
APPENDIX I — ACCOUNTANTS' REPORT

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

27 September 2010

The Directors
Winsway Coking Coal Holdings Limited

Deutsche Bank AG, Hong Kong Branch
Goldman Sachs (Asia) L.L.C.

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Winsway Coking Coal Holdings Limited (formerly known as “China Bestway Resources Holdings Limited”/“China Bestway Resources Holdings Limited”, the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) including the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group, for each of the years ended 31 December 2007, 2008, 2009 and the six months ended 30 June 2010 (the “Relevant Period”), and the combined balance sheets of the Group as at 31 December 2007, 2008 and 2009 and 30 June 2010, together with the notes thereto (the “Financial Information”), for inclusion in the prospectus of the Company dated 27 September 2010 (the “Prospectus”).

The Company was incorporated in the British Virgin Islands on 17 September 2007 with limited liability under the Business Companies Act of the British Virgin Islands (2004). Pursuant to a group reorganisation completed on 9 August 2010 (the “Reorganisation”) as detailed in the section headed “History, Reorganisation and Group Structure” in the Prospectus, the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below.

As at the date of this report, no audited financial statements have been prepared for the following companies, as they either have not carried on any business since their respective dates of incorporation, or are investment holding companies and not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation.

APPENDIX I — ACCOUNTANTS' REPORT

Name of company

Reach Goal Management Ltd.
Winsway Coking Coal (HK) Holdings Limited
Winsway Australia Pty. Ltd.
Winsway Coking Coal Logistics Co., Limited
Winsway Resources Holdings Private Limited
Cheer Top Enterprises Limited
Color Future International Limited
Royce Petrochemicals Limited
Lucky Colour Limited
King Resources Holdings Limited
Yingkou Haotong Mining Co., Ltd.¹ (營口浩通礦業有限公司)
Manzhouli Haotong Energy Co., Ltd.¹ (滿洲里浩通能源有限公司)
Suifenhe Winsway Resources Co., Ltd.¹ (綏芬河永暉能源有限公司)
Baotou Mandula Winsway Energy Co., Ltd.¹ (包頭市滿都拉永暉能源有限公司)
Ulanqab Haotong Energy Co., Ltd.¹ (烏蘭察布市浩通能源有限責任公司)
Longkou Winsway Energy Co., Ltd.¹ (龍口市永暉能源有限公司)
Winsway Mongolian Transportation Pte. Ltd.
Erlianhaote Ruyi Winsway Logistics Co., Ltd.¹ (二連浩特如意永暉物流有限責任公司)
Ejina Qi Ruyi Winsway Energy Co., Ltd.¹ (額濟納旗如意永暉能源有限公司)
Asia Eagle Development Limited
Chongqing Huize Petrochemicals Co., Ltd.¹ (重慶匯澤石油化工有限公司)
Global Luck International Ltd.
MonChallenge Investment Ltd.
MonCrown Investment Ltd.
Nantong Shengtong Energy Co., Ltd.¹ (南通盛通能源有限公司)
Qinhuangdao Lanyu Trading Co., Ltd.¹ (秦皇島藍玉貿易有限公司)
Qinhuangdao Yuecheng Petrochemicals Co., Ltd.¹ (秦皇島悅誠石油化工有限公司)
Shanxi Dingshun Import Export Trading Co., Ltd.¹ (山西鼎順進出口貿易有限公司)

All companies now comprising the Group have adopted 31 December as their financial year end date. Details of the companies comprising the Group that are subject to audit during the Relevant Period and the names of the respective auditors are set out in Note 38 of Section C. The statutory financial statements of these companies were prepared in accordance with the relevant accounting rules and regulations applicable to entities in the countries in which they were incorporated and/or established.

The directors of the Company have prepared the combined financial statements of the Group for the Relevant Period in accordance with the basis of preparation set out in Section A below and the accounting policies set out in Section C below (the “Underlying Financial Statements”). The Underlying Financial Statements for each of the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

¹ The English translations of the names are for reference only. The official names of these entities are in Chinese.

APPENDIX I — ACCOUNTANTS' REPORT

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is 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.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA.

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 30 June 2010.

OPINION

In our opinion, for the purpose of this report, the Financial Information, on the basis of preparation set out in Section A below and in accordance with the accounting policies set out in Section C below, gives a true and fair view of the Group's combined results and cash flows for the Relevant Period, and the state of affairs of the Group as at 31 December 2007, 2008 and 2009 and 30 June 2010.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the combined income statement, the combined statement of comprehensive income, the combined statement of changes in equity and the combined cash flow statement for the six months ended 30 June 2009, together with the notes thereon (the "Corresponding Financial Information"), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

APPENDIX I — ACCOUNTANTS' REPORT

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A BASIS OF PREPARATION

The Company was incorporated in the British Virgin Islands on 17 September 2007. At the date of incorporation, the Company was named as “China Bestway Resources Holdings Limited”. The name of the Company was subsequently changed to “China Bestway Resources Holdings Limited” and “Winsway Coking Coal Holdings Limited” on 28 January 2008 and 29 July 2009 respectively. Pursuant to the Reorganisation completed on 9 August 2010, the Company became the holding company of the companies now comprising the Group. The companies taking part in the Reorganisation were controlled by the same ultimate equity shareholder, namely Mr Wang Xing Chun (referred to as the “Controlling Shareholder”) during the Relevant Period.

Because the companies now comprising the Group were controlled by the Controlling Shareholder before and after the Reorganisation and, consequently there was a continuation of the risks and benefits to the Controlling Shareholder, the Financial Information has been prepared using the merger basis of accounting as if the Group has always been in existence. The net assets of the combining companies are combined using the book values from the Controlling Shareholder’s perspective. The interests of equity shareholders other than the Controlling Shareholder in the combining companies have been presented as non-controlling interests in the Group’s Financial Information.

The combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group for the Relevant Period include the results of operations of the companies now comprising the Group as if the current group structure had been in existence and remained unchanged throughout the Relevant Period, or since the dates of their incorporation/establishment where this is a shorter period. The combined balance sheets of the Group as at 31 December 2007, 2008 and 2009 and 30 June 2010 have been prepared to present the combined assets and liabilities of the companies now comprising the Group as at the respective dates. All material intra-group transactions and balances have been eliminated on combination.

APPENDIX I — ACCOUNTANTS’ REPORT

At the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	Date and place of incorporation/ establishment	Issued and fully paid up capital	Equity attributable to the equity shareholders of the Company		Principal activities
			Direct	Indirect	
Lucky Colour Limited ("Lucky Colour")	11 March 2008 British Virgin Islands ("BVI")	US\$1	100%	-	Investment holding
Reach Goal Management Ltd. ("Reach Goal")	2 January 2009 BVI	United States dollars ("US\$") 21,770,001	100%	-	Investment holding
Winsway Coking Coal (HK) Holdings Limited ("Winsway Coking Coal Holdings (HK)")	23 October 2009 Hong Kong	US\$31,312,613	100%	-	Investment holding
Winsway Australia Pty. Ltd. ("Winsway Australia")	9 November 2009 Commonwealth of Australia ("Australia")	Australian dollars ("AUD") 492,994	100%	-	Consulting service
Winsway Coking Coal Logistics Co., Limited ("Winsway Logistics")	22 December 2009 Hong Kong	US\$100,000	100%	-	Dormant
Winsway Coking Coal (Macao Commercial Offshore) Limited	2 August 2010 Macao	Macao Pataca ("MOP\$") 100,000	100%	-	Bookkeeping service
Winsway Resources Holdings Private Limited ("Winsway Singapore")	31 December 2009 The Republic of Singapore ("Singapore")	Singapore dollars ("SGD") 1,000,000	100%	-	Trading of coals
Winsway Mongolian Transportation Pte. Ltd. ("Winsway Mongolian Transportation")	10 May 2010 Singapore	SGD10	90%	-	Dormant
Beijing Winsway Investment Management Co., Ltd. (北京永暉投資 管理有限公司) ("Beijing Winsway") ¹ (formerly known as "Beijing Bright Petroleum & Chemicals Import & Export Co., Ltd.") (原北京欣潤澤石化 進出口有限公司) ("Beijing Bright")	6 November 1995 The People’s Republic of China ("PRC")	US\$34,303,911	-	100%	Investment holding
Cheer Top Enterprises Limited ("Cheer Top")	5 January 2005 BVI	US\$27,412,612	-	100%	Investment holding
Color Future International Limited ("Color Future")	5 January 2005 BVI	US\$21,770,001	-	100%	Trading of coals
Urad Zhongqi Yiteng Mining Co., Ltd. (烏拉特中旗毅騰 礦業有限責任公司) ("Yiteng") ¹	7 September 2005 PRC	Renminbi ("RMB") 210,000,000	-	100%	Processing and trading of coals

APPENDIX I — ACCOUNTANTS' REPORT

Name of company	Date and place of incorporation/ establishment	Issued and fully paid up capital	Equity attributable to the equity shareholders of the Company		Principal activities
			Direct	Indirect	
Royce Petrochemicals Limited (“Royce Petrochemicals”)	28 October 2005 BVI	US\$3,900,001	-	100%	Investment holding
Inner Mongolia Haotong Energy Joint Stock Co., Ltd. (內蒙古浩通能源股份有限公司) (“Inner Mongolia Haotong”) ¹	18 November 2005 PRC	RMB350,000,000	-	100%	Trading of coals
Erliahaote Haotong Energy Co., Ltd. (二連浩特浩通能源有限公司) (“Erliahaote Haotong”) ¹	18 January 2007 PRC	RMB95,370,000	-	51%	Trading of coals
Ejina Qi Haotong Energy Co., Ltd. (額濟納旗浩通能源有限公司) (“Ejinaqi Haotong”) ¹	19 May 2008 PRC	RMB80,000,000	-	100%	Processing and trading of coals
East Wuzhumuqin Qi Haotong Energy Co., Ltd. (東烏珠穆沁旗浩通能源有限公司) (“East Wuzhumuqin Qi Haotong”) ¹	29 July 2008 PRC	RMB10,000,000	-	100%	Trading of coals
Baotou-city Haotong Energy Co., Ltd. (包頭市浩通能源有限公司) (“Baotou Haotong”) ¹	18 September 2008 PRC	RMB10,000,000	-	100%	Trading of coals
King Resources Holdings Limited (“King Resources”)	2 January 2009 BVI	US\$10,000	-	100%	Dormant
Nantong Haotong Energy Co., Ltd. (南通浩通能源有限公司) (“Nantong Haotong”) ¹	24 February 2009 PRC	RMB120,000,000	-	100%	Trading of coals
Yingkou Haotong Mining Co., Ltd. (營口浩通礦業有限公司) (“Yingkou Haotong”) ¹	16 November 2009 PRC	RMB70,000,000	-	100%	Trading of coals
Manzhouli Haotong Energy Co., Ltd. (滿洲里浩通能源有限公司) (“Manzhouli Haotong”) ¹	23 December 2009 PRC	RMB10,000,000	-	100%	Trading of coals
Suifenhe Winsway Resources Co., Ltd. (綏芬河永暉能源有限公司) (“Suifenhe Winsway”) ¹	24 December 2009 PRC	RMB10,000,000	-	100%	Trading of coals
Baotou Mandula Winsway Energy Co., Ltd. (包頭市滿都拉永暉能源有限公司) (“Baotou Mandula”) ¹	21 January 2010 PRC	RMB10,000,000	-	100%	Trading of coals

APPENDIX I — ACCOUNTANTS' REPORT

Name of company	Date and place of incorporation/ establishment	Issued and fully paid up capital	Equity attributable to the equity shareholders of the Company		Principal activities
			Direct	Indirect	
Ulanqab Haotong Energy Co., Ltd. (烏蘭察布市浩通能源有限責任公司) ("Ulanqab Haotong") ¹	2 March 2010 PRC	RMB58,000,000	-	100%	Trading of coals
Longkou Winsway Energy Co., Ltd. (龍口市永暉能源有限公司) ("Longkou Winsway") ¹	27 April 2010 PRC	RMB15,000,000	-	100%	Trading of coals
Erlianhaote Ruyi Winsway Logistics Co., Ltd. (二連浩特如意永暉物流有限責任公司) ("Erlianhaote Winsway Logistics") ¹	14 May 2010 PRC	RMB20,000,000	-	51%	Logistics service
Ejina Qi Ruyi Winsway Energy Co., Ltd. (額濟納旗如意永暉能源有限公司) ("Ejina Qi Winsway") ¹	30 June 2010 PRC	RMB20,000,000	-	51%	Logistics service
Urad Zhongqi Ruyi Haotong Energy Co., Ltd. (烏拉特中旗如意浩通能源有限公司) ("Urad Zhongqi Haotong") ¹	14 July 2010 PRC	RMB20,000,000	-	51%	Logistics service
Bayannao'er City Ruyi Winsway Energy Co., Ltd. (巴彥淖爾市如意永暉能源有限公司) ("Bayannao'er Winsway") ¹	14 July 2010 PRC	RMB20,000,000	-	51%	Logistics service
Inner Mongolia Hutie Winsway Logistics Co., Ltd. (內蒙古呼鐵永暉物流有限公司) ("Inner Mongolia Hutie Winsway Logistics") ¹	22 July 2010 PRC	RMB30,000,000	-	51%	Logistics service
Xinjiang Winsway Energy Co., Ltd. (新疆永暉能源有限公司) ("Xinjiang Winsway") ¹	9 August 2010 PRC	RMB10,000,000	-	100%	Trading of coals

¹ The English translations of the names are for reference only. The official names of these entities are in Chinese.

