total amount received by Magic Field from the Triumph Group from the Completion Date up to the date of the exercise of the Put Option, subject to the exercise price shall not be higher than the Consideration under the Sale and Purchase Agreement. The exercise price will be paid by the Vendor by deducting and canceling the equivalent principal amount of the CN held by the Vendor and if there is a difference between the exercise price and the principal amount of the CN then outstanding, the difference shall be settled by cash between Magic Field and the Vendor.

Magic Field is entitled to waive its right under the Put Option within nine months from the Completion Date and in such event, the Consideration under the Sale and Purchase Agreement will be reduced by HK\$50 million and an equivalent principal amount of the CN will be cancelled by the Company accordingly.

The Acquisition was approved by the shareholders of the Company on 7 December 2009 and completed on 21 December 2009. Upon completion of the Acquisition on the Completion Date, Magic Field has exercised its right to terminate the Put Option and hence the Consideration was reduced by HK\$50 million. Accordingly, the Consideration was settled by the issue to the Vendor of the CN in the aggregate principal amount of HK\$1,805 million.

Disposal of subsidiaries

- (i) On 2 March 2009, Anchorage Trading Limited (“Anchorage”), a wholly-owned subsidiary of the Company and an independent third party entered into the sale and purchase agreement, whereby Anchorage has conditionally agreed to sell the entire registered capital of Fangcheng Huahai Chemicals Co., Ltd. (防城港華海化工有限公司) (“Huahai”), an indirectly wholly-owned subsidiary of the Company which is principally engaged in the manufacturing and trading of phosphorus products, for the consideration of RMB26 million (equivalent to approximately HK\$29.5 million), subject to adjustments. Details of the transaction were set out in the announcement and circular dated 5 March 2009 and 25 March 2009 respectively. The transaction was completed in May 2009.
- (ii) On 31 December 2009, the Company disposed of the entire interest in Sharp Universe Limited for a cash consideration of HK\$587,000.

Save as disclosed above, there was no other material change on the investment held and also no other material acquisition or disposal of any subsidiary of the Group during the year.

CAPITAL COMMITMENTS, CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2009, the capital commitments of the Group were approximately HK\$281.5 million. The capital commitments were mainly used to purchase machineries for the operation of coal mines. There was no capital commitment as at 31 December 2008.

At at 31 December 2009, the bank loans of approximately HK\$908.6 million were secured by the Group’s mining rights and equity interests in Eerduosi Hengtai Coal Co., Ltd (“Hengtai”), an indirectly non-wholly owned subsidiary of the Company, and guarantees given by an independent third party, the then shareholder of Triumph Fund A Limited and a director of Hengtai.

Save as disclosed above, the Group had no other pledge of assets as at 31 December 2009. There was no charge on the Group’s assets as at 31 December 2008.

As at 31 December 2009 and 31 December 2008, there was no material contingent liability of the Group.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Currently the Group operates a coal mine in Ordos City, Inner Mongolia. No.1 and No.2 working faces with an aggregate designed capacity of 3.6 million tons have been put into operation since December 2009 and February 2010 respectively. No.3 working face with designed capacity of 3.0 million tons will commence production in July 2010. In addition, the Group also plans to build a coal preparation plant in 2011. It is expected that the said plans will increase the production capacity of coal mine as well as profit margin in coming years.

HUMAN RESOURCES AND SHARE OPTION SCHEME

As at 31 December 2009, the Group had 660 employees. The total staff cost for the year ended 31 December 2009 was HK\$17.1 million. The Group's remuneration policy is primarily based on the individual performance and experience of employees including directors, prevailing industry practice and market rates. In addition to the basic salaries, the Group provides staff benefits including medical insurance and

contributions to the provident fund. Discretionary bonuses are also available to the Group's employees depending upon the overall performance of the Group. The Group also provides appropriate training programmes for benefits to employees' better personal development and growth.

Pursuant to the Company's share option scheme adopted on 28 May 2002 for a period of 10 years, the Company may offer to any employee of the Group options to subscribe for shares in the Company. As at 31 December 2009, total share options outstanding amounted to 12,320,000 shares held by an employee. No share option was exercised during the year.

On behalf of the Board

Wang Da Yong
Chairman

Hong Kong, 26 April 2010



Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Dr. Wang Da Yong, aged 43, is the Chairman and Chief Executive Officer (“CEO”) of the Company and is responsible for the business development and overall management of the Group. He holds a PhD in Economics at Business School of Ji-Lin University. He has over 20 years experience of investment, finance and management and is familiar with corporate merger and acquisition and direct investment. He has obtained detail knowledge of coal, coal chemical, metal mineral resources industries and maintains strong networks in business field and with central and local government agencies in China. He worked in the Ministry of Agriculture, PRC previously. He was an executive director and CEO of China Best Group Holding Limited (Stock Code: 00370), a listed company in The Stock Exchange of Hong Kong Limited from 16 September 2004 to 5 June 2007. He was also the CEO of Fortune Dragon Group Limited, a company with major coking coal mine operation in Shanxi China, which was acquired by Fushan International Energy Group Limited (Stock Code: 00639) at the consideration of about HK\$10 billion in July 2008. He was appointed as the executive director and CEO of the Company on 1 July 2009 and the Chairman of the Company on 26 February 2010.

Mr. Tian Wenwei, aged 39, holds an MBA at Business School of University of Alberta, Canada. He has over 15 years experience in finance, business and corporate merger and acquisition. He also has solid knowledge and experiences in coal industry. Mr. Tian is responsible for coal business development of the Group in China. Mr. Tian worked in the Bank of Communications, Xian Branch, from 1991 to 1997 and in China Digital Finance Times Company, a subsidiary of China Everbright Group from 2000 to 2001. He was an officer of Puda Coal, Inc., a public company in the United States of America from 2006 to 2009. He has been a director of Triumph Fund A Limited since September 2009, a subsidiary of the Company. He was appointed as the executive director of the Company on 18 January 2010.

Ms. Liu Yee Nee, aged 44, has over 21 years experience in the field of accounting and management. She holds a master’s degree of Business Administration from the Hong Kong University of Science & Technology and is a member of the Chartered Institute of Management Accountants, The Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants, The Institute of Chartered Secretaries & Administrators and The Hong Kong Institute of Company Secretaries. Ms. Liu is also an executive director of Tomorrow International Holdings Limited (Stock Code: 00760). She was appointed as the executive director of the Company on 26 September 2008.

Ms. Louie Mei Po, aged 42, has over 14 years experience in business investment and development and loan financing. Ms. Louie holds a master’s degree in Business Administration and a bachelor’s degree in Social Science from the Chinese University of Hong Kong. Ms. Louie was an executive director of the Company from 4 March 2002 to 5 July 2005. Ms. Louie is also an executive director of Tomorrow International Holdings Limited (Stock Code: 00760). She was appointed as the executive director of the Company on 26 September 2008.

NON EXECUTIVE DIRECTORS

Mr. Wang Tongtian, aged 60, worked and held senior position in Beijing Mining Bureau, China National Coal Industry Import and Export Group and China National Coal Development Company from 1975 to 1995. Mr. Wang was the deputy general manager of China Shenhua Group Coal Transportation and Distribution Company for the period of 1996 to 2009. Mr. Wang has more than 40 years experience and possesses extensive knowledge in area of project development, administration, design and engineering of coal mines and import and export of coal, coke and coal related products. He is also familiar with distribution networks and development of coal industry. He was appointed as the non-executive director of the Company on 1 December 2009.

Mr. Li Yi, aged 62, is a senior engineer and expert specializing in field of coal mine operation and coal technology. He was Director of Department of Coal Mine Safety of Xi Ming Coal Mine of Xi Shan Mining Bureau, the Director of Xiqu Coal Mine, Deputy Director General of Xi Shan Mining Bureau, and the deputy managing director of Xishan Coal Electricity Group Co., Ltd. During the period of 2002 to 2007, he was the chairman of Shanxi Xishan Coal and Electricity Power Co., Ltd, a listed company (stock code 000983.sz) in Shenzhen Stock Exchange and during the period of 2001 to 2009. He was also the vice-chairman of Shanxi Coking Coal Group Co., Ltd, the largest coking coal producer in China. He was appointed as the non-executive director of the Company on 2 February 2010.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cao Kuangyu, aged 59, holds Bachelor of Arts in Economics in University of Hunan and Masters of Science in Financial Management in The School of Oriental and African Studies, University of London. He has more than 29 years working experience in various financial institutions. Currently, he is the vice chairman of Maxdo Group Limited in Hong Kong. He was the senior partner of Rocket Capital from 2007 to 2009, the managing director of BOCI Asia Limited from 2003 to 2007, the president of Citic Bank, Shenzhen Branch from 1999 to 2003 and the deputy general manager of Bank of China in Singapore Branch from 1996 to 1999 and in Hunan Branch from 1993 to 1996. Mr. Cao is also an independent non-executive director of JLF Investment Company Limited, and a non-executive director of Continental Holdings Limited, both companies are listed on the Stock Exchange of Hong Kong Limited. He was appointed as the independent non-executive director of the Company on 2 February 2010.

Mr. Chiu Sui Keung, aged 43, has over 15 years experience in the strategic management in listed companies, financial industry and accounting field. He has possessed extensive experience in corporate finance including initial public offerings, takeovers, mergers and acquisitions, fund raising and corporate advisory. Mr. Chiu graduated with a Bachelor's Degree in Commerce from the University of Melbourne, Australia and has obtained a Master's Degree in Applied Finance from Macquarie University in Sydney, Australia. He has also obtained a Diploma in Practices in Chinese Laws and Regulations Affecting Foreign Businesses jointly organized by Southwest University of Political Science and Law, the PRC and the Hong Kong Management Association. He is a member of CPA Australia and the American Institute of Certified Public Accountants and the fellow member of Hong Kong Institute of Certified Public Accountants. At present, he is the executive director and chief executive officer of Sino Resources Group Limited and was the non-executive director of Fulbond Holdings Limited during the period from September 2008 to July 2009, both companies are listed on The Stock Exchange of Hong Kong Limited. He was appointed as the independent non-executive director of the Company on 18 January 2010.

Biographical Details of Directors and Senior Management

Mr. Jacobsen William Keith, aged 43, has more than 15 years experience in corporate finance and business development. He holds a Bachelor's Degree of Laws from the University of Hong Kong and a Master's Degree of Business Administration from the University of British Columbia. He is an independent non-executive director of Hycomm Wireless Limited, a company listed on the main board of the Stock Exchange and abc Multiactive Limited, a company listed on the Growth Enterprise Board of The Stock Exchange. He was appointed as the independent non-executive director of the Company on 26 September 2008.

Mr. Hao Shenhai, aged 43, is the director of Eerduosi Hengtai Coal Company Limited ("Hengtai"). Mr. Hao joined Hengtai in 2006 and is responsible for managing and overseeing Hengtai's general operations. Prior to that, Mr. Hao has been serving the Armed Police Force (武警部) from 1985 to 1993 and working in the Police Headquarters of Ordos City from 1993 to 1998. He has been the general manager of Eerduosi Rusu Ecology Integrated Development Co. Limited (鄂爾多斯市如蘇生態綜合開發有限責任公司) from 1998 to 2006. Mr. Hao has extensive connections and good government relationships.

SENIOR MANAGEMENT

Mr. Lee Tao Wai, aged 31, is chief financial officer and company secretary of the Company. Mr. Lee is a member of The Hong Kong Institute of Certified Public Accountants and has over 10 years of experience in auditing, accounting and corporate field. Prior to joining the Company, Mr. Lee was an auditor in an international accounting firm and worked as a senior executive of a listed company in Hong Kong. Mr. Lee holds a Bachelor Degree in Business Administration in Accounting from the Chinese University of Hong Kong and a Master Degree in Investment Management from The Hong Kong University of Science and Technology. He joined the Group in April 2010.

Mr. Ip Wing Wai, aged 31, is chief investment officer of the Company and is responsible for identifying and evaluating merger and acquisition opportunities as well as promoting investor relations for the Company. Mr. Ip possesses 10 years of experience in merger and acquisitions, corporate finance and investor relations through working previously in a sizable red chip and an H-share company in Hong Kong as well as an international accounting firm. His stint in Fushan International Energy Group Limited has provided him over 4 years of expertise in mining industry. Mr. Ip holds a Bachelor Degree in Business Administration in Accounting from The Hong Kong University of Science and Technology. He joined the Group in April 2010.

