金山能源集團有限公司

KING STONE ENERGY GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00663)

EXPLORING the NEW TERRITORY

ANNUAL REPORT 2010

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Dr. Wang Da Yong *(Chairman)*
Mr. Tian Wenwei
Mr. Wang Tongtian

Non-Executive Directors
Mr. Li Yi
Mr. Su Bin

Independent Non-Executive Directors
Mr. Cao Kuangyu
Mr. Chiu Sui Keung
Mr. Jacobsen William Keith

AUDIT COMMITTEE
Mr. Chiu Sui Keung *(Chairman)*
Mr. Cao Kuangyu
Mr. Jacobsen William Keith

REMUNERATION COMMITTEE
Mr. Cao Kuangyu *(Chairman)*
Mr. Chiu Sui Keung
Dr. Wang Da Yong
Mr. Jacobsen William Keith

STRATEGY AND INVESTMENT COMMITTEE
Dr. Wang Da Yong *(Chairman)*
Mr. Wang Tongtian
Mr. Li Yi
Mr. Cao Kuangyu

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

COAL MINE PRODUCTION SAFETY AND TECHNICAL COMMITTEE
Dr. Wang Da Yong *(Chairman)*
Mr. Wang Tongtian
Mr. Li Yi

AUTHORISED REPRESENTATIVES
Dr. Wang Da Yong
Mr. Tian Wenwei

COMPANY SECRETARY
Mr. Lee Tao Wai

AUDITORS
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Hong Kong

LEGAL ADVISERS
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Central, Hong Kong

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS IN HONG KONG
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Central
Hong Kong

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

COMPANY WEBSITE
http://www.663hk.com

STOCK CODE
00663

RESULTS HIGHLIGHTS

- Revenue of HK$1,007.7 million (2009: HK$88.7 million) — significant increase by HK$919 million or 10.4 times.
- Gross profit of HK$524.7 million (2009: HK$6.3 million) — significant increase by HK$518.4 million.
- Gross profit margin increased to 52.1% from 7.1% in 2009.
- Loss attributable to owners of the Company of HK$905.2 million (2009: HK$1,078.5 million). Excluding the fair value loss of convertible notes of HK$1,133.1 million (2009: HK$1,053.8 million), the Group recorded a profit attributable to owners of the Company of HK$227.9 million (2009: loss of HK$24.7 million). Since certain terms of the convertible notes have been amended effective from 31 December 2010, no such fair value change will affect the financial results in subsequent financial years.
- EBITDA* of HK$661.8 million (2009: loss of HK$13.4 million) and EBITDA margin of 65.7% (2009: −15.1%).
- Net assets attributable to owners of the Company of HK$1,924.9 million (2009: net liabilities of HK$577.6 million) — significant turnaround by HK$2,502.5 million.

Note:

* EBITDA is defined as loss before tax plus finance costs, depreciation, amortisations, fair value loss of convertible notes, non-cash equity-settled share option expense, impairment of goodwill and less gain on disposal of subsidiary and fair value gain on derivative component of convertible bonds.

MILESTONE

TARGET : TO BECOME A LEADING AND DIVERSIFIED COAL ENTERPRISE IN THE COAL MINING INDUSTRY IN CHINA

2011

25 February	The acquisition of Triumph Fund A1 Limited was approved by shareholders
24 February	The Group entered into a strategic framework agreement for forming a strategic alliance with China Railway Materials Energy Company Limited

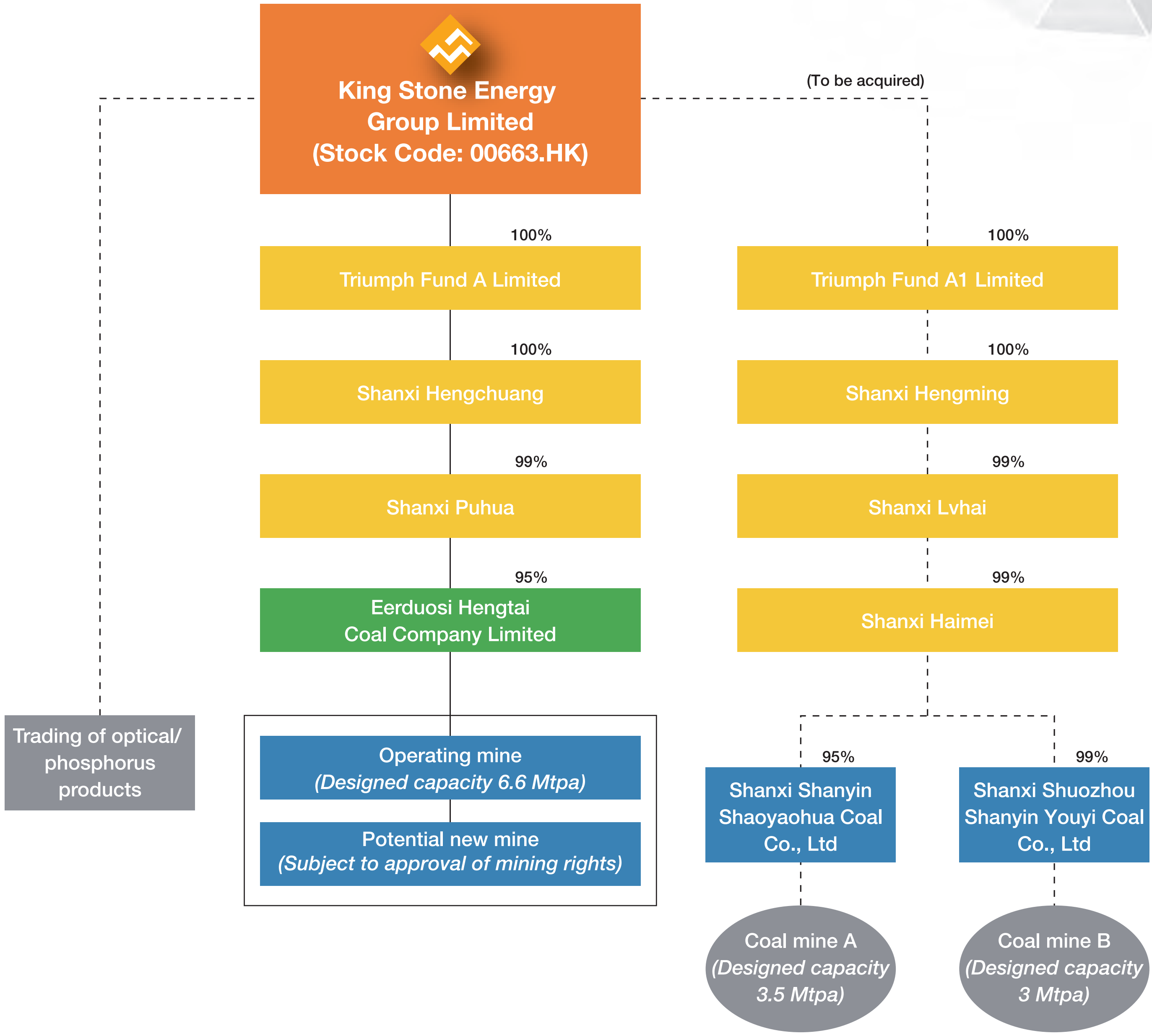
2010

21 October	The Group entered into a sale and purchase agreement and a call option agreement to acquire a maximum of 100% equity interest in Triumph Fund A1 Limited which owns two thermal and gas coal mines in Shanyin County, Shuozhou City, Shanxi Province
14 July	The Group entered into service contracts with the executive directors The Coal Mine Production Safety and Technical Committee was established
26 April/9 June	The Group entered into memorandum of understanding/framework agreement for the proposed acquisition of coal mines in Shanxi Province
1 March	The Advisory Committee was established
26 February	Dr. Wang Da Yong was appointed as the chairman of the Group
18 February	The company name was changed to King Stone Energy Group Limited

2009

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

GROUP STRUCTURE



OPERATING MINES

EERDUOSI HENGTAI

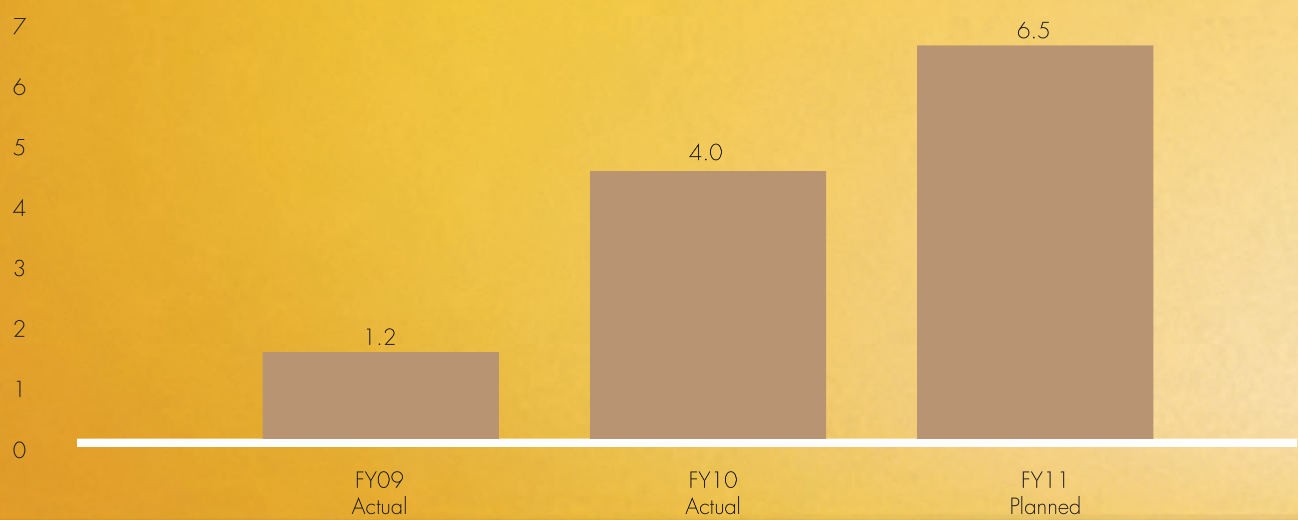
	Resources (million tonnes)	Reserves (million tonnes)
Total resources/reserves (JORC – compliant)	203.87	71.86
Actual output in 2010	4.00	4.00
Resources/reserves as at 31 December 2010	199.87	67.86

Note: The resources/reserves as at 31 December 2010 are derived from total resources/reserves extracted from technical report issued by BOYD dated 18 November 2009 after deduction of acutal output up to 31 December 2010 (based on Hengtai's record).

In 2010, capital expenditure for development and mining production activities was approximately HK$603 million.

OUTPUT (FROM FY09 TO FY11)

Unit: Million tonnes



COAL MINES IN INNER MONGOLIA

Name	Eerduosi Hengtai
Location	Dongshen Coalfield of Inner Mongolia
Licensed area	~7 km^2
Mining rights validity	2007 – 2022 (15 years)
Mining Method	Underground
Coal type	Thermal (pulverized coal and lump coal)
Designed capacity	6.6Mtpa
Status	Operating - No. 1 working face (1.8 Mtpa) started production in December 2009 - No. 2 working face (1.8 Mtpa) started production in February 2010 - No. 3 working face (3.0 Mtpa) started production in October 2010

COAL MINES IN SHANXI[1]

Name	Shaoyaohua	Youyi
Location	Shanyin County, Shouzhou City	Shanyin County, Shouzhou City
Mine Area	5.3132km^2	8.5079km^2
Mining Method	Underground	Underground
Coal Type	Long Frame and Gas	Long Frame and Gas
JORC resources	97 Mt	105 Mt
JORC reserves	52 Mt	37 Mt
Designed Capacity	3.5 Mtpa	3.0 Mtpa
Status	Operating	Production commencing in 2013

[1] Assets to be acquired

CHAIRMAN'S STATEMENT

Year 2010 is one in which King Stone Energy Group Limited (the "Company", together with its subsidiaries, the "Group") underwent rapid development. The Group continued to move forward in its endeavour in the coal industry, actively explored the relevant business and achieved remarkable breakthrough. Apart from its active pursuit of increasing coal production volume in coal mines in Eerduosi in Inner Mongolia, the Group carried on with its in-depth study and exploration of the coal industry and made its ongoing efforts in identifying quality coal mines. During the year under review, the Group entered into agreements to acquire two coal mines in Shouzhou City, Shanxi, further expanding the scope of its business and further laying a solid foundation for the future development of the Group.

In the past year, the consolidation of coal resources continued to proceed in a steady pace in major production areas in the PRC, contributing to a change to the coal industry which had featured "a large number of small players in a discrete and disorderly condition". In addition, the demand for coal was strong this year, given the lower average temperature than in the previous year with winter heating requirements since the first quarter. Adding to that is the tight supply in Asia's coal market in light of the flooding in Australia recently. All these are favorable factors providing sound conditions for the further development of the Group.

Following the Group's successful acquisition of the coal mine in Dongsheng District, Eerduosi, Inner Mongolia, the Group's operations have delivered sound results of performance. During the period, the commencement of production of the third working face of the coal mine expanded its exploitation area, thereby greatly increasing the production capacity of the coal mine. In the past year, the coal mine in Inner Mongolia generated significant revenue and profit to the Group, which helped to record a turnaround in its operating results.

The Group continues to identify opportunities for mergers and acquisitions. In October 2010, the Group entered into an acquisition agreement for the acquisition of Triumph Fund A1 Limited which owns Shaoyaohua Coal Mine and Youyi Coal Mine in Shanxi. The total designed production capacity of the two coal mines is 6.5 million tonnes per annum in aggregate, accelerating the growth of coal production capacity of the Group. Shaoyaohua Coal Mine is an individual retained coal mine after the resources conslidation carried out in Shanxi Province and is currently under operation. Youyi Coal Mine is currently under reconstruction and production is expected to commence in early 2013.

The acquisition of Shanxi Coal Mines has pointed to a clear direction for the development of the Group. The Group will focus on premium coal mines in other regions of the PRC in future for more opportunities for mergers and acquistions and target to achieve an annual coal output of 20 million tonnes by 2012.

In addition, the Group has been actively seeking strategic cooperation partner to facilitate further business development. In February 2011, the Group and China Railway Materials Energy Company Limited ("China Railway Materials") entered into the Strategic Framework Agreement, pursuant to which the parties agreed to form a strategic alliance for cooperation and development of and investment in energy and coal-related logistics in the PRC and overseas regions. The successful cooperation between the Group and China Railway Materials does not only facilitate the business development of the Group, enhance its competitiveness and expand its revenue sources, but also further improve and optimize the shareholder structure of the Group and lay a more solid foundation for our development towards the international market.

I am fully confident of the long-term development of the coal industry. While the Group continues to focus on developing such business and endeavour to move forward, I as the chairman of the Group will continue to lead the team to achieve the goal, fully enhance our competitiveness and bring great returns to our shareholders.

On behalf of the Company, I would like to convey our gratitude to all staff, customers and business partners who have contributed towards the development of the Group. I would also like to take this opportunity to thank the shareholders who have been supporting and trusting the Group all this time. We shall keep up our efforts and conscientiously carry out our duties and achieve better results as a show of our gratitude to everyone who has supported us!