APPENDIX I — ACCOUNTANTS' REPORT

B COMBINED FINANCIAL INFORMATION

1 COMBINED INCOME STATEMENTS

	Section C Note	Years ended 31 December			Six months ended 30 June	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Continuing operations						
Turnover	2	198,641	993,540	4,655,636	817,984	4,298,827
Cost of sales		(159,553)	(552,837)	(3,808,740)	(666,248)	(3,353,009)
Gross profit		39,088	440,703	846,896	151,736	945,818
Other revenue		444	6,166	7,844	2,366	12,792
Distribution costs		(2,869)	(109,558)	(236,998)	(74,734)	(126,411)
Administrative expenses		(13,774)	(62,275)	(91,623)	(28,555)	(114,561)
Other operating expenses, net	3	(729)	(10,012)	(643)	(1,077)	(9,698)
Profit from operating activities		22,160	265,024	525,476	49,736	707,940
Finance income	4(a)	3,790	4,480	6,205	1,264	7,773
Finance costs	4(a)	(3,690)	(3,331)	(37,041)	(11,020)	(74,895)
Net finance income/(costs)		100	1,149	(30,836)	(9,756)	(67,122)
Profit before taxation	4	22,260	266,173	494,640	39,980	640,818
Income tax	5(a)	150	10,639	(62,008)	4,146	(111,910)
Profit from continuing operations		22,410	276,812	432,632	44,126	528,908
Discontinued operations						
Loss from discontinued operations (net of income tax)	35	(11,260)	(33,267)	(8,148)	(7,673)	-
Gain on sale of discontinued operations (net of income tax)	35	4,497	126	29,565	28,530	-
Profit for the year/period		15,647	243,671	454,049	64,983	528,908
Attributable to:						
Equity shareholders of the Company		17,811	244,606	454,049	64,983	528,925
Non-controlling interests		(2,164)	(935)	-	-	(17)
Profit for the year/period		15,647	243,671	454,049	64,983	528,908
Earnings per share (RMB)						
Total operations	9					
— Basic		0.009	0.119	0.220	0.032	0.241
— Diluted		0.009	0.119	0.220	0.032	0.231
Continuing operations						
— Basic		0.012	0.135	0.210	0.021	0.241
— Diluted		0.012	0.135	0.210	0.021	0.231
Discontinued operations						
— Basic		(0.003)	(0.016)	0.010	0.010	-
— Diluted		(0.003)	(0.016)	0.010	0.010	-

The accompanying notes form part of the Financial Information. Details of dividends payable for the Relevant Period are set out in Note 8.

APPENDIX I — ACCOUNTANTS' REPORT

2 COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Section C Note	Years ended 31 December			Six months ended 30 June	
		2007 RMB'000	2008 RMB'000	2009 RMB'000	2009 RMB'000 (unaudited)	2010 RMB'000
Profit for the year/period		15,647	243,671	454,049	64,983	528,908
Other comprehensive income for the year/period	11					
Exchange differences on translation of financial statements of overseas subsidiaries (net of income tax)		(5,911)	(16,989)	(2,112)	(3,529)	(8,832)
Total comprehensive income for the year/period		<u>9,736</u>	<u>226,682</u>	<u>451,937</u>	<u>61,454</u>	<u>520,076</u>
Attributable to:						
Equity shareholders of the Company		11,900	227,617	451,937	61,454	520,093
Non-controlling interests		(2,164)	(935)	-	-	(17)
Total comprehensive income for the year/period		<u>9,736</u>	<u>226,682</u>	<u>451,937</u>	<u>61,454</u>	<u>520,076</u>

The accompanying notes form part of the Financial Information.

APPENDIX I — ACCOUNTANTS' REPORT

3 COMBINED BALANCE SHEETS

	Section C Note	At 31 December			At 30 June
		2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Non-current assets					
Property, plant and equipment, net	12	78,960	289,168	393,597	360,270
Construction in progress	13	528	12,947	36,281	73,591
Lease prepayments	14	7,879	7,809	7,768	28,518
Intangible assets	15	2,053	632	66	-
Interest in jointly controlled entity	16	-	-	-	314,068
Other investment in equity securities	17	-	-	14,400	25,350
Receivables under finance lease	18	41,027	26,372	-	-
Deferred tax assets	28(b)	21,041	37,187	30,232	37,946
Total non-current assets		<u>151,488</u>	<u>374,115</u>	<u>482,344</u>	<u>839,743</u>
Current assets					
Inventories	19	173,181	322,258	1,048,181	1,058,573
Trade and other receivables	20	250,829	290,432	1,620,375	3,259,883
Receivables under finance lease	18	25,578	26,483	-	-
Restricted bank deposits	21	11,500	296,938	565,762	671,958
Cash and cash equivalents	22	37,999	99,141	244,167	542,023
Total current assets		<u>499,087</u>	<u>1,035,252</u>	<u>3,478,485</u>	<u>5,532,437</u>
Current liabilities					
Secured bank and other loans	23	123,822	599,038	1,399,547	2,195,274
Current portion of convertible bonds	24	-	-	-	13,921
Current portion of redeemable convertible preferred shares	25	-	-	-	14,261
Trade and other payables	27	194,258	264,134	1,522,434	1,667,182
Income tax payable	28(a)	21,168	9,471	31,442	79,792
Total current liabilities		<u>339,248</u>	<u>872,643</u>	<u>2,953,423</u>	<u>3,970,430</u>
Net current assets		<u>159,839</u>	<u>162,609</u>	<u>525,062</u>	<u>1,562,007</u>
Total assets less current liabilities		<u>311,327</u>	<u>536,724</u>	<u>1,007,406</u>	<u>2,401,750</u>

The accompanying notes form part of the Financial Information.

APPENDIX I — ACCOUNTANTS' REPORT

	Section C Note	At 31 December			At 30 June
		2007	2008	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current liabilities					
Convertible bonds	24	-	-	-	379,813
Redeemable convertible preferred shares	25	-	-	-	377,941
Deferred tax liabilities	28(b)	2,589	1,894	-	-
Total non-current liabilities		<u>2,589</u>	<u>1,894</u>	<u>-</u>	<u>757,754</u>
Net Assets		<u>308,738</u>	<u>534,830</u>	<u>1,007,406</u>	<u>1,643,996</u>
Capital and reserves					
Share capital	29(a)	278,909	356,009	356,009	424,285
Reserves	30	29,132	178,821	651,397	1,215,808
Total equity attributable to equity shareholders of the Company		<u>308,041</u>	<u>534,830</u>	<u>1,007,406</u>	<u>1,640,093</u>
Non-controlling interests		<u>697</u>	<u>-</u>	<u>-</u>	<u>3,903</u>
Total Equity		<u>308,738</u>	<u>534,830</u>	<u>1,007,406</u>	<u>1,643,996</u>

The accompanying notes form part of the Financial Information.

APPENDIX I — ACCOUNTANTS' REPORT

4 COMBINED STATEMENTS OF CHANGES IN EQUITY

	Section C Note	Attributable to equity shareholders of the Company							
		Share capital	Statutory reserve	Other reserve	Exchange reserve	Retained earnings	Total	Non- controlling interests	Total equity
		RMB'000 (Note 29(a))	RMB'000 (Note 30(b))	RMB'000 (Note 30(a))	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007		-	5,012	10,161	5,698	19,840	40,711	6,801	47,512
Total comprehensive income for the year		-	-	-	(5,911)	17,811	11,900	(2,164)	9,736
Capital injection	29(a)	278,909	-	-	-	-	278,909	-	278,909
Arising from the Reorganisation	30(a)	-	-	(23,479)	-	-	(23,479)	-	(23,479)
Contribution from non-controlling interests		-	-	-	-	-	-	200	200
Disposal of discontinued operations		-	-	-	-	-	-	(4,140)	(4,140)
Appropriation	30(b)	-	1,017	-	-	(1,017)	-	-	-
At 31 December 2007		278,909	6,029	(13,318)	(213)	36,634	308,041	697	308,738
At 1 January 2008		278,909	6,029	(13,318)	(213)	36,634	308,041	697	308,738
Total comprehensive income for the year		-	-	-	(16,989)	244,606	227,617	(935)	226,682
Capital injection	29(a)	77,100	-	-	-	-	77,100	-	77,100
Dividends declared and paid during the year	8	-	-	-	-	(68,980)	(68,980)	-	(68,980)
Disposal of discontinued operations		-	-	-	-	-	-	(200)	(200)
Acquisition of non-controlling interests ...	30(a)	-	-	(8,948)	-	-	(8,948)	438	(8,510)
Appropriation	30(b)	-	1,544	-	-	(1,544)	-	-	-
At 31 December 2008		356,009	7,573	(22,266)	(17,202)	210,716	534,830	-	534,830

APPENDIX I — ACCOUNTANTS' REPORT

		Attributable to equity shareholders of the Company							Non- controlling interests	Total equity
Section C Note	Share capital	Statutory reserve	Other reserve	Exchange reserve	Retained earnings	Total	RMB'000	RMB'000	RMB'000	
	RMB'000 (Note 29(a))	RMB'000 (Note 30(b))	RMB'000 (Note 30(a))	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2009	356,009	7,573	(22,266)	(17,202)	210,716	534,830	534,830	-	534,830	
Total comprehensive income for the year	-	-	-	(2,112)	454,049	451,937	451,937	-	451,937	
Arising from the Reorganisation	-	-	20,639	-	-	20,639	20,639	-	20,639	
Appropriation	-	13,622	-	-	(13,622)	-	-	-	-	
At 31 December 2009	356,009	21,195	(1,627)	(19,314)	651,143	1,007,406	1,007,406	-	1,007,406	
At 1 January 2010	356,009	21,195	(1,627)	(19,314)	651,143	1,007,406	1,007,406	-	1,007,406	
Total comprehensive income for the period	-	-	-	(8,832)	528,925	520,093	520,093	(17)	520,076	
Capital injection	68,276	-	-	-	-	68,276	68,276	-	68,276	
Arising from the Reorganisation	-	-	(17,150)	-	-	(17,150)	(17,150)	-	(17,150)	
Equity component of convertible bonds ...	-	-	16,086	-	-	16,086	16,086	-	16,086	
Equity component of redeemable convertible preferred shares	-	-	14,700	-	-	14,700	14,700	-	14,700	
Equity settled share-based transactions ...	-	-	30,682	-	-	30,682	30,682	-	30,682	
Contribution from non-controlling interests	-	-	-	-	-	-	-	3,920	3,920	
Appropriation	-	40,951	-	-	(40,951)	-	-	-	-	
At 30 June 2010	424,285	62,146	42,691	(28,146)	1,139,117	1,640,093	1,640,093	3,903	1,643,996	

APPENDIX I — ACCOUNTANTS' REPORT

Section C Note	Attributable to equity shareholders of the Company							Total equity RMB'000
	Share capital RMB'000 (Note 29(a))	Statutory reserve RMB'000 (Note 30(b))	Other reserve RMB'000 (Note 30(a))	Exchange reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non- controlling interests RMB'000	
Unaudited								
At 1 January 2009	356,009	7,573	(22,266)	(17,202)	210,716	534,830	-	534,830
Total comprehensive income for the period	-	-	-	(3,529)	64,983	61,454	-	61,454
Arising from the Reorganisation	-	-	4,998	-	-	4,998	-	4,998
Appropriation	-	921	-	-	(921)	-	-	-
At 30 June 2009	356,009	8,494	(17,268)	(20,731)	274,778	601,282	-	601,282

The accompanying notes form part of the Financial Information.

APPENDIX I — ACCOUNTANTS' REPORT

5 COMBINED CASH FLOW STATEMENTS

	Section C Note	Years ended 31 December			Six months ended 30 June	
		2007 RMB'000	2008 RMB'000	2009 RMB'000	2009 RMB'000 (unaudited)	2010 RMB'000
Operating activities						
Profit for the year/period		15,647	243,671	454,049	64,983	528,908
Adjustments for:						
Depreciation		16,791	23,914	50,028	24,606	21,175
Impairment loss on buildings		-	4,815	-	-	-
Amortisation of lease prepayments		74	70	41	20	290
Amortisation of intangible assets		1,356	1,421	566	365	66
Interest income		(2,224)	(11,142)	(9,283)	(3,297)	(3,611)
Interest expense		6,778	23,391	43,041	17,515	74,895
Equity settled share-based transactions		-	-	-	-	30,682
(Gain)/loss on disposal of property, plant and equipment		(3,898)	5,314	400	-	6,738
Gain on disposal of discontinued operations	35	(4,497)	(126)	(29,565)	(28,530)	-
Foreign exchange (gain)/loss, net		(5,677)	(4,745)	1,179	488	(4,169)
Income tax	5	966	(9,240)	61,962	(4,192)	111,910
		<u>25,316</u>	<u>277,343</u>	<u>572,418</u>	<u>71,958</u>	<u>766,884</u>
Increase in inventories		(143,388)	(149,077)	(804,129)	(376,252)	(10,392)
Decrease/(increase) in trade and other receivables		53,405	(23,310)	(1,547,569)	(1,232,139)	(685,547)
(Decrease)/increase in trade and other payables		(176,596)	40,887	1,502,425	1,416,218	(53,889)
Income tax paid		(1,152)	(19,298)	(34,649)	(3,807)	(71,274)
Net cash (used in)/generated from operating activities		<u>(242,415)</u>	<u>126,545</u>	<u>(311,504)</u>	<u>(124,022)</u>	<u>(54,218)</u>

The accompanying notes form part of the Financial Information.

APPENDIX I — ACCOUNTANTS' REPORT

	Section C Note	Years ended 31 December			Six months ended 30 June	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Investing activities						
Payment for purchase of property, plant and equipment and construction in progress		(120,173)	(253,063)	(169,216)	(32,534)	(133,758)
Collection of receivables under finance lease		6,460	-	-	-	-
Proceeds from sales of property, plant and equipment		-	-	-	-	55,971
Proceeds from disposal of discontinued operations	35	19,608	4,995	77,406	15,259	-
Interest received		139	7,435	7,940	2,478	3,611
Increase in restricted bank deposits		(11,500)	(285,438)	(471,364)	(403,716)	(106,196)
Payment for purchase of an investment		-	-	(14,400)	-	(10,950)
Payment for investment in jointly controlled entity		-	-	-	-	(102,683)
Net cash used in investing activities		<u>(105,466)</u>	<u>(526,071)</u>	<u>(569,634)</u>	<u>(418,513)</u>	<u>(294,005)</u>
Financing activities						
Proceeds from bank and other loans		123,988	706,842	1,965,775	606,582	1,846,677
Repayment of bank and other loans		-	(227,000)	(906,965)	(87,709)	(2,003,687)
Interest paid		(5,124)	(17,250)	(44,648)	(20,559)	(32,839)
Dividends paid		-	(68,980)	-	-	-
Capital injections from equity shareholders of the Company		278,909	77,100	-	-	68,276
Contribution from equity shareholders of the Company		3,733	-	12,000	-	8,000
Distribution to equity shareholders of the Company		(27,212)	-	-	-	(25,150)
Acquisition of non-controlling interests	30(a)	-	(10,047)	-	-	-
Proceeds from the issues of convertible bonds, net of issuing expenses		-	-	-	-	392,184
Proceeds from the issue of redeemable convertible preferred shares, net of issuing expenses		-	-	-	-	388,705
Contribution from non-controlling interests		-	-	-	-	3,920
Net cash generated from financing activities		<u>374,294</u>	<u>460,665</u>	<u>1,026,162</u>	<u>498,314</u>	<u>646,086</u>
Net increase/(decrease) in cash and cash equivalents		26,413	61,139	145,024	(44,221)	297,863
Cash and cash equivalents at beginning of year/period		11,588	37,999	99,141	99,141	244,167
Effect of foreign exchange rate changes		(2)	3	2	-	(7)
Cash and cash equivalents at end of year/period		<u>37,999</u>	<u>99,141</u>	<u>244,167</u>	<u>54,920</u>	<u>542,023</u>

The accompanying notes form part of the Financial Information.