Advisory Committee

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

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

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

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

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

Report of the Directors

The directors present their report and the audited financial statements of King Stone Energy Group Limited (the “Company”, formerly known as “Yun Sky Chemical (International) Holdings Limited”) and its subsidiaries (collectively the “Group”) for the year ended 31 December 2009.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at the extraordinary general meeting of the Company on 8 February 2010 and approved by the Registrar of Companies in Hong Kong on 12 February 2010, the name of the Company was changed from Yun Sky Chemical (International) Holdings Limited to King Stone Energy Group Limited.

The Company changed its Chinese name from “南嶺化工(國際)控股有限公司” to “金山能源集團有限公司” which is part of its legal name.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 19 to the financial statements. During the year, the Group had disposed of a subsidiary engaging in manufacturing and trading of phosphorus products, Fangcheng Huahai Chemicals Co., Ltd., details of which are set out in note 33 to the financial statements.

In addition, during the year, following the completion of the acquisition of 100% equity interests in Triumph Fund A Limited and its subsidiaries, the Group engaged in mining and selling of coal. Further details of the acquisition are set out in note 32 to the financial statements.

There were no other significant changes in the nature of the Group’s principal activities during the year.

RESULTS AND DIVIDENDS

The Group’s loss for the year ended 31 December 2009 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 32 to 95.

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 96. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE NOTES

Details of movements in the Company's share capital and convertible notes during the year are set out in notes 29 and 27 to the financial statements. There were no movements in the Company's share options during the year and the details of the share option scheme of the Company are set out in note 30 to the financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

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

DISTRIBUTABLE RESERVES

At 31 December 2009, the Company had no retained profits available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance. However, the Company's share premium account, in the amount of HK\$1,133,198,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 96% of the total sales for the year and sales to the largest customer included therein amounted to 69%. Purchases from the Group's five largest suppliers accounted for 100% of the total purchases for the year and purchase from the largest supplier included therein amounted to 75%.

Save as disclosed in note 37 to the financial statements, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Ms. Liu Yee Nee (*Chairman*)
Mr. Wang Da Yong (appointed on 1 July 2009)
Ms. Louie Mei Po
Mr. Li Wei
Ms. Zhou Jing

Non-executive director:

Mr. Wang Tongtian (appointed on 1 December 2009)

Independent non-executive directors:

Mr. Jacobsen William Keith
Mr. Ng Wai Hung
Mr. Wu Wang Li

Subsequent to the end of the reporting period, movements of the directorship of the Company are as follows:

Executive directors:

Mr. Wang Da Yong (appointed as the Chairman on 26 February 2010)
Ms. Liu Yee Nee (resigned as the Chairman on 26 February 2010)
Mr. Tian Wenwei (appointed on 18 January 2010)
Mr. Li Wei (resigned on 2 February 2010)
Ms. Zhou Jing (resigned on 2 February 2010)

Non-executive director:

Mr. Li Yi (appointed on 2 February 2010)

Independent non-executive directors:

Mr. Cao Kuangyu (appointed on 2 February 2010)
Mr. Chiu Sui Keung (appointed on 18 January 2010)
Mr. Ng Wai Hung (resigned on 2 February 2010)
Mr. Wu Wang Li (resigned on 18 January 2010)

In accordance with the Company's articles of association, (i) directors appointed shall hold office until the first annual general meeting and eligible for re-election and (ii) at each annual general meeting one-third of directors shall retire from office by rotation. Each of Mr. Wang Da Yong, Mr. Tian Wenwei, Mr. Li Yi, Mr. Wang Tongtian, Mr. Cao Kuangyu, Mr. Chiu Sui Keung, Ms. Liu Yee Nee, Ms. Louie Mei Po and Mr. Jacobsen William Keith will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from the existing independent non-executive directors, Messrs. Jacobsen William Keith, Cao Kuangyu and Chiu Sui Keung, and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 14 to 16 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION

The remuneration of the directors was determined by the remuneration committee of the board of directors on the basis of prevailing market conditions, the roles and responsibilities of each director.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2009, the interests and short positions of the directors and chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Mr. Wang Da Yong ("Mr. Wang"), who is an executive director of the Company, through a wholly-owned subsidiary of Sino Bridge Investments Limited, a company beneficially owned by Mr. Wang, China Coal and Coke Investment Holding Company Limited, held 800,000,000 ordinary shares of the Company, or 10.34% of the issued capital of the Company on 31 December 2009.

Save as disclosed above, as at 31 December 2009, none of the directors and chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

The Company had a share option scheme approved on 28 May 2002 under which the directors might grant options to eligible participants to subscribe up to 10% of the nominal amount of the issued share capital of the Company. Particulars of the share option scheme of the Company were disclosed in note 30 to the financial statements. As at 31 December 2009, the Company had no share options outstanding to any directors of the Company.

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

SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Further details of the Scheme are disclosed in note 30 to the financial statements.

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

Name or category of participant	Number of share options						Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$ per share
	At 1 January 2009	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2009			
An employee	12,320,000	-	-	-	-	12,320,000	29 September 2008	29 September 2008 to 28 September 2013	HK\$0.125

* The share options were vested upon granting.

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

SUBSTANTIAL SHAREHOLDERS’ AND OTHER PERSONS’ INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2009, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Notes	Capacity	Nature of interest	Interests in shares (other than convertible by notes)	Interests in underlying shares convertible by notes	Total interests in shares/ underlying shares	Approximate percentage of the Company’s issued share capital
Zhao Ming	1	Beneficial owner	Long position	640,000,000	21,060,000,000	21,700,000,000	280.59
Choi Chiu Fai, Stanley	2	Through controlled corporation	Long position	-	3,296,000,000	3,296,000,000	42.62
Ample Gains Development Limited	2	Beneficial owner	Long position	-	3,296,000,000	3,296,000,000	42.62
Central Huijin Investment Limited	3	Through controlled corporation	Long position Short position	1,688,000,000 (1,688,000,000)	- -	1,688,000,000 (1,688,000,000)	21.83 (21.83)
China Construction Bank Corporation	3	Through controlled corporation	Long position Short position	1,688,000,000 (1,688,000,000)	- -	1,688,000,000 (1,688,000,000)	21.83 (21.83)
CCB International Group Holdings Limited	3	Through controlled corporation	Long position Short position	1,688,000,000 (1,688,000,000)	- -	1,688,000,000 (1,688,000,000)	21.83 (21.83)

Name	Notes	Capacity	Nature of interest	Interests in shares (other than convertible by convertible notes)	Interests in underlying shares convertible by convertible notes	Total interests in shares/ underlying shares	Approximate percentage of the Company's issued share capital
CCB Financial Holdings Limited	3	Through controlled corporation	Long position Short position	1,688,000,000 (1,688,000,000)	– –	1,688,000,000 (1,688,000,000)	21.83 (21.83)
CCB International (Holdings) Limited	3	Through controlled corporation	Long position Short position	1,688,000,000 (1,688,000,000)	– –	1,688,000,000 (1,688,000,000)	21.83 (21.83)
CCB International Assets Management (Cayman) Limited	3	Through controlled corporation	Long position Short position	1,688,000,000 (1,688,000,000)	– –	1,688,000,000 (1,688,000,000)	21.83 (21.83)
CCB International Asset Management Limited	3	Beneficial owner	Long position Short position	1,688,000,000 (1,688,000,000)	– –	1,688,000,000 (1,688,000,000)	21.83 (21.83)
Chan Yuen Ming	4	Through controlled corporation	Long position	847,746,948	–	847,746,948	10.96
Sinogreat Limited	4	Beneficial owner	Long position	829,464,158	–	829,464,158	10.72
Kingsway International Holdings Limited	5	Through controlled corporation	Long position	480,000,000	–	480,000,000	6.21
Innovation Assets Limited	5	Through controlled corporation	Long position	480,000,000	–	480,000,000	6.21
World Developments Limited	5	Through controlled corporation	Long position	480,000,000	–	480,000,000	6.21
SW Kingsway Capital Holdings Limited	5	Through controlled corporation	Long position	480,000,000	–	480,000,000	6.21
Festival Developments Limited	5	Through controlled corporation	Long position	480,000,000	–	480,000,000	6.21
Kingsway Lion Spur Technology Limited	5	Beneficial owner	Long position	480,000,000	–	480,000,000	6.21
Lam Wong Yuk Sin Mary	5	Through controlled corporation	Long position	480,000,000	–	480,000,000	6.21
Choi Koon Shum Jonathan	5	Through controlled corporation	Long position	480,000,000	–	480,000,000	6.21
Kwan Wing Kum Janice	5	Spouse	Long position	480,000,000	–	480,000,000	6.21
Li Han Yong	6	Through controlled corporation	Long position	390,000,000	–	390,000,000	5.04
Bold Win Management Limited	6	Beneficial owner	Long position	390,000,000	–	390,000,000	5.04

Notes:

1. Zhao Ming held 640,000,000 shares of the Company and convertible notes of the Company which entitled the holder thereof to convert for 21,060,000,000 shares at a conversion price of HK\$0.0625 per share (subject to adjustments).
2. Choi Chiu Fai, Stanley was the beneficial owner of the entire share capital of Ample Gains Development Limited, which held convertible notes of the Company which entitled the holder thereof to convert for 3,296,000,000 shares at a conversion price of HK\$0.0625 per share (subject to adjustments).
3. CCB International Asset Management Limited was the beneficial owner of 1,688,000,000 shares of the Company and had 1,688,000,000 shares of the Company in short position as at 31 December 2009. Central Huijin Investment Limited was deemed to be interested in the 1,688,000,000 shares of long and the 1,688,000,000 shares of short positions held by CCB International Asset Management Limited by virtue of its 57.09% interest in China Construction Bank Corporation which owned 100% interest in CCB International Group Holdings Limited. CCB International Group Holdings Limited held 100% interest in CCB Financial Holdings Limited which in turn owned 100% interest in CCB International (Holdings) Limited. CCB International (Holdings) Limited held 100% interest in CCB International Assets Management (Cayman) Limited which in turn owned 100% interest in CCB International Asset Management Limited.
4. Chan Yuen Ming was deemed to be interested in 847,746,948 shares of the Company as follows:
 - (i) 829,464,158 shares of the Company were held by Sinogreat Limited which is wholly owned by Chan Yuen Ming.
 - (ii) Probest Holdings Inc. was the beneficial owner of 18,282,790 shares of the Company as at 31 December 2009. Chan Yuen Ming was deemed to be interested in 18,282,790 shares held by Probest Holdings Inc. by virtue of its 100% interest in Winspark Venture Limited which owned 44.33% interest in Tomorrow International Holdings Limited. Tomorrow International Holdings Limited held 100% interest in Fortune Dynamic Group Corp., which in turn owned 100% interest in Probest Holdings Inc..
5. Kingsway Lion Spur Technology Limited was the beneficial owner of 480,000,000 shares of the Company as at 31 December 2009. Kingsway International Holdings Limited ("Kingsway International") was deemed to be interested in 480,000,000 shares held by Kingsway Lion Spur Technology Limited by virtue of its 100% interest in Innovation Assets Limited which owned 100% interest in World Developments Limited. World Developments Limited held 74% interest in SW Kingsway Capital Holdings Limited which in turn owned 100% interest in Festival Developments Limited. Festival Developments Limited held 100% interest in Kingsway Lion Spur Technology Limited.

Mrs. Lam Wong Yuk Sin Mary beneficially owned 40% of the issued share capital of Kingsway International and was deemed to be interested in the shares in 480,000,000 shares of the Company.

Mr. Choi Koon Shum Jonathan and his spouse, Ms. Kwan Wing Kum Janice, beneficially owned 47% of the issued share capital of Kingsway International and were deemed to be interested in the shares in 480,000,000 shares of the Company.
6. Li Han Yong was the beneficial owner of the entire share capital of Bold Win Management Limited which held 390,000,000 shares of the Company.

SUFFICIENCY OF PUBLIC FLOAT

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

EVENTS AFTER THE REPORTING PERIOD

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

AUDITORS

During the year, CCIF CPA Limited resigned as auditors of the Company and Ernst & Young were appointed by the directors to fill the casual vacancy so arising. There have been no other changes of auditors in the past three years. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Wang Da Yong

Chairman

Hong Kong
26 April 2010

Corporate Governance Report

INTRODUCTION

The Group is committed to achieving high standards of corporate governance which is crucial to the development of the Group and safeguard the interests of the Company's shareholders. To accomplish this, the Group has adopted practices which meet the Code on Corporate Governance Practices ("Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). During the year, the Company has complied with the Code save as the few exceptions mentioned below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the directors. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard as set out in the Model Code during the year ended 31 December 2009.