Wang Da Yong
Chairman
24 March 2011

BUSINESS REVIEW

Coal mining business

Following the completion of the acquisition of thermal coal mine in Eerduosi, Inner Mongolia ("Inner Mongolia coal mine") on 21 December 2009, the Group has since then started the coal mining business and 2010 was the first year reflecting a full year of operating results from the coal mine. Eerduosi Hengtai Coal Co. Ltd ("Hengtai"), the Group's subsidiary which is operating Inner Mongolia coal mine, has contributed substantial revenue and profit to the Group and helped the Group record a significant turnaround in its results from operation during the year.

The designed capacity of Inner Mongolia coal mine is 6.6 million tonnes per annum. Two new production working faces with production capacity of approximately 1.8 million tonnes and 3 million tonnes per annum commenced production in February 2010 and October 2010 respectively. With the additional production capacity generated from these two new working faces, annual coal output of Inner Mongolia coal mine has expanded and reached approximately 4 million tonnes in 2010. It is expected that the output of Inner Mongolia coal mine will further increase in 2011 provided that all production working faces will be operating in full capacity.

In addition to expansion and development of existing coal mine, the Group has also been actively seeking new targets for acquisition to expand the coal mining business from time to time. In October 2010, the Group entered into a sale and purchase agreement and a call option agreement to acquire a maximum of 100% interest in two coal mines in Shanyin County, Shouzhou City, Shanxi Province ("Shanxi coal mines"). The Shanxi coal mines produce long flame coal and gas coal and have an aggregate designed capacity of 6.5 million tonnes per annum. The aggregate resources and reserves of Shanxi coal mines are 202 million tonnes and 89 million tonnes respectively. Details of the Shanxi coal mines and the proposed acquisition have been set out in the section headed "Proposed acquisition of Triumph Fund A1 Limited" below. The acquisition was approved by shareholders on 25 February 2011 and it is expected that the acquisition will be completed in the second quarter of 2011, by then, coal production capacity of the Group will be further increased.

Phosphorus business and optical business

During the year, the demand for both phosphorus products and optical products remained very weak and therefore revenue and gross profit from trading of phosphorus products and optical products decreased significantly compared with previous year.

In view of the loss making position and continuing unsatisfactory performance of the phosphorus business and optical business, it has been the Group's intention to streamline and implement costs saving measures for both businesses. In this connection, the Group disposed of the entire issued share capital of Anchorage Trading Limited which is engaged in phosphorus business in August 2010 and recognised a gain on disposal of subsidiary of approximately HK$24.8 million during the year. The Group continues to monitor closely the performance of phosphorus business and optical business so as to take any possible business opportunities when appropriate.

Production safety

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

The Company formed the Coal Mine Production Safety and Technical Committee in July 2010 and established the Coal Mine Production Safety and Technical Office in Taiyuan, Shanxi Province. Experienced coal mine professionals were recruited to provide guidance and supervision with respect to areas such as production safety of the coal mines of the Company in order to further enhance the overall production safety level of coal mines and guarantee their safe operation.

Environmental protection

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

RESULTS REVIEW

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

The Group recorded a total revenue of approximately HK$1,007.7 million (2009: HK$88.7 million) representing a significant increase of approximately 10.4 times compared with last year. Overall gross profit increased from approximately HK$6.3 million last year to approximately HK$524.7 million representing an increase of approximately 82.3 times. The gross profit margin reached 52.1% in 2010 as compared to 7.1% in last year. The significant increases in revenue and gross profit margin were mainly attributable to remarkable performance of coal mining business during the year. The average selling price of raw coal during the year was approximately RMB222 per tonne.

Loss attributable to owners of the Company was approximately HK$905.2 million (2009: HK$1,078.5 million) during the year. The significant loss was mainly attributable to fair value loss of convertible notes issued in December 2009 ("2009 CN") amounting to approximately HK$1,133.1 million (2009: HK$1,053.8 million) which, however, does not have any impact on cashflow and business operation of the Group. Excluding aforesaid fair value loss, the Group recorded a substantial profit attributable to owners of the Company amounting to approximately HK$227.9 million (2009: loss of HK$24.7 million).

Since the amendments to the terms of 2009 CN (as detailed in the section "Amendment to the terms of convertible notes" below) became effective from 31 December 2010, there will be no fair value change of 2009 CN ("Fair Value Change") subsequently and therefore it is expected that financial results of the Group will not be affected by Fair Value Change in subsequent financial years.

Cost of sales

Cost of sales was approximately HK$483 million (2009: HK$82 million) during the year, representing an increase of 4.89 times compared with last year. The increase was in line with increase in revenue generated from coal mining business.

Other income and gains, net

Other income and gains, net was approximately HK$29.8 million (2009: HK$11 million) during the year. The increase was mainly due to gain on disposal of subsidiaries in August 2010 of approximately HK$24.8 million (2009: HK$6.3 million). In addition, a fair value gain on derivative component of convertible bonds issued in September 2010 ("2010 CB") amounting to approximately HK$2.7 million was recognised during the year.

Selling and distribution costs

Selling and distribution costs of HK$4.2 million remained stable during the year as compared with approximately HK$5.7 million for last year.

Administrative expenses

Administrative expenses was approximately HK$107.8 million (2009: HK$20.4 million) during the year, representing an increase of 4.28 times compared with last year. The increase was mainly attributable to full year results of Hengtai recorded in 2010. In addition, an equity-settled share option expenses of approximately HK$23.9 million was recognised in respect of 480,000,000 share options granted in 2010.

Other expenses

Other expenses was approximately HK$10.8 million, representing impairment on trade and other receivables, during the year.

Finance costs

Finance costs was approximately HK$84 million (2009: HK$1.5 million) during the year, which was mainly attributable to interest expenses for bank loans in the PRC amounting to approximately HK$93.8 million (2009: HK$1.5 million) and interest expenses in respect of 2010 CB amounting to approximately HK$12.7 million were incurred during the year. Interest expenses of approximately HK$22.5 million were capitalised during the year.

Income tax

Income tax expenses was approximately HK$100.4 million during the year. It represented provision for taxation for operating profit generated from Hengtai of approximately HK$144.8 million (2009: nil) and write back of deferred taxation of approximately HK$44.4 million (2009: HK$0.2 million). No provision for Hong Kong profits tax has been made during the year.

LIQUIDITY AND FINANCIAL REVIEW

The Group mainly financed its day to day operations by internally generated cash flow, banking facilities, equity financing and issue of convertible bonds during the year. As at 31 December 2010, the current ratio of the Group, measured as total current assets to total current liabilities, was 0.88:1 compared with 0.70:1 for the last year.

As at 31 December 2010, the cash and cash equivalents of the Group were approximately HK$625.2 million (2009: HK$143 million). During the year, the Group recorded a net cash inflow generated from its operating activities of approximately HK$455.4 million (2009: net cash outflow of HK$36 million).

As at 31 December 2010, the Group had outstanding interest-bearing bank borrowings amounting to approximately HK$1,294.1 million (2009: HK$908.6 million). Of the Group's interest-bearing bank borrowings, 32% and 68% respectively were repayable within one year and in the third to the fifth year, inclusive. All bank loans of the Group were denominated in Renminbi. As at 31 December 2010, bank loans of approximately HK$941.2 million (2009: HK$874.6 million) were interest-bearing with floating interest rates and bank loans of approximately HK$352.9 million (2009: HK$34 million) were charged at annual fixed rate of 5.31%.

As at 31 December 2010, the Group had outstanding zero coupon redeemable convertible notes amounting to approximately HK$466.3 million (2009: HK$2,411 million) and 2% one-year convertible bonds amounting to approximately HK$121.9 million (2009: nil). The zero coupon convertible notes, which have a 5-year term from 21 September 2009, are redeemable in whole or in part at face value by the Company at any time after 3 years from the issuance date.

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

GEARING RATIO

The gearing ratio of the Group, measured as net debt, which represents trade and bills payables, other payables and accruals and interest-bearing bank borrowings, less cash and cash equivalents to the total capital, which represents convertible notes/bonds and equity attributable to owners of the Company, was 0.48 as at 31 December 2010, as compared to 0.62 as at 31 December 2009.

FUND RAISING ACTIVITIES

Apart from a placing agreement dated 18 June 2010 for the placing of 2,673,000,000 shares on a best effort basis which was lapsed subsequently on 18 August 2010, the Group carried out the following fund raising activities during the year:

(i) On 20 September 2010, the Company and Merrill Lynch International ("MLI") entered into the subscription agreement, whereby MLI has agreed to subscribe for HK$195,000,000 aggregate principal amount of 2 per cent. convertible bonds of the Company due in 2011 convertible into 975,000,000 shares within one year from issue of the convertible bonds at the conversion price of HK$0.20 each (subject to adjustments).

    In connection with issue of convertible bonds, MLI and Future Wise Limited ("Future Wise"), which is wholly owned by Mr. Zhao Ming (the shareholder of the Company), made private arrangements under which (a) MLI may require Future Wise to acquire convertible bonds or conversion shares which MLI may hold from time to time; and (b) MLI and Future Wise will share in the profits (if any) on disposal of conversion shares on a basis agreed between them, after MLI receives a preagreed return on the subscription.

    Details of the subscription were set out in the announcement dated 20 September 2010. The convertible bonds were issued on 24 September 2010 raising gross proceeds of HK$195 million. HK$180 million was paid for the partial payment of consideration for the Proposed Acquisition (see below).

(ii) On 28 December 2010, the Company and Everest Project I Limited ("Everest") entered into the subscription agreement pursuant to which the Company has conditionally agreed to allot and issue, and Everest has conditionally agreed to subscribe for 1,000,000,000 shares, at the subscription price of HK$0.205 per share. Details of the subscription were set out in the announcement dated 28 December 2010. The subscription was completed on 30 December 2010 raising gross proceeds of HK$205 million, which were intended to be utilised for the payment of the consideration for the Proposed Acquisition (see below).

(iii) On 30 December 2010, the Company and each of Chinarise Financial Limited and Success Business Holdings Limited entered into the subscription agreements pursuant to which the Company has conditionally agreed to allot and issue, and the subscribers have conditionally agreed to subscribe for 1,000,000,000 shares, at the price of HK$0.21 per share. The gross proceeds of HK$210 million were intended to be utilised for the payment of the consideration for the Proposed Acquisition (see below). Details of the subscription were set out in the announcement dated 30 December 2010. The subscription is not yet completed as at the date of this financial statement.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

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

On 26 April 2010, the Company and All Aces Investments Limited (the "Vendor"), an independent third party, entered into the memorandum of understanding in respect of proposed acquisition of two coal mines situated in Shanxi Province. On 9 June 2010, Jetway Group Limited (the "Purchaser"), a wholly owned subsidiary of the Company, as the purchaser, and the Vendor entered into a framework agreement ("Framework Agreement") in respect of the proposed acquisition of Triumph Fund A1 Limited (the "Target Company").

The Target Company, through its subsidiaries, currently holds approximately 93.1% of the equity interest in 山西山陰芍藥花煤業有限公司 (Shanxi Shanyin Shaoyaohua Coal Co., Ltd, "Shoyaohua") and will acquire approximately 98% of the equity interest in 山西朔州山陰西宜煤業有限公司 (Shanxi Shuozhou Shanyin Youyi Coal Co., Ltd, "Youyi"). The principal assets of Shaoyaohua and Youyi are coal mines, which produce long flame coal and gas coal in Shouzhou City, Shanxi Province, having designed capacity of 3.5 million tonnes and 3 million tonnes per annum respectively. The aggregate resources and reserves of these two coal mines are 202 million tonnes and 89 million tonnes respectively.

On 27 September 2010, the Purchaser, the Vendor and Mr. Liu Yong, who is interested in 100% of the Vendor, entered into a deposit agreement pursuant to which the Purchaser agreed to pay the Vendor a refundable earnest money ("Earnest money") of HK$180,000,000 in cash in relation to the Proposed Acquisition.

Further to the Framework Agreement, on 21 October 2010, the Vendor, the Purchaser and the Company entered into the acquisition agreement ("Acquisition Agreement") pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase, 30,000 issued and fully-paid up shares of the Target Company, representing 60% of the issued share capital of the Target Company at the aggregate consideration of HK$3,540,000,000 (subject to adjustments), which would be payable in following manner:

(i) as to HK$180,000,000 in cash as refundable Earnest money paid on 27 September 2010 (see above);

(ii) as to HK$1,020,024,000 in cash upon completion of the Proposed Acquisition ("Acquisition Completion");

(iii) as to HK$949,440,000 by way of allotment and issue of 4,747,200,000 consideration shares at a price of HK$0.20 per share upon Acquisition Completion;

(iv) as to HK$370,566,000 by way of issue of the 1st tranche convertible bonds at a conversion price of HK$0.20 per share (subject to adjustments) upon Acquisition Completion; and

(v) as to HK$1,019,970,000 (subject to adjustments) by way of issue of the 2nd tranche convertible bonds at a conversion price of HK$0.20 per share (subject to adjustments) on the fifth business day after the date of issue of the audited accounts of Shoyaohua and Youyi for the years ending 31 December 2011 ("First Distribution Day") and 31 December 2012 ("Second Distribution Day") (as the case may be), respectively.

In addition to the Acquisition Agreement, on 21 October 2010, the Vendor, the Purchaser and the Company entered into the call option agreement ("Call Option Agreement") in respect of the granting of the call option by the Vendor to the Purchaser pursuant to which the Purchaser will be entitled to acquire the remaining 40% of the issued share capital of the Target Company, for the consideration of HK$2,360,000,000 (subject to adjustments) within nine months from the date of the Acquisition Completion by giving the call option notice to the Vendor. In the event that the call option has been exercised to purchase any remaining shareholding in the Target Company, the consideration will be adjusted on a pro rata basis with reference to the number of shares in respect of which the call option is exercised. To the extent that the Purchaser exercises the call option in full, the call option consideration shall be payable by the Purchaser to the Vendor as to:

(i) HK$800,016,000 in cash upon completion of the Call Option Agreement;

(ii) HK$632,960,000 by way of allotment and issue of 3,164,800,000 call option consideration shares at a price of HK$0.20 per share upon completion of the Call Option Agreement;

(iii) HK$247,044,000 by way of issue of the 3rd tranche convertible bonds at a conversion price of HK$0.20 per share (subject to adjustments) upon completion of the Call Option Agreement; and

(iv) HK$679,980,000 (subject to adjustments) by way of issue of the 4th tranche convertible bonds by the Company on the First Distribution Day and the Second Distribution Day (as the case may be), respectively.

In connection with the Proposed Acquisition, the Vendor has guaranteed the audited net profit after tax of Shaoyaohua and Youyi for the two years from 1 January 2011 to 31 December 2012 of HK$1,700 million in aggregate (excluding certain expenses and costs). Adjustments will be made to the 2nd tranche and the 4th tranche convertible bonds in accordance with the corresponding adjustment mechanisms (as stated in the Acquisition Agreement and Call Option Agreement) which are in line with the amount of profit guarantee achieved by Shaoyaohua and Youyi.

In the event that the conditions precedent are not fulfilled (or waived) on or before 31 March 2011, or such later date as the parties to the Acquisition Agreement may agree in writing, the Acquisition Agreement shall lapse.