C NOTES TO THE COMBINED FINANCIAL INFORMATION

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which collective terms includes International Accounting Standards and related interpretations, promulgated by International Accounting Standards Board (“IASB”). Further details of the significant accounting policies adopted are set out in the remainder of this Section C.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised IFRSs to the Relevant Period, except for any new standards or interpretations that are not yet effective for the Relevant Period. The revised and new accounting standards and interpretations issued but not yet effective for the Relevant Period are set out in Note 37.

This Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The Corresponding Financial Information for the six months ended 30 June 2009 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

(b) Basis of preparation and presentation

The Financial Information comprises the Company and its subsidiaries and has been prepared using the merger basis of accounting as if the Group had always been in existence, as further explained in Section A.

(c) Basis of measurement

The Financial Information is presented in Renminbi (“RMB”), rounded to the nearest thousand, which is the functional currency of the PRC entities carrying on the principal business of the Group. The Company’s functional currency is United States dollars (“US\$”). The Financial Information is prepared on the historical cost basis.

(d) Use of estimates and judgements

The preparation of Financial Information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

APPENDIX I — ACCOUNTANTS' REPORT

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in Note 36.

(e) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

The financial statements of subsidiaries are combined into the Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the portion of the net assets of the companies comprising the Group attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the combined balance sheets within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the combined income statements and the combined statements of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

(f) Jointly controlled entities

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement established that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in a jointly controlled entity is accounted for in the Financial Information under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Notes 1(g) and (m)). The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the combined income statements, whereas the Group's share of the post-acquisition, post-tax items of the investees' other comprehensive income is recognised in the combined statement of comprehensive income.

When the Group's share of losses exceeds its interest in the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the

APPENDIX I — ACCOUNTANTS' REPORT

extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the jointly controlled entity.

Unrealised profits and losses resulting from transaction between the Group and its jointly controlled entity are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

(g) Goodwill

Goodwill represents the excess of the cost of an investment in a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

The carrying amount of goodwill is included in the carrying amount of the interest in the jointly controlled entity and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (see Note 1(m)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of an investment in a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(h) Other investment in equity securities

Investment in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see Note 1(m)).

(i) Business combination for entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the equity shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the Relevant Period or, if later, at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's combined financial statements.

Upon transfer of interest in an entity to another entity that is under the control of the equity shareholder that controls the Group, any difference between the Group's interest in the carrying value of the assets and liabilities and the cost of transfer of interest in the entity is recognised directly in equity.

(j) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 1(m)).

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is initially recognised in the balance sheet at cost less impairment losses (see Note 1(m)). The construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

APPENDIX I — ACCOUNTANTS' REPORT

The cost of self-constructed assets includes the cost of materials and direct labour, and the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriate proportion of production overheads and borrowing costs (see Note 1(z)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	10 to 20 years
Plant and machinery	5 to 10 years
Motor vehicles	4 to 5 years
Office and other equipment	3 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(k) Lease

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Receivables under finance leases

Where the Group leased out assets under finance leases, the initial direct costs incurred on such assets are recorded as receivables under finance leases. Finance income implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the receivables for each accounting period.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate

APPENDIX I — ACCOUNTANTS' REPORT

net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iv) Lease prepayments

Lease prepayments represent the purchase cost of land use rights. Land use rights are carried at cost less accumulated amortisation and impairment losses (see Note 1(m)). Amortisation is charged to profit or loss on a straight-line basis over the period of the land use rights.

(l) Intangible assets

Intangible assets that are acquired by the Group, which have finite useful lives, are stated at cost less accumulated amortisation and impairment losses (see Note 1(m)). Amortisation is recognised in profit or loss on a straight-line basis over the expected useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Coals business license in the PRC 3 years

(m) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and trade and other current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in jointly controlled entities recognised using the equity method (see Note 1(f)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with Note 1(m)(ii). The impairment loss is reversed if there has been a favourable

APPENDIX I — ACCOUNTANTS' REPORT

change in the estimates used to determine the recoverable amount in accordance with Note 1(m)(ii).

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.
- If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- construction in progress;
- lease prepayments; and
- intangible assets.

APPENDIX I — ACCOUNTANTS' REPORT

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the cash generating unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

(n) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

APPENDIX I — ACCOUNTANTS' REPORT

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see Note 1(m)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost.

(p) Convertible notes

Convertible notes that contain an equity component and can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the other reserve until either the note is converted or redeemed.

If the note is converted, the other reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the other reserve is released directly to retained profits.

(q) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(r) Preferred shares

Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the Company's option and any dividends are discretionary. Dividends on preferred shares classified as equity are recognised as distributions within equity.

Preferred shares are classified as liabilities if they are redeemable on a specific date or at the option of the equity shareholders of the Company, or if dividend payments are not discretionary. The liabilities are recognised in accordance with the Group's policy for

APPENDIX I — ACCOUNTANTS' REPORT

derivative financial instruments and interest-bearing borrowings set out in Note 1(q) and dividends thereon are recognised as interest expense in profit or loss on an accrual basis.

(s) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with Note 1(w)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(t) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(u) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Obligations for contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the other reserve within equity. The fair value is measured at grant date using the Binomial Tree option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the period of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the other reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the other reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the other reserve until either the option is exercised (when it is

APPENDIX I — ACCOUNTANTS' REPORT

transferred to the share capital account) or the option expires (when it is released directly to retained earnings).

(v) Income tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combination, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

APPENDIX I — ACCOUNTANTS' REPORT

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(w) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 1(w)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent

APPENDIX I — ACCOUNTANTS' REPORT

liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(x) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of goods

Revenue associated with the sale of coal is recognised when the risks and rewards of ownership of the goods have been passed to the customer. Revenue excludes value added tax and other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognised in the combined balance sheets initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

(y) Translation of foreign currencies

Foreign currency transactions during the period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

APPENDIX I — ACCOUNTANTS' REPORT

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(z) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(aa) Discontinued operations

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

Classification as a discontinued operation occurs upon disposal. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, the below is presented on the face of the profit or loss, which comprises:

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

(bb) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is a member of key management personnel of the Group or the Group's parent, or, a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

APPENDIX I — ACCOUNTANTS' REPORT

- (iv) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (v) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(cc) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 TURNOVER

The Group is principally engaged in the processing and trading of coking coals. Turnover represents the sales value of goods sold, net of value added tax and other sales taxes and is after any trade discounts.

	Continuing operations						Discontinued operations						Total					
	Years ended 31 December			Six months ended 30 June			Years ended 31 December			Six months ended 30 June			Years ended 31 December			Six months ended 30 June		
	2007	2008	2009	2009	2010	2010	2007	2008	2009	2009	2010	2010	2007	2008	2009	2009	2010	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(unaudited)			(unaudited)												(unaudited)
Cleaned coking coals	-	821,996	1,574,844	570,510	1,644,082	-	-	-	-	-	-	-	-	821,996	1,574,844	570,510	1,644,082	
Raw coking coals	191,427	160,931	183,038	3,685	312,941	2,051	-	-	-	-	-	-	193,478	160,931	183,038	3,685	312,941	
Hard coals	-	-	2,833,871	242,985	2,329,380	-	-	-	-	-	-	-	-	-	2,833,871	242,985	2,329,380	
Others	7,214	10,613	63,883	804	12,424	-	-	-	-	-	-	-	7,214	10,613	63,883	804	12,424	
	198,641	993,540	4,655,636	817,984	4,298,827	2,051	-	-	-	-	-	-	200,692	993,540	4,655,636	817,984	4,298,827	

During the year ended 31 December 2007, the Group had two customers that individually exceeded 10% of the Group's turnover, being RMB163,039,052, and RMB22,846,312 respectively.

During the year ended 31 December 2008, the Group had two customers that individually exceeded 10% of the Group's turnover, being RMB563,333,969, and RMB168,226,075 respectively.

During the year ended 31 December 2009, the Group had no customer that individually exceeded 10% of the Group's turnover.

During the six months ended 30 June 2010, the Group had one customer that individually exceeded 10% of the Group's turnover, being RMB610,800,097.

During the six months ended 30 June 2009 (unaudited), the Group had three customers that individually exceeded 10% of the Group's turnover, being RMB232,017,813, RMB149,975,488, and RMB82,042,350 respectively.

Details of concentration of credit risk arising from these customers are set out in Note 31(a).

3 OTHER OPERATING EXPENSES, NET

Other operating expenses for the year ended 31 December 2008 and the six months ended 30 June 2010 mainly represents losses on disposals of materials and property, plant and equipment.

APPENDIX I — ACCOUNTANTS' REPORT

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging / (crediting):

(a) Net finance income/(costs)

	Continuing operations			Discontinued operations			Total		
	Six months ended 30 June			Six months ended 30 June			Six months ended 30 June		
	Years ended 31 December	2009	2010	Years ended 31 December	2009	2010	Years ended 31 December	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest income	80	904	6,205	1,264	3,611	-	139	7,435	7,940
Finance income on receivables under financial lease	-	-	-	2,085	3,707	1,343	2,085	3,707	1,343
Total interest income	80	904	6,205	1,264	3,611	-	2,224	11,142	9,283
Foreign exchange gain, net	3,710	3,576	-	4,392	11,908	-	8,102	15,484	-
Finance income	3,790	4,480	6,205	1,264	7,773	-	10,326	26,626	9,283
Interest on bank and other loans	(4)	(1,145)	(17,927)	(8,808)	(17,325)	-	(3,092)	(21,205)	(25,106)
Interest on discounted bills	(3,686)	(2,186)	(17,935)	(1,724)	(17,646)	-	(3,686)	(2,186)	(17,935)
Interest on liability component of convertible bonds	-	-	-	-	(19,686)	-	-	-	-
Interest on liability component of redeemable convertible preferred shares	-	-	-	-	(20,238)	-	-	-	-
Total interest expense	(3,690)	(3,331)	(35,862)	(10,532)	(74,895)	-	(6,778)	(23,391)	(43,041)
Foreign exchange loss, net	-	-	(1,179)	(488)	-	-	-	-	(1,179)
Finance costs	(3,690)	(3,331)	(37,041)	(11,020)	(74,895)	-	(6,778)	(23,391)	(44,220)
Net finance income/(costs)	100	1,149	(30,836)	(9,756)	(67,122)	-	3,548	3,235	(34,937)

APPENDIX I — ACCOUNTANTS' REPORT

(b) Staff costs

	Continuing operations			Discontinued operations			Total		
	Six months ended 30 June			Six months ended 30 June			Six months ended 30 June		
	Years ended 31 December	2009	2010	Years ended 31 December	2009	2010	Years ended 31 December	2009	2010
	2007	2008	2009	2007	2008	2009	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Salaries, wages, bonuses and other benefits . . .	16,630	26,744	32,283	5,058	3,653	435	21,688	30,397	32,718
Contributions to defined contribution retirement plan	23	750	744	34	9	1	57	759	745
Share-based payment expenses	-	-	-	-	-	-	-	-	-
	16,653	27,494	33,027	5,092	3,662	436	21,745	31,156	33,463
			12,368			74			12,442
			44,848			-			44,848
			285			-			285
			1,938			-			1,938
			30,682			-			30,682
	12,653	27,494	33,027	5,092	3,662	436	21,745	31,156	33,463
			12,653			74			12,727
			77,468			-			77,468

Staff costs included directors' remuneration (see Note 6).

Pursuant to the relevant labour rules and regulations in the PRC, the Group's subsidiaries in the PRC participate in defined contribution retirement benefit schemes (the "Schemes") organised by the local government authorities whereby the Group is required to make contributions to the Schemes at a rate of 20% of the eligible employees' salaries during the Relevant Period.

The Group has no other material obligation for the payment of pension benefits beyond the contributions described above.

APPENDIX I — ACCOUNTANTS' REPORT

(c) Other items

	Continuing operations				Discontinued operations				Total			
	Years ended 31 December		Six months ended 30 June		Years ended 31 December		Six months ended 30 June		Years ended 31 December		Six months ended 30 June	
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amortisation												
— lease												
— intangible	74	70	41	20	290	-	-	-	74	70	41	290
assets	330	395	395	315	66	1,026	171	50	1,356	1,421	566	66
Depreciation#	7,621	14,826	47,557	23,243	21,175	9,170	2,471	1,363	16,791	23,914	50,028	21,175
Operating lease												
charges	95	3,688	7,807	1,008	8,959	23	-	-	118	3,688	7,807	8,959
Impairment losses on												
buildings	-	-	-	-	-	-	4,815	-	-	4,815	-	-
Auditors'												
remuneration	11	633	2,857	129	2,795	-	-	-	11	633	2,857	2,795
Cost of inventories#	159,553	552,837	3,808,740	666,248	3,353,009	1,710	-	-	161,263	552,837	3,808,740	666,248

Cost of inventories includes RMB2,006,278, RMB2,807,148, RMB7,068,108, RMB5,878,901 and RMB6,781,705, RMB12,756,000, RMB26,023,235, RMB15,011,426 relating to staff costs and depreciation for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 (the six months ended 30 June 2009 (unaudited): RMB2,266,390 and RMB13,117,101 relating to staff cost and depreciation respectively), which amount is also included in the respective total amounts disclosed separately above or in Note 4(b) for each of these types of expenses.