BOARD OF DIRECTORS

During the year, the Board of Directors (the "Board") comprised the Chairman, two chief executive officers, Mr. Li Wei and Mr. Wang Da Yong, two other executive directors, one non-executive director and three independent non-executive directors. The Board is principally accountable to the shareholders and is responsible for the leadership and control of the Group including overseeing the Group's businesses, strategic directions, financial performance, setting objectives and business development plans, and monitoring the performance of the senior management.

The Board, with balance of skills and experience, meets regularly throughout the year to formulate overall strategy, monitor business development as well as the financial performance of the Group and has formal procedures on matters for consideration and decision. The Board has delegated certain authorities to the senior management for the day-to-day management of the Group's operation. The attendance of directors at the four board meetings held in 2009 is as follows:

Directors	Attended/ Eligible to attend
Executive Directors	
Ms. Liu Yee Nee (Chairman)	4/4
Ms. Louie Mei Po	4/4
Mr. Li Wei	4/4
Ms. Zhou Jing	4/4
Mr. Wang Da Yong (appointed on 1 July 2009)	2/2
Non-executive Director	
Mr. Wang Tongtian (appointed on 1 December 2009)	0/0
Independent Non-executive Directors	
Mr. Jacobsen William Keith	4/4
Mr. Ng Wai Hung	4/4
Mr. Wu Wang Li	4/4

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

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

Subsequent to the end of the reporting period, changes of the directorship were as follows:

Executive directors:

Mr. Wang Da Yong	(appointed as the Chairman on 26 February 2010)
Ms. Liu Yee Nee	(resigned as the Chairman on 26 February 2010)
Mr. Tian Wenwei	(appointed on 18 January 2010)
Mr. Li Wei	(resigned on 2 February 2010)
Ms. Zhou Jing	(resigned on 2 February 2010)

Non-executive director:

Mr. Li Yi	(appointed on 2 February 2010)
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Independent non-executive directors:

Mr. Cao Kuangyu	(appointed on 2 February 2010)
Mr. Chiu Sui Keung	(appointed on 18 January 2010)
Mr. Ng Wai Hung	(resigned on 2 February 2010)
Mr. Wu Wang Li	(resigned on 18 January 2010)

STRATEGY AND INVESTMENT COMMITTEE

In order to reinforce future expansion and development in coal mining business of the Company, subsequent to the end of the reporting period, a strategy and investment committee of the Company was formed on 26 February 2010. Mr. Wang Da Yong is the chairman of the strategy and investment committee and Mr. Wang Tongtian, Mr. Li Yi and Mr. Cao Kuangyu were appointed as members of the strategy and investment committee.

AUDIT COMMITTEE

With reference to the recommendations set out in “A Guide for Effective Audit Committees” issued by the Hong Kong Institute of Certified Public Accountants, the Company has established an Audit Committee with written terms of reference which are in line with the code provisions set out in the Code. The Audit Committee meets at least twice a year for reviewing the reporting of annual and interim results and other information to the shareholders, and the effectiveness and objectivity of the audit process. Additional meetings may be held by the Audit Committee from time to time to discuss special projects or other issues which the Audit Committee considers necessary. The external auditors of the Company may request a meeting if they consider that one is necessary. The Audit Committee also provides an important link between the Board and the Company’s auditors in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the auditors. During the year, the Audit Committee consisted of three independent non-executive directors and was chaired by Mr. Jacobsen William Keith.

During the year, the Audit Committee reviewed with the management and the Company’s auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the audited financial statements and unaudited interim financial statements. The members and attendance of the two meetings of the Audit Committee in 2009 are as follows:

Directors	Attended/Eligible to attend
Mr. Jacobsen William Keith	2/2
Mr. Ng Wai Hung	2/2
Mr. Wu Wang Li	2/2

Following the aforesaid changes of directorship and membership of board committees subsequent to the end of the reporting period as detailed in the section headed “Board of directors” and the announcement of the Company dated 26 February 2010, the Audit Committee currently consists of three independent non executive directors, Mr. Chiu Sui Keung (Chairman), Mr. Cao Kuangyu and Mr. Jacobsen William Keith.

ROLE AND RESPONSIBILITIES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In compliance with provision A.2.1 of the Code, during the year the roles of chairman, held by Ms. Liu Yee Nee, and chief executive officers held by Mr. Li Wei and Mr. Wang Da Yong, were separate and were not performed by the same individual. The responsibilities between the chairman and chief executive officers were clearly established.

Subsequent to the end of the reporting period, Mr. Wang Da Yong, the chief executive officer of the company, was appointed as the chairman of the Company on 26 February 2010. The Board considers that the structure will not impair the balance of power and authority between the Board and the management of the Group. The balance of power and authority is ensured by the operations of the board committees which comprises experienced and high calibre individuals and meets to discuss the issues. The Board also considers that the structure enables effectiveness and efficiency in operating of the Group's business and is beneficial to the business prospects of the Group.

TERMS OF NON-EXECUTIVE DIRECTORS

Under provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election. Save as Mr. Chiu Sui Keung, who was appointed as independent non-executive director of the Company on 18 January 2010 for a term of one year, all of the existing non-executive directors and independent non-executive directors of the Company are not appointed for specific terms, however, all of them are subject to retirement by rotation at the annual general meeting of the Company.

According to the Memorandum and Articles of Association of the Company, one third of the directors shall retire from office by rotation. The Board considers that sufficient measures will be taken to ensure the corporate governance practices of the Company are not less than those in the Code.

REMUNERATION COMMITTEE

The Remuneration Committee of the Group was established in September 2005 with written terms of reference in line with the Code. The responsibilities of the Remuneration Committee include considering and recommending to the Board the Group's remuneration policy and structure and reviewing and determining the remuneration packages of the directors and senior management. During the year, the Remuneration Committee comprised three independent non-executive directors, Mr. Ng Wai Hung, Mr. Wu Wang Li and Mr. Jacobsen Willam Keith, and two executive directors, Ms. Liu Yee Nee and Mr. Li Wei.

The directors were remunerated with reference to their respective duties and responsibility with the Company, the Company's performance and current market situation. Details of remunerations of the directors from the Group for the year are disclosed in note 9 to the financial statements.

Following the aforesaid changes of directorship and membership of board committees subsequent to the end of the reporting period as detailed in the section headed "Board of directors" and the announcement dated 26 February 2010, the Remuneration Committee currently consists of Mr. Cao Kuangyu (Chairman), Mr. Wong Da Yong, Mr. Chiu Sui Keung and Mr. Jacobsen William Keith.

NOMINATION OF DIRECTORS

According to the Company's Articles of Association, the Board of Directors has the power to appoint any person as a director either to fill a causal vacancy or as an addition to the Board of Directors. The nomination should take into consideration the nominee's qualification, ability and potential contributions to the Company. During the year, Mr. Wang Da Yong was appointed as executive director of the Company and Mr. Wang Tongtian was appointed as non-executive director of the Company. All directors should be subject to re-election at regular intervals in accordance with the Articles of Association of the Company.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for the Financial Statements

The directors are responsible for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2009, the directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The directors are also responsible for keeping proper accounting records with reasonable accuracy for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors' Responsibilities and Remuneration

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

	HK\$'000
Annual audit services	1,650
Audit services for the very substantial acquisition during the year	1,761
	3,411

The statement of the auditors of the Company regarding their reporting responsibilities is set out in the Independent Auditors' Report on page 30 to 31.

Internal Control

During the year, the Company has adopted and reviewed the effectiveness of the Group's internal control procedures which include the policies, procedures, monitoring and communication activities and standard of behavior established for safeguarding the interests of the shareholders of the Company.

COMMUNICATION WITH SHAREHOLDER

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

The Board is endeavour to maintain an on-going dialogue with shareholders. The chairman of the Board and members of the Audit Committee should attend the annual general meeting to answer questions.

Independent Auditors' Report



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**To the shareholders of King Stone Energy Group Limited
(formerly known as “Yun Sky Chemical (International) Holdings Limited”)**
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of King Stone Energy Group Limited (formerly known as “Yun Sky Chemical (International) Holdings Limited”) set out on pages 32 to 95, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

**To the shareholders of King Stone Energy Group Limited (continued)
(formerly known as “Yun Sky Chemical (International) Holdings Limited”)**

(Incorporated in Hong Kong with limited liability)

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 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 Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong
26 April 2010

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
CONTINUING OPERATIONS			
REVENUE	6	88,710	627,056
Cost of sales		(82,450)	(598,245)
Gross profit		6,260	28,811
Impairment of goodwill	17	(14,949)	–
Fair value loss of convertible notes	27	(1,053,831)	–
Write-down of inventories to net realisable value		–	(13,349)
Other income and gains	6	11,358	1,409
Selling and distribution costs		(5,731)	(17,835)
Administrative expenses		(20,441)	(19,493)
Finance costs	7	(1,485)	–
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	8	(1,078,819)	(20,457)
Income tax credit	11	159	–
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		(1,078,660)	(20,457)
DISCONTINUED OPERATION			
Loss for the year from a discontinued operation	13	–	(57,574)
LOSS FOR THE YEAR		(1,078,660)	(78,031)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Exchange differences on translation of foreign operations:			
– Increase/(decrease) for the year		(2)	6,692
– Reclassification adjustment on disposal of subsidiaries	33	(6,910)	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		(6,912)	6,692
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(1,085,572)	(71,339)

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
Loss for the year attributable to:			
Owners of the Company	12	(1,078,519)	(78,031)
Minority interests		(141)	–
		(1,078,660)	(78,031)
Total comprehensive loss for the year attributable to:			
Owners of the Company	12	(1,085,431)	(71,339)
Minority interests		(141)	–
		(1,085,572)	(71,339)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	14		
Basic and diluted			
– For loss for the year		(33.56 cents)	(2.50 cents)
– For loss from continuing operations		(33.56 cents)	(0.66 cents)
– For loss from a discontinued operation		N/A	(1.84 cents)

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	851,815	2,441
Prepaid land premiums	16	12,416	–
Goodwill	17	–	–
Mining rights	18	2,384,988	–
Prepayments	22	233,169	–
Total non-current assets		3,482,388	2,441
CURRENT ASSETS			
Inventories	20	6,768	26,387
Trade receivables	21	34,598	15,248
Prepayments, deposits and other receivables	22	83,858	31,407
Due from related parties	37(b)	442	30,151
Tax recoverable		–	994
Cash and cash equivalents	23	143,024	84,435
Total current assets		268,690	188,622
CURRENT LIABILITIES			
Trade and bills payables	24	25,558	31,542
Other payables and accruals	25	152,000	12,920
Interest-bearing bank borrowings	26	56,790	–
Tax payable		5	–
Due to related parties	37(b)	151,611	94,546
Due to directors	37(b)	41	–
Total current liabilities		386,005	139,008
NET CURRENT ASSETS/(LIABILITIES)		(117,315)	49,614
TOTAL ASSET LESS CURRENT LIABILITIES		3,365,073	52,055

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
TOTAL ASSET LESS CURRENT LIABILITIES		3,365,073	52,055
NON-CURRENT LIABILITIES			
Other payables and accruals	25	35,326	–
Interest-bearing bank borrowings	26	851,850	–
Convertible notes	27	2,411,000	–
Deferred tax liabilities	28	564,064	–
Total non-current liabilities		3,862,240	–
Net assets/(liabilities)		(497,167)	52,055
EQUITY			
Equity attributable to owners of the Company			
Issued capital	29	77,338	31,249
Reserves	31(a)	(654,889)	20,806
		(577,551)	52,055
Minority interests		80,384	–
Total equity/(deficiency in assets)		(497,167)	52,055