On 31 December 2010, the Vendor, the Purchaser and the Company entered into the supplemental agreement to the Acquisition Agreement (the "Supplemental Agreement") to amend certain terms of the Acquisition Agreement including, among others, as of the date of the Acquisition Completion, the total amounts of all liabilities and capital commitments as shown in the management accounts (prepared in accordance with Hong Kong Financial Reporting Standards) of each of the Target Company and its subsidiaries shall not exceed RMB300 million.

Details of the Proposed Acquisition were set out in the announcements of the Company dated 26 April 2010, 9 June 2010, 4 November 2010 and 31 December 2010 and the circular of the Company dated 9 February 2011. The acquisition was approved by the shareholders on 25 February 2011 and is not yet completed as at the date of this financial statement.

Disposal of Anchorage Trading Limited

On 17 June 2010, the Company entered into an agreement with Allied Concept Investments Limited ("Allied Concept"), an independent third party, whereby the Company has conditionally agreed to sell and Allied Concept has agreed to purchase the entire issued share capital of Anchorage Trading Limited for the consideration of HK$1 million. Details of the transaction were set out in the announcement and circular of the Company dated 17 June 2010 and 23 July 2010 respectively. The transaction was approved by the shareholders and completed in August 2010.

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

AMENDMENTS TO THE TERMS OF CONVERTIBLE NOTES

On 3 December 2010, the Company entered into a supplemental deed with Mr. Zhao Ming, the holder of 2009 CN, pursuant to which the parties agreed that, the terms of the 2009 CN in relation to certain anti-dilution adjustments on the conversion price shall be amended. Details of the amendments to the terms of 2009 CN were set out in the circular of the Company dated 15 December 2010.

Upon the date on which the proposed amendments becoming effective, the outstanding 2009 CN will be regarded as combined instruments consisting of a liability component and an equity component. The liability component will be measured at amortised cost using the effective interest rate and recorded as liability while the equity component will be measured at fair value and recorded as a component of reserves. In subsequent period, the amortisation of the liability component based on effective interest rate will be recorded in the income statement as finance cost, and fair value of the equity component will not be reassessed subsequently. Accordingly, the financial results of the Group will be less affected by changes in fair value of the 2009 CN after such amendments becoming effective.

Mr. Zhao was regarded as a connected person of the Company as he was a substantial shareholder of the Company as at the date of the supplemental deed. As such, the amendments constituted a connected transaction and were subject to the Company's independent shareholders' approval.

The amendments were approved by independent shareholders and became effective on 31 December 2010. In this regard, equity component of 2009 CN of approximately HK$1,239.1 million was included in shareholders' equity and the liability component of approximately HK$466.3 million was carried as a liability as at 31 December 2010.

CAPITAL COMMITMENTS, CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2010, the capital commitments of the Group were approximately HK$33.9 million (2009: HK$281.5 million). The capital commitments were mainly related to purchase of machineries for the operation of coal mines.

As at 31 December 2010, the bank loans of approximately HK$1,294.1 million were secured by the Group's mining rights and guarantees given by former shareholder of Triumph Fund A Limited, a director of Hengtai and certain independent third parties.

Save as disclosed above, the Group had no other pledge of assets as at 31 December 2010.

As at 31 December 2010 and 31 December 2009, the Group did not have any material contingent liability.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Save for the Proposed Acquisition as detailed above, pursuant to the strategic framework agreement entered on 24 February 2011, the Group will invest in railway stations and logistic parks in the PRC with China Railway Materials and explore, exploit and acquire coal mines in Indonesia and Australia etc. Details of the strategic framework agreement were set out in the announcement of the Company dated 24 February 2011.

HUMAN RESOURCES AND SHARE OPTION SCHEME

As at 31 December 2010, the Group had 307 employees. The total staff cost for the year ended 31 December 2010 was approximately HK$47.3 million (2009: HK$17.1 million). The Group's remuneration policy is primarily based on the individual performance and experience of employees including directors, prevailing industry practice and market rates. In addition to the basic salaries, the Group provides staff benefits including medical insurance and contributions to the provident fund. Discretionary bonuses are also available to the Group's employees depending upon the overall performance of the Group. The Group also provides appropriate training programmes for employees' better personal development and growth.

Pursuant to the Company's share option scheme adopted on 28 May 2002, the Company may offer to any employee of the Group options to subscribe for shares in the Company for a period of 10 years. As at 31 December 2010, a total of 492,320,000 share options were outstanding and were held by directors and employees. 480,000,000 share options were granted and no share option was exercised during the year. Details of the grant of share options in 2010 were set out in the Company's announcements dated 12 May 2010, 26 August 2010 and 10 November 2010.

FUTURE OUTLOOK

Looking forward, along with the global economic recovery, per-capita demand for energy in the PRC will increase. The production volume and consumption volume of coal are expected to continue to grow. At the same time, in view of the increase in production costs and robust demand from downstream, coal prices in the PRC will continue to increase and it is expected that the coal industry will be on a rising track in 2011.

In the area of business development, the Company will leverage upon the opportunities brought by the overwhelmingly positive trend of the coal industry to foster its development further. Meanwhile, gearing up the efforts on optimizing coal resources consolidation has become one of the focuses of the Twelfth Five-Year Plan of the national coal industry. Such an initiative would create a more favorable investment environment for the Group. Following the acquisition of two coal mines in Shanxi province, we have identified a clearer direction for our development, namely to have merger and acquisition exercises as one of the key forces to drive the long-term business growth of the Group. In future, we will keep up our efforts in identifying mines in operation, exploring and studying potential projects for mergers and acquisitions, while seizing the opportunities to speed up negotiations with relevant mine operators with respect to mergers and acquisitions in order to meet the target of increasing our annual coal production capacity to 20 million tonnes by 2012. Moreover, we seek to diversify our coal types through mergers and acquisitions, with a view to perking up our production volume and broadening our product mix to include products such as coking coal and anthracite coal, with an aim to establish the Group as a leading and diversified coal enterprise.

Apart from our efforts in fostering mergers and acquisitions, profit growth will be one of the future focuses of development of the Group. In the past year, coal mines in Inner Mongolia contributed to stable capital resources for the Group. The two new coal mines acquired by the Group in Shanxi are expected to bring forth even substantial profit for the Group. The Company will continue to expand its customer network so as to establish long-term partnerships with more customers and increase our supply to large-scale companies to secure stable income for the Group's business.

In addition, the successful cooperation between the Group and China Railway Materials, as announced by the Company on 24 February 2011, has laid a solid foundation for the development of the Group. With the support of China Railway Materials, the Group aims to transport the coal output using railways to the eastern coastal area or southern part in the PRC. It is expected that by broadening the distribution network, the margins of the Group's coal output will be further enhanced. In future, the Group will continue to seek to foster more cooperation with suitable strategic partners and grasp more of such opportunities, and will further improve and optimize the shareholder structure of the Group so as to move forward towards the international market.

Even though policy-related factors such as potential resource tax reform will affect cost control of coal enterprises, we strongly believe that the development of the Group in the coal industry will give our shareholders better returns through the Group's highly efficient consolidating capacity and the synergies among its various projects.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Dr. Wang Da Yong, aged 44, is the Chairman and Chief Executive Officer ("CEO") of the Company and is responsible for the business development and overall management of the Group. He holds a degree in philosophy in Economics at Business School of Ji-Lin University. He has over 20 years experience of investment, finance and management and is familiar with corporate merger and acquisition and direct investment. He has obtained detail knowledge of coal, coal chemical, metal mineral resources industries and maintains strong networks in business field and with central and local government agencies in China. He worked in the Ministry of Agriculture, PRC previously. He was an executive director and CEO of China Best Group Holding Limited (Stock Code: 00370), a company listed on The Stock Exchange of Hong Kong Limited from 16 September 2004 to 5 June 2007. He was also the CEO of Fortune Dragon Group Limited, a company with major coking coal mine operation in Shanxi China, which was acquired by Fushan International Energy Group Limited (Stock Code: 00639) at the consideration of about HK$10 billion in July 2008. He was appointed as the executive director and CEO of the Company on 1 July 2009 and the Chairman of the Company on 26 February 2010.

Mr. Tian Wenwei, aged 40, holds an MBA at Business School of University of Alberta, Canada. He has over 15 years experience in finance, business and corporate merger and acquisition. He also has solid knowledge and experiences in coal industry. Mr. Tian is responsible for coal business development of the Group in China. Mr. Tian worked in the Bank of Communications, Xian Branch, from 1991 to 1997 and in China Digital Finance Times Company, a subsidiary of China Everbright Group from 2000 to 2001. He was an officer of Puda Coal, Inc., a public company in the United States of America from 2006 to 2009. He has been a director of Triumph Fund A Limited since September 2009, a subsidiary of the Company. He was appointed as the executive director of the Company on 18 January 2010.

Mr. Wang Tongtian, aged 62, worked and held senior position in Beijing Mining Bureau, China National Coal Industry Import and Export Group and China National Coal Development Company from 1975 to 1995. Mr. Wang was the deputy general manager of China Shenhua Group Coal Transportation and Distribution Company for the period of 1996 to 2009. Mr. Wang has more than 40 years experience and possesses extensive knowledge in area of project development, administration, design and engineering of coal mines and import and export of coal, coke and coal related products. He is also familiar with distribution networks and development of coal industry. He was appointed as the non-executive director of the Company on 1 December 2009 and was re-designated as executive director on 20 May 2010.

NON-EXECUTIVE DIRECTORS

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Su Bin, aged 59, has served in the army over a long period of time. Since his retirement from military service in 1998, he has been mainly engaged in equity investments and corporate mergers and acquisitions. He was co-Chairman of the China Coal and Coke Investment Fund LLP (中國煤炭暨焦炭投資基金) from 2005 to 2009. He has been honorary Chairman of the Hong Kong Energy and Minerals United Associations (香港能源礦產聯合會) since 2007. Mr. Su is vastly experienced in corporate management, financing and mergers and acquisitions. He has strong and extensive connections in the political and financial sectors of the PRC. He was appointed as the non-executive director of the Company on 14 July 2010.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cao Kuangyu, aged 60, holds Bachelor of Arts in Economics in University of Hunan and Masters of Science in Financial Management in The School of Oriental and African Studies, University of London. He has more than 30 years working experience in various financial institutions. Currently, he is the vice chairman of Maxdo Group Limited in Hong Kong. He was the senior partner of Rocket Capital from 2007 to 2009, managing director of BOCI Asia Limited from 2003 to 2007, the president of Citic Bank, Shenzhen Branch from 1999 to 2003 and the deputy general manager of Bank of China in Singapore Branch from 1996 to 1999 and in Hunan Branch from 1993 to 1996. Mr. Cao is also an independent non-executive director of JLF Investment Company Limited, and a non-executive director of Continental Holdings Limited, both companies are listed on The Stock Exchange of Hong Kong Limited. He was appointed as the independent non-executive director of the Company on 2 February 2010.

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

Mr. Jacobsen William Keith, aged 44, has more than 15 years experience in corporate finance and business development. He holds a Bachelor's Degree of Laws from the University of Hong Kong and a Master's Degree of Business Administration from the University of British Columbia. He is an independent non-executive director of Hycomm Wireless Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited and abc Multiactive Limited, a company listed on the Growth Enterprise Board of The Stock Exchange of Hong Kong Limited. He was appointed as the independent non-executive director of the Company on 26 September 2008.

SENIOR MANAGEMENT

Mr. Xu Jianhua, aged 55, is the general manager of Eerduosi Hengtai Coal Company Limited ("Hengtai"). Mr. Xu joined Hengtai in 2011 and is responsible for managing and overseeing Hengtai's operation. He holds a degree in philosophy in Business Administration of Renmin University of China. He was the secretary in mayor office of Sanmenxia City, Luoyang from 1987 to 1992 and general manager in trading department of Zhengzhou Commodity Exchange from 1992 to 2000. He was also the vice chairman of Taiyuan Twin Tower Aluminum Oxide Co. Ltd, a company listed on Shenzhen Stock Exchange (stock code 000795.sz) from 2002 to 2005 and general manager of Beijing Jin Ru Investment Group Limited (北京今儒投資集團公司) from 2005 to 2010. Mr. Xu has extensive connections and possesses solid experience in mineral industry.

Mr. Lee Tao Wai, aged 32, is chief financial officer and company secretary of the Company. Mr. Lee is a member of The Hong Kong Institute of Certified Public Accountants and has over 10 years of experience in auditing, accounting and corporate field. Prior to joining the Company, Mr. Lee worked in an international accounting firm and a listed company in Hong Kong as senior executive. Mr. Lee holds a Bachelor Degree in Business Administration in Accounting from the Chinese University of Hong Kong and a Master Degree in Investment Management from The Hong Kong University of Science and Technology. He joined the Group in April 2010.

Mr. Ip Wing Wai, aged 32, is chief investment officer of the Company and is responsible for identifying and evaluating merger and acquisition opportunities as well as promoting investor relations for the Company. Mr. Ip possesses 10 years of experience in merger and acquisitions, corporate finance and investor relations through working previously in a sizable red chip and a H-share company in Hong Kong as well as an international accounting firm. His stint in Fushan International Energy Group Limited has provided him over 4 years of expertise in mining industry. Mr. Ip holds a Bachelor Degree in Business Administration in Accounting from The Hong Kong University of Science and Technology. He joined the Group in April 2010.

ADVISORY COMMITTEE

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Group is committed to achieving high standards of corporate governance which is crucial to the development of the Group and safeguard the interests of the Company's shareholders. To accomplish this, the Group has adopted practices which meet the Code on Corporate Governance Practices ("Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). During the year ended 31 December 2010, the Company has complied with the Code save as the few exceptions mentioned below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the Directors. Having made specific enquiry of all Directors, the Directors confirm that they have complied with the required standard as set out in the Model Code during the year ended 31 December 2010.

BOARD OF DIRECTORS

The Board of Directors (the "Board") currently comprises the Chairman and the Chief Executive Officer, Mr. Wang Da Yong, two other executive Directors, two non-executive Directors and three independent non-executive Directors. The Board is principally accountable to the shareholders and is responsible for the leadership and control of the Group including overseeing the Group's businesses, strategic directions, financial performance, setting objectives and business development plans, and monitoring the performance of the senior management.