APPENDIX I — ACCOUNTANTS' REPORT

5 INCOME TAX

(a) Income tax in the combined income statements represents:

	Continuing operations			Discontinued operations			Total							
	Six months ended 30 June			Six months ended 30 June			Six months ended 30 June							
	2007	2008	2009	2007	2008	2009	2007	2008	2009					
Provision for the year/period	6,312	6,202	55,099	1,852	119,624	1,116	1,399	(46)	(46)	7,428	7,601	55,053	1,806	119,624
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)			(unaudited)						(unaudited)			(unaudited)	
Deferred tax														
Origination and reversal of temporary differences	(6,493)	(16,841)	6,909	(5,998)	(7,714)	-	-	-	-	(6,493)	(16,841)	6,909	(5,998)	(7,714)
Change in tax rate	31	-	-	-	-	-	-	-	-	31	-	-	-	-
	(6,462)	(16,841)	6,909	(5,998)	(7,714)	-	-	-	-	(6,462)	(16,841)	6,909	(5,998)	(7,714)
	(150)	(10,639)	62,008	(4,146)	111,910	1,116	1,399	(46)	(46)	966	(9,240)	61,962	(4,192)	111,910

(i) An analysis of the Group's provision for income tax by jurisdiction as below:

	Continuing operations			Discontinued operations			Total							
	Six months ended 30 June			Six months ended 30 June			Six months ended 30 June							
	2007	2008	2009	2007	2008	2009	2007	2008	2009					
The PRC	(150)	(10,639)	62,008	(4,146)	107,819	1,116	1,399	(46)	(46)	966	(9,240)	61,962	(4,192)	107,819
Singapore	-	-	-	-	4,091	-	-	-	-	-	-	-	-	4,091
	(150)	(10,639)	62,008	(4,146)	111,910	1,116	1,399	(46)	(46)	966	(9,240)	61,962	(4,192)	111,910

APPENDIX I — ACCOUNTANTS' REPORT

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Continuing operations						Discontinued operations						Total	
	Years ended 31 December		Six months ended 30 June		Years ended 31 December		Six months ended 30 June		Years ended 31 December		Six months ended 30 June		Six months ended 30 June	
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit/(loss) before taxation	22,260	266,173	494,640	39,980	640,818	(5,647)	(31,742)	21,371	20,811	16,613	234,431	516,011	60,791	640,818
Expected PRC income tax expense at the statutory tax rate of 33%/25% ⁽ⁱ⁾	7,346	66,543	123,660	9,995	160,205	(1,864)	(7,936)	5,343	5,203	5,482	58,607	129,003	15,198	160,205
Tax effect of entities not subject to income tax ^{(ii)&(iii)}	(6,492)	(61,234)	(72,557)	(12,813)	(45,191)	(376)	5,928	(4,398)	(4,304)	(6,868)	(55,306)	(76,955)	(17,117)	(45,191)
Tax effect of deferred tax assets on unrealised profits	(2,824)	(17,092)	6,884	(3,998)	(7,893)	-	-	-	-	(2,824)	(17,092)	6,884	(3,998)	(7,893)
Tax effect of non-deductible expenses	436	457	4,021	2,670	1,893	977	1,375	(991)	(945)	1,413	1,832	3,030	1,725	1,893
Tax effect of unused tax losses not recognised	1,353	687	-	-	2,896	2,379	2,032	-	-	3,732	2,719	-	-	2,896
Change in tax rate	31	-	-	-	-	-	-	-	-	31	-	-	-	-
Actual tax expense	(150)	(10,639)	62,008	(4,146)	111,910	1,116	1,399	(46)	(46)	966	(9,240)	61,962	(4,192)	111,910

(i) The Group's PRC subsidiaries are subject to PRC income tax at the statutory rates of 33% for 2007 and 25% from 2008 onwards. The change in the statutory tax rate was introduced in 2007.

(ii) Pursuant to the rules and regulations of the BVI, the Group is not subject to any income tax in the BVI.

(iii) The Group did not provide for Australian income tax in respect of its procurement activities in Australia, where the statutory income tax rate is 30%, during the Relevant Period, as management assessed that it is less than likely such procurement activities would expose the Group to Australian income tax. The management of the Company and its subsidiaries did not spend an extended period of time in Australia for such activities during the Relevant Period.

APPENDIX I — ACCOUNTANTS' REPORT

6 DIRECTORS' REMUNERATION

Details of directors' remuneration of the Company are set out below:

	Year ended 31 December 2007					
	Fees	Basic salaries, allowances and other benefits in kind	Contributions to retirement benefit scheme	Bonuses	Equity settled share-based payments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive directors</i>						
Wang Xingchun	-	-	-	-	-	-
Cui Yong	-	180	-	-	-	180
Zhu Hongchan	-	-	-	-	-	-
Yasuhisa Yamamoto	-	-	-	-	-	-
Apolonius Struijk	-	-	-	-	-	-
<i>Non-executive directors</i>						
Cui Guiyong	-	-	-	-	-	-
Liu Qingchun	-	-	-	-	-	-
Lu Chuan	-	-	-	-	-	-
<i>Independent non-executive directors</i>						
James Downing (also known as Jim Downing)	-	-	-	-	-	-
Ng Yuk Keung	-	-	-	-	-	-
Jay Hambro	-	-	-	-	-	-
Wang Wenfu	-	-	-	-	-	-
Total	-	180	-	-	-	180

	Year ended 31 December 2008					
	Fees	Basic salaries, allowances and other benefits in kind	Contributions to retirement benefit scheme	Bonuses	Equity settled share-based payments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive directors</i>						
Wang Xingchun	1,091	-	-	-	-	1,091
Cui Yong	-	180	-	-	-	180
Zhu Hongchan	-	-	-	-	-	-
Yasuhisa Yamamoto	-	582	-	-	-	582
Apolonius Struijk	-	-	-	-	-	-
<i>Non-executive directors</i>						
Cui Guiyong	-	-	-	-	-	-
Liu Qingchun	-	-	-	-	-	-
Lu Chuan	-	-	-	-	-	-
<i>Independent non-executive directors</i>						
James Downing (also known as Jim Downing)	-	-	-	-	-	-
Ng Yuk Keung	-	-	-	-	-	-
Jay Hambro	-	-	-	-	-	-
Wang Wenfu	-	-	-	-	-	-
Total	1,091	762	-	-	-	1,853

APPENDIX I — ACCOUNTANTS' REPORT

Year ended 31 December 2009

	<u>Fees</u>	<u>Basic salaries, allowances and other benefits in kind</u>	<u>Contributions to retirement benefit scheme</u>	<u>Bonuses</u>	<u>Equity settled share-based payments</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive directors</i>						
Wang Xingchun	1,054	-	-	-	-	1,054
Cui Yong	-	180	-	-	-	180
Zhu Hongchan	-	-	-	-	-	-
Yasuhisa Yamamoto	-	1,031	-	-	-	1,031
Apolonius Struijk	-	480	-	-	-	480
<i>Non-executive directors</i>						
Cui Guiyong	-	-	-	-	-	-
Liu Qingchun	-	-	-	-	-	-
Lu Chuan	-	-	-	-	-	-
<i>Independent non-executive directors</i>						
James Downing (also known as Jim Downing)	-	-	-	-	-	-
Ng Yuk Keung	-	-	-	-	-	-
Jay Hambro	-	-	-	-	-	-
Wang Wenfu	-	-	-	-	-	-
Total	1,054	1,691	-	-	-	2,745

Six months ended 30 June 2010

	<u>Fees</u>	<u>Basic salaries, allowances and other benefits in kind</u>	<u>Contributions to retirement benefit scheme</u>	<u>Bonuses</u>	<u>Equity settled share-based payments</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive directors</i>						
Wang Xingchun	2,094	-	-	-	4,927	7,021
Cui Yong	-	178	-	-	2,339	2,517
Zhu Hongchan	-	466	-	-	2,940	3,406
Yasuhisa Yamamoto	-	1,699	-	-	2,294	3,993
Apolonius Struijk	-	1,699	-	-	2,307	4,006
<i>Non-executive directors</i>						
Cui Guiyong	-	-	-	-	-	-
Liu Qingchun	-	-	-	-	-	-
Lu Chuan	-	-	-	-	-	-
<i>Independent non-executive directors</i>						
James Downing (also known as Jim Downing)	-	-	-	-	-	-
Ng Yuk Keung	-	-	-	-	-	-
Jay Hambro	-	-	-	-	-	-
Wang Wenfu	-	-	-	-	-	-
Total	2,094	4,042	-	-	14,807	20,943

APPENDIX I — ACCOUNTANTS' REPORT

Six months ended 30 June 2009 (unaudited)						
	Fees	Basic salaries, allowances and other benefits in kind	Contributions to retirement benefit scheme	Bonuses	Equity settled share-based payments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive directors</i>						
Wang Xingchun	527	-	-	-	-	527
Cui Yong	-	90	-	-	-	90
Zhu Hongchan	-	-	-	-	-	-
Yasuhisa Yamamoto	-	516	-	-	-	516
Apolonius Struijk	-	68	-	-	-	68
<i>Non-executive directors</i>						
Cui Guiyong	-	-	-	-	-	-
Liu Qingchun	-	-	-	-	-	-
Lu Chuan	-	-	-	-	-	-
<i>Independent non-executive directors</i>						
James Downing (also known as Jim Downing)	-	-	-	-	-	-
Ng Yuk Keung	-	-	-	-	-	-
Jay Hambro	-	-	-	-	-	-
Wang Wenfu	-	-	-	-	-	-
Total	527	674	-	-	-	1,201

During the Relevant Period, no amount was paid or payable by the Group to the directors or any of the non-directors highest paid individuals set out in Note 7 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director or any of the non-director highest paid individuals waived or agreed to waive any remuneration during the Relevant Period.

7 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The number of directors and non-directors included in the five highest paid individuals for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 are set forth below:

	Years ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
Directors	1	3	3	3	5
Non-directors	4	2	2	2	-
	5	5	5	5	5

APPENDIX I — ACCOUNTANTS' REPORT

The emoluments of the directors are disclosed in Note 6. The aggregate of the emoluments in respect of the remaining highest paid individuals are as follows:

	Years ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Basic salaries, allowances and benefits in kind	756	396	758	379	-
Discretionary bonuses	-	-	-	-	-
Equity settled share-based payment	-	-	-	-	-
Retirement scheme contributions	-	-	-	-	-
	<u>756</u>	<u>396</u>	<u>758</u>	<u>379</u>	<u>-</u>

The emoluments of the individuals with the highest emoluments are within the following band:

	Years ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
				(unaudited)	
Nil to Hong Kong dollar (HK\$) 1,000,000	5	4	3	5	-
HK\$1,000,000 to HK\$1,500,000	-	1	2	-	-
HK\$2,500,000 to HK\$3,000,000	-	-	-	-	1
HK\$3,500,000 to HK\$4,000,000	-	-	-	-	1
HK\$4,500,000 to HK\$5,000,000	-	-	-	-	2
HK\$8,000,000 to HK\$8,500,000	-	-	-	-	1
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

8 DIVIDENDS

Dividends to equity shareholders of the Company attributable to the year/period:

	Years ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Dividends declared and paid	-	68,980	-	-	-

On 28 June 2008, the Company declared a dividend of RMB13,796,000 per ordinary share to the equity shareholders of the Company.

The director considers that the dividend payments made during the year ended 31 December 2008 are not indicative of the future dividend policy of the Company.

Pursuant to Board resolutions dated 16 September 2010, the Company declared a dividend of RMB287,732,611 to the equity shareholders of Company and the holders of the Convertible Bonds (see Note 24) and RCPS (see Note 25).

9 EARNING/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to ordinary equity shareholders of the Company of each of years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 and the 2,060,606,060 shares in issue as at

APPENDIX I — ACCOUNTANTS' REPORT

the date of the Prospectus, as if the shares had been outstanding throughout the entire Relevant Period.

Since the impact on earnings of conversion of redeemable convertible preferred shares to ordinary shares is greater than that on the weighted average number of ordinary shares during the six months ended 30 June 2010, they are treated as anti-dilutive in the period. As a result, the calculation of diluted earnings per share does not assume conversion of redeemable convertible preferred shares during the six months ended 30 June 2010.

APPENDIX I — ACCOUNTANTS' REPORT

The calculation of the basic and diluted earnings/(loss) per share is based on the following data:

(i) Profit/(loss) attributable to ordinary equity shareholders of the Company

	Continuing operations			Discontinued operations			Total		
	Years ended 31 December		Six months ended 30 June	Years ended 31 December		Six months ended 30 June	Years ended 31 December		Six months ended 30 June
	2008	2009	2010	2007	2008	2009	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit/(loss) attributable to equity shareholders of the Company	24,830	277,747	432,632	44,126	528,925	20,857	17,811	244,606	454,049
Profit attributable to the holders of redeemable convertible preferred shares	-	-	(32,437)	-	-	-	-	-	-
Profit/(loss) attributable to ordinary equity shareholders of the Company (basic)	24,830	277,747	432,632	44,126	496,488	20,857	17,811	244,606	454,049
After tax effect of interest expense on liability component of convertible bonds	-	-	19,686	-	-	-	-	-	19,686
Profit attributable to ordinary equity shareholders of the Company (diluted)	24,830	277,747	432,632	44,126	496,488	20,857	17,811	244,606	454,049
Weighted average number of ordinary shares (basic)			2,060,606,060			2,060,606,060			2,060,606,060
Effect of conversion of convertible bonds									175,037,767
Weighted average number of ordinary shares (diluted)			2,060,606,060			2,060,606,060			2,235,643,827

(ii) Weighted average number of ordinary shares

APPENDIX I — ACCOUNTANTS' REPORT

10 SEGMENT REPORTING

For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 (for the six months ended 30 June 2009 (unaudited)), the Group had one business segment, the processing and trading of coking coals in the PRC. Accordingly, no business and geographical segment information are presented.

11 OTHER COMPREHENSIVE INCOME

Other comprehensive income does not have any significant tax effect for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010.