Approved and authorised for issue by the board of directors on 26 April 2010

On behalf of the board

Wang Da Yong
Director

Liu Yee Nee
Director

Consolidated Statement of Changes In Equity

Year ended 31 December 2009

	Notes	Attributable to owners of the Company								
		Share		Share	PRC	Exchange	Accumulated losses	Total	Minority interests	Total equity
		Issued capital	premium account	option reserve	statutory reserves	fluctuation reserve				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
		(Note 31(a)(i))		(Note 31(a)(ii))	(Note 31(a)(iii))	(Note 31(a)(iv))				
At 1 January 2008		31,249	723,462	104	-	7,025	(639,218)	122,622	-	122,622
Total comprehensive income/(loss) for the year		-	-	-	-	6,692	(78,031)	(71,339)	-	(71,339)
Equity-settled share-based payment expenses										
- Amount recognised during the year	30(a)	-	-	772	-	-	-	772	-	772
- Forfeiture of share options	30(b)	-	-	(112)	-	-	112	-	-	-
Transfer from accumulated losses		-	-	-	7,904	-	(7,904)	-	-	-
At 31 December 2008 and 1 January 2009		31,249	723,462*	764*	7,904*	13,717*	(725,041)*	52,055	-	52,055
Total comprehensive loss for the year		-	-	-	-	(6,912)	(1,078,519)	(1,085,431)	(141)	(1,085,572)
Acquisition of subsidiaries	32	-	-	-	-	-	-	-	80,525	80,525
Issue of new shares	29(a)	849	7,151	-	-	-	-	8,000	-	8,000
Share issue expenses	29(a)	-	(6)	-	-	-	-	(6)	-	(6)
Conversion of convertible notes	29(b)	45,240	402,591	-	-	-	-	447,831	-	447,831
At 31 December 2009		77,338	1,133,198*	764*	7,904*	6,805*	(1,803,560)*	(577,551)	80,384	(497,167)

* These reserve accounts comprise the consolidated negative reserves of HK\$654,889,000 (2008: reserves of HK\$20,806,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax:			
From continuing operations		(1,078,819)	(20,457)
From a discontinued operation	13	–	(57,574)
		(1,078,819)	(78,031)
Adjustments for:			
Finance costs	7	1,485	448
Bank interest income	6	(549)	(356)
Loss on disposal of items of property, plant and equipment	8, 13(a)	–	7
Gain on disposal of subsidiaries	6	(6,262)	–
Fair value loss of convertible notes	27	1,053,831	–
Depreciation	15	1,192	297
Amortisation of prepaid land premiums	8	21	–
Amortisation of mining rights	8	192	–
Impairment of goodwill	17	14,949	–
Write-down/(reversal of write-down) of inventories	8	(161)	13,349
Impairment/(reversal of impairment) on trade receivables	21(b)	(3,985)	36,368
Equity-settled share-based payment expenses	30(a)	–	772
		(18,106)	(27,146)
Decrease/(increase) in trade receivables		28,305	(4,083)
Decrease/(increase) in prepayments, deposits and other receivables		(83)	92,720
Decrease in inventories		14,148	17,738
Decrease/(increase) in amounts due from related parties		30,151	(30,151)
Decrease in trade and bills payables		(5,401)	(30,304)
Increase/(decrease) in amounts due to directors		41	(1,942)
Increase/(decrease) in other payables and accruals		11,375	(21,234)
Increase/(decrease) in amounts due to related parties		(95,901)	54,912
		(35,471)	50,510
Cash generated from/(used in) operations			
Discounting charges paid		(1,485)	(448)
Income tax refunded/(paid)		994	(994)
		(35,962)	49,068
Net cash flows from/(used in) operating activities			
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		549	356
Purchases of items of property, plant and equipment		(14,648)	(1,994)
Acquisition of subsidiaries	32	73,334	–
Proceeds from disposal of subsidiaries	33	27,324	–
Increase in time deposits with maturity of more than three months when acquired		(44,285)	–
		42,274	(1,638)
Net cash flows from/(used in) investing activities			

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	29(a)	8,000	–
Share issue expenses	29(a)	(6)	–
Net cash flows from financing activities		7,994	–
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		84,435	30,342
Effect of foreign exchange rate changes		(2)	6,663
CASH AND CASH EQUIVALENTS AT END OF YEAR		98,739	84,435
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	86,843	84,435
Time deposits	23	56,181	–
Cash and cash equivalents as stated in the consolidated statement of financial position	23	143,024	84,435
Non-pledged time deposits with maturity of more than three months when acquired		(44,285)	–
Cash and cash equivalents as stated in the consolidated statement of cash flows		98,739	84,435

Statement of Financial Position

31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	19(a)	1,810,199	4
CURRENT ASSETS			
Due from subsidiaries	19(b)	43,423	70,003
Prepayments, deposits and other receivables	22	1,048	407
Cash and cash equivalents	23	13,678	27
Total current assets		58,149	70,437
CURRENT LIABILITIES			
Due to subsidiaries	19(b)	–	16,332
Other payables and accruals	25	5,658	226
Total current liabilities		5,658	16,558
NET CURRENT ASSETS			
		52,491	53,879
TOTAL ASSETS LESS CURRENT LIABILITIES			
		1,862,690	53,883
NON-CURRENT LIABILITIES			
Convertible notes	27	(2,411,000)	–
Net assets/(liabilities)		(548,310)	53,883
EQUITY			
Issued shares	29	77,338	31,249
Reserves	31(b)	(625,648)	22,634
Total equity/(deficiency in assets)		(548,310)	53,883

Approved and authorised for issue by the board of directors on 26 April 2010

On behalf of the board

Wang Da Yong
Director

Liu Yee Nee
Director

Notes to the Financial Statements

1. CORPORATE INFORMATION

King Stone Energy Group Limited (the “Company”, formerly known as “Yun Sky Chemical (International) Holdings Limited”) is a limited liability company incorporated in Hong Kong. As at the date of approval of these financial statements, the address of its registered office and principal place of business is Room 3603, 36/F, One Exchange Square, Central, Hong Kong.

Pursuant to a special resolution of the Company’s shareholders passed on 8 February 2010 and approved by the Registrar of Companies in Hong Kong on 12 February 2010, the name of the Company was changed from “Yun Sky Chemical (International) Holdings Limited” to “King Stone Energy Group Limited” and the Chinese name was changed from “南嶺化工(國際)控股有限公司” to “金山能源集團有限公司” which is part of its legal name.

During the year, the Company and its subsidiaries (collectively referred to as the “Group”) were involved in the following principal activities:

- manufacturing and trading of phosphorus products;
- trading of optical products; and
- mining and selling of coal (Such principal activity is engaged by the Group upon the completion of the acquisition of Triumph Fund A Limited (“Triumph”) and its subsidiaries during the year, further details of which is set out in note 32 to the financial statements).

2. BASIS OF PREPARATION AND CONSOLIDATION

These financial statements have been prepared under the going concern basis, notwithstanding that the Group incurred a consolidated loss attributable to owners of the Company of approximately HK\$1,078,519,000 for the year ended 31 December 2009 and the Group had net current liabilities and a deficiency in assets of HK\$117,315,000 and HK\$497,167,000 respectively as at 31 December 2009, and the Company had a deficiency in assets of HK\$548,310,000 as at 31 December 2009. This is because (i) after the reporting period, certain creditors have agreed to extend the repayment date of the Group’s liabilities due to them totalling HK\$144 million as at 31 December 2009 to 30 June 2011 (notes 25, 37(b) and 41(b)) and (ii) the directors estimate that the net operating cash inflow generated by the Group’s coal mining business shall be adequate to meet with the liabilities and capital commitment of the Group when they fall due.

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for convertible notes, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2009. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company’s subsidiaries.

3.1 CHANGE 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. Except for in certain cases giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised HKFRSs has had no significant effect on these financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments</i>
HKFRS 8	<i>Operating Segments</i>
HKFRS 8 Amendment*	Amendment to HKFRS 8 <i>Operating Segments – Disclosure of Information about Segment Assets</i> (early adopted)
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 <i>Revenue – Determining whether an entity is acting as a principal or as an agent</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement – Embedded Derivatives</i>
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i>
HK(IFRIC)-Int 18	<i>Transfers of Assets from Customers (adopted from 1 July 2009)</i>
Improvements to HKFRSs (October 2008) **	Amendments to a number of HKFRSs

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

** The Group adopted all the *Improvements to HKFRSs* issued in October 2008 except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary*, which are effective for annual periods beginning on or after 1 July 2009.

Other than as further explained below regarding the impact of HKFRS 1 and HKAS 27 Amendments, HKFRS 8 and HKAS 1 (Revised), the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

3.1 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES (CONT'D)

- (a) Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in profit or loss in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Company to consider whether there is an indicator of impairment. The amendment is applied prospectively. HKAS 27 has also been amended to deal with the measurement of the cost of investments where a parent reorganises the structure of its group by establishing a new entity as its parent. The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

- (b) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in note 5 to the financial statements.

- (c) HKAS 1 (Revised) *Presentation of Financial Statements*

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this revised standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present in one single statement.

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i> ¹
HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i> ²
HKFRS 1 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i> ⁴
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Group Cash-settled Share-based Payment Transactions</i> ²
HKFRS 3 (Revised)	<i>Business Combinations</i> ¹
HKFRS 9	<i>Financial Instruments</i> ⁶
HKAS 24 (Revised)	<i>Related Party Disclosures</i> ⁵
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> ¹
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i> ³
HKAS 39 Amendment	Amendment to HKAS 39 <i>Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i> ¹
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i> ⁵
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i> ¹
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> ⁴
Amendments to HKFRS 5 included in <i>Improvements to HKFRSs issued in October 2008</i>	Amendments to HKFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary</i> ¹
HK Interpretation 4 (Revised in December 2009)	<i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i> ²

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009 in May 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

- ¹ Effective for annual periods beginning on or after 1 July 2009
- ² Effective for annual periods beginning on or after 1 January 2010
- ³ Effective for annual periods beginning on or after 1 February 2010
- ⁴ Effective for annual periods beginning on or after 1 July 2010
- ⁵ Effective for annual periods beginning on or after 1 January 2011
- ⁶ Effective for annual periods beginning on or after 1 January 2013

In addition, in April 2010, the HKICPA had withdrawn HK Interpretation 1 *The Appropriate Accounting Policies for Infrastructure Facilities*. The withdrawal is effective for annual periods beginning on or after 1 January 2010.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application and the impact of the withdrawal of HK Interpretation 1. So far, the Group considers these new, revised and withdrawal of HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

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

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

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

Impairment of non-financial assets other than goodwill

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Impairment of non-financial assets other than goodwill (cont'd)

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 had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is a member of the key management personnel of the Group;
- (c) the party is a close member of the family of any individual referred to in (a) or (b);
- (d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or
- (e) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

Buildings	Over the lease term
Plant and machinery	8–15 years
Furniture, fixtures and equipment	5–10 years
Motor vehicles	5 years

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Property, plant and equipment and depreciation (cont'd)

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year ended.

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

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

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to profit or loss on the straight-line basis over the lease terms.

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

Mining rights

Mining rights are stated at cost less accumulated amortisation and any impairment losses, and are amortised on the units of production method based on the estimated production volume for which the structure was designed and over the total proved reserves of the coal mine.

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Investments and other financial assets

Initial recognition and measurement

The Group determines the classification of its financial assets at initial recognition. The Group's financial assets included cash and bank balances, trade and other receivables, and balances with related parties, which are classified as loans and receivables under HKAS 39. When financial assets are recognised initially, they are measured at fair value plus directly attributable transaction costs.

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

Subsequent measurement

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

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Financial liabilities

Initial recognition and measurement

The Group determines the classification of its financial liabilities at initial recognition. The Group’s financial liabilities include trade and other payables, interest-bearing loans and borrowings and convertible notes, which are classified as financial liabilities at fair value through profit or loss and loans and borrowings, as appropriate, under HKAS 39.

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial liabilities (cont'd)

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

Loans and borrowings

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

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

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 profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is 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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 other valuation models.

Inventories

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

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 statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

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

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

Income tax

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Income tax (cont'd)

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

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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) commission service income, when the services are rendered;
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (d) grant income, when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to them.

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 trinomial model, further details of which are given in note 30 to the financial statements.

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

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

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Other employee benefits

Pension schemes

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

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

Borrowing costs

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

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of certain PRC subsidiaries is currency other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rate ruling at the end of the reporting period and their profits or losses are translated into Hong Kong dollars at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Impairment of assets

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

Estimation uncertainties

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

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits in the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residues values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed, at each financial year end date based on changes in circumstances.

Impairment of property, plant and equipment and mining rights

The Group assesses each cash generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. The carrying value of the property, plant and equipment, including mining structure, is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in the financial statements. Estimating the value in use requires the Group to estimate future cash flows from the cash generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows. The net carrying amounts of property, plant and equipment in the consolidated statement of financial position of the Group at 31 December 2009 was HK\$851,815,000 (2008: HK\$2,441,000) (note 15). The net carrying amount of mining rights in the consolidated statement of financial position of the Group at 31 December 2009 was HK\$2,384,988,000 (2008: Nil) (note 18).