The Board, with balance of skills and experience, meets regularly throughout the year to formulate overall strategy, monitor business development as well as the financial performance of the Group and has formal procedures on matters for consideration and decision. The Board has delegated certain authorities to the senior management for the day-to-day management of the Group's operation. The attendance of Directors at the 10 board meetings held in 2010 is as follows:

Directors		**Attended/ Eligible to attend**
Executive Directors		
Mr. Wang Da Yong *(Chairman)*		8/10
Mr. Tian Wenwei	(appointed on 18 January 2010)	10/10
Mr. Wang Tongtian	(re-designated as an executive Director on 20 May 2010)	10/10
Ms. Liu Yee Nee	(resigned on 8 July 2010)	1/3
Ms. Louie Mei Po	(resigned on 20 May 2010)	1/1
Mr. Li Wei	(resigned on 2 February 2010)	0/0
Ms. Zhou Jing	(resigned on 2 February 2010)	0/0
Non-executive Directors		
Mr. Li Yi	(appointed on 2 February 2010)	9/10
Mr. Su Bin	(appointed on 14 July 2010)	7/7
Independent Non-executive Directors		
Mr. Jacobsen William Keith		8/10
Mr. Cao Kuangyu	(appointed on 2 February 2010)	7/10
Mr. Chiu Sui Keung	(appointed on 18 January 2010)	9/10
Mr. Ng Wai Hung	(resigned on 2 February 2010)	0/0
Mr. Wu Wang Li	(resigned on 18 January 2010)	0/0

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

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

ENTERING INTO SERVICE CONTRACTS WITH EXECUTIVE DIRECTORS

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

STRATEGY AND INVESTMENT COMMITTEE

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

AUDIT COMMITTEE

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

During the year, the Audit Committee reviewed with the management and the Company's auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the audited annual results for the year ended 31 December 2009 and unaudited interim results for the six months ended 30 June 2010. The members and attendance of the two meetings of the Audit Committee held in 2010 are as follows:

Directors		**Attended/ Eligible to attend**
Mr. Jacobsen William Keith		2/2
Mr. Cao Kuangyu	(appointed on 2 February 2010)	2/2
Mr. Chiu Sui Keung	(appointed on 18 January 2010)	2/2
Mr. Ng Wai Hung	(resigned on 2 February 2010)	0/0
Mr. Wu Wang Li	(resigned on 18 January 2010)	0/0

ROLE AND RESPONSIBILITIES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

Mr. Wang Da Yong, Chief Executive Officer of the company, was appointed as Chairman of the Company on 26 February 2010. The Board considers that the structure will not impair the balance of power and authority between the Board and the management of the Group. The balance of power and authority is ensured by the operations of the board committees which comprise experienced and high calibre individuals and meet frequently to discuss issues. The Board also considers that the structure enables the effectiveness and efficiency of the Group's operations and is beneficial to the business prospects of the Group.

TERMS OF NON-EXECUTIVE DIRECTORS

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

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

REMUNERATION COMMITTEE

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

The Remuneration Committee currently comprises Mr. Cao Kuangyu (Chairman), Mr. Wong Da Yong, Mr. Chiu Sui Keung and Mr. Jacobsen William Keith. During the year, the Remuneration Committee held three meetings. The members and attendance of the meetings are as follows:

Directors		**Attended/ Eligible to attend**
Mr. Cao Kuangyu	(appointed on 2 February 2010)	3/3
Mr. Chiu Sui Keung	(appointed on 18 January 2010)	3/3
Mr. Jacobsen William Keith		3/3
Mr. Wang Da Yong		2/3
Mr. Ng Wai Hung	(resigned on 2 February 2010)	0/0
Mr. Wu Wang Li	(resigned on 18 January 2010)	0/0
Ms. Liu Yee Nee	(resigned on 8 July 2010)	0/1
Mr. Li Wei	(resigned on 2 February 2010)	0/0

NOMINATION OF DIRECTORS

According to the Company's Articles of Association, the Board of Directors has the power to appoint any person as a Director either to fill a causal vacancy or as an addition to the Board. The nomination should take into consideration the nominee's qualification, ability and potential contributions to the Company. During the year, Mr. Tian Wenwei was appointed as executive Director, Mr. Li Yi and Mr. Su Bin were appointed as non-executive Directors and Mr. Cao Kuangyu and Mr. Chiu Sui Keung were appointed as independent non-executive Directors. All Directors should be subject to re-election in accordance with the Articles of Association of the Company.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for the Financial Statements

The Directors are responsible for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2010, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors are also responsible for keeping proper accounting records with reasonable accuracy for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

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

Auditors' Responsibilities and Remuneration

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

	HK$'000
Annual audit services	1,650
Agreed-upon procedures on interim financial statements	260
Audit services for the very substantial acquisition	3,400
Agreed-upon procedures on major disposal	80
Taxation services	12
	5,402

The statement of the auditors of the Company regarding their reporting responsibilities is set out in the Independent Auditors' Report on page 36 to 37.

Internal Control

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

In order to strengthen the internal control systems of the Group, an independent internal control and assessment advisor has been appointed to review the major internal control systems of the Group during the year. Recommendations for areas for improvement will be property followed up within a reasonable period of time.

Based on its assessment which covers all material controls including financial, operational and compliance controls and risk management functions, the Board believes that for the year ended 31 December 2010, the Company's internal control is effective. The Board is satisfied that there are adequate resources of staff with appropriate qualifications and experience in its accounting and financial reporting team and that sufficient training and budget have been provided.

COMMUNICATION WITH SHAREHOLDERS

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

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

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 18 to the financial statements. On 20 August 2010, the Group had disposed of subsidiaries engaging in trading of phosphorus products, Anchorage Trading Limited and Kunming Huadian Chemicals Company Limited, details of which are set out in note 33 to the financial statements. Other than this, there were no other significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 38 to 105.

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 106. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL, SHARE OPTIONS, CONVERTIBLE BONDS AND CONVERTIBLE NOTES

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

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

DISTRIBUTABLE RESERVES

At 31 December 2010, the Company had no retained profits available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance. However, the Company's share premium account, in the amount of HK$3,065,615,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

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

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

DIRECTORS

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

Executive Directors:

Mr. Wang Da Yong	(appointed as the Chairman on 26 February 2010)
Mr. Tian Wenwei	(appointed on 18 January 2010)
Mr. Wang Tongtian	(re-designated as an executive director on 20 May 2010)
Ms. Liu Yee Nee	(re-designated as a non-executive director on 20 May 2010 and resigned on 8 July 2010)
Ms. Louie Mei Po	(resigned on 20 May 2010)
Mr. Li Wei	(resigned on 2 February 2010)
Ms. Zhou Jing	(resigned on 2 February 2010)

Non-executive Directors:

Mr. Li Yi	(appointed on 2 February 2010)
Mr. Su Bin	(appointed on 14 July 2010)

Independent non-executive Directors:

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

In accordance with the Company's articles of association, (i) Directors appointed shall hold office until the forthcoming annual general meeting (in the case of an addition to the Board) or until the first general meeting of the Company after his appointment (in the case of filling a casual vacancy) and eligible for re-election and (ii) at each annual general meeting one-third of directors shall retire from office by rotation. Each of Mr. Wang Da Yong, Mr. Su Bin and Mr. Jacobsen William Keith will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 17 to 19 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' REMUNERATION

The remuneration of the Directors are determined by the remuneration committee of the Company with reference to the Directors' duties, responsibilities and performance and the results of the Group. Further details of the Company's remuneration committee are set out in the Corporate governance report on pages 23 to 24 of the annual report.

DIRECTORS' INTERESTS IN CONTRACTS

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

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

As at 31 December 2010, the following Directors or the chief executive of the Company had or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

Long position in the shares and underlying shares of the Company:

Name of Director	Capacity	Interest in shares	Interest in underlying shares	Total interest in shares	Approximate percentage of the Company's issued share capital
Mr. Wang Da Yong (notes 1, 2)	Through controlled corporation/ beneficial owner	1,800,000,000	100,000,000	1,900,000,000	8.40%
Mr. Tian Wenwei (note 2)	Beneficial owner	—	75,000,000	75,000,000	0.33%
Mr. Wang Tongtian (note 2)	Beneficial owner	—	30,000,000	30,000,000	0.13%
Mr. Li Yi (note 2)	Beneficial owner	—	20,000,000	20,000,000	0.08%
Mr. Su Bin (note 2)	Beneficial owner	—	20,000,000	20,000,000	0.08%
Mr. Jacobsen William Keith (note 2)	Beneficial owner	—	10,000,000	10,000,000	0.04%
Mr. Cao Kuangyu (note 2)	Beneficial owner	—	10,000,000	10,000,000	0.04%
Mr. Chiu Sui Keung (note 2)	Beneficial owner	—	10,000,000	10,000,000	0.04%

Notes:

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

2. Options were granted to Mr. Tian Wenwei and Mr. Li Yi under the share option scheme of the Company dated 28 May 2002 which are exercisable at the subscription price of HK$0.248 per share (subject to adjustments) at any time during a period of two years commencing from and including 12 May 2011 to 11 May 2013.

   20,000,000 options and 10,000,000 options were granted to Mr. Wang Tongtian under the share option scheme of the Company dated 28 May 2002 which are exercisable at the subscription price of HK$0.248 per share (subject to adjustments) at any time during a period of two years commencing from and including 12 May 2011 to 11 May 2013 and a period of two years commencing from and including 26 August 2011 to 25 August 2013 respectively.

   Options were granted to Mr. Su Bin, Mr. Jacobsen William Keith, Mr. Cao Kuangyu and Mr. Chiu Sui Keung under the share option scheme of the Company dated 28 May 2002 which are exercisable at the subscription price of HK$0.248 per share (subject to adjustments) at any time during a period of two years commencing from and including 26 August 2011 to 25 August 2013.

   Options were granted to Mr. Wang Da Yong under the share option scheme of the Company dated 28 May 2002 which are exercisable at the subscription price of HK$0.248 per share (subject to adjustments) at any time during a period of two years commencing from and including 10 November 2011 to 9 November 2013.

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

   Further details of the options are included in section "Share option scheme" below.

Save as disclosed above, as at 31 December 2010, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

SHARE OPTION SCHEME

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

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

		Number of share options			
Name or category of participant	**Notes**	**At 1 January 2010**	**Granted during the year**	**Exercised during the year**	**At 31 December 2010**
Executive Directors:					
Mr. Wang Da Yong	(d)	—	100,000,000	—	100,000,000
Mr. Tian Wenwei	(b)	—	75,000,000	—	75,000,000
Mr. Wang Tongtian	(b)	—	20,000,000	—	20,000,000
	(c)	—	10,000,000	—	10,000,000
		—	30,000,000	—	30,000,000
		—	205,000,000	—	205,000,000
Non-executive Directors:					
Mr. Li Yi	(b)	—	20,000,000	—	20,000,000
Mr. Su Bin	(c)	—	20,000,000	—	20,000,000
		—	40,000,000	—	40,000,000

Name or category of participant	Notes	Number of share options: At 1 January 2010	Granted during the year	Exercised during the year	At 31 December 2010
Independent non-executive Directors:					
Mr. Jacobsen William Keith	(c)	—	10,000,000	—	10,000,000
Mr. Cao Kuangyu	(c)	—	10,000,000	—	10,000,000
Mr. Chiu Sui Keung	(c)	—	10,000,000	—	10,000,000
		—	30,000,000	—	30,000,000
Other employees:					
In aggregate	(a)	12,320,000	—	—	12,320,000
	(b)	—	205,000,000	—	205,000,000
		12,320,000	205,000,000	—	217,320,000
Total		12,320,000	480,000,000	—	492,320,000

Notes:

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

(b) These share options were granted on 12 May 2010 at an exercise price of HK$0.248† per ordinary share of the Company. The closing price of the Company's ordinary shares on the Stock Exchange on the trading day immediately prior to the date of grant of the share options was HK$0.231 per share. The share options may be exercised in two equal portions. The first 50% portion is exercisable for a period of 2 years commencing on 12 May 2011 and the other 50% portion is exercisable for a period of 1 year commencing on 12 May 2012 and, if not otherwise exercised, all of the share options will lapse on 12 May 2013. The vesting periods of each of the portion is from the date of grant to the respective commencement dates of the exercise periods. The grantees are entitled to exercise all the share options within three months from the date of termination of their employment with the Company.

(c) These share options were granted on 26 August 2010 at an exercise price of HK$0.248† per ordinary share of the Company. The closing price of the Company's ordinary shares on the Stock Exchange on the trading day immediately prior to the date of grant of the share options was HK$0.154 per share. The share options may be exercised in two equal portions. The first 50% portion is exercisable for a period of 2 years commencing on 26 August 2011 and the other 50% portion is exercisable for a period of 1 year commencing on 26 August 2012 and, if not otherwise exercised, all of the share options will lapse on 26 August 2013. The vesting periods of each of the portion is from the date of grant to the respective commencement dates of the exercise periods. The grantees are entitled to exercise all the share options within three months from the date of termination of their employment with the Company.

(d) These share options were granted on 10 November 2010 at an exercise price of HK$0.248† per share of the Company. The closing price of the Company's ordinary shares on the Stock Exchange on the trading day immediately prior to the date of grant of the share options was HK$0.227 per share. The share options may be exercised in two equal portions. The first 50% portion is exercisable for a period of 2 years commencing on 10 November 2011 and the other 50% portion is exercisable for a period of 1 year commencing on 10 November 2012 and, if not otherwise exercised, all of the share options will lapse on 10 November 2013. The vesting periods of each of the portion is from the date of grant to the respective commencement dates of the exercise periods. The grantees are entitled to exercise all the share options within three months from the date of termination of their employment with the Company.

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

The Directors have estimated the values of the share options granted during the year, calculated using the binomial option pricing model as at the date of grant of the options:

Grantee	Number of options granted during the year	Theoretical value of share options HK$
Mr. Wang Da Yong	100,000,000	12,740,000
Mr. Tian Wenwei	75,000,000	10,728,000
Mr. Wong Tongtian	30,000,000	3,605,000
Mr. Li Yi	20,000,000	2,890,000
Mr. Su Bun	20,000,000	1,550,000
Mr. Jacobsen William Keith	10,000,000	795,000
Mr. Cao Kuangyu	10,000,000	795,000
Mr. Chiu Sui Keung	10,000,000	795,000
	275,000,000	33,898,000

The binomial option pricing model is a generally accepted method of valuing options. The significant assumptions used in the calculation of the values of the share options were risk-free interest rate, expected life, expected volatility and expected dividend yield of the Company's shares. The measurement dates used in the valuation calculations were the dates on which the options were granted.

The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself. The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

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

CONTRACT OF SIGNIFICANCE

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

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

So far as is known to the Directors and the chief executive of the Company, as at 31 December 2010, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	**Capacity**	**Total interests in shares/underlying shares**	**Approximate percentage of the Company's issued share capital**
All Aces Investments Limited (note 1)	Beneficial owner	18,948,000,000 (L)	83.73%
Liu Yong (note 1)	Through controlled corporation	18,948,000,000 (L)	83.73%
Zhao Ming (note 2)	Beneficial owner/ Through controlled corporation	16,096,535,195 (L)	71.13%
Bank of America Corporation	Through controlled corporation	4,415,004,650 (L) 952,500,000 (S)	19.51% 4.21%
Future Wise Limited (note 2)	Beneficial owner	2,125,000,000 (L)	9.39%
Sino Bridge Investments Limited (note 3)	Through controlled corporation	1,800,000,000 (L)	7.95%
China Coal and Coke Investment Holding Company Limited (note 3)	Beneficial owner	1,800,000,000 (L)	7.95%
Central Huijin Investment Limited (note 4)	Through controlled corporation	1,688,000,000 (L) 1,600,000,000 (S)	7.46% 7.07%
China Construction Bank Corporation (note 4)	Through controlled corporation	1,688,000,000 (L) 1,600,000,000 (S)	7.46% 7.07%
CCB International Group Holdings Limited (note 4)	Through controlled corporation	1,688,000,000 (L) 1,600,000,000 (S)	7.46% 7.07%
CCB Financial Holdings Limited (note 4)	Through controlled corporation	1,688,000,000 (L) 1,600,000,000 (S)	7.46% 7.07%
CCB International (Holdings) Limited (note 4)	Through controlled corporation	1,688,000,000 (L) 1,600,000,000 (S)	7.46% 7.07%

Name	Capacity	Total interests in shares/underlying shares	Approximate percentage of the Company's issued share capital
CCB International Assets Management (Cayman) Limited (note 4)	Through controlled corporation	1,688,000,000 (L) 1,600,000,000 (S)	7.46% 7.07%
CCB International Asset Management Limited (note 4)	Beneficial owner	1,688,000,000 (L) 1,600,000,000 (S)	7.46% 7.07%

Remark: (L): Long position; (S): Short position

Notes:

1. All Aces Investments Limited is wholly owned by Mr. Liu Yong.

2. Zhao Ming ("Mr. Zhao") holds 2,531,535,195 shares, 1,150,000,000 shares held by Future Wise Limited which is wholly owned by Mr. Zhao, convertible notes of the Company which entitle the holder thereof to convert for 10,640,000,000 shares at the conversion price of HK$0.0625 per share (subject to adjustments) and has long position of 1,775,000,000 shares, of which 975,000,000 shares are held by Future Wise Limited.