12 PROPERTY, PLANT AND EQUIPMENT, NET

	<u>Buildings</u>	<u>Plant and</u>	<u>Motor</u>	<u>Office</u>	
	<u>RMB'000</u>	<u>machinery</u>	<u>vehicles</u>	<u>and other</u>	<u>Total</u>
		<u>RMB'000</u>	<u>RMB'000</u>	<u>equipment</u>	<u>RMB'000</u>
				<u>RMB'000</u>	<u>RMB'000</u>
Cost:					
At 1 January 2007	15,569	1,095	57,622	751	75,037
Additions	10,286	30,189	59,744	877	101,096
Transferred from construction in progress					
(Note 13)	22,499	-	-	-	22,499
Disposals	-	-	(94,335)	(2)	(94,337)
Disposals of subsidiaries					
(Note 35)	(10,521)	(1,089)	(117)	(186)	(11,913)
Exchange adjustments	(2)	(4)	(2,844)	-	(2,850)
At 31 December 2007	<u>37,831</u>	<u>30,191</u>	<u>20,070</u>	<u>1,440</u>	<u>89,532</u>
At 1 January 2008	37,831	30,191	20,070	1,440	89,532
Additions	5,444	18,531	153,611	5,707	183,293
Transferred from construction in progress					
(Note 13)	50,233	575	4,480	3,903	59,191
Disposals	-	-	(7,396)	-	(7,396)
Exchange adjustments	(17)	(10)	(59)	(18)	(104)
At 31 December 2008	<u>93,491</u>	<u>49,287</u>	<u>170,706</u>	<u>11,032</u>	<u>324,516</u>
At 1 January 2009	93,491	49,287	170,706	11,032	324,516
Additions	414	3,203	29,022	3,458	36,097
Transferred from construction in progress					
(Note 13)	84,105	54,289	-	761	139,155
Disposals	-	-	(6,212)	-	(6,212)
Disposals of subsidiaries					
(Note 35)	(410)	(17,067)	(13,243)	(992)	(31,712)
Exchange adjustments	-	(12)	(52)	-	(64)
At 31 December 2009	<u>177,600</u>	<u>89,700</u>	<u>180,221</u>	<u>14,259</u>	<u>461,780</u>
At 1 January 2010	177,600	89,700	180,221	14,259	461,780
Additions	4,290	2,144	19,533	4,531	30,498
Transferred from construction in progress					
(Note 13)	13,522	7,427	-	771	21,720
Disposals	(5,454)	-	(75,898)	(18)	(81,370)
Exchange adjustments	-	-	(472)	(121)	(593)
At 30 June 2010	<u>189,958</u>	<u>99,271</u>	<u>123,384</u>	<u>19,422</u>	<u>432,035</u>

APPENDIX I — ACCOUNTANTS' REPORT

	<u>Buildings</u> RMB'000	<u>Plant and machinery</u> RMB'000	<u>Motor vehicles</u> RMB'000	<u>Office and other equipment</u> RMB'000	<u>Total</u> RMB'000
Accumulated depreciation and impairment:					
At 1 January 2007	2,323	263	5,671	83	8,340
Charge for the year	609	2,780	13,228	174	16,791
Written back on disposals	-	-	(9,935)	(2)	(9,937)
Disposals of subsidiaries (Note 35)	(2,820)	(122)	(90)	(40)	(3,072)
Exchange adjustments	-	-	(1,550)	-	(1,550)
At 31 December 2007	<u>112</u>	<u>2,921</u>	<u>7,324</u>	<u>215</u>	<u>10,572</u>
At 1 January 2008	112	2,921	7,324	215	10,572
Charge for the year	1,850	5,642	15,718	704	23,914
Written back on disposals	-	-	(3,802)	-	(3,802)
Impairment loss	4,815	-	-	-	4,815
Exchange adjustments	-	(132)	(14)	(5)	(151)
At 31 December 2008	<u>6,777</u>	<u>8,431</u>	<u>19,226</u>	<u>914</u>	<u>35,348</u>
At 1 January 2009	6,777	8,431	19,226	914	35,348
Charge for the year	5,714	6,431	35,605	2,278	50,028
Written back on disposals	-	-	(2,015)	-	(2,015)
Disposals of subsidiaries (Note 35)	(54)	(7,768)	(6,890)	(450)	(15,162)
Exchange adjustments	-	(5)	(11)	-	(16)
At 31 December 2009	<u>12,437</u>	<u>7,089</u>	<u>45,915</u>	<u>2,742</u>	<u>68,183</u>
At 1 January 2010	12,437	7,089	45,915	2,742	68,183
Charge for the period	3,108	5,168	11,141	1,758	21,175
Written back on disposals	(881)	-	(16,556)	-	(17,437)
Exchange adjustments	-	-	(137)	(19)	(156)
At 30 June 2010	<u>14,664</u>	<u>12,257</u>	<u>40,363</u>	<u>4,481</u>	<u>71,765</u>
Net book value:					
At 31 December 2007	<u>37,719</u>	<u>27,270</u>	<u>12,746</u>	<u>1,225</u>	<u>78,960</u>
At 31 December 2008	<u>86,714</u>	<u>40,856</u>	<u>151,480</u>	<u>10,118</u>	<u>289,168</u>
At 31 December 2009	<u>165,163</u>	<u>82,611</u>	<u>134,306</u>	<u>11,517</u>	<u>393,597</u>
At 30 June 2010	<u>175,294</u>	<u>87,014</u>	<u>83,021</u>	<u>14,941</u>	<u>360,270</u>

An analysis of the location of the Group's property, plant and equipment as below:

	<u>At 31 December</u>			<u>At 30 June</u>
	<u>2007</u> RMB'000	<u>2008</u> RMB'000	<u>2009</u> RMB'000	<u>2010</u> RMB'000
The PRC (including Hong Kong)	64,661	198,010	322,641	306,130
Mongolia	14,299	91,158	70,874	51,059
Others	-	-	82	3,081
Aggregate net book value	<u>78,960</u>	<u>289,168</u>	<u>393,597</u>	<u>360,270</u>

At 31 December 2007, 2008 and 2009 and 30 June 2010, buildings with a carrying amount of RMB nil, RMB nil, RMB35,281,357 and RMB nil were pledged as collateral for a third party's borrowings, respectively.

APPENDIX I — ACCOUNTANTS' REPORT

As at 31 December 2007, 2008 and 2009 and 30 June 2010, the Group was in the process of applying for the ownership certificate for certain buildings with an aggregate net book value amounting to RMB32,511,715, RMB42,507,453, RMB54,459,373 and RMB57,995,322, respectively. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy and use of the above mentioned buildings.

In measuring the amounts of impairment loss, the carrying amounts of the buildings were compared to the present value of the expected future cash flows of the assets, as well as information about sales and purchases of similar properties in the same geographic area.

13 CONSTRUCTION IN PROGRESS

	<u>At 31 December</u>			<u>At 30 June</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
At 1 January	105	528	12,947	36,281
Additions	22,922	71,610	162,489	59,030
Transferred to property, plant and equipment (Note 12)	(22,499)	(59,191)	(139,155)	(21,720)
At 31 December/30 June	<u>528</u>	<u>12,947</u>	<u>36,281</u>	<u>73,591</u>

14 LEASE PREPAYMENTS

Lease prepayments comprise interests in leasehold land held for own use under operating leases located in the PRC as follows:

	<u>At 31 December</u>			<u>At 30 June</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Cost:				
At 1 January	5,283	7,962	7,962	7,962
Additions	2,679	-	-	21,040
At 31 December/30 June	<u>7,962</u>	<u>7,962</u>	<u>7,962</u>	<u>29,002</u>
Accumulated amortisation:				
At 1 January	9	83	153	194
Charge for the year/period	74	70	41	290
At 31 December/30 June	<u>83</u>	<u>153</u>	<u>194</u>	<u>484</u>
Net book value:				
At 31 December/30 June	<u>7,879</u>	<u>7,809</u>	<u>7,768</u>	<u>28,518</u>

Lease prepayments represent the net of payments for land use rights paid to the PRC authorities and the associated government grants received. The Group's land use rights are amortised on a straight-line basis over the operating lease periods of 50 years. The associated government grants are recognised as deduction of lease prepayment amortisation charge for the year over the lease periods of the relevant lease prepayments.

At 31 December 2007, 2008 and 2009 and 30 June 2010, land use rights with a total carrying amount of RMB nil, RMB nil, RMB1,006,014 and RMB nil were pledged as collateral for a related party's borrowings, respectively.

APPENDIX I — ACCOUNTANTS' REPORT

15 INTANGIBLE ASSETS

	<u>At 31 December</u>			<u>At 30 June</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Cost:				
At 1 January	3,077	4,263	4,263	1,186
Additions	1,186	-	-	-
Disposals of subsidiaries	-	-	(3,077)	-
At 31 December/30 June	<u>4,263</u>	<u>4,263</u>	<u>1,186</u>	<u>1,186</u>
Accumulated amortisation:				
At 1 January	854	2,210	3,631	1,120
Charge for the year/period	1,356	1,421	566	66
Disposals of subsidiaries	-	-	(3,077)	-
At 31 December/30 June	<u>2,210</u>	<u>3,631</u>	<u>1,120</u>	<u>1,186</u>
Net book value:				
At 31 December/30 June	<u>2,053</u>	<u>632</u>	<u>66</u>	<u>-</u>

Cost of intangible assets mainly represents the cost of coal business licences in the PRC.

16 INTEREST IN JOINTLY CONTROLLED ENTITY

	<u>At 31 December</u>			<u>At 30 June</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Share of net assets	-	-	-	276,378
Goodwill	-	-	-	37,690
	<u>-</u>	<u>-</u>	<u>-</u>	<u>314,068</u>

On 29 June 2010, the Group acquired 50% equity interest in Peabody-Winsway Resources B.V. from a third party for a consideration together with associated costs amounted to US\$46,248,336.

Details of the Group's interest in the jointly controlled entity are as follows:

<u>Name of joint venture</u>	<u>Form of business structure</u>	<u>Place of incorporation and operation</u>	<u>Issued and fully paid up capital</u>	<u>Effective interest attributable to the Group</u>	<u>Principal activities</u>
Peabody-Winsway Resources B.V.	Incorporated	The Kingdom of the Netherlands	Euro36,000	50%	Acquisition, sale, exploration, development, mining, processing and commercial exploitation of the mineral and metal resources

APPENDIX I — ACCOUNTANTS' REPORT

The summary financial information of jointly controlled entity on the transaction date:

	Recognised values at 30 June 2010
	RMB'000
Non-current assets	302,794
Current assets	7,586
Non-current liabilities	(33,134)
Current liabilities	(868)
Net assets	<u>276,378</u>

The consideration and associated costs of US\$46,248,336 are satisfied by cash paid/payable of US\$36,248,336 and the Company's shares at initial public offering (the "IPO") price of US\$10,000,000 if the Company has completed qualified IPO at any recognised stock exchange in Asia or North America within one year from the date of acquisition, otherwise, the amount is to be satisfied by cash. The fair value of recognised assets and liabilities was valued by the directors with reference to a valuation report issued by Jones Lang LaSalle Sallmanns Limited. The estimation of the fair value of recognised assets and liabilities was based on the historical costs/discounted cash flows expected to be derived from the use and eventual sale of the assets.

17 OTHER INVESTMENT IN EQUITY SECURITIES

At 30 June 2010, the Group held 5% (at 31 December 2009: 12%) equity interests in an unlisted company namely Xixiaozhao Gants Mod Railway Co., Ltd. established in the PRC, for which the principal activity is the operation of a railway under construction.

APPENDIX I — ACCOUNTANTS' REPORT

18 RECEIVABLES UNDER FINANCE LEASE

The gross investment and present value of receivables relating to future minimum lease payments under non-cancellable finance lease agreement or arrangement accounted for as finance lease are as follows:

	2007		At 31 December 2008		2009		At 30 June 2010	
	Present value of the minimum lease payment RMB'000	Gross investment RMB'000	Present value of the minimum lease payment RMB'000	Gross investment RMB'000	Present value of the minimum lease payment RMB'000	Gross investment RMB'000	Present value of the minimum lease payment RMB'000	Gross investment RMB'000
Within 1 year	25,578	29,341	26,483	28,459	-	-	-	-
After 1 year but within 2 years	24,256	26,293	26,372	26,706	-	-	-	-
After 2 years but within 5 years	16,771	17,116	-	-	-	-	-	-
	<u>66,605</u>	<u>72,750</u>	<u>52,855</u>	<u>55,165</u>	-	-	-	-
Less: total future interest income ..		<u>(6,145)</u>		<u>(2,310)</u>				
Present value of lease receivables		<u>66,605</u>		<u>52,855</u>				

The interest rate charged on the leases is fixed at inception for the duration of the lease term which is approximately three years. The weighted average interest rate on lease receivables for the years ended 31 December 2007 and 2008 were 6.75% and 6.75% per annum respectively.

APPENDIX I — ACCOUNTANTS' REPORT

19 INVENTORIES

(a) Inventories in the combined balance sheets comprise:

	At 31 December		At 30 June	
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Raw coking coals	169,040	170,120	487,049	460,299
Cleaned coking coals	-	117,613	222,092	237,653
Hard coals	-	-	285,018	290,414
Low value consumables	166	2,303	1,237	1,508
Others	3,975	32,222	52,785	68,699
	173,181	322,258	1,048,181	1,058,573

At 31 December 2007, 2008 and 2009 and 30 June 2010, coking coals of the Group with an aggregate carrying value of RMB76,417,000, RMB164,248,000, RMB267,611,547 and RMB289,192,199 were pledged as collateral for the Group's borrowings (Note 23) and banking facilities in respect of issuance of letters of credit by the Group, respectively. As at 31 December 2007, 2008 and 2009 and 30 June 2010, coking coals of the Group with an aggregate carrying value of RMB nil, RMB nil, RMB81,159,000 and RMB nil were pledged as collateral for a third party's borrowings.

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	Continuing operations				Discontinued operations				Total				
	Years ended 31 December		Six months ended 30 June		Years ended 31 December		Six months ended 30 June		Years ended 31 December		Six months ended 30 June		
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Carrying amount of inventories sold	159,553	551,991	3,808,740	666,248	3,353,009	1,710	-	-	161,263	551,991	3,808,740	666,248	3,353,009
Written down of inventories	-	846	-	-	-	-	-	-	-	846	-	-	-
	159,553	552,837	3,808,740	666,248	3,353,009	1,710	-	-	161,263	552,837	3,808,740	666,248	3,353,009

APPENDIX I — ACCOUNTANTS' REPORT

20 TRADE AND OTHER RECEIVABLES

	<u>At 31 December</u>			<u>At 30 June</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Trade receivables	4,214	153,567	456,973	747,865
Bills receivable	28,000	20,078	73,000	863,426
Receivables from import agents	-	-	793,457	897,196
Amounts due from related parties	157,134	26,962	120,029	497
Advance payments to suppliers	18,126	32,357	127,574	383,899
Receivables for disposal of discontinued operations	24,702	24,702	-	-
Deposits and other receivables	18,653	32,766	49,342	367,000
	<u>250,829</u>	<u>290,432</u>	<u>1,620,375</u>	<u>3,259,883</u>

All of the trade and other receivables are expected to be recovered within one year.

The credit terms for trade debtors are generally within 90 days. Bills receivable are normally due within 90 days to 180 days from the date of issuing. Further details on the Group's credit policy are set out in Note 31(a).

At 31 December 2009 and 30 June 2010, trade and bills receivable of the Group of RMB283,523,544 and RMB1,164,106,416 were pledged as collateral for the Group's borrowings respectively (Note 23).

(a) Ageing analysis

Included in trade receivables and receivables from import agents are trade debtors with the ageing analysis as follows:

	<u>At 31 December</u>			<u>At 30 June</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Current	4,214	153,367	1,250,230	1,645,061
More than 3 months past due	-	200	200	-
Amounts past due	-	200	200	-
	<u>4,214</u>	<u>153,567</u>	<u>1,250,430</u>	<u>1,645,061</u>

(b) Impairment of trade and other receivables

No allowance of impairment loss was recorded in respect of trade and other receivables for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010.