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D)

Estimation uncertainties (cont'd)

Mine reserves

Engineering estimates of the Group's mine reserves are inherently imprecise and represent only approximate amounts because of the significant judgments involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as "proved" and "probable". Proved and probable mine reserve estimates are updated on regular intervals taking into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable mine reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in both depreciation and amortisation rates calculated on a unit of production basis. Changes in the estimate of mine reserves are also taken into account in impairment assessment of mining rights. The net carrying amount of mining rights in the consolidated statement of financial position of the Group at 31 December 2009 was HK\$2,384,988,000 (2008: Nil) (note 18).

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the ageing and estimated net realisable value of inventories. The assessment of the write-down amount requires management's estimates and judgement. Where the actual outcome or expectation in the future is different from the original estimate, such differences will impact the carrying value of inventories and write-down/write-back of inventories in the period in which such estimate has been changed. The net carrying amounts of inventories in the consolidated statement of financial position of the Group at 31 December 2009 was HK\$6,768,000 (2008: HK\$26,387,000) (note 20).

Impairment of receivables

Impairment of receivables is made based on an assessment of the recoverability of receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact the carrying values of the receivables and impairment loss in the period in which such estimate has been changed. The net carrying amounts of trade and other receivables in the consolidated statement of financial position of the Group at 31 December 2009 were HK\$34,598,000 and HK\$ 317,027,000, respectively (2008: HK\$15,248,000 and HK\$31,407,000) (notes 21 and 22).

Provision for rehabilitation

Provision for rehabilitation is based on estimates of future expenditures incurred by management to undertake rehabilitation and restoration work to coal mine which are discounted at a rate reflecting the term and nature of the obligation. Significant estimates and assumptions are made in determining the provision for rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases and changes in the discount rate. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at end of the reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognised in the consolidated statements of financial position by adjusting the rehabilitation asset and liability. At 31 December 2009, the directors of the Group estimated that no provision for rehabilitation is required (2008: Nil).

Fair value assessments of convertible notes

The unlisted convertible notes issued by the Company in connection with the acquisition of Triumph during the year (note 32) have been valued based on valuation techniques for which all inputs which have a significant effect on the recorded fair values are observable, either directly or indirectly. This valuation requires the Group to make estimates about credit risk and volatility of the Company's listed shares, and hence they are subject to uncertainty. Where the estimation on these factors is different from those previously estimated, such differences will impact the fair value gain or loss of the convertible notes in the period in which such determination is made. The fair value of the unlisted convertible notes at 31 December 2009 was HK\$2,411,000,000 (2008: Nil). Further details are included in notes 27 and 39 to the financial statements.

5. OPERATING SEGMENT INFORMATION

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

- (a) the phosphorus products segment invests in manufacturing and trading of phosphorus products;
- (b) the optical products segment invests in trading of optical products; and
- (c) the coal mining segment invests in mining and selling of coal.

The discontinued operation presented in these financial statements represented the manufacturing and sale of PVC products which was operated in East Asia (including Hong Kong) and was discontinued during the year ended 31 December 2008, further details of which are set out in note 13 to the financial statements.

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

Segment assets exclude tax recoverable, 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, interest-bearing bank borrowings, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

5. OPERATING SEGMENT INFORMATION (CONT'D)

Year ended 31 December 2009

	Phosphorus products HK\$'000	Optical products HK\$'000	Coal mining HK\$'000	Corporate and other HK\$'000	Total HK\$'000
Segment revenue:					
Revenue from external customers	24,824	61,245	2,641	–	88,710
Other revenue	10,558	86	264	450	11,358
Total revenue	35,382	61,331	2,905	450	100,068
Segment results	(3,413)	49	(1,478)	–	(4,842)
<i>Reconciliation:</i>					
Bank interest income					549
Impairment of goodwill					(14,949)
Fair value loss of convertible notes					(1,053,831)
Corporate and other unallocated expenses					(4,261)
Finance costs					(1,485)
Loss before tax from continuing operations					(1,078,819)
Income tax credit					159
Loss for the year					(1,078,660)
Segment assets	7,188	14,317	3,585,403	–	3,606,908
<i>Reconciliation:</i>					
Cash and cash equivalents					143,024
Corporate and other unallocated assets					1,146
Total assets					3,751,078
Segment liabilities	23,519	15,685	319,669	–	358,873
<i>Reconciliation:</i>					
Interest-bearing bank borrowings					908,640
Tax payables					5
Convertible notes					2,411,000
Deferred tax liabilities					564,064
Corporate and other unallocated liabilities					5,663
Total liabilities					4,248,245
Other segment information:					
Capital expenditure*	–	–	3,237,951	–	3,237,951
Depreciation	172	–	1,020	–	1,192
Amortisation of prepaid land premiums	–	–	21	–	21
Amortisation of mining rights	–	–	192	–	192
Reversal of impairment of trade receivables	(3,985)	–	–	–	(3,985)
Reversal of write-down of inventories	(161)	–	–	–	(161)

* Capital expenditure consists of additions to property, plant and equipment and property, plant and equipment, and mining rights arising from the acquisition of subsidiaries (note 32) during the year.

5. OPERATING SEGMENT INFORMATION (CONT'D)

Year ended 31 December 2008

	Continuing operations			Total HK\$'000	Discontinued operation	Con- solidated HK\$'000
	Phosphorus products HK\$'000	Optical products HK\$'000	Unallocated HK\$'000		PVC products HK\$'000	
Segment revenue:						
Revenue from external customers	593,055	34,001	–	627,056	191,667	818,723
Other revenue	1,103	1	305	1,409	–	1,409
Total revenue	594,158	34,002	305	628,465	191,667	820,132
Segment results						
	(13,184)	(21)	–	(13,205)	(57,126)	(70,331)
<i>Reconciliation:</i>						
Corporate and other unallocated expenses				(7,252)	–	(7,252)
Finance costs				–	(448)	(448)
Loss for the year				(20,457)	(57,574)	(78,031)
Segment assets						
	74,888	17,484	–	92,372	12,855	105,227
<i>Reconciliation:</i>						
Tax recoverables				994	–	994
Cash and cash equivalents				84,435	–	84,435
Corporate and other unallocated assets				407	–	407
Total assets				178,208	12,855	191,063
Segment liabilities						
	117,823	17,200	–	135,023	3,739	138,762
<i>Reconciliation:</i>						
Corporate and other unallocated liabilities				246	–	246
Total liabilities				135,269	3,739	139,008
Other segment information:						
Capital expenditure	1,994	–	–	1,994	–	1,994
Depreciation	293	–	–	293	4	297
Impairment on trade receivables	–	–	–	–	36,368	36,368
Write-down of inventories	13,349	–	–	13,349	–	13,349

5. OPERATING SEGMENT INFORMATION (CONT'D)

Geographical information

The presentation of geographical information of the segment revenue is based on the geographical locations of customers.

	2009 HK\$'000	2008 HK\$'000
Continuing operations:		
The PRC	14,151	461,916
East Asia (including Hong Kong)	74,559	165,140
Segment revenue from external customers	88,710	627,056
Discontinued operation:		
The PRC	–	171,612
East Asia (including Hong Kong)	–	20,055
Segment revenue from external customers	–	191,667

Segment assets and capital expenditure are based on the geographical location of the assets.

	Carrying amount of segment assets		Capital expenditure	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Continuing operations:				
The PRC	3,688,104	85,848	3,237,951	1,973
East Asia (including Hong Kong)	62,974	92,360	–	21
	3,751,078	178,208	3,237,951	1,994
Discontinued operation – The PRC	–	12,855	–	–
	3,751,078	191,063	3,237,951	1,994

Information about a major customer

During the year, the Group had transactions with a single (2008: One) external customer which contributed to over 10% of the Group's total revenue (including continuing and discontinued operation). The revenue generated from this customer amounted to HK\$61,245,000 (2008: HK\$261,099,000).

6. REVENUE, OTHER INCOME AND GAINS

The Group is principally engaged in the manufacturing and trading of phosphorus products, trading of optical products and mining and selling of coal.

Revenue, which is also the Group's turnover, represents the sales at invoiced value of goods sold to customers net of sales tax, value added tax, goods returns and allowances.

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

	2009 HK\$'000	2008 HK\$'000
Revenue		
Manufacturing and trading of phosphorus products	24,824	593,055
Trading of optical products	61,245	34,001
Mining and selling of coal	2,641	–
	88,710	627,056
Other income		
Bank interest income	549	356
Government grants	–	851
Others	105	202
	654	1,409
Gains		
Gain on disposal of subsidiaries (note 33)	6,262	–
Others	4,442	–
	10,704	–
Other income and gains	11,358	1,409

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2009 HK\$'000	2008 HK\$'000
From continuing operations:		
Interest on bank loans wholly repayable within five years	1,485	–
From discontinued operation:		
Discounting charges	–	448

8. LOSS BEFORE TAX FROM CONTINUING OPERATIONS

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

	Notes	2009 HK\$'000	2008 HK\$'000
Cost of inventories sold		82,450	598,245
Depreciation	15	1,192	285
Amortisation of prepaid land premiums	16	21	–
Amortisation of mining rights	18	192	–
Employee benefit expense (including directors' remuneration):			
Salaries, wages and other benefits		14,103	24,132
Equity-settled share-based payment expenses		–	772
		14,103	24,904
Pension scheme contributions		3,023	2,715
		17,126	27,619
Auditors' remuneration		1,650	580
Reversal of impairment of trade receivables	21(b)	(3,985)	–
Loss on disposal of items of property, plant and equipment		–	4
Operating lease rentals in respect of properties, machinery and equipment		334	26,254
Write-down/(reversal of write-down) of inventories		(161)	13,349
Gain on disposal of subsidiaries	33	(6,262)	–

9. DIRECTORS' REMUNERATION

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

	Notes	Group	
		2009 HK\$'000	2008 HK\$'000
Fees:			
Independent non-executive directors	(a)	420	506
Executive directors and a non-executive director	(b)	15	–
		435	506
Other emoluments:			
Executive directors and a non-executive director	(b)		
Salaries, allowances and benefits in kind		1,870	1,563
Pension scheme contributions		30	36
		1,900	1,599
		2,335	2,105

Notes:

(a) Independent non-executive directors

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

	2009 HK\$'000	2008 HK\$'000
Jacobsen William Keith	120	32
Ng Wai Hung	180	58
Wu Wang Li	120	39
Wu Bin	–	133
Choi Tse Kit, Sammy	–	122
Tam King Ching, Kenny	–	122
	420	506

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

9. DIRECTORS' REMUNERATION (CONT'D)

Notes: (cont'd)

(b) Executive directors and a non-executive director

	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement scheme contributions HK\$'000	2009 Total HK\$'000
2009				
Executive directors:				
Liu Yee Nee	–	–	–	–
Wang Da Yong	–	1,200	6	1,206
Louie Mei Po	–	–	–	–
Li Wei	–	430	12	442
Zhou Jing	–	240	12	252
	–	1,870	30	1,900
Non-executive director:				
Wang Tongtian	15	–	–	15
	15	1,870	30	1,915
2008				
Executive directors:				
Liu Yee Nee	–	–	–	–
Louie Mei Po	–	–	–	–
Li Wei	–	501	12	513
Zhou Jing	–	363	12	375
Zhao Jun	–	454	12	466
Wang An Kang	–	245	–	245
	–	1,563	36	1,599

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2008: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2008: two) non-director, highest paid employees for the year are as follows:

	2009 HK\$'000	2008 HK\$'000
Salaries, allowances and benefits in kind	1,201	1,047
Equity-settled share-based payment expenses*	–	772
Retirement scheme contributions	40	18
	1,241	1,837

* During the year ended 31 December 2008, an employee was granted with share options of the Company, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 30 to the financial statements. The share options were vested on the date of grant and the fair value of such options, which has been recognised in profit or loss, was determined as at the date of grant.

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

	Number of employees	
	2009	2008
Nil – HK\$1,000,000	3	2

11. INCOME TAX CREDIT

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2009 HK\$'000	2008 HK\$'000
Group:		
Current – Hong Kong charge for the year	5	–
Deferred (note 28)	(164)	–
Total tax credit for the year	(159)	–

11. INCOME TAX CREDIT (CONT'D)

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

Group – 2009

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss before tax	(1,072,506)		(6,313)		(1,078,819)	
Tax at the statutory tax rate	(176,963)	16.5	(1,578)	25.0	(178,541)	16.5
Lower tax rate for specific provinces or enacted by local authority	–	–	130	(2.0)	130	–
Income not subject to tax	(1,225)	0.1	(997)	15.8	(2,222)	0.2
Expenses not deductible for tax	176,894	(16.5)	12	(0.2)	176,906	(16.4)
Effect of temporary timing differences not recognised	4	–	248	(3.9)	252	–
Tax losses utilised from previous period	(3)	–	(407)	6.4	(410)	–
Tax losses not recognised	1,298	(0.1)	2,428	(38.5)	3,726	(0.3)
Tax charge/(credit) at effective rate	5	–	(164)	2.6	(159)	–

Group – 2008

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	11,929		(32,386)		(20,457)	
Tax at the statutory tax rate	1,968	16.5	(8,096)	25.0	(6,128)	30.0
Lower tax rate for specific provinces or enacted by local authority	–	–	(3,283)	10.1	(3,283)	16.0
Income not subject to tax	(52)	(0.4)	–	–	(52)	0.3
Expenses not deductible for tax	154	1.3	27	–	181	(0.9)
Effect of temporary timing differences not recognised	(417)	(3.5)	2,157	(6.7)	1,740	(8.5)
Tax losses utilised from previous period	(1,688)	(14.2)	–	–	(1,688)	8.3
Tax losses not recognised	35	0.3	9,195	(28.4)	9,230	(45.2)
Tax charge at effective rate	–	–	–	–	–	–

12. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year ended 31 December 2009 includes a loss of HK\$1,058,018,000 (2008: a profit of HK\$67,813,000) which has been dealt with in the financial statements of the Company (note 31(b)).

13. DISCONTINUED OPERATION

On 11 September 2008, the Group and Yunnan Phosphorus Group Co. Ltd. (a company beneficially owned by two then directors of the Company) and its subsidiaries, entered into a leasing termination agreement, pursuant to which both parties agreed that the Group terminated the leasing of the PVC factory premises, machinery and equipment for the manufacturing of its PVC products. In the opinion of the Company's directors, after the termination of the above leasing, the Group immediately ceased the business of manufacturing and sale of PVC products onwards.

(a) Analysis of the results of a discontinued operation

	2008 HK\$'000
Revenue	191,667
Cost of sales	(192,823)
Gross loss	(1,156)
Selling and distribution cost	(11,110)
Administrative expenses	(8,489)
Loss on disposal of items of property, plant and equipment	(3)
Impairment on trade receivables	(36,368)
Loss from operations	(57,126)
Finance costs	(448)
Loss for the year	(57,574)

(b) The net cash flows of the discontinued operation dealt with in the consolidated financial statements for the year ended 31 December 2008 are as follows:

	Total HK\$'000
Net cash inflow from operating activities	61,464
Net cash outflow from financing activities	(61,464)
Net cash flows incurred by a discontinued operation	-

14. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 3,213,533,552 (2008: 3,124,862,734) in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the share options of the Company outstanding during these years and the deemed conversion of the convertible notes issued by the Company during the year have anti-dilutive effects on the basic loss per share amounts for these years.

The calculations of basic and diluted loss per share are based on:

	2009 HK\$'000	2008 HK\$'000
Loss		
Loss attributable to ordinary equity holders of the Company, used in the basic and diluted loss per share calculation:		
From continuing operations	(1,078,519)	(20,457)
From a discontinued operation	–	(57,574)
Loss attributable to ordinary equity holders of the Company	(1,078,519)	(78,031)

15. PROPERTY, PLANT AND EQUIPMENT
Group

	Notes	Buildings HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2009							
At 1 January 2009:							
Cost		–	2,491	301	6	–	2,798
Accumulated depreciation		–	(260)	(95)	(2)	–	(357)
Net carrying amount		–	2,231	206	4	–	2,441
At 1 January 2009, net of accumulated depreciation							
Additions		–	1,544	86	–	13,018	14,648
Acquisition of subsidiaries	32	35,236	785,419	4,336	3,536	9,596	838,123
Disposal of subsidiaries	33	–	(2,095)	(107)	(3)	–	(2,205)
Depreciation provided during the year		(2)	(1,110)	(54)	(26)	–	(1,192)
Transfer		–	10,732	–	–	(10,732)	–
At 31 December 2009, net of accumulated depreciation		35,234	796,721	4,467	3,511	11,882	851,815
At 31 December 2009:							
Cost		36,085	837,407	5,083	4,236	11,882	894,693
Accumulated depreciation		(851)	(40,686)	(616)	(725)	–	(42,878)
Net carrying amount		35,234	796,721	4,467	3,511	11,882	851,815

15. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Group (cont'd)

	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2008					
At 1 January 2008:					
Cost	86	221	6	464	777
Accumulated depreciation	(1)	(53)	(1)	–	(55)
Net carrying amount	85	168	5	464	722
At 1 January 2008, net of accumulated depreciation					
	85	168	5	464	722
Additions	1,090	86	–	818	1,994
Disposal	–	(7)	–	–	(7)
Depreciation provided during the year	(252)	(44)	(1)	–	(297)
Transfer	1,310	–	–	(1,310)	–
Exchange realignment	(2)	3	–	28	29
At 31 December 2008, net of accumulated depreciation					
	2,231	206	4	–	2,441
At 31 December 2008:					
Cost	2,491	301	6	–	2,798
Accumulated depreciation	(260)	(95)	(2)	–	(357)
Net carrying amount	2,231	206	4	–	2,441

16. PREPAID LAND PREMIUMS

	Note	Group	
		2009 HK\$'000	2008 HK\$'000
Carrying amount at 1 January		–	–
Acquisition of subsidiaries	32	12,437	–
Amortisation provided during the year		(21)	–
Carrying amount at 31 December		12,416	–

The leasehold land of the Group as at 31 December 2009 is located in Mainland China and is held under medium term lease.

17. GOODWILL

The amount of goodwill capitalised as an asset in the consolidated statement of financial position, arising on the acquisition of subsidiaries, is as follows:

	Note	Group	
		2009 HK\$'000	2008 HK\$'000
At 1 January:			
Cost		–	–
Accumulated impairment		–	–
Net carrying amount		–	–
Net carrying amount:			
At 1 January		–	–
Acquisition of subsidiaries	32	14,949	–
Impairment recognised in profit or loss during the year		(14,949)	–
At 31 December		–	–
At 31 December:			
Cost		14,949	–
Accumulated impairment		(14,949)	–
Net carrying amount		–	–

Impairment testing of goodwill

The Group's goodwill as at 31 December 2009 arose from the acquisition of Triumph during the year, which was engaging in the coal mining business through an operating subsidiary and was defined as a single cash-generating unit. Details of the acquisition are set out in note 32 to the financial statements.

An impairment provision of HK\$14,949,000 was recognised in profit or loss for the year with respect to the goodwill, as the directors of the Group are of the opinion that the goodwill shall be fully impaired after the assessment of the recoverable amount of the relevant business unit to which the goodwill relates.

18. MINING RIGHTS

	Note	Total HK\$'000
31 December 2009		
Cost at 1 January 2009, net of accumulated amortisation		–
Acquisition of subsidiaries	32	2,385,180
Amortisation provided during during the year		(192)
At 31 December 2009		2,384,988
At 31 December 2009:		
Cost		2,385,180
Accumulated amortisation		(192)
Net carrying amount		2,384,988
31 December 2008		
At 1 January 2008, 31 December 2008 and 1 January 2009:		
Cost		–
Accumulated amortisation		–
Net carrying amount		–

The Group's mining rights with a carrying amount of approximately HK\$2,384,988,000 as at 31 December 2009 were pledged to secure interest-bearing bank borrowings of the Group (note 26).

19. INTERESTS IN SUBSIDIARIES

	Notes	Company	
		2009 HK\$'000	2008 HK\$'000
Unlisted shares or investments, at cost	(a)	1,810,199	4
Due from subsidiaries	(b)	43,423	70,003
Due to subsidiaries	(b)	–	(16,332)

Notes:

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

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Directly	Indirectly	
Anchorage Trading Limited	Hong Kong	HK\$1	100	–	Sales agent of an overseas principal
Top Galaxy Trading Ltd.	Hong Kong	HK\$1	100	–	Trading of optical products
Sharp Capital Development Ltd.	Hong Kong	HK\$1	100	–	Investment holding
Brilliant Sign Ltd.	BVI	US\$1	100	–	Investment holding
Kunming Huadian Chemicals Co., Ltd.*	The PRC/ Mainland China	HK\$10,500,000	–	100	Manufacturing and trading of phosphorus products
Triumph Fund A Limited [^]	Cayman Islands	US\$50,000	–	100	Investment holding
Shanxi Hengchuang Industrial Co., Ltd. ("Shanxi Hengchuang") ^{#^}	The PRC/ Mainland China	US\$75,000,000	–	100	Investment holding
Shanxi Puhua Deqin Metallurgy Technology Co., Ltd. ("Shanxi Puhua") ^{#^}	The PRC/ Mainland China	RMB150,000,000	–	99	Investment holding
Eerduosi Hengtai Coal Co., Ltd. ("Hengtai") ^{#^@}	The PRC/ Mainland China	RMB180,000,000	–	95	Mining and selling of coal

* Registered as a wholly-foreign-owned enterprise under the PRC law.

Registered as limited liability companies under the PRC law.

[^] These are the companies acquired during the year ended 31 December 2009. Further details are included in note 32 to the financial statements.

[@] As at 31 December 2009, 95% equity interests in Hengtai held by Shanxi Puhua was pledged to secure interest-bearing bank borrowings of the Group (note 26).

19. INTERESTS IN SUBSIDIARIES (CONT'D)

Notes: (cont'd)

(a) (cont'd)

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

(b) All balances with subsidiaries as at 31 December 2009 and 2008 are unsecured, interest-free and have no fixed terms of repayment.

20. INVENTORIES

	Group	
	2009 HK\$'000	2008 HK\$'000
Raw materials	3,106	17,056
Packaging materials	–	718
Finished goods	3,632	7,150
Sub-materials and parts	30	1,463
	6,768	26,387

21. TRADE RECEIVABLES

	Notes	Group	
		2009 HK\$'000	2008 HK\$'000
Trade receivables due from:			
Third parties		70,210	21,465
Related parties	(a)	–	30,151
		70,210	51,616
Impairment	(b)	(35,612)	(36,368)
	(c)	34,598	15,248

Notes:

(a) The balances with the related parties as at 31 December 2008 were unsecured, interest-free and had no fixed terms of repayment.

21. TRADE RECEIVABLES (CONT'D)

Notes: (cont'd)

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

	Group	
	2009 HK\$'000	2008 HK\$'000
At 1 January	36,368	–
Impairment losses/(reversal of impairment losses) recognised (Notes 8, 13(a))	(3,985)	36,368
Acquisition of subsidiaries	3,237	–
Disposal of subsidiaries	(8)	–
	35,612	36,368

Included in the above provision for impairment of trade receivables are provisions for individually impaired trade receivables of HK\$35,612,000 (2008: HK\$36,368,000) with a carrying amount before provision of HK\$35,612,000 (2008: HK\$36,368,000). The individually impaired trade receivables relate to customers that were in financial difficulties and the receivables is not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

(c) The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to six months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by the management. In view of the aforementioned and the fact that the Group's trade receivables relate to various diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	Group	
	2009 HK\$'000	2008 HK\$'000
0 to 30 days	17,610	191
31 to 60 days	5,990	302
61 to 90 days	1,930	4,861
91 to 180 days	1,863	44,852
181 to 365 days	4,597	1,375
More than 365 days	38,220	35
	70,210	51,616
Provision for impairment	(35,612)	(36,368)
	34,598	15,248

21. TRADE RECEIVABLES (CONT'D)

Notes: (cont'd)

(c) (cont'd)

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2009 HK\$'000	2008 HK\$'000
Neither past due nor impaired	27,393	13,838
Less than 6 months past due	4,597	1,375
Over 6 months past due	2,608	35
	34,598	15,248

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	Group		Company	
		2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Prepayments		273,084	6,154	654	9
Value added tax refundable		–	24,754	–	–
Deposits		633	449	394	394
Other receivables		53,297	50	–	4
		327,014	31,407	1,048	407
Impairment of other receivables	(a)	(9,987)	–	–	–
		317,027	31,407	1,048	407
Portion classified as current assets		(83,858)	(31,407)	(1,048)	(407)
Non-current portion		233,169	–	–	–

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONT'D)

Note:

- (a) The movement in the provision for impairment of other receivables is as follows:

	Group	
	2009 HK\$'000	2008 HK\$'000
At 1 January	–	–
Acquisition of subsidiaries	9,987	–
At 31 December	9,987	–

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Cash and bank balances	86,843	84,435	627	27
Time deposits	56,181	–	13,051	–
Cash and cash equivalents	143,024	84,435	13,678	27

- (a) At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$80,848,000 (2008: HK\$2,539,000). The RMB is not freely convertible into other currencies, however, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.
- (b) Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and six months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

24. TRADE AND BILLS PAYABLES

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

	Group	
	2009 HK\$'000	2008 HK\$'000
0 to 30 days	7,270	4,754
31 to 60 days	5,794	10,320
61 to 90 days	3,809	5,279
91 to 180 days	668	1,178
181 to 365 days	1,995	9,677
Over 365 days	6,022	334
	25,558	31,542

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

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Accruals	13,442	7,660	5,646	214
Receipts in advance	12,297	5,160	–	–
Value added tax payable	11,913	–	–	–
Loans from third parties (Note)	79,655	–	–	–
Other payables	70,019	100	12	12
	187,326	12,920	5,658	226
Portion classified as current	(152,000)	(12,920)	(5,658)	(226)
Non-current portion	35,326	–	–	–

Note: Except for a loan from a third party with a principal amount of RMB46,000,000 (equivalent to HK\$52,247,000) as at 31 December 2009 which bears interest at an annual interest rate of 7.4% and loan balances aggregating to RMB14,000,000 (equivalent to HK\$15,901,000) as at 31 December 2009 which were restructured in April 2010 to be repaid on 30 June 2011, the remaining balances of loans from third parties are unsecured, interest-free and have no fixed terms of repayment.

26. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	Group 2009 HK\$'000
Current			
Bank loans – secured	5.92-7.97	2010	56,790
Non-current			
Bank loans – secured	5.92-7.97	2011-2015	851,850
At 31 December 2009			908,640
Analysed into:			
Bank loans:			
Within one year			56,790
In the second year			113,580
In the third to fifth years, inclusive			567,900
Beyond the fifth year			170,370
			908,640

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

Certain bank loan of RMB20,000,000 (equivalent to approximately HK\$22,716,000) is subject to the floating interest rate for one-year loans published by the People's Bank of China, and the maturity date is 25 October 2010. Such bank loan is guaranteed by an independent third party.

Certain bank loan of RMB30,000,000 (equivalent to approximately HK\$34,074,000) bears interest at a rate of 7.97% per annum, and the maturity date is 4 December 2010. Such bank loan is guaranteed by an independent third party.

Certain bank loan of RMB500,000,000 (equivalent to approximately HK\$567,900,000) as at 31 December 2009 is subject to the floating interest rate for five-year loans published by the People's Bank of China, and is repayable by instalments in 2011 to 2013. Such bank loan is secured by:

- (i) guarantees given by Mr. Zhao Ming (then shareholder of Triumph) and Mr. Hao Shenhai (director of Hengtai);
- (ii) pledges over the Group's mining rights (note 18); and
- (iii) pledges over 95% and 5% equity interests in Hengtai held by Shanxi Puhua (note 19(a)) and Eerduosi Dongsheng District Puhua Deqin Trading Co., Ltd. (minority shareholder of Hengtai).

Certain bank loan of RMB250,000,000 (equivalent to approximately HK\$283,950,000) as at 31 December 2009 is subject to the floating interest rate for six-year loans published by the People's Bank of China, and is repayable by instalments in 2014 to 2015. Such bank loan is guaranteed by Mr. Zhao Ming (then shareholder of Triumph) and Mr. Hao Shenhai (director of Hengtai), and is secured by the Group's mining rights (note 18).

27. CONVERTIBLE NOTES

On 21 December 2009, the Company issued zero coupon redeemable convertible notes in an aggregate principal amount of HK\$1,805,000,000, for the acquisition of the entire issued share capital of Triumph and its subsidiaries. Such convertible notes have a 5 years maturity term, however, the Company has the right at any time after 3 years of the issuance date to redeem in whole or in part of the convertible notes at par value. The convertible notes can be converted into ordinary shares at the initial conversion price of HK\$0.0625 per share. At the end of reporting period, convertible notes with principal amount of HK\$282,750,000 were converted into 4,524,000,000 ordinary shares at the conversion price of HK\$0.0625 each (note 29(b)).

Upon initial recognition, the Group's convertible notes were designated as financial liabilities at fair value through profit or loss with gains or losses on changes in fair value recognised in profit or loss in the year in which they arise.

The movements in the fair value and the principal amount of the Group's and the Company's convertible notes are as follows:

	Notes	2009		2008	
		Fair value HK\$'000	Principal amount HK\$'000	Fair value HK\$'000	Principal amount HK\$'000
At 1 January		–	–	–	–
Issue upon acquisition of subsidiaries	32	1,805,000	1,805,000	–	–
Converted into ordinary shares of the Company	29(b)	(447,831)	(282,750)	–	–
Changes in fair value		1,053,831	–	–	–
At 31 December		2,411,000	1,522,250	–	–

28. DEFERRED TAX LIABILITIES

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

Group

	Losses available for offsetting future taxable profits HK\$'000	Impairments and provisions HK\$'000	Depreciation and amortisation of non-current assets HK\$'000	Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Total HK\$'000
At 1 January 2009	-	-	-	-	-
Acquisition of subsidiaries (note 32)	(3,272)	(3,874)	5,559	565,815	564,228
Deferred tax charged/(credited) to profit or loss during the year (note 11)	(339)	(422)	594	3	(164)
At 31 December 2009	(3,611)	(4,296)	6,153	565,818	564,064

At 31 December 2009, deferred tax assets have not been recognised in respect of unused tax losses of HK\$193,367,000 (2008: HK\$186,376,000) as they have arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised.

29. SHARE CAPITAL

Share

	2009 HK\$'000	2008 HK\$'000
Authorised: 300,000,000,000 ordinary shares of HK\$0.01 each	3,000,000	3,000,000
Issued and fully paid: 7,733,743,370 (2008: 3,124,862,734) ordinary shares of HK\$0.01 each	77,338	31,249

There were no movements in the issued share capital of the Company during the year ended 31 December 2008. The movements in share capital during the year ended 31 December 2009 were as follows:

	Number of ordinary shares in issue	Issued capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
Notes				
At 1 January 2008, 31 December 2008 and 1 January 2009	3,124,862,734	31,249	723,462	754,711
Issue of new shares	(a) 84,880,636	849	7,151	8,000
Share issue expenses	(a) –	–	(6)	(6)
Conversion of convertible notes	(b) 4,524,000,000	45,240	402,591	447,831
At 31 December 2009	7,733,743,370	77,338	1,133,198	1,210,536

Notes:

- (a) On 6 February 2009, 84,880,636 new ordinary shares of par value of HK\$0.01 each were issued, at the issue price of HK\$0.09425 per share, for a total cash consideration, before expenses, of HK\$8,000,000. The expenses related to the issue of such shares were HK\$6,000.
- (b) On 31 December 2009, 4,524,000,000 ordinary shares of par value of HK\$0.01 each were issued upon partial conversion of the convertible notes with principal amount of HK\$282,750,000. The fair value of such convertible notes was HK\$447,831,000 (note 27), and the excess of the fair value of such convertible notes over the aggregate par value of HK\$45,240,000 for the ordinary shares issued, which amounted to HK\$402,591,000, was credited to the share premium account of the Company.

Share option

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

30. SHARE OPTION SCHEME

The Company operates the Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, and any minority shareholder in the Company's subsidiaries. The Scheme became effective on 28 May 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

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

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

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

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

30. SHARE OPTION SCHEME (CONT'D)

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

	Notes	2009		2008	
		Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January		0.125	12,320	0.1	10,000
Granted during the year	(a)	–	–	0.125	12,320
Forfeited during the year	(b)	–	–	0.1	(10,000)
At 31 December	(c)	0.125	12,320	0.125	12,320

Notes:

- (a) During the year ended 31 December 2008, the fair value of the 12,320,000 share options granted during that year of HK\$764,000 and the fair value of other share options vested during that year of HK\$8,000, totalling HK\$772,000 were recognised by the Group in profit or loss as an equity-settled share option expense during that year.

The fair value of equity-settled share options granted in 2008 was estimated, using the trinomial model, at the date of grant, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2008
Dividend yield (%)	–
Expected volatility (%)	75.03
Risk-free interest rate (%)	1.80
Expected life of options (year)	3
Weighted average share price (HK\$ per share)	0.125

- (b) During the year ended 31 December 2008, 10,000,000 share options were forfeited due to the resignation of an executive director during that year. Accordingly, HK\$112,000 was transferred from share option reserve to accumulated losses during that year.
- (c) The exercise price and exercise period of the share options outstanding as 31 December 2009 and 2008 are as follows:

Number of options	Exercise price HK\$ per share	Exercise period
12,320,000	0.125	29 September 2008 to 28 September 2013

At the end of the reporting period, the Company had 12,320,000 (2008: 12,320,000) share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 12,320,000 additional ordinary shares of the Company and additional share capital of HK\$123,200 and share premium of HK\$1,416,800 (before issue expenses).

At the date of approval of these financial statements, the Company had 12,320,000 share options outstanding under the Scheme, which represented approximately 0.09 % of the Company's shares in issue as at that date.

31. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 36 of the financial statements.

Notes:

- (i) The share premium account represents the excess of the issued price net of any share issue expenses over the par value of the shares issued.
- (ii) The share option reserve comprises the fair value of share options vested which are yet to be exercised, as further explained in the accounting policy of share-based payment transactions in note 3.3 to the financial statements. The amount will either be transferred to the share premium account when the related share options are exercised, or transferred to retained profits/accumulated losses should the related share options expire or be forfeited.
- (iii) The PRC statutory reserves refer to the PRC statutory reserve fund. Appropriations to such reserve fund are made out of the profit after tax of the statutory financial statements of the PRC subsidiaries and the amount should not be less than 10% of the profit after tax unless the aggregate amount standing to the credit of this reserve exceeds 50% of the registered capital of the PRC subsidiaries. The statutory reserve fund can be used to make up prior year losses of the PRC subsidiaries. During the current year, no transfers was made out of the accumulated losses to the statutory reserves of the PRC subsidiaries as no profits was generated by these PRC subsidiaries.
- (iv) The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations not denominated in presentation currency of the Company.

(b) Company

	Notes	Share premium account HK\$'000 (note 31(a)(i))	Share option reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2008		723,462	104	(769,517)	(45,951)
Total comprehensive income for the year	12	–	–	67,813	67,813
Equity-settled share-based payment expenses					
– Amount recognised during the year	30(a)	–	772	–	772
– Forfeiture of share options	30(b)	–	(112)	112	–
At 31 December 2008 and at 1 January 2009		723,462	764	(701,592)	22,634
Total comprehensive loss for the year	12	–	–	(1,058,018)	(1,058,018)
Issue of new shares	29(a)	7,151	–	–	7,151
Share issue expenses	29(a)	(6)	–	–	(6)
Conversion of convertible notes	29(b)	402,591	–	–	402,591
At 31 December 2009		1,133,198	764	(1,759,610)	(625,648)

32. BUSINESS COMBINATION

On 21 December 2009, the Group acquired a 100% equity interest in Triumph, at a consideration of HK\$1,805,000,000, which was satisfied by issuing convertible notes with a principal amount of HK\$1,805,000,000 by the Company. The subsidiaries of Triumph are Shanxi Hengchuang, Shanxi Puhua and Hengtai respectively. Triumph and its subsidiaries are hereafter referred to as the "Triumph Group".

The fair values of the identifiable assets and liabilities of the Triumph Group as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition HK\$'000	Previous carrying amount HK\$'000
Property, plant and equipment	15	838,123	838,123
Prepaid land premiums	16	12,437	12,437
Mining rights	18	2,385,180	2,412,808
Prepayments for non-current assets		233,169	233,169
Inventories		5,919	5,919
Trade receivables		43,670	43,670
Prepayments, deposits and other receivables		70,707	70,707
Due from related parties		442	442
Cash and bank balances		78,529	78,529
Trade and bills payables		(2,511)	(2,511)
Other payables and accruals		(164,060)	(164,060)
Interest-bearing bank borrowings	26	(908,640)	(908,640)
Due to related parties		(152,966)	(152,966)
Deferred tax liabilities	28	(564,228)	(571,135)
Minority interests		(80,525)	(81,758)
		1,795,246	1,814,734
Goodwill on acquisition	17	14,949	
		1,810,195	
Satisfied by:			
Convertible notes	27	1,805,000	
Costs associated with the acquisition		5,195	
		1,810,195	

32. BUSINESS COMBINATION (CONT'D)

An analysis of the net inflow of cash and cash equivalents in respect of the above acquisition is as follows:

	HK\$'000
Cash and bank balances acquired	78,529
Cash paid for costs associated with the acquisition	(5,195)
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	73,334

Since its acquisition, the Triumph Group contributed HK\$2,641,000 to the Group's revenue and HK\$2,698,000 to the consolidated loss for the year ended 31 December 2009.

Had the combination taken place at the beginning of the year, the revenue of the Group for the year ended 31 December 2009 would have been HK\$120,386,000. Due to the fact that profit or loss attributed by the combination involves assessments of fair values of consideration and the identifiable assets and liabilities of the Triumph Group as at the date of acquisition, the directors are of the opinion that it is impractical to disclose the profit or loss of the Group had the combination taken place at the beginning of the year.

33. DISPOSAL OF SUBSIDIARIES

On 2 March 2009, the Group entered into a sale and purchase agreement with an independent third party, pursuant to which the Group agreed to dispose of the entire equity interest in Fangcheng Huahai Chemicals Co., Ltd., an indirect wholly-owned subsidiary of the Company, for a cash consideration of RMB26,000,000 (equivalent to approximately HK\$29,491,000).

On 31 December 2009, the Company disposed of the entire equity interest in Sharp Universe Limited, a direct wholly-owned subsidiary of the Company, for a cash consideration of HK\$587,000.

	Notes	2009 HK\$'000	2008 HK\$'000
Net assets disposed of:			
Property, plant and equipment	15	2,205	—
Inventories		11,551	—
Prepayments, deposits and other receivables		18,339	—
Cash and bank balances		2,371	—
Trade payables		(3,094)	—
Other payables and accruals		(1,029)	—
		30,343	—
Exchange fluctuation reserve released		(6,910)	—
Gain on disposal of subsidiaries	6	6,262	—
		29,695	—
Satisfied by:			
Cash		30,078	—
Cost associated with the disposals		(383)	—
		29,695	—

33. DISPOSAL OF SUBSIDIARIES (CONT'D)

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

	2009 HK\$'000	2008 HK\$'000
Cash and bank balances disposed of	(2,371)	–
Cash consideration	30,078	–
Cost associated with the disposals	(383)	–
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	27,324	–

34. CONTINGENT LIABILITIES

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities.

35. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office premises under operating lease arrangements. Leases for the office premises are negotiated for terms ranging from one to three years. None of the leases includes contingent rentals.

At 31 December 2009, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Within one year	450	1,581	–	1,393
In the second to fifth years, inclusive	225	639	–	639
	675	2,220	–	2,032

36. CAPITAL COMMITMENTS

The Group had the following capital commitments in respect of acquisition of property, plant and equipment at the end of the reporting period:

	Group	
	2009 HK\$'000	2008 HK\$'000
Authorised, but not contracted for	–	–
Contracted, but not provided for	281,530	–
Total capital commitments	281,530	–

The Company had no material capital commitments as at 31 December 2009 (2008: Nil).

37. RELATED PARTY TRANSACTIONS

- (a) In addition to transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	2009 HK\$'000	2008 HK\$'000
Entities beneficially owned by directors of the Company		
南磷集團尋甸有限公司		
– rental of phosphorus premises and machinery and equipment	–	22,059
– purchase of phosphorus ancillary materials	–	715
南磷集團電化有限公司		
– rental of PVC premises machinery and equipment	–	27,574
尋甸南鋒有限公司		
– purchases of coal	–	10,086
昆明東磷有限公司		
– purchases of PVC ancillary materials	–	11,118
– purchase of phosphorus ancillary materials	–	3,246
防城港南磷有限公司		
– sales of phosphorus products	–	(7,967)
– rental of phosphorus premises, machinery and equipment	–	2,757
南磷集團進出口有限公司		
– sales of phosphorus products	–	(190,511)
– sales of PVC products	–	(70,588)
嵩明南西磷化工有限公司		
– purchases of raw materials	–	241,663
南磷集團陸良磷化工有限公司		
– purchases of raw materials	–	9,083
羅平磷化工有限公司		
– purchase of raw materials	–	13,962
Entity of which a director of the Company is its senior management		
Dongguan Hamwell Glasses Co. Ltd.		
– purchase of optical products	21,519	32,301
Entity with common directors with the Company		
Swank International Optical Company Limited		
– sale of optical products	(31,676)	(34,001)

In the opinion of the directors, the above related party transactions were conducted on mutually agreed terms.

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

Except for an amount due to a related party amounted to RMB112,497,000 (equivalent to HK\$127,774,000) as at 31 December 2009 which were restructured in April 2010 to be repaid on 30 June 2011, the remaining balances with directors and related parties are unsecured, interest-free and have no fixed terms of repayment.

37. RELATED PARTY TRANSACTIONS (CONT'D)

(c) Compensation of key management personnel of the Group

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

	2009 HK\$'000	2008 HK\$'000
Short-term employee benefits	3,763	3,116
Post-employment benefits	94	54
Share-based payments	–	772
Total compensation paid to key management personnel	3,857	3,942

In the opinion of the directors, none of the above transactions carried out during the year ended 31 December 2009 constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

38. FINANCIAL INSTRUMENTS BY CATEGORY

Other than the convertible notes being designated as financial liabilities at fair value through profit or loss as disclosed in note 27 to the financial statements, all financial assets and liabilities of the Group and the Company as at 31 December 2009 and 2008 were loans and receivables and financial liabilities stated at amortised cost, respectively.

The carrying amounts of the Group's financial assets classified as loans and receivables and financial liabilities stated at amortised costs as at the end of the reporting period are as follows:

Financial assets classified loans and receivables

	Group		Company	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Trade receivables	34,598	15,248	–	–
Financial assets included in prepayments, deposits and other receivables	53,930	25,253	394	398
Due from subsidiaries	–	–	43,423	70,003
Due from related parties	442	30,151	–	–
Cash and cash equivalents	143,024	84,435	13,678	27
	231,994	155,087	57,495	70,428

38. FINANCIAL INSTRUMENTS BY CATEGORY (CONT'D)

Financial liabilities stated at amortised costs

	Group		Company	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Trade and bills payables	25,558	31,542	–	–
Financial liabilities included in other payables and accruals	187,326	12,920	5,658	226
Due to subsidiaries	–	–	–	16,332
Due to related parties	151,611	94,546	–	–
Due to directors	41	–	–	–
Interest-bearing bank borrowings	908,640	–	–	–
	1,273,176	139,008	5,658	16,558

39. FAIR VALUE HIERARCHY

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

- Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 December 2009, the fair value of the Group's convertible notes was measured based on Level 2 of the fair value hierarchy as referred above.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise other receivables and payables, cash and short term deposits, and balances with related parties. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade and bills payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

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

(a) Interest rate risk

The Group's and Company's exposure to the risk of changes in market interest rates relates primarily to the Group's and Company's cash at banks and the Group's interest-bearing bank borrowings with floating interest rates. Nevertheless, in the opinion of the directors, the Group had no significant concentration of interest rate risk for the year ended 31 December 2009.

(b) Foreign currency risk

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

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

(c) Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

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

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(c) Credit risk (cont'd)

At 31 December 2009 and 2008, trade receivables from an individual external customer which contributed to over 10% of the Group's total revenue for the year ended 31 December 2009 and 2008 were:

	2009 HK\$'000	2008 HK\$'000
Number of individual external customer which contributed to over 10% of the Group's total revenue for the year	1	1
Trade receivables (before impairment) from the above customer	14,150	12,686
Percentage to total trade receivables (before impairment) as at the end of the reporting period	20%	25%

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

(d) Liquidity risk

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

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

Group

	On Demand HK\$'000	Within 1 year HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
At 31 December 2009					
Trade and bills payables	–	25,558	–	–	25,558
Other payables and accruals	–	152,000	35,326	–	187,326
Interest-bearing bank borrowings	–	60,522	890,730	174,244	1,125,496
Convertible notes	–	–	1,522,250	–	1,522,250
Due to related parties	151,611	–	–	–	151,611
Due to directors	41	–	–	–	41
	151,652	238,080	2,448,306	174,244	3,012,282

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(d) Liquidity risk (cont'd)

Group (cont'd)

	On Demand HK\$'000	Within 1 year HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
At 31 December 2008					
Trade and bills payables	–	31,542	–	–	31,542
Other payables and accruals	–	12,920	–	–	12,920
Due to related parties	94,546	–	–	–	94,546
	94,546	44,462	–	–	139,008

Company

	On Demand HK\$'000	Within 1 year HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
At 31 December 2009					
Other payables and accruals	–	5,658	–	–	5,658
Convertible notes	–	–	1,522,250	–	1,522,250
	–	5,658	1,522,250	–	1,527,908
At 31 December 2008					
Due to subsidiaries	16,332	–	–	–	16,332
Other payables and accruals	–	226	–	–	226
	16,332	226	–	–	16,558

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 31 December 2008.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(d) Liquidity risk (cont'd)

Capital management (cont'd)

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

Group

	2009 HK\$'000	2008 HK\$'000
Trade and bills payables	25,558	31,542
Other payables and accruals	187,326	12,920
Interest-bearing bank borrowings	908,640	–
Amounts due to related parties	151,611	94,546
Amounts due to directors	41	–
Less : Cash and cash equivalents	(143,024)	(84,435)
Net debt	1,130,152	54,573
Convertible notes	2,411,000	–
Equity attributable to owners of the Company	(577,551)	52,055
Capital	1,833,449	52,055
Gearing ratio	0.62	1.05

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

41. EVENTS AFTER THE REPORTING PERIOD

- (a) From 1 January 2010 up to the date of approval of these financial statements, part of the Company's convertible notes with an aggregate principal amount of HK\$408,500,000 were converted into 6,536,000,000 ordinary shares of the Company at a conversion price of HK\$0.0625 per ordinary share.
- (b) Certain creditors have agreed to extend the repayment date of the Group's liabilities due to them totalling HK\$144 million as at 31 December 2009 to 30 June 2011 (notes 2, 25 and 37(b)).
- (c) On 26 April 2010, the Company and an independent third party entered into a memorandum of understanding in respect of a proposed acquisition of coal mines situated in Shanxi Province, the PRC. The proposed acquisition is subject to the signing of a formal agreement. Details of the proposed acquisition were set out in the announcement of the Company dated 26 April 2010.

42. COMPARATIVE AMOUNTS

As further explained in note 3.1 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 April 2010.

Five Year Financial Summary

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

RESULTS

	Year ended 31 December				
	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000
CONTINUING OPERATIONS					
REVENUE	88,710	627,056	467,006	119,560	–
PROFIT/(LOSS) BEFORE TAX	(1,078,819)	(20,457)	104,211	15,079	–
Tax	159	–	–	–	–
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	(1,078,660)	(20,457)	104,211	15,079	–
DISCONTINUED OPERATIONS					
Profit/(loss) for the year from discontinued operations	–	(57,574)	(91,435)	(44,668)	38,717
PROFITS/(LOSS) FOR THE YEAR	(1,078,660)	(78,031)	12,776	(29,589)	38,717
Attributable to:					
Owners of the Company	(1,078,519)	(78,031)	11,811	(20,711)	45,938
Minority interests	(141)	–	965	(8,878)	(7,221)
	(1,078,660)	(78,031)	12,776	(29,589)	38,717

ASSETS, LIABILITIES AND MINORITY INTERESTS

	Year ended 31 December				
	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000
TOTAL ASSETS	3,751,078	191,063	260,198	228,025	225,773
TOTAL LIABILITIES	(4,248,245)	(139,008)	(137,576)	(236,809)	(211,099)
MINORITY INTERESTS	(80,384)	–	–	16,866	(36,561)
	(577,551)	52,055	122,622	8,082	(21,887)