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

4. CCB International Asset Management Limited is the beneficial owner of 1,688,000,000 shares and has a short position of 1,600,000,000 shares. Central Huijin Investment Limited is deemed to be interested in the long and short positions held by CCB International Asset Management Limited by virtue of its 57.09% interest in China Construction Bank Corporation which owns 100% interest in CCB International Group Holdings Limited. CCB International Group Holdings Limited holds 100% interest in CCB International (Holdings) Limited holds 100% interest in CCB International Assets Management (Cayman) Limited which in turn owns 100% interest in CCB International Asset Management Limited.

Save as disclosed above, as at 31 December 2010, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

CONNECTED TRANSACTION

On 3 December 2010, the Company entered into a supplemental deed with Mr. Zhao Ming, the holder of convertible notes, in relation to amendments of certain anti-dilution adjustments on the conversion price of convertible notes. Mr. Zhao was regarded as a connected person of the Company as he was a substantial shareholder of the Company as at the date of the supplemental deed. Accordingly, the amendments constituted a connected transaction under Chapter 14A of the Listing Rules and were subject to the Company's independent shareholders' approval.

Details of the amendments were set out in the circular of the Company dated 15 December 2010 and note 27 to the financial statements. The amendments have been approved by independent shareholders and became effective on 31 December 2010.

SUFFICIENCY OF PUBLIC FLOAT

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

EVENTS AFTER THE REPORTING PERIOD

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

AUDITORS

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

ON BEHALF OF THE BOARD

Wang Da Yong
Chairman

Hong Kong
24 March 2011

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

We have audited the consolidated financial statements of King Stone Energy Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 38 to 105, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
24 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
REVENUE	6	**1,007,740**	88,710
Cost of sales		**(483,055)**	(82,450)
Gross profit		**524,685**	6,260
Impairment of goodwill	16	**–**	(14,949)
Fair value loss of convertible notes	27	**(1,133,144)**	(1,053,831)
Other income and gains, net	6	**29,823**	11,358
Selling and distribution costs		**(4,220)**	(5,731)
Administrative expenses		**(107,838)**	(20,441)
Other expenses		**(10,829)**	—
Finance costs	7	**(84,066)**	(1,485)
LOSS BEFORE TAX	8	**(785,589)**	(1,078,819)
Income tax credit/(expense)	11	**(100,405)**	159
LOSS FOR THE YEAR		**(885,994)**	(1,078,660)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Exchange differences on translation of foreign operations:			
— Increase/(decrease) for the year		**74,311**	(2)
— Reclassification adjustment on disposal of subsidiaries	33	**(6,769)**	(6,910)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**67,542**	(6,912)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(818,452)**	(1,085,572)
Profit/(loss) attributable to:			
Owners of the Company	12	**(905,164)**	(1,078,519)
Non-controlling interests		**19,170**	(141)
		(885,994)	(1,078,660)

	Notes	2010 HK$'000	2009 HK$'000
Total comprehensive income/(loss) attributable to:			
Owners of the Company	12	**(841,869)**	(1,085,431)
Non-controlling interests		**23,417**	(141)
		(818,452)	(1,085,572)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic and diluted		**(HK5.75 cents)**	(HK33.56 cents)

The directors of the Company do not recommend the payment of any dividend in respect of the year ended 31 December 2010 (2009: Nil).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	**2010 HK$'000**	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,305,588**	851,815
Prepaid land premiums	15	**12,299**	12,416
Goodwill	16	**–**	–
Mining rights	17	**2,343,144**	2,384,988
Prepayments	21	**434,743**	233,169
Total non-current assets		**4,095,774**	3,482,388
CURRENT ASSETS			
Inventories	19	**4,283**	6,768
Trade and bills receivables	20	**263,346**	34,598
Prepayments, deposits and other receivables	21	**171,432**	84,300
Pledged deposits	22	**417**	–
Cash and cash equivalents	22	**625,216**	143,024
Total current assets		**1,064,694**	268,690
CURRENT LIABILITIES			
Trade and bills payables	23	**903**	25,558
Other payables and accruals	24	**484,748**	303,652
Interest-bearing bank borrowings	25	**411,775**	56,790
Derivative component of convertible bonds	26(a)	**35,452**	–
Liability component of convertible bonds	26(b)	**121,896**	–
Tax payable		**148,413**	5
Total current liabilities		**1,203,187**	386,005
NET CURRENT LIABILITIES		**(138,493)**	(117,315)
TOTAL ASSET LESS CURRENT LIABILITIES		**3,957,281**	3,365,073
NON-CURRENT LIABILITIES			
Other payables and accruals	24	**41,098**	35,326
Interest-bearing bank borrowings	25	**882,375**	851,850
Convertible notes	27	**466,288**	2,411,000
Deferred tax liabilities	28	**538,786**	564,064
Total non-current liabilities		**1,928,547**	3,862,240
Net assets/(liabilities)		**2,028,734**	(497,167)

	Notes	2010 HK$'000	2009 HK$'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	29	**226,298**	77,338
Reserves	31(a)	**1,698,635**	(654,889)
		1,924,933	(577,551)
Non-controlling interests		**103,801**	80,384
Total equity/(deficiency in assets)		**2,028,734**	(497,167)

Wang Da Yong
Director

Tian Wenwei
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

		Attributable to owners of the Company									
	Notes	**Issued capital**	**Share premium account**	**Equity component of convertible notes**	**Share option reserve**	**PRC statutory reserves**	**Exchange fluctuation reserve**	**Accumu-lated losses**	**Total**	**Non-controlling interests**	**Total equity**
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Note 29)	(Note 31(a)(i))	(Note 27)	(Note 31(a)(ii))	(Note 31(a)(iii))	(Note 31(a)(iv))				
At 1 January 2009		31,249	723,462	—	764	7,904	13,717	(725,041)	52,055	—	52,055
Loss for the year		—	—	—	—	—	—	(1,078,519)	(1,078,519)	(141)	(1,078,660)
Other comprehensive loss for exchange differences on translation of foreign operations during the year		—	—	—	—	—	(6,912)	—	(6,912)	—	(6,912)
Total comprehensive loss for the year		—	—	—	—	—	(6,912)	(1,078,519)	(1,085,431)	(141)	(1,085,572)
Acquisition of subsidiaries	32	—	—	—	—	—	—	—	—	80,525	80,525
Issue of new shares	29(a)	849	7,151	—	—	—	—	—	8,000	—	8,000
Share issue expenses	29(a)	—	(6)	—	—	—	—	—	(6)	—	(6)
Conversion of convertible notes	29(b)	45,240	402,591	—	—	—	—	—	447,831	—	447,831
At 31 December 2009 and 1 January 2010		77,338	1,133,198*	—*	764*	7,904*	6,805*	(1,803,560)*	(577,551)	80,384	(497,167)
Profit/(loss) for the year		—	—	—	—	—	—	(905,164)	(905,164)	19,170	(885,994)
Other comprehensive income for exchange differences on translation of foreign operations during the year		—	—	—	—	—	63,295	—	63,295	4,247	67,542
Total comprehensive income/(loss) for the year		—	—	—	—	—	63,295	(905,164)	(841,869)	23,417	(818,452)
Disposal of subsidiaries	33	—	—	—	—	(7,904)	—	7,904	—	—	—
Issue of new shares	29(c)	10,000	195,000	—	—	—	—	—	205,000	—	205,000
Share issue expenses		—	(238)	—	—	—	—	—	(238)	—	(238)
Conversion of convertible bonds	29(d)	1,800	36,073	—	—	—	—	—	37,873	—	37,873
Conversion of convertible notes	29(e)	137,160	1,701,582	—	—	—	—	—	1,838,742	—	1,838,742
Issue of Amended 2009 CN	27	—	—	1,239,114	—	—	—	—	1,239,114	—	1,239,114
Equity-settled share option arrangement	30(a)	—	—	—	23,862	—	—	—	23,862	—	23,862
At 31 December 2010		226,298	3,065,615*	1,239,114*	24,626*	—*	70,100*	(2,700,820)*	1,924,933	103,801	2,028,734

* These reserve accounts comprise the consolidated reserves of HK$1,698,635,000 (2009: consolidated negative reserves of HK$654,889,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(785,589)**	(1,078,819)
Adjustments for:			
Finance costs	7	**84,066**	1,485
Bank interest income	6	**(813)**	(549)
Gain on disposal of items of property, plant and equipment	6	**(598)**	—
Gain on disposal of subsidiaries	6	**(24,784)**	(6,262)
Fair value gain of derivative component of convertible bonds	26(a)	**(2,736)**	—
Fair value loss of convertible notes	27	**1,133,144**	1,053,831
Depreciation	14	**109,134**	1,192
Amortisation of prepaid land premiums	15	**548**	21
Impairment of goodwill	16	**–**	14,949
Amortisation of mining rights	17	**124,202**	192
Reversal of write-down of inventories	8	**–**	(161)
Impairment/(reversal of impairment) on trade receivables	20(b)	**2,308**	(3,985)
Impairment of prepayments, deposits and other receivables	21(a)	**8,521**	—
Equity-settled share option expenses	30(a)	**23,862**	—
		671,265	(18,106)
Decrease in inventories		**2,485**	14,148
Decrease/(increase) in trade and bills receivables		**(234,155)**	28,305
Decrease/(increase) in prepayments, deposits and other receivables		**(97,430)**	30,068
Decrease in trade and bills payables		**(17,325)**	(5,401)
Increase/(decrease) in other payables and accruals		**201,909**	(84,485)
Cash generated from/(used in) operations		**526,749**	(35,471)
Interests paid		**(71,359)**	(1,485)
Income tax refunded/(paid)		**(5)**	994
Net cash flows from/(used in) operating activities		**455,385**	(35,962)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**813**	549
Purchases of items of property, plant and equipment		**(622,599)**	(14,648)
Proceeds from disposal of items of property, plant and equipment		**91,275**	—
Acquisition of subsidiaries	32	**–**	73,334
Disposal of subsidiaries	33	**(422)**	27,324
Increase in prepayments for non-current assets		**(193,219)**	—
Decrease/(increase) in time deposits with maturity of more than three months when acquired		**44,285**	(44,285)
Increase in pledged time deposits		**(417)**	—
Net cash flows from/(used in) investing activities		**(680,284)**	42,274

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	29	**205,000**	8,000
Share issue expenses	29	**(238)**	(6)
Net proceeds from issue of convertible bonds	26	**185,250**	–
New bank loans		**401,730**	–
Repayment of bank loans		**(57,390)**	–
Net cash flows from financing activities		**734,352**	7,994
NET INCREASE IN CASH AND CASH EQUIVALENTS		**509,453**	14,306
Cash and cash equivalents at beginning of year		**98,739**	84,435
Effect of foreign exchange rate changes, net		**17,024**	(2)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**625,216**	98,739
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	**605,179**	86,843
Time deposits	22	**20,037**	56,181
Cash and cash equivalents as stated in the consolidated statement of financial position	22	**625,216**	143,024
Non-pledged time deposits with maturity of more than three months when acquired		**–**	(44,285)
Cash and cash equivalents as stated in the statement of cash flows		**625,216**	98,739

STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,408**	—
Investments in subsidiaries	18(a)	**1,810,195**	1,810,199
Prepayment	21	**180,000**	—
Total non-current assets		**1,991,603**	1,810,199
CURRENT ASSETS			
Due from subsidiaries	18(b)	**83**	43,423
Prepayments, deposits and other receivables	21	**2,145**	1,048
Cash and cash equivalents	22	**244,184**	13,678
Total current assets		**246,412**	58,149
CURRENT LIABILITIES			
Other payables and accruals	24	**11,969**	5,658
Derivative component of convertible bonds	26(a)	**35,452**	—
Liability component of convertible bonds	26(b)	**121,896**	—
Total current liabilities		**169,317**	5,658
NET CURRENT ASSETS		**77,095**	52,491
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,068,698**	1,862,690
NON-CURRENT LIABILITY			
Convertible notes	27	**(466,288)**	(2,411,000)
Net assets/(liabilities)		**1,602,410**	(548,310)
EQUITY			
Issued capital	29	**226,298**	77,338
Reserves	31(b)	**1,376,112**	(625,648)
Total equity/(deficiency in assets)		**1,602,410**	(548,310)

Wang Da Yong
Director

Tian Wenwei
Director

1. CORPORATE INFORMATION

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

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

- mining and selling of coal,
- trading of phosphorus products, and
- trading of optical products.

2. BASIS OF PREPARATION AND CONSOLIDATION

These financial statements have been prepared under the going concern basis, notwithstanding that the Group incurred a consolidated loss attributable to owners of the Company of approximately HK$905,164,000 for the year ended 31 December 2010, and the Group had net current liabilities of HK$138,493,000 and capital commitment of HK$33,859,000 as at 31 December 2010. This is because, Mr. Zhao Ming, a shareholder and a holder of the convertible notes of the Company, has agreed to provide financial support to the Group to enable it to meet with its liabilities as and when they fall due in the foreseeable future.

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative component of convertible bonds and convertible notes (before their terms were amended on 31 December 2010), which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2. BASIS OF PREPARATION AND CONSOLIDATION (CONTINUED)

Basis of consolidation (continued)

Basis of consolidation from 1 January 2010 (continued)
Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

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

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

Basis of consolidation prior to 1 January 2010
Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the differences between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

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

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

3.1 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised HKFRSs has had no significant effect on these financial statements.

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

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

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

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

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

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

3.1 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

(b) Improvements to HKFRSs 2009

Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Key amendments most applicable to the Group was that HKAS 7 *Statement of Cash Flows* requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*[2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[4]
HKFRS 9	*Financial Instruments*[6]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*[5]
HKAS 24 (Revised)	*Related Party Disclosures*[3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*[3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

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

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

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

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

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

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

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2013.

(b) HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group is not a government-related entity.

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

(c) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

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

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

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

(ii) HKAS 1 *Presentation of Financial Statements:* Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

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

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it s finally settled within equity.