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance 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 over these balances.

APPENDIX I — ACCOUNTANTS' REPORT

21 RESTRICTED BANK DEPOSITS

The Group pledged bank deposits of maturity more than three months of RMB11,500,000, RMB296,937,929, RMB565,762,000 and RMB671,957,913 as at 31 December 2007, 2008 and 2009 and 30 June 2010 as collateral for the Group's borrowings (Note 23) and banking facilities in respect of issuance of bills (Note 27) and letters of credit by the Group.

22 CASH AND CASH EQUIVALENTS

	At 31 December			At 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Cash in hand and at bank	37,999	99,141	244,167	542,023

At 31 December 2007, 2008 and 2009 and 30 June 2010, cash and cash equivalents of RMB30,747,631, RMB87,145,948, RMB177,605,000 and RMB202,847,158 respectively was held by the entities of the Group in the PRC. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

Included in cash and cash equivalents in the combined balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	At 31 December			At 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
United States dollars	64	53	782	1,726

23 SECURED BANK AND OTHER LOANS

The secured bank and other loans were repayable as follows:

	At 31 December			At 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	123,822	599,038	1,399,547	2,195,274

At 31 December 2007, 2008 and 2009 and 30 June 2010, the loans were repayable within one year, and bearing interest at the range of 7.45% to 7.50% per annum, 3.90% to 8.35% per annum, 0.90% to 6.78% per annum and 1.18% to 6.32% per annum respectively.

At 31 December 2007, 2008 and 2009 and 30 June 2010, bank and other loans amounting to RMB11,322,130, RMB292,185,432, RMB711,849,952 and RMB711,882,026 were secured by bank deposits placed in banks with an aggregate carrying value of RMB11,500,000, RMB296,937,929, RMB565,762,000 and RMB435,069,434 respectively.

At 31 December 2007, 2008 and 2009 and 30 June 2010, bank and other loans amounting to RMB112,500,000, RMB306,852,521, RMB404,173,126 and RMB287,542,005 were secured by coking coals inventories of the Group with an aggregate carrying value of RMB76,417,000, RMB164,248,000, RMB267,611,547 and RMB208,528,164 respectively.

APPENDIX I — ACCOUNTANTS' REPORT

At 31 December 2009 and 30 June 2010, bank and other loans amounting to RMB283,523,544 and RMB1,222,769,945 were secured by pledged trade and bills receivables with an aggregate carrying value of RMB283,523,544 and RMB1,164,106,416.

At 31 December 2007, 2008 and 2009 and 30 June 2010, bank facilities utilised by the companies comprising the Group of RMB nil, RMB nil, RMB550,965,025 and RMB862,803,338 were guaranteed by the controlling shareholder Mr. Wang Xing Chun and related parties of the Group which are under common control of Mr. Wang Xing Chun.

Further details of the Group's management of liquidity risk are set out in Note 31(b).

24 CONVERTIBLE BONDS

	At 31 December			At 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
US\$50,000,000 Subscription Agreement	-	-	-	326,835
US\$10,000,000 Subscription Agreement	-	-	-	66,899
	-	-	-	393,734
	-	-	-	393,734

Convertible bonds recognised in the combined balance sheets as at 30 June 2010 are as follows:

	<u>At 30 June 2010</u>
At 1 January	-
Initial recognition of liability component of convertible bonds	376,098
Interest charged during the period	19,686
Exchange adjustments	(2,050)
	393,734
Less: Current portion of convertible bonds	(13,921)
Non-current portion of convertible bonds	379,813

On 30 March 2010, the Company entered into a Subscription Agreement (“the First Agreement”) with Coppermine Resources Limited and Silver Grant International Industries Ltd. (“Coppermine Resources & Silver Grant”) in respect of the issue of US\$50,000,000 (US\$25,000,000 each) convertible bonds (the “First Convertible Bond”). The First Convertible Bond bears interest from the date of issue at the rate of 3.5% per annum and is payable in arrears on the date falling six months after the date of issue and on a date falling every six months thereafter. The maturity date of the First Convertible Bond is 20 April 2013.

On 22 April 2010, the Company entered into a Subscription Agreement (“the Second Agreement”) with ITOCHU Corporation (“ITOCHU”) in respect of the issue of US\$10,000,000 convertible bonds (the “Second Convertible Bond”). The Second Convertible Bond bears interest from the date of issue at the rate of 3% per annum and is payable in arrears on the date falling six months after the date of issue and on a date falling every six months thereafter. The maturity date of the Second Convertible Bond is 30 April 2013.

Subject to the completion of the initial public offering of the Company under the First Agreement and the Second Agreement and the exercise of conversion right by Coppermine Resources & Silver Grant and ITOCHU (the “Bondholders”), the Company should allot and issue to Coppermine Resources & Silver Grant and ITOCHU ordinary shares equivalent to

APPENDIX I — ACCOUNTANTS' REPORT

303,030,304 shares and 50,000,250 shares of the entire issued shares of the Company, on a fully diluted basis (“New Ordinary Shares”) respectively, as if the First Convertible Bond, the Second Convertible Bond and redeemable convertible preferred shares (Note 25) had been converted into ordinary shares of the Company. The First Convertible Bond and the Second Convertible Bond (the “Convertible Bonds”) can only be converted in whole not in part.

The Convertible Bonds are redeemable by the Bondholders at a price equal to the sum of: (a) the aggregate of all principal amounts and interest accrued outstanding of Convertible Bonds, and (b) an additional amount for receiving a 25% internal rate of return per annum on such principal amount up to the date of actual payment within 30 months after the date of the First Agreement and the Second Agreement, respectively, if the initial public offering is not completed within 24 months after the date of the First Agreement and the Second Agreement (c) an additional amount for receiving a 15% internal rate of return per annum on such principal amount up to the date of actual payment if the initial public offering of the Company is completed while the Bondholders do not exercise the conversion right.

If the conversion or redemption does not take place before the maturity date, the Company shall repay principal amount outstanding to Bondholders together with all interest accrued thereon up to and including the date of actual repayment.

The Convertible Bonds contain liability and equity components. On the issue of the Convertible Bonds, the fair value of the liability component was valued by the directors with reference to a valuation report issued by Jones Lang LaSalle Sallmanns Limited using discounted cash flows method. The 25% internal rate of return per annum has been taken into account for the valuation of the liability component of the Convertible Bonds. The residual amount, representing the equity component, is included in other reserve. The liability component is subsequently carried at amortised cost using the effective interest method until extinguished on conversion or redemption. If the Convertible Bonds are converted, the carrying amounts of the equity and liability components are transferred to share capital and share premium as consideration for the shares issued.

25 REDEEMABLE CONVERTIBLE PREFERRED SHARES

	At 31 December			At 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
US\$60,000,000 Subscription Agreement	-	-	-	392,202

Redeemable convertible preferred shares recognised in the combined balance sheets as at 30 June 2010 are as follows:

	At 30 June 2010
At 1 January	-
Initial recognition of liability component of redeemable convertible preferred shares	374,005
Interest charged during the period	20,238
Exchange adjustments	(2,041)
	392,202
Less: Current portion of redeemable convertible preferred shares	(14,261)
Non-current portion of redeemable convertible preferred shares	377,941

APPENDIX I — ACCOUNTANTS' REPORT

On 18 April 2010, the Company issued 363,636,364 redeemable convertible preferred shares ("RCPS") to Winstar Capital Group Limited ("Winstar"), for a cash consideration of US\$60,000,000 (equivalent to US\$0.165 per RCPS) according to the subscription agreement for RCPS (the "RCPS Subscription Agreement").

The RCPS is entitled to a preferred dividend from the date of issue at the rate of 3.5% per annum and is payable in arrears on the date falling six months after the date of issue and on a date falling every six months thereafter. No dividend was paid during the six months ended 30 June 2010 (during the six months ended 30 June 2009 (unaudited): nil) and unpaid dividends of RMB20,237,632 during the six months ended 30 June 2010 (during the six months ended 30 June 2009 (unaudited): nil) were accrued as at 30 June 2010. Dividends on redeemable convertible preferred shares are accounted for using the effective interest method and recorded as interest expense.

The RCPS is convertible into ordinary shares of the Company at the option of the holders of RCPS at any time before the maturity date of 20 April 2013 without the payment of any additional consideration. The RCPS is also automatically converted upon the completion of the initial public offering of the Company under the RCPS Subscription Agreement. The conversion basis is one preferred share to one ordinary share of the Company. The RCPS can only be converted in whole not in part.

Except for certain matters, the holder of the RCPS has the right to one vote for each RCPS and one vote for every ordinary share of the Company in which the RCPS is converted. The holder of the RCPS has the right to receive a dividend whenever the holders of ordinary shares of the Company receive a dividend.

The RCPS is redeemable at the option of the holders of RCPS before the date of completion of the initial public offering and at a price equal to the sum of: (a) the aggregate of all amounts outstanding including accrued but unpaid dividends of RCPS and (b) an additional amount for receiving a 25% internal rate of return per annum on such principal amount up to the date of actual payment within 30 months after the date of RCPS Subscription Agreement, if certain condition precedent could not be fulfilled within 24 months after the date of the RCPS Subscription Agreement.

If the subscription of RCPS Subscription Agreement does not take place before the maturity date of 20 April 2013, the Company is required to redeem the whole amount of US\$60,000,000 under RCPS Subscription Agreement to Winstar at the maturity date.

The RCPS contain liability and equity components. On the issue of the RCPS, the fair value of the liability component was valued by the directors with reference to a valuation report issued by Jones Lang LaSalle Sallmanns Limited using discounted cash flows method. The 25% internal rate of return per annum has been taken into account for the valuation of the liability component of the RCPS. The residual amount, representing the equity component, is included in other reserve. The liability component is subsequently carried at amortised cost using the effective interest method until extinguished on conversion or redemption. If the RCPS are converted, the carrying amounts of the equity and liability components are transferred to share capital and share premium as consideration for the shares issued.

APPENDIX I — ACCOUNTANTS' REPORT

26 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme (the "Scheme") which was adopted on 30 June 2010 (the "Adoption Date") whereby the directors of the Company are authorised, at their direction, to invite employees of the Group including directors of any company of the Group, to take up options at HK\$1 consideration to subscribe for shares of the Company. The options will vest every three months over a period of five years commencing from 1 April 2010 ("initial vesting date") in equal portions (5% each) on the first day of each three-month period after the initial vesting date and are exercisable from 1 April 2011 (12 months after the initial vesting date of 1 April 2010) until 30 June 2015 (a period of five years from the Adoption Date of 30 June 2010) at a fixed subscription price. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

- (i) The number of options granted to directors and management during the Relevant Period is 52,093,000 and 55,852,000 respectively, whereby all options are settled by physical delivery of shares.
- (ii) The number and weighted average exercise prices of share options are as follows:

	Six months ended 30 June 2010	
	Weighted average exercise price	Number of options
Outstanding at 1 January	-	-
Granted during the period	HK\$1.677	107,945,000
Outstanding at 30 June	HK\$1.677	107,945,000
Exercisable at 30 June	-	-

The options outstanding at 30 June 2010 had an exercise price of HK\$1.677 per share and a weighted average remaining contractual life of 5 years.

- (iii) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The fair value of the share options was valued by the directors with reference to a valuation report issued by Jones Lang LaSalle Sallmanns Limited. The estimate of the fair value of the share options granted is measured based on a Binomial Tree option pricing model. The contractual life of the share option was used as an input into this model.

	At 30 June 2010
Share price	HK\$2.97
Exercise price	HK\$1.677
Expected volatility	63.15%
Option life (expressed as weighted average life used in modelling under Binomial Tree option pricing model)	5 years
Expected dividends	5.00%
Risk-free interest rate	1.54%

The expected volatility is based on the historic volatility of entities in the same industry (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly

APPENDIX I — ACCOUNTANTS' REPORT

available information. Expected dividends are based on management estimate. The risk-free interest rate is based on the yield of 5-year Hong Kong Exchange Fund Notes. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. The condition has not been taken into account in the grant date fair value measurement of the services received. There was no market condition associated with the share option grants.

Equity settled share-based payment expense amounting to RMB30,682,002 during the six months ended 30 June 2010 (during the six months ended 30 June 2009 (unaudited): nil) was recognised in profit or loss.

27 TRADE AND OTHER PAYABLES

	At 31 December			At 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	22,232	154,822	483,794	490,103
Payables to import agents	-	-	850,814	834,461
Amounts due to related parties	43,238	15,166	-	6
Advances from customers	83,256	50,008	52,565	70,695
Payables in connection with construction projects	5,414	9,182	19,759	25,018
Payables for purchase of equipment	21,277	16,515	35,308	6,859
Payables for investment in jointly controlled entity	-	-	-	211,385
Others	18,841	18,441	80,194	28,655
	<u>194,258</u>	<u>264,134</u>	<u>1,522,434</u>	<u>1,667,182</u>

At 30 June 2010, bills payable amounting to RMB173,000,000 was secured by bank deposits placed in a bank with an aggregate carrying value of RMB173,000,000.

Trade and bills payables and payables to import agents are expected to be settled within one year or are repayable on demand. The maturity analysis of these payables is as follows:

	At 31 December			At 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Due within 1 month or on demand	4,748	33,909	1,082,569	147,473
Due after 1 month but within 3 months	17,484	120,913	252,039	1,061,091
Due after 3 months but within 6 months	-	-	-	116,000
	<u>22,232</u>	<u>154,822</u>	<u>1,334,608</u>	<u>1,324,564</u>

28 INCOME TAX IN THE COMBINED BALANCE SHEETS

(a) Tax payable in the combined balance sheets represents:

	At 31 December			At 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	14,892	21,168	9,471	31,442
Provision for the year/period (Note 5(a))	7,428	7,601	55,053	119,624
Income tax paid	(1,152)	(19,298)	(34,649)	(71,274)
Disposal of discontinued operations	-	-	1,567	-
At 31 December/30 June	<u>21,168</u>	<u>9,471</u>	<u>31,442</u>	<u>79,792</u>

APPENDIX I — ACCOUNTANTS' REPORT

(b) Deferred tax assets and liabilities recognised:

(i) The components of deferred tax assets/(liabilities) recognised in the combined balance sheets and the movements during the Relevant Period are as follows:

	Property, plant and equipment revaluation RMB'000	Government grants RMB'000	Unrealised profits on intra-group transactions RMB'000	Total RMB'000
Deferred tax arising from:				
At 1 January 2007	(2,639)	14,607	22	11,990
Credited to combined income statement	50	3,588	2,824	6,462
At 31 December 2007	<u>(2,589)</u>	<u>18,195</u>	<u>2,846</u>	<u>18,452</u>
At 1 January 2008	(2,589)	18,195	2,846	18,452
Credited/(charged) to combined income statement	695	(946)	17,092	16,841
At 31 December 2008	<u>(1,894)</u>	<u>17,249</u>	<u>19,938</u>	<u>35,293</u>
At 1 January 2009	(1,894)	17,249	19,938	35,293
Credited/(charged) to combined income statement	46	(71)	(6,884)	(6,909)
Disposal of discontinued operations (Note 35)	1,848	-	-	1,848
At 31 December 2009	<u>-</u>	<u>17,178</u>	<u>13,054</u>	<u>30,232</u>
At 1 January 2010	-	17,178	13,054	30,232
(Charged)/credited to combined income statement	-	(179)	7,893	7,714
At 30 June 2010	<u>-</u>	<u>16,999</u>	<u>20,947</u>	<u>37,946</u>

(ii) Reconciliation to the combined balance sheets

	At 31 December			At 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Net deferred tax assets recognised on the combined balance sheets	21,041	37,187	30,232	37,946
Net deferred tax liabilities recognised on the combined balance sheets	(2,589)	(1,894)	-	-
	<u>18,452</u>	<u>35,293</u>	<u>30,232</u>	<u>37,946</u>

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 1(v), the Group did not recognise deferred tax assets in respect of cumulative tax losses of RMB11,740,000, RMB24,368,000, RMB826,660 and RMB15,518,375 as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively as the management considers it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses will expire in five years after the tax losses generated under current tax legislation.