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

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

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

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

(b) the party is a member of the key management personnel of the Group;

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

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

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

Property, plant and equipment and depreciation

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

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

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

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

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

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

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

Operating leases

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

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

Mining rights

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Subsequent measurement

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

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

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

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

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

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

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

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

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Subsequent measurement (continued)

Convertible bonds/notes (continued)

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

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

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

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

Fair value of financial instruments

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

Inventories

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

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

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

Income tax

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

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

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

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

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

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

Share-based payment transactions

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payment transactions (continued)

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

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

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

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

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

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

Other employee benefits

Pension schemes

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

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

Foreign currencies

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

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Impairment of assets

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

Estimation uncertainties

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

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, the expected usage of the asset, the expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits in the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residues values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed, at each financial year end date based on changes in circumstances. The net carrying amounts of property, plant and equipment in the consolidated statement of financial position of the Group at 31 December 2010 was HK$1,305,588,000 (2009: HK$851,815,000) (note 14).

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainties (continued)

Impairment of property, plant and equipment and mining rights

The Group assesses each cash-generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. The carrying value of the property, plant and equipment, including mining structure, is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in the financial statements. Estimating the value in use requires the Group to estimate future cash flows from the cash generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows. The net carrying amount of property, plant and equipment in the consolidated statement of financial position of the Group at 31 December 2010 was HK$1,305,588,000 (2009: HK$851,815,000) (note 14). The net carrying amount of mining rights in the consolidated statement of financial position of the Group at 31 December 2010 was HK$2,343,144,000 (2009: HK$2,384,988,000) (note 17).

Mine reserves

Engineering estimates of the Group's mine reserves are inherently imprecise and represent only approximate amounts because of the significant judgments involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as "proved" and "probable". Proved and probable mine reserve estimates are updated on regular intervals taking into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable mine reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in both depreciation and amortisation rates calculated on a unit of production basis. Changes in the estimate of mine reserves are also taking into account impairment assessment of mining rights. The net carrying amount of mining rights in the consolidated statements of financial position of the Group at 31 December 2010 was HK$2,343,144,000 (2009: HK$2,384,988,000) (note 17).

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the ageing and estimated net realisable value of inventories. The assessment of the write-down amount requires management's estimates and judgement. Where the actual outcome or expectation in the future is different from the original estimate, such differences will impact the carrying value of inventories and write-down/write-back of inventories in the period in which such estimate has been changed. The net carrying amount of inventories in the consolidated statement of financial position of the Group at 31 December 2010 was HK$4,283,000 (2009: HK$6,768,000) (note 19).

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

Impairment of receivables is made based on an assessment of the recoverability of receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact the carrying values of the receivables and impairment loss in the period in which such estimate has been changed. The net carrying amounts of trade and bills receivables, and prepayments, deposits and other receivables in the consolidated statement of financial position of the Group at 31 December 2010 were HK$263,346,000 and HK$606,175,000, respectively (2009: HK$34,598,000 and HK$317,469,000, respectively) (notes 20 and 21).

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainties (continued)

Provision for rehabilitation

Provision for rehabilitation is based on estimates of future expenditures incurred by management to undertake rehabilitation and restoration work to coal mine which are discounted at a rate reflecting the term and nature of the obligation. Significant estimates and assumptions are made in determining the provision for rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases and changes in the discount rate. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at end of the reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognised in the consolidated statements of financial position by adjusting the rehabilitation liability. At 31 December 2010, the directors of the Group estimated that no provision for rehabilitation is required (2009: Nil).

Fair value assessments of convertible notes, derivative component of convertible bonds, and share options granted during the year

Before certain terms of the Company's convertible notes were amended on 31 December 2010, all convertible notes were stated at fair value and fair value assessment was performed at each date when there is conversion. Besides, fair value assessments were performed for (i) the liability and equity components of the convertible notes when such convertible notes entitle the holder to convert the notes into a fixed number of equity instruments at a fixed conversion price, on the issue date; (ii) the derivative component of the conversion bonds issued during the year, on the issue date, conversion dates and at the end of the reporting period and (iii) the share options granted by the Company to its employees on its grant date.

All theses fair value assessments were based on valuation techniques for which all inputs which have a significant effect on the recorded fair values are observable, either directly or indirectly. These valuations require the Group to make estimates about credit risk and volatility of the Company's listed shares, and hence they are subject to uncertainty. Where the estimation on these factors is different from those previously estimated, such differences will impact the fair value gain or loss of the convertible notes and the derivative component of the convertible bonds in the period in which such determination is made, the equity-settled share option expense recognised during the vesting period and the equity component credited to the "Equity component of convertible notes". Further details are included in notes 26, 27 and 30 to the financial statements.

5. OPERATING SEGMENT INFORMATION

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

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

5. OPERATING SEGMENT INFORMATION (CONTINUED)

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

During the year, the Group had transactions with three individual external customers which contributed to over 10% of the Group's total revenue (2009: three). The revenue generated from the three customers amounted to HK$588,148,000 (2009: HK$82,175,000).

6. REVENUE, OTHER INCOME AND GAINS, NET

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

An analysis of revenue, other income and gains, net is as follows:

	2010 **HK$'000**	2009 HK$'000
Revenue		
Mining and selling of coal	**992,995**	2,641
Trading of phosphorus products	**12,336**	24,824
Trading of optical products	**2,409**	61,245
	1,007,740	88,710
Other income		
Bank interest income	**813**	549
Others	**876**	105
	1,689	654
Gains, net		
Gain on disposal of items of property, plant and equipment	**598**	—
Gain on disposal of subsidiaries (note 33)	**24,784**	6,262
Fair value gain on derivative component of convertible bonds, net (note 26(a))	**2,736**	—
Others	**16**	4,442
	28,134	10,704
Other income and gains, net	**29,823**	11,358

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2010 HK$'000	2009 HK$'000
Interests on:		
Bank and other loans wholly repayable within five years	**93,825**	1,485
Liability component of convertible bonds (note 26(b))	**12,707**	–
Less: Interest capitalised	**(22,466)**	–
	84,066	1,485

8. LOSS BEFORE TAX

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

	Notes	2010 HK$'000	2009 HK$'000
Cost of inventories sold		**483,055**	82,450
Depreciation	14	**109,134**	1,192
Amortisation of prepaid land premiums	15	**548**	21
Amortisation of mining rights	17	**124,202**	192
Employee benefit expense (including directors' remuneration):			
Wages, salaries and other benefits		**20,625**	14,103
Equity-settled share option expense	30(a)	**23,862**	–
		44,487	14,103
Pension scheme contributions (defined contribution scheme)		**2,783**	3,023
		47,270	17,126
Auditors' remuneration		**1,650**	1,650
Impairment/(reversal of impairment) on trade receivables	20(b)	**2,308**	(3,985)
Impairment on prepayments, deposits and other receivables	21(a)	**8,521**	–
Operating lease rentals in respect of properties, machinery and equipment		**2,384**	334
Reversal of write-down of inventories		**–**	(161)

9. DIRECTORS' REMUNERATION

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

	Group	
	2010 **HK$'000**	2009 HK$'000
Fees:	**766**	435
Other emoluments:		
Salaries, allowances and benefits in kind	**3,867**	1,870
Pension scheme contributions	**8**	30
Equity-settled share option expenses	**10,143**	–
	14,018	1,900
	14,784	2,335

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

9. DIRECTORS' REMUNERATION (CONTINUED)

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

Group

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Equity-settled share option expenses HK$'000	Total remuneration HK$'000
2010					
Executive directors:					
Wang Da Yong	–	2,800	8	1,295	4,103
Tian Wenwei	–	887	–	5,020	5,907
Wang Tongtian	–	180	–	1,530	1,710
Liu Yee Nee (resigned on 8 July 2010)	–	–	–	–	–
Louie Mei Po (resigned on 20 May 2010)	–	–	–	–	–
Li Wei (resigned on 2 February 2010)	–	–	–	–	–
Zhou Jing (resigned on 2 February 2010)	–	–	–	–	–
	–	3,867	8	7,845	11,720
Non-executive directors:					
Li Yi	164	–	–	1,339	1,503
Su Bin	84	–	–	383	467
	248	–	–	1,722	1,970
Independent non-executive directors:					
Jacobsen William Keith	160	–	–	192	352
Cao Kuangyu	164	–	–	192	356
Chiu Sui Keung	172	–	–	192	364
Ng Wai Hung (resigned on 2 February 2010)	16	–	–	–	16
Wu Wang Li (resigned on 18 February 2010)	6	–	–	–	6
	518	–	–	576	1,094
	766	3,867	8	10,143	14,784
2009					
Executive directors:					
Liu Yee Nee	–	–	–	–	–
Wang Da Yong	–	1,200	6	–	1,206
Louie Mei Po	–	–	–	–	–
Li Wei	–	430	12	–	442
Zhou Jing	–	240	12	–	252
	–	1,870	30	–	1,900
Non-executive director:					
Wang Tongtian	15	–	–	–	15
Independent non-executive directors:					
Jacobsen William Keith	120	–	–	–	120
Ng Wai Hung	180	–	–	–	180
Wu Wang Li	120	–	–	–	120
	420	–	–	–	420
	435	1,870	30	–	2,335

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2009: two) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2009: three) non-director, highest paid employees for the year are as follows:

	2010 **HK$'000**	2009 HK$'000
Salaries, allowances and benefits in kind	**1,271**	1,201
Pension scheme contributions	**13**	40
Equity-settled share option expenses	**4,685**	—
	5,969	1,241

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

	Number of employees	
	2010	2009
Nil to HK$1,000,000	**–**	3
HK$2,500,000 to HK$3,000,000	**1**	—
HK$3,000,001 to HK$3,500,000	**1**	—
	2	3

During the year, certain employees were granted with share options of the Company, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 30 to the financial statements. The share options were vested on the date of grant and the fair value of such options, which has been recognised in profit or loss, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

11. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year ended 31 December 2010. During the year ended 31 December 2009, Hong Kong profits tax had been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during that year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2010 HK$'000	2009 HK$'000
Group:		
Current — Hong Kong	**–**	5
— Mainland China	**144,786**	–
Deferred (note 28)	**(44,381)**	(164)
Total tax charge/(credit) for the year	**100,405**	(159)

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

Group — 2010

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

11. INCOME TAX (CONTINUED)

Group — 2009

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

12. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year ended 31 December 2010 includes a loss of HK$1,193,633,000 (2009: HK$1,058,018,000) which has been dealt with in the financial statements of the Company (note 31(b)).

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

The calculation of basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the Company of HK$905,164,000 (2009: HK$1,078,519,000) and the weighted average number of ordinary shares of 15,750,444,740 (2009: 3,213,533,552) in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2010 and 2009 in respect of a dilution as the share options of the Company outstanding during these years and the deemed conversion of the convertible bonds/notes issued by the Company during the current and prior years have anti-dilutive effects on the basic loss per share amounts presented.

14. PROPERTY, PLANT AND EQUIPMENT

Group

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

	Notes	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2009							
At 1 January 2009:							
Cost		–	2,491	301	6	–	2,798
Accumulated depreciation		–	(260)	(95)	(2)	–	(357)
Net carrying amount		–	2,231	206	4	–	2,441
At 1 January 2009, net of accumulated depreciation		–	2,231	206	4	–	2,441
Additions		–	1,544	86	–	13,018	14,648
Acquisition of subsidiaries	32	35,236	785,419	4,336	3,536	9,596	838,123
Disposal of subsidiaries	33	–	(2,095)	(107)	(3)	–	(2,205)
Depreciation provided during the year		(2)	(1,110)	(54)	(26)	–	(1,192)
Transfer		–	10,732	–	–	(10,732)	–
At 31 December 2009, net of accumulated depreciation		35,234	796,721	4,467	3,511	11,882	851,815
At 31 December 2009:							
Cost		35,663	797,268	4,582	3,536	11,882	852,931
Accumulated depreciation		(429)	(547)	(115)	(25)	–	(1,116)
Net carrying amount		35,234	796,721	4,467	3,511	11,882	851,815

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Motor vehicle HK$'000	Total HK$'000
31 December 2010				
At 1 January 2009, 31 December 2009 and 1 January 2010:				
Cost	–	–	–	–
Accumulated depreciation	–	–	–	–
Net carrying amount	–	–	–	–
At 1 January 2009, 31 December 2009 and 1 January 2010, net of accumulated depreciation	–	–	–	–
Additions	183	878	596	1,657
Depreciation provided during the year	(28)	(132)	(89)	(249)
At 31 December 2010, net of accumulated depreciation	155	746	507	1,408
At 31 December 2010:				
Cost	183	878	596	1,657
Accumulated depreciation	(28)	(132)	(89)	(249)
Net carrying amount	155	746	507	1,408

15. PREPAID LAND PREMIUMS

	Note	Group 2010 HK$'000	Group 2009 HK$'000
Carrying amount at 1 January		**12,416**	–
Acquisition of subsidiaries	32	**–**	12,437
Amortisation provided during the year		**(548)**	(21)
Exchange realignment		**431**	–
Carrying amount at 31 December		**12,299**	12,416

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

16. GOODWILL

The amount of goodwill capitalised as an asset in the consolidated statement of financial position, arising on the acquisition of subsidiaries during the year ended 31 December 2009, is as follows:

Group

	Note	**2010 HK$'000**	2009 HK$'000
At 1 January:			
Cost		**14,949**	–
Accumulated impairment		**(14,949)**	–
Net carrying amount		**–**	–
Net carrying amount:			
At 1 January		**–**	–
Acquisition of subsidiaries	32	**–**	14,949
Impairment during the year		**–**	(14,949)
At 31 December		**–**	–
At 31 December:			
Cost		**14,949**	14,949
Accumulated impairment		**(14,949)**	(14,949)
Net carrying amount		**–**	–

Impairment testing of goodwill

The Group's goodwill as at 31 December 2009 arose from the acquisition of Triumph Fund A Limited and its subsidiaries (collectively the "Triumph Group") in 2009, which was engaging in the coal mining business through an operating subsidiary and was defined as a single cash-generating unit.

An impairment provision of HK$14,949,000 was recognised in profit or loss for the year ended 31 December 2009 with respect to the goodwill, as the directors of the Group are of the opinion that the goodwill shall be fully impaired after the assessment of the recoverable amount of the relevant business unit to which the goodwill related.

17. MINING RIGHTS

	Note	2010 HK$'000	2009 HK$'000
Cost at 1 January, net of accumulated amortisation		**2,384,988**	–
Acquisition of subsidiaries	32	**–**	2,385,180
Amortisation provided during the year		**(124,202)**	(192)
Exchange realignment		**82,358**	–
At 31 December		**2,343,144**	2,384,988
At 31 December:			
Cost		**2,385,180**	2,385,180
Accumulated amortisation		**(124,394)**	(192)
Exchange realignment		**82,358**	–
Net carrying amount		**2,343,144**	2,384,988

The Group's mining rights with a carrying amount of approximately HK$2,343,144,000 as at 31 December 2010 (2009: HK$2,384,988,000) were pledged to secure interest-bearing bank borrowings of the Group (note 25).

18. INTERESTS IN SUBSIDIARIES

	Notes	**Company** 2010 HK$'000	2009 HK$'000
Unlisted shares or investments, at cost	(a)	**1,810,195**	1,810,199
Due from subsidiaries	(b)	**83**	43,423

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

Notes:

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

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

\# Registered as limited liability companies under the PRC law

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

(b) All balances with subsidiaries as at 31 December 2010 and 2009 are unsecured, interest-free and have no fixed terms of repayment.

19. INVENTORIES

	Group 2010 HK$'000	2009 HK$'000
Raw materials	**3,402**	3,106
Finished goods	**874**	3,632
Sub-materials and parts	**7**	30
	4,283	6,768

20. TRADE AND BILLS RECEIVABLES

		Group	
	Notes	**2010** **HK$'000**	2009 HK$'000
Trade and bills receivables	(a)	**270,360**	70,210
Impairment of trade receivables	(b)	**(7,014)**	(35,612)
	(c)	**263,346**	34,598

Notes:

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

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

	Group	
	2010 **HK$'000**	2009 HK$'000
0 to 30 days	**251,318**	17,610
31 to 60 days	**–**	5,990
61 to 90 days	**–**	1,930
91 to 180 days	**6,178**	1,863
181 to 365 days	**1,477**	4,597
More than 365 days	**11,387**	38,220
	270,360	70,210
Provision for impairment	**(7,014)**	(35,612)
	263,346	34,598

20. TRADE AND BILLS RECEIVABLES (CONTINUED)

Notes: (continued)

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

	Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	**35,612**	36,368
Impairment losses/(reversal of impairment losses) recognised (note 8)	**2,308**	(3,985)
Acquisition of subsidiaries	**–**	3,237
Disposal of subsidiaries	**(31,418)**	(8)
Exchange realignment	**512**	–
	7,014	35,612

Included in the above provision for impairment of trade receivables are provisions for individually impaired trade receivables of HK$7,014,000 (2009: HK$35,612,000) with a carrying amount before provision of HK$7,014,000 (2009: HK$35,612,000).

The individually impaired trade receivables relate to customers that were in financial difficulties and the receivables is not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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

	Group	
	2010	2009
	HK$'000	HK$'000
Neither past due nor impaired	**257,496**	27,393
Less than 6 months past due	**1,477**	4,597
Over 6 months past due	**4,373**	2,608
	263,346	34,598

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

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

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
	Notes	**2010 HK$'000**	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Balances with third parties		**619,510**	327,014	**182,145**	1,048
Balances with related parties	37(b)	**2,191**	442	**–**	–
		621,701	327,456	**182,145**	1,048
Impairment of prepayments, deposits and other receivables	(a)	**(15,526)**	(9,987)	**–**	–
		606,175	317,469	**182,145**	1,048
Portion classified as current assets		**(171,432)**	(84,300)	**(2,145)**	(1,048)
Non-current portion		**434,743**	233,169	**180,000**	–

Note:

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

	Group	
	2010 HK$'000	2009 HK$'000
At 1 January	**9,987**	–
Acquisition of subsidiaries	**–**	9,987
Impairment loss recognised (note 8)	**8,521**	–
Disposal of subsidiaries	**(3,464)**	–
Exchange realignment	**482**	–
At 31 December	**15,526**	9,987

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Cash and bank balances	**605,179**	86,843	**224,147**	627
Time deposits	**20,454**	56,181	**20,037**	13,051
Less: Time deposits pledged for general bank facilities	**(417)**	–	**–**	–
Cash and cash equivalents	**625,216**	143,024	**244,184**	13,678

(a) At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$381,032,000 (2009: HK$80,848,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(b) Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and three months (2009: one day to six months) depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

23. TRADE AND BILLS PAYABLES

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

	Group	
	2010 HK$'000	2009 HK$'000
0 to 30 days	**604**	7,270
31 to 60 days	**82**	5,794
61 to 90 days	**–**	3,809
91 to 180 days	**71**	668
181 to 365 days	**143**	1,995
Over 365 days	**3**	6,022
	903	25,558

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

24. OTHER PAYABLES AND ACCRUALS

	Notes	Group 2010 HK$'000	Group 2009 HK$'000	Company 2010 HK$'000	Company 2009 HK$'000
Accruals		**183,520**	13,442	**582**	5,646
Receipts in advance		**20,970**	12,297	**–**	–
Interest payable		**15,641**	–	**–**	–
Value-added tax and other tax payables		**171,822**	11,913	**–**	–
Loans from third parties	(a)	**120,713**	79,655	**–**	–
Other payables	(b)	**13,180**	70,019	**11,387**	12
Due to related parties	37(b)	**–**	151,611	**–**	–
Due to directors	37(b)	**–**	41	**–**	–
		525,846	338,978	**11,969**	5,658
Portion classified as current		**(484,748)**	(303,652)	**(11,969)**	(5,658)
Non-current portion		**41,098**	35,326	**–**	–

Notes:

(a) Except for a loan from a third party with an outstanding amount of RMB68,216,000 (equivalent to HK$80,256,000) as at 31 December 2010 (2009: RMB46,000,000 (equivalent to HK$52,247,000)) which bears interest at an annual interest rate of 7.4% and repayable by quarterly instalments up to November 2012, the remaining balances of loans from third parties are unsecured, interest-free and have no fixed terms of repayment.

(b) Other payables are non-interest-bearing and have an average term of 3 months.

25. INTEREST-BEARING BANK BORROWINGS

Group

	2010			2009		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans — unsecured	**5.31-7.97**	**2011**	**411,775**	5.92-7.97	2010	56,790
Non-current						
Bank loans — secured	**8.385–8.58**	**2013–2015**	**882,375**	5.92-7.97	2011-2015	851,850
			1,294,150			908,640
Analysed into:						
Bank loans:						
Within one year or on demand			**411,775**			56,790
In the second year			**–**			113,580
In the third to fifth years, inclusive			**882,375**			567,900
Beyond the fifth year			**–**			170,370
			1,294,150			908,640

25. INTEREST-BEARING BANK BORROWINGS (CONTINUED)

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

(i) Bank loan of RMB500,000,000 (equivalent to approximately HK$588,250,000) (2009: RMB500,000,000 (equivalent to approximately HK$567,900,000)) is subject to the floating interest rate for five-year loans published by the People's Bank of China, and is repayable by instalments in 2011 to 2013. Such bank loan is guaranteed by a related party, Mr. Zhao Ming ("Mr. Zhao", a shareholder having significant influence on the Company and former shareholder of Triumph Fund A Limited) and an independent third party, Mr. Hao Shenhai ("Mr. Hao"), and is secured by Hengtai's mining rights (note 17).

(ii) Bank loan of RMB250,000,000 (equivalent to approximately HK$294,125,000) (2009: RMB250,000,000 (equivalent to approximately HK$283,950,000)) is subject to the floating interest rate for six-year loans published by the People's Bank of China, and is repayable by instalments in 2014 to 2015. Such bank loan is guaranteed by Mr. Zhao and Mr. Hao, and is secured by Hengtai's mining rights (note 17).

(iii) Bank loan of RMB100,000,000 (equivalent to approximately HK$117,650,000) (2009: Nil) is subject to a fixed annual interest rate of 5.31% and the maturity date was 25 February 2011. Such bank loan is guaranteed by Mr. Hao.

(iv) Bank loan of RMB30,000,000 (equivalent to approximately HK$35,295,000) (2009: Nil) is subject to a floating interest rate based on 130% of the financial institution one-year borrowing rate published by the People's Bank of China and the maturity date is 28 March 2011. Such bank loan is guaranteed by Mr. Hao, and two other independent third parties, 內蒙古東達蒙古王有限公司 and Ms. Bian Xiao Yan.

(v) Bank loan of RMB200,000,000 (equivalent to approximately HK$235,300,000) (2009: Nil) is subject to a fixed annual interest rate of 5.31% and the maturity date is 6 April 2011. Such bank loan is guaranteed by Mr. Hao.

(vi) Bank loan of RMB20,000,000 (equivalent to approximately HK$23,530,000) (2009: Nil) is subject to a floating interest rate based on 120% of the financial institution one-year borrowing rate published by the People's Bank of China and the maturity date is 19 December 2011. Such bank loan is guaranteed by 山西普大煤業集團有限公司, an entity which Mr. Zhao has certain shareholding therein.

26. CONVERTIBLE BONDS

On 24 September 2010, the Company issued one-year convertible bonds in the principal amount of HK$195,000,000 which bear interest at a rate of 2% per annum payable semi-annually in advance (the "2010 CB"). The 2010 CB can be converted into ordinary shares at an initial conversion price of HK$0.2 per share.

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

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

Group and Company

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

26. CONVERTIBLE BONDS (CONTINUED)

Group and Company (continued)

Notes:

(a) The movements of the derivative component of convertible bonds during the year are as follows:

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

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

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

(b) The movements of the liability component of convertible bonds during the year are as follows:

	Notes	HK$'000
At the issuance date		135,417
Imputed interest expense	7	12,707
Converted into ordinary shares of the Company	(c)	(26,228)
At 31 December 2010		**121,896**

(c) During the year, 2010 CB with a principal amount of HK$36,000,000 were converted into 180,000,000 ordinary shares of the Company at the conversion price of HK$0.2 each and a total of HK$37,873,000 was transferred as share capital and share premium accounts upon the conversion (note 29(d)).

27. CONVERTIBLE NOTES

On 21 December 2009, the Company issued zero coupon redeemable convertible notes in an aggregate principal amount of HK$1,805,000,000 (the "2009 CN"), for the acquisition of Triumph Fund A Limited and its subsidiaries. Such convertible notes have a maturity term of five years, however, the Company has the right at any time after three years of the issuance date to redeem in whole or in part of the 2009 CN at par value. The 2009 CN can be converted into ordinary shares at the initial conversion price of HK$0.0625 per share.

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

During the year, 2009 CN with a principal amount of HK$857,250,000 (2009: HK$282,750,000) were converted into 13,716,000,000 (2009: 4,524,000,000) ordinary shares at the conversion price of HK$0.0625 each (note 29(e)).

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

Group and Company

	Notes	**2010** Carrying amount HK$'000	**2010** Principal amount HK$'000	2009 Carrying amount HK$'000	2009 Principal amount HK$'000
At 1 January		**2,411,000**	**1,522,250**	—	—
Issue upon acquisition of subsidiaries	32	**—**	**—**	1,805,000	1,805,000
Converted into ordinary shares of the Company	29(b), (e)	**(1,838,742)**	**(857,250)**	(447,831)	(282,750)
Changes in fair value		**1,133,144**	**—**	1,053,831	—
Derecognition of 2009 CN	(a)	**(1,705,402)**	**(665,000)**	—	—
Issue of Amended 2009 CN (as defined below)	(a)	**466,288**	**665,000**	—	—
At 31 December		**466,288**	**665,000**	2,411,000	1,522,250

Note:

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

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

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

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

28. DEFERRED TAX LIABILITIES

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

Group

	Losses available for offsetting future taxable profits HK$'000	Accruals of salary and welfare HK$'000	Depreciation and amortisation of non-current assets HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Total HK$'000
At 1 January 2009	—	—	—	—	—
Acquisition of subsidiaries (note 32)	(3,272)	(3,874)	5,559	565,815	564,228
Deferred tax charged/(credited) to profit or loss during the year (note 11)	(339)	(422)	594	3	(164)
At 31 December 2009 and 1 January 2010	(3,611)	(4,296)	6,153	565,818	564,064
Deferred tax charged/(credited) to profit or loss during the year (note 11)	3,649	(18,336)	(353)	(29,341)	(44,381)
Exchange realignment	(38)	(612)	212	19,541	19,103
At 31 December 2010	—	(23,244)	6,012	556,018	538,786

At 31 December 2010, deferred tax assets have not been recognised in respect of unused tax losses of HK$199,288,000 (2009: HK$193,367,000) as they have arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which such tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is tax treaty between mainland China and jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earning generated from 1 January 2008.

At 31 December 2010, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earning that are subject to withholding taxes of the Group's subsidiary established in Mainland China (2009: Nil). In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. There was no temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised (2009: Nil) as at 31 December 2010.

29. SHARE CAPITAL

Shares

	2010 HK$'000	2009 HK$'000
Authorised: 300,000,000,000 ordinary shares of HK$0.01 each	**3,000,000**	3,000,000
Issued and fully paid: 22,629,743,370 (2009: 7,733,743,370) ordinary shares of HK$0.01 each	**226,298**	77,338

29. SHARE CAPITAL (CONTINUED)

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

	Notes	**Number of shares in issue**	**Issued capital** HK$'000	**Share premium account** HK$'000	**Total** HK$'000
At 1 January 2009		3,124,862,734	31,249	723,462	754,711
Issue of new shares	(a)	84,880,636	849	7,151	8,000
Share issue expenses	(a)	—	—	(6)	(6)
Conversion of 2009 CN	(b)	4,524,000,000	45,240	402,591	447,831
At 31 December 2009 and 1 January 2010		7,733,743,370	77,338	1,133,198	1,210,536
Issue of new shares	(c)	1,000,000,000	10,000	195,000	205,000
Conversion of 2010 CB	(d)	180,000,000	1,800	36,073	37,873
Conversion of 2009 CN	(e)	13,716,000,000	137,160	1,701,582	1,838,742
Share issue expenses		—	—	(238)	(238)
At 31 December 2010		22,629,743,370	226,298	3,065,615	3,291,913

Notes:

(a) On 6 February 2009, 84,880,636 new ordinary shares of a par value of HK$0.01 each were issued, at the issue price of HK$0.09425 per share, for a total cash consideration, before expenses, of HK$8,000,000. The expenses related to the issue of such shares were HK$6,000.

(b) On 31 December 2009, 4,524,000,000 ordinary shares of a par value of HK$0.01 each were issued upon partial conversion of the convertible notes with a principal amount of HK$282,750,000. The fair value of such convertible notes was HK$447,831,000 (note 27), and the excess of the fair value of such convertible notes over the aggregate par value of HK$45,240,000 for the ordinary shares issued, which amounted to HK$402,591,000, was credited to the share premium account of the Company.

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

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

(e) During the year ended 31 December 2010, 13,716,000,000 ordinary shares of a par value of HK$0.01 each were issued upon partial conversion of the 2009 CN with a principal amount of HK$857,250,000. The fair value of such convertible notes was HK$1,838,742,000 (note 27), and the excess of such amount over the aggregate par value of HK$137,160,000 for the ordinary shares issued, which amounted to HK$1,701,582,000, was credited to the share premium account of the Company.

Share option

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

30. SHARE OPTION SCHEME

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

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

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

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

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

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

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

		2010		2009	
	Notes	**Weighted average exercise price HK$ per share**	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January		**0.125**	**12,320**	0.125	12,320
Granted during the year	(a)	**0.248**	**480,000**		–
At 31 December	(b)	**0.240**	**492,320**	0.125	12,320

30. SHARE OPTION SCHEME (CONTINUED)

Notes:

(a) The aggregate fair values of the 480,000,000 share options granted during the current year was HK$62,830,000, of which HK$23,862,000 related to options vested during the year was recognised by the Group in profit or loss as an equity-settled share option expense during the year ended 31 December 2010.

The fair value of equity-settled share options granted during the year ended 31 December 2010 was estimated as at the date of grant, using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

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

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

Number of options	**Exercise price***	**Exercise period**	
	HK$ per share	From	To
At 31 December 2010			
12,320,000	**0.125**	**29 September 2008**	**28 September 2013**
320,000,000	**0.248**	**12 May 2011**	**11 May 2013**
60,000,000	**0.248**	**26 August 2011**	**25 August 2013**
100,000,000	**0.248**	**10 November 2011**	**9 November 2013**
492,320,000			
At 31 December 2009			
12,320,000	0.125	29 September 2008	28 September 2013

* The exercise price of the share option is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital. No adjustment to the exercise price was made to these share options from the date of grant up to the date of approval of these financial statements.

At the end of the reporting period, the Company had 492,320,000 (2009: 12,320,000) share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 492,320,000 additional ordinary shares of the Company and additional share capital of HK$4,923,200 and share premium of HK$115,656,800 (before issue expenses and without taking into account of any transfer of share option reserve to the share premium account).

At the date of approval of these financial statements, the Company had 492,320,000 share options outstanding under the Scheme, which represented approximately 2.08% of the Company's shares in issue as at that date.

31. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 42 of the financial statements.

Notes:

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

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

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

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

(b) Company

	Notes	**Share premium account** HK$'000 (note 31(a)(i))	**Equity component of convertible notes** HK$'000	**Share option reserve** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
At 1 January 2009		723,462	—	764	(701,592)	22,634
Loss for the year and total comprehensive loss for the year	12	—	—	—	(1,058,018)	(1,058,018)
Issue of new shares	29(a)	7,151	—	—	—	7,151
Share issue expenses	29(a)	(6)	—	—	—	(6)
Conversion of 2009 CN	29(b)	402,591	—	—	—	402,591
At 31 December 2009 and 1 January 2010		1,133,198	—	764	(1,759,610)	(625,648)
Loss for the year and total comprehensive loss for the year	12	—	—	—	(1,193,633)	(1,193,633)
Issue of new shares	29(c)	195,000	—	—	—	195,000
Share issue expenses		(238)	—	—	—	(238)
Conversion of 2010 CB	29(d)	36,073	—	—	—	36,073
Conversion of 2009 CN	29(e)	1,701,582	—	—	—	1,701,582
Issue of Amended 2009 CN	27	—	1,239,114	—	—	1,239,114
Equity-settled share option arrangement	30(a)	—	—	23,862	—	23,862
At 31 December 2010		3,065,615	1,239,114	24,626	(2,953,243)	1,376,112

32. BUSINESS COMBINATION

On 21 December 2009, the Group acquired a 100% equity interest in Triumph Fund A Limited, at a consideration of HK$1,805,000,000, which was satisfied by issuing convertible notes with a principal amount of HK$1,805,000,000 by the Company (note 27).

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

	Notes	**Fair value recognised on acquisition** 2009 HK$'000	**Previous carrying amount** 2009 HK$'000
Property, plant and equipment	14	838,123	838,123
Prepaid land premiums	15	12,437	12,437
Mining rights	17	2,385,180	2,412,808
Prepayments for non-current assets		233,169	233,169
Inventories		5,919	5,919
Trade receivables		43,670	43,670
Prepayments, deposits and other receivables		70,707	70,707
Due from related parties		442	442
Cash and bank balances		78,529	78,529
Trade and bills payables		(2,511)	(2,511)
Other payables and accruals		(164,060)	(164,060)
Interest-bearing bank borrowings		(908,640)	(908,640)
Due to related parties		(152,966)	(152,966)
Deferred tax liabilities	28	(564,228)	(571,135)
Non-controlling interests		(80,525)	(81,758)
		1,795,246	1,814,734
Goodwill on acquisition	16	14,949	
		1,810,195	
Satisfied by:			
Issuance of 2009 CN	27	1,805,000	
Costs associated with the acquisition		5,195	
		1,810,195	

32. BUSINESS COMBINATION (CONTINUED)

An analysis of the net inflow of cash and cash equivalents in respect of the above acquisition for the year ended 31 December 2009 is as follows:

	2009 HK$'000
Cash and bank balances acquired	78,529
Cash paid for costs associated with the acquisition	(5,195)
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	73,334

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

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

33. DISPOSAL OF SUBSIDIARIES

During the current year, on 17 June 2010, the Group entered into a sale and purchase agreement with an independent third party, pursuant to which the Group agreed to dispose of the entire equity interests in Anchorage Trading Limited and Kunming Huadian Chemicals Co. Ltd., subsidiaries of the Company, for a cash consideration of HK$1,000,000.

During the year ended 31 December 2009, on 2 March 2009, the Group entered into a sale and purchase agreement with an independent third party, pursuant to which the Group agreed to dispose of the entire equity interest in Fangcheng Huahai Chemicals Co., Ltd., an indirect wholly-owned subsidiary of the Company, for a cash consideration of RMB26,000,000 (equivalent to approximately HK$29,491,000). In addition, on 31 December 2009, the Company disposed of the entire equity interest in Sharp Universe Limited, a direct wholly-owned subsidiary of the Company, for a cash consideration of HK$587,000.

33. DISPOSAL OF SUBSIDIARIES (CONTINUED)

	Notes	2010 HK$'000	2009 HK$'000
Net assets disposed of:			
Property, plant and equipment	14	**52**	2,205
Trade receivables		**2,587**	–
Inventories		**–**	11,551
Prepayments, deposits and other receivables		**1,295**	18,339
Cash and bank balances		**1,422**	2,371
Trade payables		**(7,330)**	(3,094)
Other payables and accruals		**(15,041)**	(1,029)
		(17,015)	30,343
Exchange fluctuation reserve released		**(6,769)**	(6,910)
Gain on disposal of subsidiaries	6	**24,784**	6,262
		1,000	29,695
Satisfied by:			
Cash		**1,000**	30,078
Cost associated with the disposal		**–**	(383)
		1,000	29,695

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

	2010 HK$'000	2009 HK$'000
Cash and bank balances disposed of	**(1,422)**	(2,371)
Cash consideration	**1,000**	30,078
Cost associated with the disposal	**–**	(383)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	**(422)**	27,324

34. CONTINGENT LIABILITIES

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities (2009: Nil).

35. OPERATING LEASE ARRANGEMENTS

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

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

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**2,663**	450	**2,663**	–
In the second to fifth years, inclusive	**3,356**	225	**3,356**	–
	6,019	675	**6,019**	–

36. CAPITAL COMMITMENTS

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

	Group	
	2010	2009
	HK$'000	HK$'000
Authorised, but not contracted for	**33,859**	–
Contracted, but not provided for	**–**	281,530
Total capital commitments	**33,859**	281,530

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

37. RELATED PARTY TRANSACTIONS

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

	2010 HK$'000	2009 HK$'000
Entity of which a director of the Company is a member of its senior management		
Dongguan Hamwell Glasses Co. Ltd. — purchase of optical products	–	21,519
Entity has common directors with the Company		
Swank International Optical Company Limited — sale of optical products	–	(31,676)

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

(b) Details of the Group's balances with related parties are disclosed in notes 20, 21 and 24 to the financial statements.

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

(c) Compensation of key management personnel of the Group

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

	2010 HK$'000	2009 HK$'000
Short-term employee benefits	**5,905**	3,763
Post-employment benefits	**21**	94
Equity-settled share option expense	**14,827**	–
Total compensation paid to key management personnel	**20,753**	3,857

38. FINANCIAL INSTRUMENTS BY CATEGORY

Other than the derivative component of convertible bonds which is stated at fair value (note 26) and the convertible notes being designated as financial liabilities at fair value through profit or loss before the amendments to 2009 CN (note 27), all financial assets and liabilities of the Group and the Company as at 31 December 2010 and 2009 were loans and receivables and financial liabilities stated at amortised cost, respectively.

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

	Group		Company	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Financial assets classified as loans and receivables				
Trade and bills receivables	**263,346**	34,598	**–**	–
Financial assets included in prepayments, deposits and other receivables	**169,987**	54,372	**700**	394
Due from subsidiaries	**–**	–	**83**	43,423
Pledged deposits	**417**	–	**417**	–
Cash and cash equivalents	**625,216**	143,024	**244,184**	13,678
	1,058,966	231,994	**245,384**	57,495
Financial liabilities stated at amortised cost				
Trade and bills payables	**903**	25,558	**–**	–
Financial liabilities included in other payables and accruals	**509,622**	338,978	**11,387**	5,658
Liability component of convertible bonds	**121,896**	–	**121,896**	–
Convertible notes	**466,288**	–	**466,288**	–
Interest-bearing bank borrowings	**1,294,150**	908,640	**–**	–
	2,392,859	1,273,176	**599,571**	5,658

39. FAIR VALUE AND FAIR VALUE HIERARCHY

Group

	Carrying amounts		Fair values	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Financial assets				
Trade and bills receivables	**263,346**	34,598	**263,346**	34,598
Financial assets included in prepayments, deposits and other receivables	**169,987**	54,372	**169,987**	54,372
Pledged deposits	**417**	—	**417**	—
Cash and cash equivalents	**625,216**	143,024	**625,216**	143,024
	1,058,966	231,994	**1,058,966**	231,994
Financial liabilities				
Trade and bills payables	**903**	25,558	**903**	25,558
Financial liabilities included in other payables and accruals	**509,622**	338,978	**509,622**	338,978
Derivative component of convertible bonds	**35,452**	—	**35,452**	—
Liability component of convertible bonds	**121,896**	—	**121,896**	—
Convertible notes	**466,288**	2,411,000	**466,288**	2,411,000
Interest-bearing bank borrowings	**1,294,150**	908,640	**1,294,150**	908,640
	2,428,311	3,684,176	**2,428,311**	3,684,176

Company

	Carrying amounts		Fair values	
	2010 HK$'000	2009 HK$'000	**2010 HK$'000**	2009 HK$'000
Financial assets				
Financial assets included in prepayments, deposits and other receivables	**700**	394	**700**	394
Due from subsidiaries	**83**	43,423	**83**	43,423
Cash and cash equivalents	**244,184**	13,678	**244,184**	13,678
	244,967	57,495	**244,967**	57,495
Financial liabilities				
Financial liabilities included in other payables and accruals	**11,387**	5,658	**11,387**	5,658
Derivative component of convertible bonds	**35,452**	—	**35,452**	—
Liability component of convertible bonds	**121,896**	—	**121,896**	—
Convertible notes	**466,288**	2,411,000	**466,288**	2,411,000
	635,023	2,416,658	**635,023**	2,416,658

39. FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

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

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

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

Fair value hierarchy

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

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Interest rate risk

The Group's and Company's exposure to the risk of changes in market interest rates relates primarily to the Group's and Company's cash at banks and the Group's interest-bearing bank borrowings with floating interest rates. Nevertheless, in the opinion of the directors, the Group had no significant concentration of interest rate risk for the year ended 31 December 2010.

(b) Foreign currency risk

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

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

(c) Credit risk

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

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

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

At 31 December 2010 and 2009, trade and bills receivables from individual external customers each of which contributed to over 10% of the Group's total revenue for the years ended 31 December 2010 and 2009 were:

	2010 **HK$'000**	2009 HK$'000
Number of individual external customer which contributed to over 10% of the Group's total revenue for the year	**3**	1
Trade and bills receivables (before impairment) from the above customers	**127,648**	14,150
Percentage to total trade and bills receivables (before impairment) as at the end of the reporting period	**48%**	20%

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Liquidity risk

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

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

	On demand HK$'000	**Within 1 year** HK$'000	**1 to 5 years** HK$'000	**Over 5 years** HK$'000	**Total** HK$'000
Group					
At 31 December 2010					
Trade and bills payables	**–**	**903**	**–**	**–**	**903**
Other payables and accruals	**–**	**485,573**	**44,139**	**–**	**529,712**
Interest-bearing bank borrowings	**–**	**485,826**	**1,037,373**	**–**	**1,523,199**
Convertible bonds	**–**	**159,000**	**–**	**–**	**159,000**
Convertible notes	**–**	**–**	**665,000**	**–**	**665,000**
	–	**1,131,302**	**1,746,512**	**–**	**2,877,814**
At 31 December 2009					
Trade and bills payables	–	25,558	–	–	25,558
Other payables and accruals	151,652	152,000	35,326	–	338,978
Interest-bearing bank borrowings	–	60,522	890,730	174,244	1,125,496
Convertible notes	–	–	1,522,250	–	1,522,250
	151,652	238,080	2,448,306	174,244	3,012,282
Company					
At 31 December 2010					
Other payables and accruals	**–**	**11,969**	**–**	**–**	**11,969**
Convertible bonds	**–**	**159,000**	**–**	**–**	**159,000**
Convertible notes	**–**	**–**	**665,000**	**–**	**665,000**
	–	**170,969**	**665,000**	**–**	**835,969**
At 31 December 2009					
Other payables and accruals	–	5,658	–	–	5,658
Convertible notes	–	–	1,522,250	–	1,522,250
	–	5,658	1,522,250	–	1,527,908

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(e) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2010 and 31 December 2009.

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

Group

	2010 **HK$'000**	2009 HK$'000
Trade and bills payables	**903**	25,558
Other payables and accruals	**525,846**	338,978
Interest-bearing bank borrowings	**1,294,150**	908,640
Less: Cash and cash equivalents	**(625,216)**	(143,024)
Net debt	**1,195,683**	1,130,152
Liability component of convertible bonds	**121,896**	—
Convertible notes	**466,288**	2,411,000
Equity attributable to owners of the Company	**1,924,933**	(577,551)
Capital	**2,513,117**	1,833,449
Gearing ratio	**0.48**	0.62

41. EVENTS AFTER THE REPORTING PERIOD

(a) From 1 January 2011 up to the date of approval of these financial statements, part of the Company's Amended 2009 CN with an aggregate principal amount of HK$62,500,000 were converted into 1 billion ordinary shares of the Company at a conversion price of HK$0.0625 per share.

(b) On 25 February 2011, the shareholders of the Company approved the proposed acquisition of 60% of the issued capital of Triumph Fund A1 Limited by the Company on the terms and conditions of the sale and purchase agreement dated 21October 2010 (as amended by the supplemental agreement dated 31 December 2010) and an option for acquisition of an additional 40% of the issued share capital of Triumph Fund A1 Limited by the Company on the terms and conditions of the call option agreement dated 21 October 2010. The transactions were not completed as at the date of approval of these financial statements.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 March 2011.

FIVE YEAR FINANCIAL SUMMARY

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

RESULTS

	Year ended 31 December				
	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000
CONTINUING OPERATIONS					
REVENUE	**1,007,740**	88,710	627,056	467,006	119,560
PROFIT/(LOSS) BEFORE TAX	**(785,589)**	(1,078,819)	(20,457)	104,211	15,079
Tax credit/(charge)	**(100,405)**	159	–	–	–
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**(885,994)**	(1,078,660)	(20,457)	104,211	15,079
DISCONTINUED OPERATIONS					
Loss for the year from discontinued operations	**–**	–	(57,574)	(91,435)	(44,668)
PROFITS/(LOSS) FOR THE YEAR	**(885,994)**	(1,078,660)	(78,031)	12,776	(29,589)
Attributable to:					
Owners of the Company	**(905,164)**	(1,078,519)	(78,031)	11,811	(20,711)
Non-controlling interests	**19,170**	(141)	–	965	(8,878)
	(885,994)	(1,078,660)	(78,031)	12,776	(29,589)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	Year ended 31 December				
	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000
TOTAL ASSETS	**5,160,468**	3,751,078	191,063	260,198	228,025
TOTAL LIABILITIES	**(3,131,734)**	(4,248,245)	(139,008)	(137,576)	(236,809)
NON-CONTROLLING INTERESTS	**(103,801)**	(80,384)	–	–	16,866
	1,924,933	(577,551)	52,055	122,622	8,082