(d) Deferred tax liabilities not recognised

Under the new PRC income tax law and its relevant regulations, PRC-resident enterprises are levied withholding tax at 10% on dividends to their non-PRC-resident corporate investors for profits earned since 1 January 2008.

APPENDIX I — ACCOUNTANTS' REPORT

Since the Group could control the quantum and timing of distribution of profits of the Group's subsidiaries in the PRC, deferred tax liabilities are not provided to the extent that such profits are not expected to be distributed in the foreseeable future. Deferred tax liabilities in respect of tax that would be payable on distributing these retained earnings were not provided for amounted to RMB nil, RMB130,000, RMB246,000 and RMB5,326,100 as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively.

29 SHARE CAPITAL

(a) Authorised and issued capital

The Company was incorporated on 17 September 2007 with an authorised capital of 50,000 shares. On the same date, one share was issued and allotted to Winsway International Petroleum & Chemicals Limited at a consideration of US\$1.

On 12 November 2007, Winsway International Petroleum & Chemicals Limited transferred its entire equity interest in the Company to Sincere Hill Management Ltd. ("Sincere Hill") for a consideration of US\$1.

On 31 December 2007, the Company issued and allotted two additional shares to Sincere Hill at an aggregate consideration of US\$38,182,611.

On 31 March 2008, the Company issued and allotted one additional share to Sincere Hill at a consideration of US\$5,200,000.

On 30 April 2008, the Company issued and allotted one additional share to Sincere Hill at a consideration of US\$5,800,000.

On 15 July 2008, the Company increased its authorised share capital from 50,000 to 2,000,000,000 ordinary shares.

On 15 July 2008, the Company issued and allotted 1,999,999,995 additional shares, among which 27,752,000 shares, 300,000,000 shares and 1,672,247,995 shares were issued and allotted to Ray Splendid Limited, Winsway International Petroleum & Chemicals Limited and Sincere Hill, at a consideration of US\$1, respectively.

On 31 May 2009, Sincere Hill transferred its entire equity interest in the Company of 1,672,248,000 shares to Winsway Resources Holdings Limited for a consideration of US\$49,182,613.

On 26 March 2010, Winsway International Petroleum & Chemicals Limited transferred its equity interest in the Company of 37,735,849 shares to Sparkle Land Limited, 30,303,030 shares to Top Dream Holdings Limited, 12,121,212 shares to Gold Shine Enterprises Limited and 3,636,364 shares to Unique Grace Management Limited for a consideration of US\$10,000,000, US\$5,000,000, US\$2,000,000 and US\$600,000, respectively.

On 18 April 2010, the Company issued and allotted 363,636,364 redeemable preferred shares to Winstar Capital Group Limited for a consideration of US\$60,000,000.

On 30 April 2010, Winsway International Petroleum & Chemicals Limited transferred its equity in the Company of 5,000,000 shares to Champaign Holdings Limited for a consideration of US\$1,000,000.

APPENDIX I — ACCOUNTANTS' REPORT

On 30 April 2010, the Company issued and allotted 60,606,060 additional shares to Samtop Development Limited at an aggregate consideration of US\$10,000,000.

For the purpose of the report, the aggregate amount of share capital of the companies now comprising the Group, after elimination of investments in subsidiaries, was included in other reserve during the Relevant Period (Note 30(a)).

(b) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other shareholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost, and to maintain an optimal capital structure to reduce cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-equity ratio. This ratio is calculated as net debt (which includes bank and other loans less cash and bank balances) divided by total equity (including equity attributable to equity shareholders of the Company). As at 31 December 2007, 2008 and 2009 and 30 June 2010 the net debt-to-equity ratio are 24.1%, 37.9%, 58.5% and 59.8%, respectively.

30 RESERVES

(a) Other reserves

Other reserves as at the respective balance sheet dates included the aggregate amount of paid-in capital or share capital of the companies now comprising the Group after elimination of the investments in subsidiaries and the changes in equity arisen from the acquisition of non-controlling interests.

(b) Statutory reserve

Pursuant to the Articles of Association of the companies comprising the Group in the PRC, appropriations to the statutory reserve were made at a certain percentage of profit after taxation determined in accordance with the accounting rules and regulations of the PRC. The percentage for this appropriation was decided by the directors of the respective companies comprising the Group. During the years ended 31 December 2007, 2008 and 2009 and 30 June 2010, amounts in retained earnings of RMB1,017,214, RMB1,543,361, RMB13,622,178 and RMB40,951,127 were transferred from retained earnings to statutory reserve.

Statutory reserve can be utilised in setting off accumulated losses or increasing capital of the companies comprising the Group is non-distributable other than in liquidation.

(c) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC which are dealt with in accordance with the accounting policies as set out in Note 1(y).

APPENDIX I — ACCOUNTANTS' REPORT

(d) Distributability of reserves

At 31 December 2007, 2008 and 2009 and 30 June 2010, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB278,908,723, RMB332,482,622, RMB490,907,906 and RMB731,486,703 respectively.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 90 days from the date of billing. Debtors with balances that are more than 90 days past due are normally requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

In respect of receivables under finance lease, the Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring. To mitigate risks, where appropriate, the Group requests lessees to provide collateral and guarantees. The finance leases are due from a corporate that has high credit standing. Given their credit standing, management does not expect the counterparty to fail to meet its obligations.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At 31 December 2007, 2008 and 2009 and 30 June 2010, 0%, 53%, 5% and 1% of the trade receivables were due from the Group's largest customer and 8%, 56%, 11% and 13% of the trade receivables were due from the Group's five largest customers respectively.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. Except for the financial guarantees given by the Group as set out in Note 34, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the balance sheet date is disclosed in Note 34.

APPENDIX I — ACCOUNTANTS' REPORT

Further quantitative disclosure in respect of the Group's exposure to credit risk arising from trade and other receivables and receivables under finance lease are set out in Note 20 and Note 18 respectively.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The Group recorded a net cash (outflow)/inflow from operating activities of RMB242,415,000 (outflow), RMB126,545,000, RMB311,504,000 (outflow) and RMB54,218,000 (outflow) for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 respectively. For the same periods, the Group had a net cash outflow to investing activities of RMB105,466,000, RMB526,071,000, RMB569,634,000 and RMB294,005,000 respectively. The Group also recorded a net cash inflow from financing activities of RMB374,294,000, RMB460,665,000, RMB1,026,162,000 and RMB646,086,000 respectively. The Group had an increase in cash and cash equivalents of RMB26,413,000, RMB61,139,000, RMB145,024,000 and RMB297,863,000 respectively.

The directors of the Company have carried out a detailed review of the cash flow forecast of the Group for the period ending 31 December 2011. Based on such forecast, the directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group during that period. The directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

APPENDIX I — ACCOUNTANTS' REPORT

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

	At 31 December						At 30 June					
	2007			2008			2009			2010		
	Contractual undiscounted cash outflow		Balance sheet carrying amount RMB'000	Contractual undiscounted cash outflow		Balance sheet carrying amount RMB'000	Contractual undiscounted cash outflow		Balance sheet carrying amount RMB'000	Contractual undiscounted cash outflow		Balance sheet carrying amount RMB'000
	Within 1 Year or on demand RMB'000	Total RMB'000		Within 1 Year or on demand RMB'000	Total RMB'000		Within 1 Year or on demand RMB'000	Total RMB'000		Within 1 Year or on demand RMB'000	Total RMB'000	
Secured bank and other loans	127,359	127,359	123,822	614,195	599,038	1,409,108	1,399,547	2,207,918	-	-	2,195,274	
Trade and other payables (excluding advance from customers)	111,002	111,002	111,002	214,126	214,126	1,469,869	1,469,869	1,596,487	-	-	1,596,487	
Convertible bonds	-	-	-	-	-	-	-	13,921	13,921	674,706	702,548	
Redeemable convertible preferred shares	-	-	-	-	-	-	-	14,261	14,261	673,801	392,202	
Financial guarantees issued:	238,361	238,361	234,824	828,321	813,164	2,878,977	2,869,416	3,832,587	28,182	1,348,507	4,577,697	
Maximum amount guaranteed (Note 34)	29,218	29,218	-	612,447	612,447	1,034,036	1,034,036	535,319	-	-	535,319	

APPENDIX I — ACCOUNTANTS' REPORT

(c) Currency risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to payables, cash balances and bank loans that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currency giving rise to this risk is primarily United States dollars. The Group manages this risk as follows:

(i) Exposure to currency risk

The following table details the Group's exposure at the balance sheet dates to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	Exposure to foreign currency (expressed in Renminbi)			
	At 31 December			At 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	64	53	782	1,726
Trade payables	(1,368)	(2,575)	(295,067)	(1,052,163)
Bank loans	(11,322)	(366,283)	(470,987)	(370,705)
Net exposure arising from recognised assets and liabilities	<u>(12,626)</u>	<u>(368,805)</u>	<u>(765,272)</u>	<u>(1,421,142)</u>

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained earnings) and equity that would arise if foreign exchange rate to which the Group has significant exposure at the balance sheet dates had changed at that date, assuming all other risk variables remained constant.

	Years ended 31 December						Six months ended 30 June	
	2007		2008		2009		2010	
	Increase/ (decrease) in foreign exchange rate	Effect on profit after tax and retained earnings	Increase/ (decrease) in foreign exchange rate	Effect on profit after tax and retained earnings	Increase/ (decrease) in foreign exchange rate	Effect on profit after tax and retained earnings	Increase/ (decrease) in foreign exchange rate	Effect on profit after tax and retained earnings
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
United States dollars	5%	(423)	5%	(13,830)	5%	(28,698)	5%	(53,293)
	(5)%	423	(5)%	13,830	(5)%	28,698	(5)%	53,293

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the date of balance sheet for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rate had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the date of balance sheet, including inter-company payables and receivables within the Group which are denominated in a currency other

APPENDIX I — ACCOUNTANTS' REPORT

than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency.

(d) Fair values

The Group has no financial instruments measured at fair value during the Relevant Period.

In respect of cash and cash equivalents, trade and other receivables and trade and other payables, the carrying amounts approximate fair value due to the relatively short term nature of these financial instruments.

The aggregate fair values of other financial liabilities carried on the Financial Information are not materially different from their fair values as at 31 December 2007, 2008 and 2009 and 30 June 2010.

The fair values of borrowings, liability component of convertible bonds and liability component of redeemable preferred shares have been determined by discounting the relevant cash flows using current interest rates for similar instruments at the respective balance sheet dates.

32 MATERIAL RELATED PARTY TRANSACTIONS

The Group had the following material related party transactions during the Relevant Period.

(a) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Group's directors.

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in Note 6, and certain of the highest paid employees as disclosed in Note 7, is as follows:

	Years ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Short-term employee benefits	936	2,249	3,503	1,580	20,943
	936	2,249	3,503	1,580	20,943

The remuneration is included in "staff costs" (see Note 4(b)).

APPENDIX I — ACCOUNTANTS' REPORT

(b) Material related party transactions

During the Relevant Period, the Group entered into the following material related party transactions:

	<u>Years ended 31 December</u>			<u>Six months ended 30 June</u>	
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Sale of coking coals to related parties	-	-	346,358	28,993	-
Purchase of agency service from related party	-	-	10,043	1,703	1,288
Net (repayments of advances from)/advances from related parties	(317,495)	(28,072)	(14,029)	164,253	6
Net (repayments of advances to)/advances to related parties	(69,399)	(120,217)	(26,962)	153,761	497
Consideration for sale of discontinued operations to related parties	24,702	-	37,982	-	-

The directors of the Group are of the opinion that the above related party transactions were conducted on normal commercial terms and in accordance with the agreements governing such transactions.

(c) Related party balances

The outstanding balances arising from above transactions at combined balance sheets are as follows:

(i) Amounts due from related parties

	<u>At 31 December</u>			<u>At 30 June</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Amounts due from related parties	157,134	26,962	120,029	497
Receivables in respect of sale of discontinued operations due from related parties	24,702	-	-	-

(ii) Amounts due to related parties

	<u>At 31 December</u>			<u>At 30 June</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Amounts due to related parties	43,238	15,166	-	6

APPENDIX I — ACCOUNTANTS' REPORT

33 COMMITMENTS

(a) Capital commitment

At 31 December 2007, 2008 and 2009 and 30 June 2010, the Group had the following capital commitments not provided for in the Financial Information:

	<u>At 31 December</u>			<u>At 30 June</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Contracted for	27,870	12,781	60,010	508,909
Authorised but not contracted for	-	16,000	535,270	2,439,107
	<u>27,870</u>	<u>28,781</u>	<u>595,280</u>	<u>2,948,016</u>

(b) Operating lease commitment

As at 31 December 2007, 2008 and 2009 and 30 June 2010, the total future minimum lease payments under non-cancellable operating leases in respect of buildings and others, are payable as follows:

	<u>At 31 December</u>			<u>At 30 June</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Within 1 year	3,600	35	2,003	8,350
After 1 year but within 5 years	-	3	-	11,468
	<u>3,600</u>	<u>38</u>	<u>2,003</u>	<u>19,818</u>

The Group leases buildings and others under operating leases. The leases typically run for an initial period of 1 to 4 years, with an option to renew when all terms are renegotiated. None of the leases includes contingent rentals.

34 CONTINGENT LIABILITIES-FINANCIAL GUARANTEES ISSUED

At the combined balance sheets dates, the Group has issued certain guarantees to banks in respect of banking facilities granted to certain related parties. The maximum liability of the Group as at 31 December 2007, 2008 and 2009 and 30 June 2010 under these guarantees issued is the outstanding amount of the bank loans and the banking facilities in respect of issuance of letters of credit of RMB29,218,400, RMB612,446,760, RMB1,034,035,744 and RMB535,319,250 respectively.

As at 31 December 2007, 2008 and 2009 and 30 June 2010, the Group has issued guarantees to banks in respect of banking facilities granted to third parties. The maximum liability of the Group as at 31 December 2007, 2008 and 2009 and 30 June 2010, under these guarantees issued is the outstanding amount of the bank loans and the banking facilities in respect of issuance of letters of credit of RMB nil, RMB nil, RMB170,500,000 and RMB nil respectively.

At the combined balance sheets dates, the director does not consider it probable that a claim will be made against the Group under any of the guarantees. The Group has not recognised any

deferred income in respect of the guarantees as its fair value cannot be reliably measured using observable market data.

35 DISCONTINUED OPERATIONS

During the Relevant Period, the Group has disposed of the following subsidiaries, each of which represent a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business in geographical area of operations. Management committed to plans to sell each of these subsidiaries in the same year of respective disposals. The results of these subsidiaries are presented on the combined income statements as discontinued operations. Further details of these disposals are set out below:

- In February 2007, the Group disposed of a subsidiary, Chongqing Huize Petrochemicals Co., Ltd., to related parties, close family members of key management personnel of the Group;
- In December 2007, the Group disposed of a subsidiary, Qinhuangdao Yuecheng Petrochemicals Co., Ltd., to a related party, Mudanjiang Shoukong Petrochemical Co., Ltd.;
- In June 2008, the Group liquidated a subsidiary, Shanxi Dingshun Import Export Trading Co., Ltd.;
- In December 2008, the Group disposed of a subsidiary, Ningbo Beilun Fuel Trading Co., Ltd., to a related party, Ningbo Junye Petroleum and Chemical Co., Ltd.;
- In March 2009, the Group disposed of a subsidiary, Inner Mongolia Urad Zhongqi Sanhe Energy Development Co., Ltd., to third parties;
- In September 2009, the Group disposed of subsidiaries, Asia Eagle Development Limited, Global Luck International Ltd., MonChallenge Investment Ltd. and Monport LLC, to a related party, Enerstar Investment Limited; and
- In November 2009, the Group disposed of subsidiaries, APR LLC and MonCrown Investment Ltd., to a related company, Enerstar Investment Limited.

APPENDIX I — ACCOUNTANTS' REPORT

Results attributable to discontinued operations for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 are as follows:

	<u>Years ended 31 December</u>			<u>Six months ended 30 June</u>	
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Results of discontinued operations				(unaudited)	
Revenue	2,051	-	-	-	-
Expenses	(12,195)	(31,868)	(8,194)	(7,719)	-
Results from operating activities	(10,144)	(31,868)	(8,194)	(7,719)	-
Income tax (Note 5(a))	(1,116)	(1,399)	46	46	-
Results from operating activities, net of income tax	(11,260)	(33,267)	(8,148)	(7,673)	-
Gain on disposal of discontinued operations	4,497	126	29,565	28,530	-
(Loss)/profit for the year from discontinued operations	<u>(6,763)</u>	<u>(33,141)</u>	<u>21,417</u>	<u>20,857</u>	<u>-</u>
Attributable to:					
Equity shareholders of the Company	(7,019)	(33,141)	21,417	20,857	-
Non-controlling interests	256	-	-	-	-
	<u>(6,763)</u>	<u>(33,141)</u>	<u>21,417</u>	<u>20,857</u>	<u>-</u>
				(unaudited)	
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Cash flows from/(used in) discontinued operations					
Net cash (used in)/from operating activities	(84,213)	(140,272)	198,282	140,921	-
Net cash (used in)/from investing activities	(15,633)	(214,294)	87,748	86,778	-
Net cash from/(used in) financing activities	118,725	394,764	(287,326)	(281,173)	-
	<u>18,879</u>	<u>40,198</u>	<u>(1,296)</u>	<u>(53,474)</u>	<u>-</u>

APPENDIX I — ACCOUNTANTS' REPORT

Effect of disposal on the assets and liabilities of the Group:

	Years ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Property, plant and equipment (Note 12)	8,841	-	16,550	8,834	-
Inventories	102	-	78,206	78,189	-
Trade and other receivables and receivables					
under finance lease	130,962	5,089	245,779	159,952	-
Cash and cash equivalents	892	5	6,978	6,441	-
Restricted deposits	-	-	202,540	202,540	-
Trade and other payables and income tax					
payable	(53,852)	(20)	(259,787)	(238,983)	-
Deferred tax liabilities (Note 28(b))	-	-	(1,848)	(1,848)	-
Bank loans	(42,100)	-	(258,301)	(221,955)	-
	44,845	5,074	30,117	(6,830)	-
Non-controlling interests	(4,140)	(200)	-	-	-
Net assets disposed of	40,705	4,874	30,117	(6,830)	-
Total consideration	45,202	5,000	59,682	21,700	-
Gain on disposal of discontinued operations . . .	4,497	126	29,565	28,530	-
Consideration received, satisfied in cash	20,500	5,000	59,682	21,700	-
Cash disposed of	(892)	(5)	(6,978)	(6,441)	-
	19,608	4,995	52,704	15,259	-
Collection of receivables for disposal of					
discontinued operations	-	-	24,702	-	-
Net of cash inflow from disposal of					
discontinued operations	19,608	4,995	77,406	15,259	-

36 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the Financial Information. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the Financial Information. The principal accounting policies are set forth in Note 1. The Group believes the following critical accounting policies involve the most significant judgments and estimates used in the preparation of the Financial Information.

(i) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into the account the estimated residual value, if any. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting

APPENDIX I — ACCOUNTANTS' REPORT

period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(ii) Impairment of assets

If circumstances indicate that the carrying amount of an asset may not be recoverable, this asset may be considered "impaired", and an impairment loss may be recognised in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to the level of sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales revenue and amount of operating costs.

(iii) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

APPENDIX I — ACCOUNTANTS' REPORT

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIOD

Up to the date of issue of this Financial Information, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the Relevant Period and which have not been adopted in the Financial Information.

	<u>Effective for accounting periods beginning on or after</u>
Amendment to IAS 32, <i>Financial instruments: Presentation — Classification of rights issues</i>	1 February 2010
IFRIC 19, <i>Extinguishing financial liabilities with equity instruments</i>	1 July 2010
Amendments to IFRS1, <i>First-time adoption of International Financial Reporting Standards — Limited exemption from comparative IFRS7 disclosures for first-time adopters</i>	1 July 2010
Improvements to IFRSs 2010	1 July 2010 or 1 January 2011
Amendments to IFRIC 14, IAS 19, <i>The limit on a defined benefit asset, minimum funding requirements and their interaction — Prepayments of a minimum funding requirement</i>	1 January 2011
Revised IAS 24, <i>Related party disclosures</i>	1 January 2011
IFRS 9, <i>Financial instruments</i>	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

38 STATUTORY AUDIT

The statutory financial statements of the companies comprising the Group which are subject to audit during the Relevant Period (or where the companies were incorporated/established at a date later than 1 January 2007, for the date of incorporation/establishment to 31 December 2009) were audited by the following auditors:

Name of company	Financial period	Statutory auditors
Baotou-city Haotong Energy Co., Ltd. (包頭市浩通能源有限公司)	Period from 18 September 2008 (date of incorporation) to 31 December 2008 Year ended 31 December 2009	Yongtuo Certified Public Accountants Co., Ltd. (北京永拓會計師事務所有限責任公司) Baotou Zhonglu Accountant Business Firm (包頭中鹿會計師事務所)
Beijing Winsway Investment Management Co., Ltd. (北京永暉投資管理有限公司) (formerly known as "Beijing Bright Petroleum & Chemicals Import & Export Co., Ltd.") (北京欣潤澤石化進出口有限公司)	Years ended 31 December 2007, 2008 and 2009	Yongtuo Certified Public Accountants Co., Ltd. (北京永拓會計師事務所有限責任公司)
East Wuzhumuqin Qi Haotong Energy Co., Ltd. (東烏珠穆沁旗浩通能源有限公司)	Period from 29 July 2008 (date of incorporation) to 31 December 2008 and year ended 31 December 2009	Yiyou Certified Public Accountants (東烏珠穆沁旗乙酉會計師事務所)

APPENDIX I — ACCOUNTANTS' REPORT

Name of company	Financial period	Statutory auditors
Ejina Qi Haotong Energy Co., Ltd. (額濟納旗浩通能源有限公司)	Period from 19 May 2008 (date of incorporation) to 31 December 2008 Year ended 31 December 2009	Yongtuo Certified Public Accountants Co., Ltd. (北京永拓會計師事務所有限責任公司) Inner Mongolia Weilun Certified Public Accountants (內蒙古偉倫會計師事務所)
Erlianhaote Haotong Energy Co., Ltd. (二連浩特浩通能源有限公司)	Period from 18 January 2007 (date of incorporation) to 31 December 2007 and year ended 31 December 2008 Year ended 31 December 2009	Yongtuo Certified Public Accountants Co., Ltd. (北京永拓會計師事務所有限責任公司) Baotou Gaoxin Lianhe Certified Public Accountants (包頭高新聯合會計師事務所)
Inner Mongolia Haotong Energy Joint Stock Co., Ltd. (內蒙古浩通能源股份有限公司)	Years ended 31 December 2007 and 2008 Year ended 31 December 2009	Yongtuo Certified Public Accountants Co., Ltd. (北京永拓會計師事務所有限責任公司) Baotou Zhonglu Accountant Business Firm (包頭中鹿會計師事務所)
Nantong Haotong Energy Co., Ltd. (南通浩通能源有限公司)	Period from 24 February 2009 (date of incorporation) to 31 December 2009	Nantong Zhongtian CPA Co., Ltd. (南通中天會計師事務所有限公司)
Urad Zhongqi Yiteng Mining Co., Ltd. (烏拉特中旗毅騰礦業有限責任公司)	Year ended 31 December 2007 and 2009 Year ended 31 December 2008	Urad Haixin Certified Public Accountants (烏拉特海欣會計師事務所) Beijing Zhongji Certified Public Accountants (北京中紀會計師事務所有限責任公司)
Ningbo Beilun Fuel Trading Co., Ltd. (Note i) (寧波市北侖富茂燃料貿易有限公司)	Year ended 31 December 2007	Fenghua Zhengde Lianhe Certified Public Accountants (奉化市正德聯合會計師事務所)
Inner Mongolia Urad Zhongqi Sanhe Energy Development Co., Ltd. (Note ii) (內蒙古烏拉特中旗三和能源開發有限公司)	Year ended 31 December 2007 Year ended 31 December 2008	Urad Haixin Certified Public Accountants (烏拉特海欣會計師事務所) Beijing Zhongji Certified Public Accountants (北京中紀會計師事務所有限責任公司)
Monport LLC (Note iii)	Years ended 31 December 2007 and 2008	DALAIVAN AUDIT
APR LLC (Note iv)	Years ended 31 December 2007 and 2008	DALAIVAN AUDIT

Notes

- (i) The Group disposed of its entire equity interest in Ningbo Beilun Fuel Trading Co., Ltd. on 31 December 2008.
- (ii) The Group disposed of its entire equity interest in Inner Mongolia Urad Zhongqi Sanhe Energy Development Co., Ltd. on 31 March 2009.
- (iii) The Group disposed of its entire equity interest in Monport LLC on 30 September 2009.
- (iv) The Group disposed of its entire equity interest in APR LLC on 18 November 2009.

D SUBSEQUENT EVENTS

The following significant events took place subsequent to 30 June 2010:

1. The Group Reorganisation was completed on 9 August 2010. Details of the Group Reorganisation are set out in the section headed “History, Reorganisation and Group Structure” in the Prospectus.
2. Pursuant to Board resolutions dated 16 September 2010, the Company declared a dividend of RMB287,732,611 to the equity shareholders of Company and the holders of the Convertible Bonds (see Note 24) and RCPS (see Note 25).

APPENDIX I — ACCOUNTANTS' REPORT

E BALANCE SHEETS OF THE COMPANY

The balance sheets of the Company as at 31 December 2007, 2008 and 2009 and 30 June 2010 were as follows:

	Note	At 31 December			At 30 June
		2007	2008	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment, net		-	-	-	29
Investment in subsidiaries	a	278,909	336,143	363,142	368,990
Current assets					
Inventories		-	-	-	41,984
Receivables from import agents		-	-	126,923	290,648
Amounts due from related parties and group companies		-	-	379,744	527,977
Deposits and other receivables		-	30	993	274,240
Restricted bank deposits		-	-	-	203,727
Cash and cash equivalents		-	475	25,172	287,334
		-	505	532,832	1,625,910
Current liabilities					
Secured bank loans		-	-	-	347,655
Trade payables		-	-	131,332	41,984
Current portion of convertible bonds	Section C Note 24	-	-	-	13,921
Current portion of convertible redeemable preferred shares	Section C Note 25	-	-	-	14,261
Amounts due to related parties and group companies		-	3,401	259,305	4,636
Other payables		-	764	14,429	83,231
		-	4,165	405,066	505,688
Net current (liabilities)/assets		-	(3,660)	127,766	1,120,222
Total assets less current liabilities		278,909	332,483	490,908	1,489,241
Non-current liabilities					
Convertible bonds	Section C Note 24	-	-	-	379,813
Convertible redeemable preferred shares	Section C Note 25	-	-	-	377,941
Net Assets		278,909	332,483	490,908	731,487
Capital and reserves					
Share capital	Section C Note 29(a)	278,909	356,009	356,009	424,285
Reserves		-	(23,526)	134,899	307,202
Total Equity		278,909	332,483	490,908	731,487

APPENDIX I — ACCOUNTANTS' REPORT

Notes

- a At 30 June 2010, the Company had direct and indirect interests in the subsidiaries as set out in Section A.
- b All of the trade and other receivables are expected to be recovered within one year.
- c Trade payables are expected to be settled within one year or are repayable on demand.

F SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Company and its subsidiaries in respect of any period subsequent to 30 June 2010.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong