中国煤层气
CCBM

China CBM Group Limited
中國煤層氣集團有限公司

(Incorporated in Bermuda with limited liability)

Stock code: 578

ANNUAL REPORT **2011**

Contents

Corporate Information

DIRECTORS

Mr. Dong Cunling *(Chairman)*
Mr. Li Chun On
Mr. Wu Jiahong
Mr. Yang Hua
Mr. Zhou Guangwen
Mr. Li Chunyan#
Dr. Chen Renbao*
Mr. Li Daomin*
Mr. Ma Yueyong*

\# *Non-Executive Director*
* *Independent Non-Executive Directors*

AUDIT COMMITTEE

Mr. Ma Yueyong *(Chairman of the Committee)*
Dr. Chen Renbao
Mr. Li Daomin

NOMINATION COMMITTEE

Mr. Ma Yueyong *(Chairman of the Committee)*
Dr. Chen Renbao
Mr. Li Daomin

REMUNERATION COMMITTEE

Dr. Chen Renbao *(Chairman of the Committee)*
Mr. Li Daomin
Mr. Ma Yueyong

COMPANY SECRETARY

Mr. Li Chun On

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 2204, 22/F
Harbour Centre
25 Harbour Road
Wanchai
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

AUDITOR

BDO Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

PRINCIPAL REGISTRAR

HSBC Securities Services (Bermuda) Limited
6 Front Street
Hamilton HM11
Bermuda

REGISTRAR IN HONG KONG

Tricor Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

Bank of Communications Co., Ltd. (Hong Kong Branch)
Bank of Communications Co., Ltd. (Jingsan Lu Branch, Zhengzhou, Henan Province, PRC)

STOCK CODE

578

WEBSITE

http://www.irasia.com/listco/hk/ccbmg

Five Years Financial Summary

A summary of the published results and assets, liabilities and total equity of the Group for the last five financial years, as extracted from the Group's audited financial statements, is set out below:

(A) RESULTS

	Year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Re-presented)			
Revenue					
– Continuing operations*	**728,841**	908,744	863,894	789,960	564,757
– Discontinued operations**	**235,279**	69,899	–	–	58,925
Profit before income tax from continuing operations	**114,557**	192,926	174,516	420,868	221,409
Income tax expense	**(81,155)**	(100,247)	(100,062)	(108,204)	(71,945)
Profit after tax from continuing operations	**33,402**	92,679	74,454	312,664	149,464
(Loss)/Profit from discontinued operations	**(315)**	216	–	–	813
Non-controlling interest	**(7,471)**	(13,684)	(28,034)	(29,132)	(16,082)
Profit attributable to the owners of the Company	**25,616**	79,211	46,420	283,532	134,195

* Continuing operations for the years ended 31 December 2007, 2008, 2009, 2010 and 2011 represented the production and sale of coal. For the year ended 31 December 2011, it also includes coalbed methane related business.

** Discontinued operations for the year ended 31 December 2007 represented the generation and sale of electricity. Discontinued operations for the years ended 31 December 2010 and 2011 represented the trading of purchased coal.

Five Years Financial Summary

(B) ASSETS, LIABILITIES AND TOTAL EQUITY

	As at 31 December				
	2011	2010	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	**1,467,251**	1,213,153	1,190,084	1,088,006	1,001,009
Current assets	**1,651,210**	1,247,873	824,215	412,147	302,432
Total assets	**3,118,461**	2,461,026	2,014,299	1,500,153	1,303,441
Current liabilities	**1,057,664**	882,266	893,229	582,172	264,026
Non-current liabilities	**198,622**	211,222	13,289	152,889	641,201
Total liabilities	**1,256,286**	1,093,488	906,518	735,061	905,227
Total equity	**1,862,175**	1,367,538	1,107,781	765,092	398,214
– attributable to the owners of the Company	**1,772,723**	1,254,387	1,012,992	698,412	363,488
– Non-controlling interest	**89,452**	113,151	94,789	66,680	34,726

Chairman's Statement & Management Discussion and Analysis

I hereby present on behalf of the board (the "**Board**") of directors (the "**Directors**") to the shareholders the annual report of China CBM Group Limited (the "**Company**") and its subsidiaries (together referred to as the "**Group**") for the year ended 31 December 2011.

Overview

During the year ended 31 December 2011 (the "**Year**"), apart from the core business of the Group, i.e. production and sale of coal ("**Coal Production Business**"), the Group has tried to enter into the coal trading business and coalbed methane related business ("**CBM Related Business**"). However, with the reasons stated in the paragraphs below, the Group finally decided to concentrate the resources on its profitable Coal Production Business rather than depriving the Group's resources on the other loss making businesses, i.e. coal trading business and CBM Related Business. In addition to the re-structuring of the business of the Group, the Group has also undergone certain changes in the composition of the management. The current management team would have a view that focusing the resources on the existing profitable Coal Production Business is the priority of the Group.

Resumption and Suspension of the Operation of the Coal Mines of the Group

During the Year, several coal mines of the Group have been temporarily suspended occasionally for a short period of time under the request of the relevant local government authorities. As at the date of this report, all of the coal mines owned by the Group have been resumed in operation. The occasion suspension of the coal mines have caused the production volume hence the sales volume dropped during the Year.

With the gradual closure and/or consolidation of different coal mines in Henan Province under the request of the local government, the safety level of coal mines in Henan Province have been improved progressively. Therefore, fewer casualties were happened in the province during the Year when comparing with the year ended 31 December 2010 (the "**Last Year**"). The management of the Group expected that this favorable circumstance will continue next year. It is also expected that, with the frequency of coal mine suspensions ordered by the government will be reduced because of the safety level of coal mines have been improved, the Group can then improve its coal production capacity in the future to achieve a more favourable result.

Entering and Termination of CBM Related Business

In the early period of the Year, the Company was looking for opportunities to broaden its business from the original energy business, i.e. Coal Production Business. CBM Related Business was considered as one of the target investments since CBM Related Business is highly advocated by the People's Republic of China (the "**PRC**") government as new and clean energy. The Board considered that the acquisition of CBM Related Business was beneficial to the Company. At that moment, it was the intention of the Company to get into the CBM Related Business and the Company wished the CBM Related Business would become a new engine for the growth of the Group. During the Year, the management of the Company has made very strong effort in raising funds for the development of CBM Related Business but unsuccessful.

Taking into account the unsatisfactory financial results from the operating subsidiary of the CBM Related Business (i.e. Henan Huanglong New Energy Development Company Limited* ("**Henan Huanglong**")) and the consideration which the purchaser was willing to offer, the Directors were of the view that the disposal of CBM Related Business was an opportunity for the Company to dispose the non-profit making business and to enhance the future cash flow position of the Group. In addition, the disposal enabled the Group to allocate more capital resources for its other major business, i.e. Coal Production Business.

Chairman's Statement & Management Discussion and Analysis

By the end of December 2011, both the Company's shareholding structure and the Board has been undergone certain changes. The current Board members decided to give up the CBM Related Business which is highly capital intensive. Though Henan Huanglong got some letters of intent from three local banks in PRC for bank loan financing, the Company still failed in its fund raising exercise in Hong Kong for its CBM Related Business. The Board concluded that the CBM Related Business was not well accepted by the international financial market yet and decided to re-focus on its Coal Production Business. The disposal was completed in March 2012.

Termination of Coal Trading Business

The Group started its coal trading business since the second half of the Last Year through the acquisition of a wholly owned subsidiary called Henan Bianlong Shangmao Company Limited* ("**Bianlong**") (formerly known as Kaifeng Shi Bianlong Shangmao Company Limited*). Taking into account the unsatisfactory financial results of Bianlong obtained and the considerations which the purchasers were willing to pay, the Board was of the view that the disposal of Bianlong represented a good opportunity for the Company to dispose the non-profit making business, to avoid the potential loss to be consolidated into the Group's results and to enhance the cash flow position of the Group. In addition, the disposal represented a good opportunity for the Group to dispose the asset at a fair and reasonable price. As the coal trading business conducted by Bianlong is capital intensive, the disposal enabled the Group to allocate more capital resources for its other major business, i.e. Coal Production Business.

Estimated coal resources of the coal mines owned by the Group and the Group's joint venture (the "JV")

The following table summarized the estimated coal resources of the coal mines owned by the Group and the Group's JV:

	As at 31 December 2011 million tons	As at 31 December 2010 million tons
Coal mines owned by the Group		
(i) Xiaohe Coal Mine No.1	**7.5**	8.0
(ii) Xiaohe Coal Mine No.2	**1.9**	2.1
(iii) Xiaohe Coal Mine No.3	**1.8**	1.9
(iv) Xiangyang Coal Mine	**15.4**	15.5
(v) Xingyun Coal Mine	**3.9**	4.1
	30.5	31.6
Coal mines owned by the Group's JV		
(i) Lanxiang Coal Mine*	**1.7**	1.7
(ii) Tianyuan Coal Mine#	**1.6**	1.6
	3.3	3.3

* the JV owns 52% equity interest in Lanxiang Coal Mine

\# the JV owns 51% equity interest in Tianyuan Coal Mine

Financial Review

Revenue

The Group's total revenue for the Year amounted to approximately HK$964.1 million (comprising of HK$728.8 million from continuing operations and HK$235.3 million from discontinued operations), which slightly reduced comparing with the Last Year (i.e. approximately HK$978.6 million). During the Year, the revenue was derived from three business sectors, they were (1) Coal Production Business, (2) CBM Related Business and (3) coal trading business.

(1) Coal Production Business

Revenue generated from the Coal Production Business contributed approximately 75.5% of the total revenue during the Year. The revenue from Coal Production Business dropped by approximately 19.9% from approximately HK$908.7 million for the Last Year to approximately HK$727.5 million for the Year. The reduction in revenue from Coal Production Business was mainly attributed to the reduction in sales volume (the Year: approximately 1.1 million tons ("**mt**"), the Last Year: approximately 1.6 mt) and production volume (the Year: approximately 1.1 mt, the Last Year: approximately 1.4 mt) resulting from (i) the occasion suspension of certain coal mines and (ii) no coal was purchased from outsiders for production during the Year. Moreover, local stringent government policies on coal mines safety have caused the coal mines within the province, including the Group's coal mines, to slow down the coal production in order to ensure the production safety. Under the circumstances of continuing high demand of coal and shortage of coal supply in the market, the selling price of coal was being kept to go up during the Year. The average selling price (net of value added tax) of coal was approximately RMB532.1 per ton for the Year, representing an increase of approximately 11.6% as compared with approximately RMB476.6 per ton for the Last Year.

(2) CBM Related Business

Since the beginning of the Year, the Group has tried to explore the opportunities in the CBM Related Business through the acquisition of a subsidiary which specializes in the CBM Related Business. CBM Related Business includes the selling of CBM for commercial and industrial usage, sales of electricity which is generated by CBM and etc. During the Year, the revenue generated from the CBM Related Business was merely approximately HK$1.3 million and contributed approximately 0.1% of the total revenue of the Group.

Due to the lacking of investment interest from financial market in the CBM Related Business which is capital intensive and considering of its unfavorable result, the Group disposed the relevant subsidiaries hence the CBM Related Business subsequent to 31 December 2011, i.e. in March 2012.

(3) Coal Trading Business

The revenue from the coal trading business was approximately HK$235.3 million during the Year, which contributed approximately 24.4% of the total revenue of the Group. Yet, the gross profit margin from coal trading business was very low and a loss was made during the Year. The Group has disposed Bianlong and its subsidiary hence the coal trading business by the end of the Year.

Gross Profit

The gross profit from continuing operations achieved by the Group during the Year was approximately HK$347.6 million, which decreased by approximately 9.2% as compared with approximately HK$382.9 million for the Last Year. The decrease in the total amount of gross profit was mainly due to the reduction in sales volume hence revenue from the Coal Production Business as explained in the precedent paragraph. The overall gross profit margin of continuing operations increased slightly from approximately 42.1% for the Last Year to approximately 47.7% for the Year. The improvement in the overall gross profit margin of the Group for the Year was mainly due to the increase in average selling price of coal during the Year. The gross profit margin obtained from the other two business segments, i.e. CBM Related Business and coal trading business, was not material and did not contribute significant impact on the overall gross margin of the Group because they were the Group's business sectors at the initial development stage.

Net Profit

The profit attributable to the owners of the Company for the Year was approximately HK$25.6 million, dropped by approximately 67.7% comparing with the Last Year (i.e. approximately HK$79.2 million). The drop in the profit attributable to the owners of the Company mainly attributed to (i) the reduction in revenue resulting from the reduction in sales volume as explained above; (ii) the increase in the administrative expenses; (iii) the increase in financial expenses resulting from the incurrence of higher interest cost amounted to approximately HK$40.7 million (Last Year: approximately HK$12.4 million) from the increase in bank borrowings during the Year and (iv) the CBM Related Business acquired in the Year has recorded segment loss to the Group amounted to approximately HK$12.1 million.

With the disposal of the non-profit making CBM Related Business and the coal trading business, the management wishes that the net profit can be improved in the coming years.

PROSPECT

The Group has also made investment in another two coal mines through the joint venture of the Company called Henan Yulong Energy Development Co., Ltd. ("**Henan Yulong**"). As at the date of this report, Henan Yulong is held by the partner of the joint venture (the "**JV Partner**") and the Company as to 60% and 40% respectively. The Group has shared the loss obtained from the two coal mines, i.e. share of losses of a jointly controlled entity, amounted to approximately HK$7.9 million for the Year. On 15 December 2011, the Company entered a preliminary non-legally binding framework agreement with the JV Partner regarding the potential disposal of 40% interest in Henan Yulong held by the Company. As at the date of this report, due to the difficult situation of Henan Yulong, the Company is considering to dispose its investment.

The strategy of the Group and the current management's view is now to re-focus on the core profit generating business sector, i.e. Coal Production Business. In the meantime, the Group will continue to seek the opportunities to expand in the coal mining industry. Moreover, the Group may also invest in other business sectors which are favorable and thus can help to improve the results and cash flow of the Group.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2011, the net asset value of the Group was approximately HK$1,862.2 million (as at 31 December 2010: approximately HK$1,367.5 million) and the total cash and bank balance (included pledged bank deposits) was approximately HK$804.8 million (as at 31 December 2010: approximately HK$238.8 million). As at 31 December 2011, the Group had net current assets of approximately HK$593.5 million (as at 31 December 2010: approximately HK$365.6 million) and its current ratio increased from 1.4 times to 1.6 times as at 31 December 2011.

As at 31 December 2011, the Group's total accounts receivable amounted to approximately HK$302.4 million (as at 31 December 2010: approximately HK$777.2 million) and certain accounts receivable were pledged to secure bank loans of the Group. Subsequent to 31 December 2011 and up to 26 March 2012, accounts receivable amounted to approximately HK$137.1 million has been settled.

As at 31 December 2011, bank deposits amounted to approximately HK$106.9 million (as at 31 December 2010: approximately HK$65.0 million) were pledged and not available for the operation or repayment of debts of the Group. Cash and cash equivalents which were not pledged amounted to approximately HK$697.9 million (as at 31 December 2010: approximately HK$173.8 million).

As at 31 December 2011, the Group's total bank loans were amounted to approximately HK$593.4 million (as at 31 December 2010: approximately HK$325.5 million).

As at 31 December 2011, the Group's bills payable amounted to approximately HK$111.9 million (as at 31 December 2010: approximately HK$82.7 million) were secured by the pledge of the Group's time deposits and of approximately HK$24.7 million (as at 31 December 2010: approximately HK$35.4 million) were also guaranteed by an independent third party. Bills payable of approximately HK$9.9 million (as at 31 December 2010: Nil) were guaranteed by a related company and bills payable of approximately HK$61.8 million (as at 31 December 2010: Nil) were co-guaranteed by an independent third party and certain mining rights. No bills payable were co-guaranteed by an independent third party and a director of a major subsidiary of the Group as at 31 December 2011 (as at 31 December 2010: approximately HK$35.4 million).

The Group's gearing ratio, as a ratio of bank loans and loan from a shareholder plus liability components of the convertible bonds and divided by net assets, was 41.3% (as at 31 December 2010: 52.2%).

DIVIDEND

The Board does not recommend the payment of any dividend in respect of this year.

MATERIAL INVESTMENTS AND ACQUISITIONS

Except the transaction disclosed in Note 1 to the Notes to the Financial Statements in relation to the acquisition of 100% equity interest of CFT Henan (HK) Limited, the Group had no material investments and acquisitions during the Year.

MATERIAL DISPOSALS

Except the transaction disclosed in Note 1 to the Notes to the Financial Statements in relation to the disposal of entire 100% equity interest in Bianlong and its subsidiary (the "**Disposal**"), the Group had no material disposals for the Year. The Group recorded a gain of approximately HK$5.5 million on the Disposal.

SAFETY PRODUCTION AND ENVIRONMENT PROTECTION

The Group has always been paying great attention to production safety and environmental protection while achieving growth in coal production. Thus, the Group makes great efforts in promoting safety management and strengthening measures for environmental protection, aiming at building itself into a safety-oriented and environmentally-friendly enterprise. During the Year under review, except for occasion suspension of coal mines as mentioned, all coal mines of the Group operated normally and no material safety incidents were recorded.

** For identification purpose only*

Biographical Details in Respect of the Directors

Name	Age	Position held	Number of years of service	Business experience
Dong Cunling	50	Executive Director, Chairman	–	Joined the Group in December 2011. He holds a professional diploma in Chinese Language of Henan University, the PRC. Mr. Dong was a college teacher in Dengfeng Municipal of Henan Province, the PRC. Mr. Dong joined Henan Jinfeng Coal Industrial Group Company Limited (“**Jinfeng**”), i.e. a subsidiary of the Company, since 2003. He held several positions in Jinfeng and he is currently a director of Jinfeng. He has extensive experience in the management of coal mines.
Li Chun On	38	Executive Director, Chief Financial Officer, Company Secretary	6	Joined the Group in September 2006 and is currently an authorised representative of the Company. He graduated from the Hong Kong Polytechnic University. Mr. Li has more than 15 years of experience in accounting and financial management. Mr. Li is an associate member of the Hong Kong Institute of Certified Public Accountants, and a fellow member of The Association of Chartered Certified Accountants, United Kingdom.
Wu Jiahong	45	Executive Director	6	Joined the Group in 2006. He holds a Bachelor of Art diploma from the Beijing Foreign Studies University of Beijing, the PRC and a Master of Business Administration degree from the Georgetown University in the United States. He has over 15 years of experience in corporate finance and strategic management. He is responsible for the management and financial operation of the Group.

Biographical Details in Respect of the Directors

Name	Age	Position held	Number of years of service	Business experience
Yang Hua	34	Executive Director	2	Joined the Group in June 2010. He graduated with Master's Degree from the Business School of National University of Singapore and with a Bachelor's Degree from Beijing Foreign Studies University. After graduation from the university in Beijing, he has joined a state-owned enterprise and involved in energy trading, economic environment analysis on global energy market and risk control. He has also acted as a trader in PRC for international commodities futures contracts and derivative products. Mr. Yang has extensive experience in financial market and risk management. He also has the qualification to deal with the futures contract in PRC.
Zhou Guangwen	43	Executive Director	–	Joined the Group in February 2012. He graduated with Doctor of Philosophy from Peking University of the PRC. Mr. Zhou has extensive working experience as a senior management in certain local bank and security company in the PRC. He is currently the president of Ginkgo Capital Management Co., Limited which specializes in asset management and investment banking. Mr. Zhou is one of the first batch of the people in the PRC to engage in securities industry.

Biographical Details in Respect of the Directors

Name	Age	Position held	Number of years of service	Business experience
Li Chunyan	47	Non-Executive Director	–	Joined the Group in December 2011. He is currently a registered lawyer at Henan Shi Ji Tong Law Firm (河南世紀通律師事務所) in the PRC and is also a certified public accountant, certified public valuer and certified tax agent in the PRC. Mr. Li has acted as a legal adviser to the Henan Provincial People's Hospital, the Henan TV Station and certain listed companies in the PRC. Mr. Li was an independent non-executive director in three PRC listed companies during the period from 2002 to 2008. He was an independent non-executive director of Henan Pinggao Electric Co., Ltd which listed on the Shanghai Stock Exchange of the PRC since March 2008. Mr. Li is an independent non-executive director of Zhongyu Gas Holdings Limited, which is listed on the Growth Enterprise Market of the Stock Exchange since October 2010.
Chen Renbao	49	Independent Non-Executive Director	–	Joined the Group in December 2011. He received his Bachelor of Arts in Economics from Anhui University, the PRC, in 1985. After graduated from Anhui University, Dr. Chen received his Master of Arts in Demography in 1989, Ph.D. in insurance and Ph.D. in Demography from the University of Pennsylvania, the United States, in 1993. Dr. Chen is an independent non-executive director of Guangdong Midea Electric Appliances Co., Ltd. which is listed in Shenzhen Stock Exchange of the PRC. He also acted as a director of US Keywise Capital Management and consultant for the NUS Endowment Fund. He currently acts as a consultant in a number of PRC and overseas companies to provide financial and risk management consultation and training services to those companies.

Biographical Details in Respect of the Directors

Name	Age	Position held	Number of years of service	Business experience
Li Daomin	69	Independent Non-Executive Director	–	Joined the Group in February 2012. He holds a bachelor degree in Law from Zhongnan University of Economics and Law (formerly known as Hubei University) of the PRC. Mr. Li has been a secretary, deputy dean and dean in certain courts in Henan Province, the PRC, between 1984 and 2008. He is currently the president of Private Economy Research Institute in Henan Province.
Ma Yueyong	47	Independent Non-Executive Director	–	Joined the Group in December 2011. He holds a Bachelor Degree in Accounting from Zhongnan University of Economics and Law (formerly known as Zhongnan University of Finance and Economics), the PRC. He has also achieved postgraduate qualification in Accounting from Shanghai University of Finance and Economics, the PRC. Mr. Ma was appointed as an executive director and an independent non-executive director in three PRC listed companies during the period from 1998 to 2004. Mr. Ma is currently an independent non-executive director of Henan Linzhou Heavy Machinery Co., Ltd. since April 2009 which is listed on Shenzhen Stock Exchange of the PRC. He is a certified public accountant in Reanda Certified Public Accountant Co., Ltd. Henan Branch in the PRC since April 2011.

Corporate Governance Practices

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

The Board places importance on corporate governance and reviews its corporate governance practices from time to time to protect the interests of the Group and the shareholders.

The Company has adopted its own code of corporate governance practices which meets the code provisions in the Code on Corporate Governance Practices (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**"). The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by directors. Having made specific enquiry, all Directors have fully complied with the required standards set out in the Model Code throughout the Year.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises nine Directors and its composition is set out as follows:

Executive Directors	Mr. Dong Cunling (appointed on 2 December 2011) *(Chairman)* Mr. Li Chun On Mr. Wu Jiahong Mr. Yang Hua Mr. Zhou Guangwen (appointed on 8 February 2012)
Non-Executive Director	Mr. Li Chunyan (appointed on 2 December 2011)
Independent Non-Executive Directors ("INEDs")	Dr. Chen Renbao (appointed on 2 December 2011) Mr. Li Daomin (appointed on 8 February 2012) Mr. Ma Yueyong (appointed on 2 December 2011)

The brief biographical details of the Directors and the relationship among them are set out in the section headed "Biographical Details in Respect of the Directors" in the 2011 annual report of the Company, of which this report forms part.

Each of the INED has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all the INEDs are independent.

The Board determines the overall strategies, monitors and controls operating and financial performance and sets appropriate policies to manage risks in pursuit of the Group's strategic objectives. Matters reserved for the Board are those affecting the Group's overall strategic policies, finances and shareholders including financial statements, dividend policies, significant changes in accounting policy, material contracts and major investment. Day-to-day management of the Group's businesses is delegated to the executive Directors or senior management. The Board reviews the delegation of power and functions from time to time to ensure effectiveness and appropriateness.

Corporate Governance Practices

The Board meets regularly to discuss the overall strategy and review the financial and operating performance of the Group. Individual attendance of each Director at the Board meetings, the Audit Committee meetings, the Remuneration Committee meeting and the Nomination Committee meetings during the year of 2011 is set out below:

	Attendance/Number of Meetings			
Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors				
Mr. Li Chun On	5/5	–	–	–
Mr. Wu Jiahong	5/5	–	1/1	2/2
Mr. Xu Lidi *(Note 5)*	4/4	–	–	–
Mr. Yang Hua	4/5	–	–	–
Mr. Dong Cunling *(Note 4)*	1/1	–	–	–
Mr. Zhou Guangwen *(Note 7)*	–	–	–	–
Non-Executive Directors				
Dr. Wang Ruiyun *(Note 2)*	1/2	–	–	–
Mr. Wei Xiujun *(Note 1)*	2/3	–	–	–
Mr. Li Chunyan *(Note 4)*	1/1	–	–	–
INEDs				
Mr. He Guangcai *(Note 3)*	4/4	2/2	1/1	2/2
Ms. Wen Liman *(Note 6)*	4/4	2/2	1/1	2/2
Mr. Xu Lian *(Note 3)*	1/4	1/2	1/1	0/2
Dr. Chen Renbao *(Note 4)*	1/1	–	–	–
Mr. Li Daomin *(Note 7)*	–	–	–	–
Mr. Ma Yueyong *(Note 4)*	1/1	–	–	–

Notes:

1. Mr. Wei Xiujun was appointed as a non-executive Director on 1 April 2011 and resigned as a non-executive Director on 29 November 2011.

2. Dr. Wang Ruiyun was appointed as a non-executive Director and a co-chairman of the Company on 27 May 2011 and resigned as a non-executive Director and a co-chairman of the Company on 22 November 2011.

3. Mr. He Guangcai and Mr. Xu Lian resigned as the INEDs on 29 November 2011.

4. Mr. Dong Cunling was appointed as an executive Director, Mr. Li Chunyan was appointed as a non-executive Director and Dr. Chen Renbao and Mr. Ma Yueyong were appointed as the INEDs respectively on 2 December 2011. Mr. Dong Cunling was appointed as the Chairman of the Board with effect from 27 March 2012.

5. Mr. Xu Lidi resigned as an executive Director and a co-chairman of the Company on 7 December 2011.

6. Ms. Wei Liman resigned as an INED on 15 December 2011.

7. Mr. Zhou Guangwen was appointed as an executive Director and Mr. Li Daomin was appointed as an INED with effect from 8 February 2012.

Corporate Governance Practices

CHAIRMAN AND CHIEF EXECUTIVE

The positions and roles of Chairman of the Board and Chief Executive Officer of the Company are held and performed separately by two individuals to ensure their respective independence, accountability and responsibility. The Chairman, being Mr. Dong Cunling is responsible for corporate planning and market development. The Chief Executive Officer, being Mr. Yang Hua (appointed in April 2012), who performs the functions of chief executive of the Group, is responsible for the day-to-day management of the Group.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

CG Code provision A.4.1 provides that non-executive directors should be appointed for a specific term and subject to re-election. The non-executive Directors are not appointed for specific terms but they are subject to retirement by rotation and re-election at the Annual General Meetings ("**AGM**") of the Company. Pursuant to bye-law 111 of the Bye-laws of the Company, each Director shall be subject to retirement by rotation at least once every three years. The Board considers that the non-executive Directors so appointed with no specific term will not impair the quality of corporate governance of the Group required by the principle of good governance laid down in A.4 of the CG Code.

REMUNERATION COMMITTEE

The Company established a Remuneration Committee with written terms of reference in compliance with the CG Code and comprises three of the INEDs, namely Dr. Chen Renbao (as chairman), Mr. Li Daomin and Mr. Ma Yueyong.

The principle role and functions of the Remuneration Committee are to exercise the powers of the Board to determine and review the remuneration packages of individual executive Directors and key executives, including salaries, bonuses, benefits in kind and the terms on which they participate in any share options and other plans considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and key executives, employment conditions elsewhere in the Group and desirability of performance-based remuneration so as to align management incentives with shareholder interests.

During the year of 2011, the Remuneration Committee held one meeting. The Remuneration Committee reviewed the remuneration policies and recommended to the Board the salaries and bonus of all Directors.

NOMINATION COMMITTEE

The Nomination Committee was established with written terms of reference and comprises three of the INEDs, namely Dr. Chen Renbao, Mr. Li Daomin and Mr. Ma Yueyong (as chairman).

The principle role and functions of the Nomination Committee are to review the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes.

Potential new directors are identified and submitted to the Nomination Committee for approval. The nomination of directors should be taken into consideration of the candidate's qualification, ability and potential contribution to the Company. A candidate to be appointed as an independent non-executive Director must also satisfy the independence criteria set out in Rule 3.13 of the Listing Rules.

During the year of 2011, the Nomination Committee held two meetings to recommend the re-designation the position of Mr. Xu Lidi from the acting chairman to co-chairman of the Company and the appointments of Dr. Wang Ruiyun as a non-executive Director and a co-chairman of the Company, Mr. Dong Cunling as an executive Director, Mr. Wei Xiujun and Mr. Li Chunyan as a non-executive Directors, Dr. Chen Renbao and Mr. Ma Yueyong as INEDs of the Company to the Board after carried out the above procedures and criteria.

AUDIT COMMITTEE

The Board has established an Audit Committee with written terms of reference in compliance with the CG code. Currently, the Audit Committee of the Company comprises the three of the INEDs, namely Dr. Chen Renbao, Mr. Li Daomin and Mr. Ma Yueyong (as chairman).

The principle role and functions of the Audit Committee are to review and provide supervision over the Group's financial reporting process and internal controls.

The Audit Committee has, among other things, reviewed the financial statements of the Group for the year ended 31 December 2010 and 31 December 2011 and recommended such financial statements to the Board for approval.

The Audit Committee has recommended to the Board that BDO Limited, Certified Public Accountants, be nominated for re-appointment as auditor of the Company at the forthcoming AGM of the Company.

AUDITOR'S REMUNERATION

During the year 2011, the remuneration paid and payable to the auditor of the Company, BDO Limited, for provision of the Group's statutory audit was approximately HK$1.1 million.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the Company's accounts. The financial statements for the year ended 31 December 2011 have been prepared in accordance with Hong Kong Financial Reporting Standards, including Hong Kong Accounting Standards and applicable Interpretations issued by the Hong Kong Institute of Certified Public Accountants, and the applicable disclosure requirements of the Listing Rules and other applicable regulatory requirements.

The reporting responsibilities of the external auditor, BDO Limited, are set out in the Independent Auditor's Report on pages 25 to 26.

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate system of internal controls and for reviewing its effectiveness. During the year of 2011, the Board has reviewed the effectiveness of the existing system of internal controls with a view to safeguard the shareholders' investment and the Group's assets.

Corporate Governance Practices

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-laws. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained.

Poll results will be posted on the website of the Stock Exchange and the Company on the business day following the shareholders meeting.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The chairman of the Board and/or the chairmen of the Remuneration Committee, Nomination Committee and Audit Committee or, in their absence, other members of the respective committees, and, where applicable, the independent Board committee, are available to answer questions at the shareholders' meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Director.

The Company continues to enhance communications and relationships with its investors. Information about the Company's activities is provided in its interim and annual reports, which are sent to shareholders, analysts and/or interested parties. Enquiries from investors are dealt with an informative and timely manner.

To promote effective communication, the Company also maintains a website at http://www.irasia.com/listco/hk/ccbmg, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.

DIRECTORS' AND OFFICERS' LIABILITY

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the business of the Group.

Directors' Report

The Board are pleased to present the annual report and the audited financial statements of the Company and of the Group for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company during the financial year mainly consist of operation of coal mines and sales of coal in Henan Province, the PRC.

CHANGE OF COMPANY NAME

Following the passing of a special resolution by the shareholders at the annual general meeting held in May 2011, the Company had changed the English name from "Dynamic Energy Holdings Limited" to "China CBM Group Limited" and adopt the Chinese name "中國煤層氣集團有限公司" as the secondary name of the Company with effect from 30 May 2011.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 27 to 116.

The Board does not recommend the payment of any dividend in respect of the year.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment are set out in note 16 to the financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of movements in the Company's share capital and share option scheme during the year, together with the reasons therefore, are set out in notes 36 and 37, respectively, to the financial statements.

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

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

PRE-EMPTIVE RIGHTS

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

EXCHANGE RISK EXPOSURE

The sales and purchases of the Group are predominantly in RMB which is the functional currency of the related group entities. The Board therefore is of the opinion that the Group's sensitivity to the change in foreign currency is low and the Group does not hedge its foreign currency risk.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2011, the Group has a total of approximately 3,200 employees located in Hong Kong and the PRC. Salaries are reviewed annually with discretionary bonuses being paid depending on individual performance. The Group also provides other benefits including medical insurance and pension funds. A share option scheme was adopted by the Group on 20 October 2004 to enable the Directors to grant share options to eligible participants including any employee of the Group as incentive to their valuable contribution to the Group.

Directors' Report

AUDIT COMMITTEE

The Company has an Audit Committee which was established in accordance with the requirements of the CG Code as set out in Appendix 14 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises three of the INEDs of the Company. The members of the audit committee have reviewed the financial statements of the Group for the year ended 31 December 2011 and are of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and legal requirements and that adequate disclosures have been made.

CORPORATE GOVERNANCE

The Directors are in the opinion that the Company had complied with the code provisions of the CG Code during the year ended 31 December 2011 save for the following exception.

CG Code provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. The non-executive Director and INEDs do not have a specific term of appointment, but subject to rotation in accordance with bye-law 111 of the Bye-laws of the Company. As the non-executive Director and INEDs are subject to rotation in accordance with the Bye-laws of the Company, the Board considers that the non-executive Director and INEDs so appointed with no specific term will not impair the quality of corporate governance of the Company as required by the principle of good governance laid down in A.4 of the CG Code.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the date of this annual report, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and assets, liabilities and total equity of the Group for the last five financial years is set out on pages 3 and 4.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 38 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2011, the Company had no reserve available for cash distribution and/or distribution in specie as computed in accordance with the Companies Act 1981 of Bermuda (as amended). In addition, the Company's share premium account as at 31 December 2011, in the amount of approximately HK$235.3 million, 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 approximately 85.3% of the total revenue for the year. Purchases of coal from the Group's five largest suppliers for the trading of purchased coal accounted for 29.6% of the total cost of inventories sold for the year and purchases from the largest supplier included therein amounted to 9.7%.

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

DIRECTORS

The Directors during the year and up to the date of this report are as follows:

Executive Directors:

Mr. Dong Cunling (Appointed on 2 December 2011)
Mr. Li Chun On
Mr. Wu Jiahong
Mr. Xu Lidi (Resigned on 7 December 2011)
Mr. Yang Hua
Mr. Zhou Guangwen (Appointed on 8 February 2012)

Non-Executive Directors:

Dr. Wang Ruiyun (Appointed on 27 May 2011 and resigned on 22 November 2011)
Mr. Li Chunyan (Appointed on 2 December 2011)
Mr. Wei Xiujin (Appointed on 1 April 2011 and resigned on 29 November 2011)

INEDs:

Dr. Chen Renbao (Appointed on 2 December 2011)
Mr. He Guangcai (Resigned on 29 November 2011)
Mr. Li Daomin (Appointed on 8 February 2012)
Mr. Ma Yueyong (Appointed on 2 December 2011)
Ms. Wen Liman (Resigned on 15 December 2011)
Mr. Xu Lian (Resigned on 29 November 2011)

In accordance with bye-law 111 of the Company's Bye-laws, Mr. Li Chun On, Mr. Wu Jiahong and Mr. Yang Hua will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming AGM of the Company. Mr. Dong Cunling, Mr. Li Chunyan, Mr. Li Daomin and Mr. Zhou Guangwen were appointed as the Directors, are also due to retire and being eligible, offer themselves for election in accordance with bye-law 115 of the Company's Bye-laws at the forthcoming AGM of the Company.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on pages 10 to 13.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming AGM of the Company 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' INTERESTS IN CONTRACTS

Save as disclosed in note 44 to the financial statements, 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.

INDEPENDENCE CONFIRMATION

The Company has received from each of the INEDs an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the INEDs are independent.

DIRECTORS' INTERESTS AND SHORT POSITION IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2011, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) 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 taken under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(a) Long positions in the ordinary shares of the Company

Name of Directors	Nature of interest	Number of shares	Number of underlying shares	Percentage of the Company's issued share capital
Mr. Dong Cunling	Personal interest	5,400,000	–	0.08%
Mr. Li Chun On ("**Mr. Li**")	Personal interest	–	1,275,000 *(Note)*	0.02%
Mr. Wu Jiahong ("**Mr. Wu**")	Personal interest	1,151,106,250	6,081,750 *(Note)*	16.24%
Mr. Yang Hua	Personal interest	659,785,713	–	9.26%

Note: Mr. Wu is interested as a grantee of share options to subscribe for 6,081,750 shares and Mr. Li is interested as a grantee of share options to subscribe for 1,275,000 shares of the Company under the share option scheme as disclosed in note 37 to the annual financial report.

Save as disclosed above, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) 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 taken under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange as at 31 December 2011.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above and note 37 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Directors or their respective spouse 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

So far as was known to the Directors or chief executive of the Company, as at 31 December 2011, the person, other than the Directors or chief executive of the Company, who had an interest or short position in the shares or underlying shares as recorded in the register required to be kept under section 336 of the SFO were as follows:

(a) Long positions in the shares

Name of Shareholders	Capacity	Number of shares	Approximate percentage of shareholding
Mr. Wang Chao *(Note 1)*	Beneficial owner	1,414,000,000	19.84%
Victory Investment China Group Limited *(Note 2)*	Beneficial owner	600,000,000	8.42%
Dr. Wang Ruiyun *(Note 2)*	Interests in controlled corporation	600,000,000	8.42%

(b) Long positions in underlying shares – Derivatives

Name of Shareholders	Capacity	Number of underlying shares	Approximate percentage of shareholding
Ringfit Investment Group Limited *(Note 3)*	Beneficial owner	2,000,000,000	28.06%

Notes:

(1) Mr. Wang Chao is independent and not related to the Board or management of the Company.

(2) Victory Investment China Group Limited is beneficially and wholly owned by Dr. Wang Ruiyun. He was appointed as a non-executive Director and a co-chairman of the Company on 27 May 2011 and resigned as a non-executive Director and a co-chairman of the Company on 22 November 2011.

(3) Ringfit Investment Group Limited is beneficially and wholly owned by Mr. Wang Chao, Mr. Wang Chao is deemed to be interested in the underlying shares held by Ringfit Investment Group Limited.

Save as disclosed above, no persons had an interest or a short position in the shares and the underlying shares as recorded in the register required to be kept under 336 of the SFO.

Directors' Report

PENSION SCHEME AND COSTS

Details of the Group's pension scheme and the employer's pension costs charged to the income statement for the year are set out in notes 3.21 and 13 to the financial statements, respectively.

In the opinion of the Board, the Group had no significant obligations for long service payments to its employee pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong, at 31 December 2011.

CONNECTED TRANSACTIONS

Details of the connected transactions are included in note 44 to the financial statements.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

No Directors are considered to have interest in any business which is likely to compete directly or indirectly with that of the Group.

DONATIONS

Charitable and other donations made by the Group during the year ended 31 December 2011 amounted to approximately HK$5.3 million.

AUDITORS

The financial statements since the year ended 31 December 2004 were audited by Grant Thornton ("**GTHK**"), now known as JBPB & Co. Due to a merger of the businesses of GTHK and BDO Limited ("**BDO**") to practise in the name of BDO, GTHK resigned and BDO was appointed as auditor of the Company effective from 26 November 2010. The financial statements for the years ended 31 December 2010 and 2011 were audited by BDO.

A resolution will be proposed at the forthcoming AGM of the Company to re-appoint BDO as auditor of the Company.

For and on behalf of the Board

Dong Cunling
Chairman

Hong Kong
27 March 2012

BDO

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To the shareholders of China CBM Group Limited 中國煤層氣集團有限公司
(Formerly known as Dynamic Energy Holdings Limited 合動能源控股有限公司)
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China CBM Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 27 to 116, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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 auditor's 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 auditor considers 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.

Independent Auditor's Report

OPINION

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

BDO Limited
Certified Public Accountants
Li Wing Yin
Practising Certificate Number P05035

Hong Kong, 27 March 2012

Consolidated Income Statement

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000 (Re-presented)
Continuing operations			
Revenue	5	**728,841**	908,744
Cost of sales		**(381,259)**	(525,891)
Gross profit		**347,582**	382,853
Other income	5	**30,553**	11,059
Selling and distribution expenses		**(13,327)**	(9,183)
Administrative expenses		**(165,606)**	(135,990)
Other operating expenses		**(42,074)**	(23,727)
Finance costs	7	**(58,072)**	(28,113)
Share of losses of an associate	22	**(27)**	–
Share of losses of a jointly controlled entity	23	**(7,864)**	(3,973)
Excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost	39(b)	**23,392**	–
Profit before income tax	8	**114,557**	192,926
Income tax expense	9	**(81,155)**	(100,247)
Profit for the year from continuing operations		**33,402**	92,679
Discontinued operations			
(Loss)/Profit for the year from discontinued operations	10	**(315)**	216
Profit for the year		**33,087**	92,895
Profit for the year attributable to:			
Owners of the Company	11	**25,616**	79,211
Non-controlling interest		**7,471**	13,684
		33,087	92,895
Profit/(Loss) for the year attributable to owners of the Company:			
Continuing operations		**25,931**	78,995
Discontinued operations	10	**(315)**	216
		25,616	79,211

Consolidated Income Statement

For the year ended 31 December 2011

	Notes	**2011** ***HK$'000***	2010 *HK$'000* (Re-presented)
Earnings per share for profit from continuing and discontinued operations attributable to the owners of the Company during the year	*12*		
– Basic (HK cent(s))		**0.420**	3.077
– Diluted (HK cent(s))		**0.419**	2.094
Earnings per share for profit from continuing operations attributable to the owners of the Company during the year	*12*		
– Basic (HK cent(s))		**0.425**	3.069
– Diluted (HK cent(s))		**0.424**	2.088

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 *HK$'000*	2010 *HK$'000*
Profit for the year	**33,087**	92,895
Other comprehensive income for the year		
Exchange gain on translation of financial statements of foreign operations		
– subsidiaries	**71,162**	52,434
– jointly controlled entity	**3,954**	3,540
– associate	**15**	–
Release of exchange fluctuation reserve upon disposal of subsidiaries	**114**	–
Total comprehensive income for the year	**108,332**	148,869
Total comprehensive income attributable to:		
Owners of the Company	**94,945**	130,507
Non-controlling interest	**13,387**	18,362
	108,332	148,869
Total comprehensive income attributable to owners of the Company:		
Continuing operations	**95,146**	130,285
Discontinued operations	**(201)**	222
	94,945	130,507

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	**386,826**	283,950
Prepaid lease payments	17	**438**	714
Goodwill	19	**182,761**	207,396
Mining rights	20	**646,593**	630,134
Other intangible assets	21	**867**	434
Interest in an associate	22	**591**	–
Interest in a jointly controlled entity	23	**86,615**	90,525
Deposits paid for potential investments	24	**162,560**	–
		1,467,251	1,213,153
Current assets			
Inventories	25	**14,278**	14,774
Accounts and bills receivables	26	**468,277**	777,177
Prepayments, deposits and other receivables	27	**355,578**	193,445
Tax recoverable		**8,249**	–
Financial assets at fair value through profit or loss	28	**–**	23,644
Pledged bank deposits	29(a)	**106,926**	65,010
Cash and cash equivalents	29(b)	**697,902**	173,823
		1,651,210	1,247,873
Current liabilities			
Accounts and bills payables	30	**121,487**	122,796
Other payables and accruals	31	**273,928**	200,064
Provision for reclamation obligations	32	**68,027**	33,660
Provision for tax		**846**	5,261
Bank loans	33	**593,376**	325,485
Loan from a shareholder	34	**–**	195,000
		1,057,664	882,266
Net current assets		**593,546**	365,607
Total assets less current liabilities		**2,060,797**	1,578,760
Non-current liabilities			
Convertible bonds	34	**176,253**	193,728
Deferred tax liabilities	35	**22,369**	17,494
		198,622	211,222
Net assets		**1,862,175**	1,367,538

Consolidated Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
EQUITY			
Share capital	*36*	**712,674**	291,813
Reserves	*38(a)*	**1,060,049**	962,574
Equity attributable to the owners of the Company		**1,772,723**	1,254,387
Non-controlling interest		**89,452**	113,151
Total equity		**1,862,175**	1,367,538

Dong Cunling
Director

Yang Hua
Director

Statement of Financial Position

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	18	**1,010,627**	819,803
Current assets			
Prepayments, deposits and other receivables		**706**	455
Cash and cash equivalents		**4,322**	1,941
		5,028	2,396
Current liabilities			
Other payables and accruals		**4,057**	4,404
Loan from a shareholder	34	**–**	195,000
		4,057	199,404
Net current assets/(liabilities)		**971**	(197,008)
Total assets less current liabilities		**1,011,598**	622,795
Non-current liabilities			
Convertible bonds	34	**176,253**	193,728
Net assets		**835,345**	429,067
EQUITY			
Share capital	36	**712,674**	291,813
Reserves	38(b)	**122,671**	137,254
Total equity		**835,345**	429,067

Dong Cunling
Director

Yang Hua
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to the owners of the Company												Non-controlling interest	Total
	Share capital	Share premium* *(Note 38(a))*	Equity component of convertible bonds*	Share option reserve*	Capital redemption reserve* *(Note 38(a))*	Other reserve* *(Note 38(a))*	Contributed surplus* *(Note 38(a))*	Exchange fluctuation reserve*	Capital reserve* *(Note 38(a))*	Retained profits*	Statutory reserve fund* *(Note 38(a))*	Total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2010	211,813	225,742	–	10,341	50	55,473	8,282	47,439	27,442	367,301	59,109	1,012,992	94,789	1,107,781
Share option forfeited	–	–	–	(1,952)	–	–	–	–	–	1,952	–	–	–	–
Issue of convertible bonds	–	–	42,426	–	–	–	–	–	–	–	–	42,426	–	42,426
Issue of ordinary shares on conversion of convertible bonds *(note 36(c))*	80,000	59	(11,597)	–	–	–	–	–	–	–	–	68,462	–	68,462
Transactions with owners	80,000	59	30,829	(1,952)	–	–	–	–	–	1,952	–	110,888	–	110,888
Transfer to statutory and other reserves	–	–	–	–	–	10,472	–	–	–	(34,217)	23,745	–	–	–
Profit for the year	–	–	–	–	–	–	–	–	–	79,211	–	79,211	13,684	92,895
Other comprehensive income for the year														
– Exchange gain on translation of financial statements of foreign operations														
– subsidiaries	–	–	–	–	–	–	–	47,756	–	–	–	47,756	4,678	52,434
– jointly controlled entity	–	–	–	–	–	–	–	3,540	–	–	–	3,540	–	3,540
Total comprehensive income for the year	–	–	–	–	–	–	–	51,296	–	79,211	–	130,507	18,362	148,869
At 31 December 2010	291,813	225,801	30,829	8,389	50	65,945	8,282	98,735	27,442	414,247	82,854	1,254,387	113,151	1,367,538

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to the owners of the Company												Non-controlling interest	Total
	Share capital HK$'000	Share premium* *(Note 38(a))* HK$'000	Equity component of convertible bonds* HK$'000	Share option reserve* HK$'000	Capital redemption reserve* *(Note 38(a))* HK$'000	Other reserve* *(Note 38(a))* HK$'000	Contributed surplus* *(Note 38(a))* HK$'000	Exchange fluctuation reserve* HK$'000	Capital reserve* *(Note 38(a))* HK$'000	Retained profits* HK$'000	Statutory reserve fund* *(Note 38(a))* HK$'000	Total HK$'000	HK$'000	HK$'000
At 1 January 2011	291,813	225,801	30,829	8,389	50	65,945	8,282	98,735	27,442	414,247	82,854	1,254,387	113,151	1,367,538
Share option forfeited	–	–	–	(4,017)	–	–	–	–	–	4,017	–	–	–	–
Issue of convertible bonds	–	–	47,674	–	–	–	–	–	–	–	–	47,674	–	47,674
Issue of ordinary shares on conversion of convertible bonds *(note 36(c))*	420,000	8,538	(54,152)	–	–	–	–	–	–	–	–	374,386	–	374,386
Exercise of share options *(note 36(b))*	861	995	–	(525)	–	–	–	–	–	–	–	1,331	–	1,331
Dividend paid to a non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	(37,086)	(37,086)
Transactions with owners	420,861	9,533	(6,478)	(4,542)	–	–	–	–	–	4,017	–	423,391	(37,086)	386,305
Transfer to statutory and other reserves	–	–	–	–	–	2,003	–	–	–	(28,419)	26,416	–	–	–
Profit for the year	–	–	–	–	–	–	–	–	–	25,616	–	25,616	7,471	33,087
Other comprehensive income for the year														
– Exchange gain on translation of financial statements of foreign operations														
– subsidiaries	–	–	–	–	–	–	–	65,246	–	–	–	65,246	5,916	71,162
– jointly controlled entity	–	–	–	–	–	–	–	3,954	–	–	–	3,954	–	3,954
– associate	–	–	–	–	–	–	–	15	–	–	–	15	–	15
– Release of exchange fluctuation reserve upon disposal of subsidiaries *(note 40)*	–	–	–	–	–	–	–	114	–	–	–	114	–	114
Total comprehensive income for the year	–	–	–	–	–	–	–	69,329	–	25,616	–	94,945	13,387	108,332
At 31 December 2011	**712,674**	**235,334**	**24,351**	**3,847**	**50**	**67,948**	**8,282**	**168,064**	**27,442**	**415,461**	**109,270**	**1,772,723**	**89,452**	**1,862,175**

* The aggregate amount of these balances of approximately HK$1,060.0 million (2010: approximately HK$962.6 million) represents the reserves in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000 (Re-presented)
Cash flows from operating activities of continuing and discontinued operations			
Profit/(Loss) before income tax from			
continuing operations		**114,557**	192,926
discontinued operations	*10*	**(26)**	221
		114,531	193,147
Adjustments for:			
Excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost	*39(b)*	**(23,392)**	–
Share of losses of an associate	*22*	**27**	–
Share of losses of a jointly controlled entity	*23*	**7,864**	3,973
Interest expense		**46,941**	20,022
Amortisation of mining rights	*8*	**12,162**	17,636
Amortisation of prepaid lease payments	*8*	**302**	288
Amortisation of intangible assets	*8*	**369**	106
Impairment loss on goodwill	*8*	**24,635**	16,811
Interest income		**(20,932)**	(6,372)
Depreciation		**31,657**	25,829
Loss on disposals of property, plant and equipment	*8*	**246**	1,042
Gain on disposals of financial assets at fair value through profit or loss	*5*	**(94)**	(4)
Gain on disposals of subsidiaries	*10*	**(5,523)**	–
Provision for impairment on accounts receivable	*8*	**–**	11,345
Provision for impairment on deposits paid	*8*	**3,627**	–
Write off of other receivables	*8*	**3,875**	–
Bad debts recovery	*5*	**–**	(177)
Provision for financial guarantee contracts issued	*8*	**5,610**	–
Amortisation of financial guarantee contracts issued	*5*	**(3,985)**	–
Operating profit before working capital changes		**197,920**	283,646
Decrease in inventories		**1,151**	20,295
Decrease/(Increase) in accounts and bills receivables		**318,034**	(520,130)
Increase in prepayments, deposits and other receivables		**(104,072)**	(44,184)
Increase/(Decrease) in accounts and bills payables		**14,846**	(186,150)
Increase in other payables and accruals		**71,326**	131,258
Increase in provision for reclamation obligations		**32,102**	18,984
Decrease/(Increase) in financial assets at fair value through profit or loss		**24,279**	(23,640)
Cash generated from/(used in) operations		**555,586**	(319,921)
Interest received		**20,932**	6,372
Interest paid		**(42,356)**	(16,907)
Income tax paid		**(92,998)**	(103,234)
Net cash generated from/(used in) operating activities		**441,164**	(433,690)

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000 (Re-presented)
Cash flows from investing activities			
Acquisition of subsidiaries	39	**2,424**	(2,903)
Disposal of subsidiaries	40	**(2,754)**	–
Deposits paid for potential investments		**(162,560)**	–
Purchases of other intangible assets	21	**(791)**	(503)
Purchases of property, plant and equipment	16	**(88,806)**	(54,534)
Proceeds from disposals of property, plant and equipment		**935**	5,259
Investment in an associate		**(603)**	–
Increase in prepayments, deposits and other receivables		**(75,717)**	–
(Increase)/Decrease in pledged bank deposits		**(37,013)**	177,369
Net cash (used in)/generated from investing activities		**(364,885)**	124,688
Cash flows from financing activities			
New bank loans		**1,417,637**	681,941
Repayments of bank loans		**(1,170,237)**	(521,936)
Repayments of loan from a shareholder		**(195,000)**	–
Redemption payment of convertible bonds		**–**	(124,480)
Proceeds from issuance of convertible bonds		**400,000**	300,000
Payment of redemption premium of convertible bonds		**–**	(15,858)
Proceeds from exercise of share options		**1,331**	–
Dividend paid to non-controlling shareholder of a subsidiary		**(12,362)**	–
Net cash generated from financing activities		**441,369**	319,667
Net increase in cash and cash equivalents		**517,648**	10,665
Cash and cash equivalents at 1 January		**173,823**	159,067
Effect of foreign exchange rate changes		**6,431**	4,091
Cash and cash equivalents at 31 December		**697,902**	173,823

1. GENERAL INFORMATION

China CBM Group Limited (formerly known as Dynamic Energy Holdings Limited) (the "**Company**") is a limited liability company incorporated and domiciled in Bermuda. The address of its registered office is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and, its principal place of business is in the People's Republic of China, except Hong Kong (the "**PRC**"). The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

Pursuant to a special resolution of the Company passed in May 2011, the name of the Company was changed from "Dynamic Energy Holdings Limited" to "China CBM Group Limited" with effect from 30 May 2011.

The principal activities of the Company and its subsidiaries (the "**Group**") are the production and sale of coal and coalbed methane ("**CBM**") related business in the PRC. The principal activities and other particulars of its subsidiaries are set out in note 18 to the financial statements.

On 18 January 2011, the Group acquired 100% of the issued ordinary shares of CFT Henan (HK) Limited ("**CFT**"), a company incorporated in Hong Kong, at a consideration of HK$0.99 million, from a third party to develop in CBM related business. At the acquisition date, two directors of the Company were also the directors of CFT. The Group has control over CFT through nominating members to the board of directors of CFT. CFT is an investment holding company which has controlling interest in Henan Huanglong New Energy Development Company Limited ("**Huanglong**")# which is principally engaged in the business of CBM management. Details of the acquisition of this subsidiary are set out in note 39.

On 30 December 2011, the business of trading of purchased coal carried out by the subsidiaries, namely Henan Bianlong Shangmao Company Limited ("**Bianlong**")# (formerly known as Kaifeng Shi Bianlong Shangmao Company Limited#) and its subsidiary, namely Guizhou Zhongan Guilong Energy Development Company Limited ("**Guilong**")#, were disposed of to two independent third parties for a total cash consideration of RMB10.0 million (equivalent to approximately HK$12.4 million) as there had been unsatisfactory financial results in Bianlong. Details of the disposal of the subsidiaries are set out in notes 10 and 40. This business segment is also presented as discontinued operations (the "**Discontinued Operations**") in accordance with Hong Kong Financial Reporting Standard ("**HKFRS**") 5. Certain comparatives on the consolidated income statement, the consolidated statement of cash flows and the related notes have been re-presented as a result of the retrospective application of HKFRS 5.

Other than the acquisition and disposal as described above, there were no significant changes in the Group's operations during the year.

The financial statements on pages 27 to 116 have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations ("**Int**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

The financial statements for the year ended 31 December 2011 were approved for issue by the board of directors on 27 March 2012.

English names for identification purpose only

2. ADOPTION OF HKFRSs

(a) Adoption of new/revised HKFRSs – effective from 1 January 2011

Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC)-Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments
HKAS 24 (Revised)	Related Party Disclosures
HKFRSs (Amendments)	Improvements to HKFRSs 2010

The adoption of these new/revised standards and interpretations has no significant impact on the Group's financial statements.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKFRS 7	Disclosure – Transfers of Financial Assets[1]
Amendments to HKFRS 7	Disclosure – Offsetting Financial Assets and Financial Liabilities[3]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[2]
HKFRS 9	Financial Instruments[5]
HKFRS 10	Consolidated Financial Statements[3]
HKFRS 11	Joint Arrangements[3]
HKFRS 12	Disclosure of Interests in Other Entities[3]
HKFRS 13	Fair Value Measurement[3]
HKAS 19 (2011)	Employee Benefits[3]
HKAS 27 (2011)	Separate Financial Statements[3]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[3]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[4]
HK(IFRIC)-Int 20	Stripping Costs of the Production Phase of a Surface Mine[3]

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

Amendments to HKFRS 7 – Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 improve the disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

2. ADOPTION OF HKFRSs (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 9 – Financial Instruments

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 impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015.

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

2. ADOPTION OF HKFRSs (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 11 – Joint Arrangements

Joint arrangements under HKFRS 11 have the same basic characteristics as joint ventures under HKAS 31. Joint arrangements are classified as either joint operations or joint ventures. Where the Group has rights to the assets and obligations for the liabilities of the joint arrangement, it is regarded as a joint operator and will recognise its interests in the assets, liabilities, income and expenses arising from the joint arrangement. Where the Group has rights to the net assets of the joint arrangement as a whole, it is regarded as having an interest in a joint venture and will apply the equity method of accounting. HKFRS 11 does not allow proportionate consolidation. In an arrangement structured through a separate vehicle, all relevant facts and circumstances should be considered to determine whether the parties to the arrangement have rights to the net assets of the arrangement. Previously, the existence of a separate legal entity was the key factor in determining the existence of a jointly controlled entity under HKAS 31. HKFRS 11 will be applied retrospectively with specific restatement requirements for a joint venture which changes from proportionate consolidation to the equity method and a joint operation which changes from equity method to accounting for assets and liabilities.

HKFRS 12 – Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

HKFRS 13 – Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

2. ADOPTION OF HKFRSs (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKAS 19 (2011) – Employee Benefits

HKAS 19 (2011) abandons the corridor approach with the result that changes in defined benefit obligations and the fair value of plan assets are recognised in the period in which they occur. The revised standard requires the changes in the Group's net defined benefit liability (or asset) to be separated into three components: service cost (including current and past service cost and settlements) recognised in profit or loss; net interest on the net defined benefit liability recognised in profit or loss; and re-measurements of the defined benefit liability (or asset) recognised in other comprehensive income. The revised standard distinguishes between short-term and long-term employee benefits based on the expected date of settlement. The previous standard used the term "due to be settled". This change may result in more plans being classified as long-term employee benefit plans that will need to be accounted for in a similar way to defined benefit plans. HKAS 19 (2011) provides additional guidance on the definition of termination benefits. Benefits that are conditional on future service being provided including those that increase if additional service is provided are not termination benefits. The revised standard requires that a liability for termination benefits is recognised on the earlier of the date when the entity can no longer withdraw the offer of those benefits and the date the entity recognises any related restructuring costs. This could lead to later recognition of voluntary termination benefits in some cases. The amendments will generally be applied retrospectively with two exceptions.

HK(IFRIC)-Int 20 – Stripping Costs in the Production Phase of a Surface Mine

Stripping activities carried out in the production phase of a surface mine may give rise to two benefits: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. The Interpretation requires that costs of stripping activity are accounted for in accordance with the principles in HKAS 2 Inventories to the extent that the benefit from stripping activity is realised in the form of inventory produced. The costs of stripping activity that provide a benefit in the form of improved access to ore are recognised as a non-current stripping activity asset when certain criteria are met. This asset will be accounted for as an addition or enhancement to an existing asset and is classified as tangible or intangible according to the nature of the existing asset of which it forms part. The stripping activity asset is measured initially at cost and subsequently in the same way as the existing asset of which it forms part. It is depreciated or amortised on a systematic basis over the expected useful life of the component of the ore body that becomes more accessible as a result of the stripping activity. The interpretation is applied to production stripping costs incurred after the beginning of the earliest period presented. Predecessor stripping activity asset balance is reclassified as a part of an existing asset subject to the conditions in the Interpretation.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on the Group's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended HKFRSs and the impacts on the Group's financial statements, if any, are disclosed in note 2.

The financial statements have been prepared under historical cost convention except for financial assets at fair value through profit or loss, which are measured at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

3.2 Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Business combination and basis of consolidation (Continued)

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

3.3 Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Associates are accounted for using equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate and the entire carrying amount of the investment is subject to impairment test, by comparing the carrying amount with its recoverable amount, which is higher of value-in-use and fair value less costs to sell.

3.5 Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control and none of the participating parties has unilateral control over the economic activity. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers.

In consolidated financial statements, an investment in a jointly controlled entity is initially recognised at cost and subsequently accounted for using equity method. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. Goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the jointly controlled entity's profit or loss in the period in which the investment is acquired.

Under equity method, the Group's interest in the jointly controlled entity is carried at cost and adjusted for the post-acquisition changes in the Group's share of the jointly controlled entity's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Profit or loss for the period includes the Group's share of the post-acquisition, post-tax results of the jointly controlled entity for the year, including any impairment loss on the investment in jointly controlled entity recognised for the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Joint ventures (Continued)

Unrealised gains on transactions between the Group and its jointly controlled entity are eliminated to the extent of the Group's interest in the jointly controlled entity. Where unrealised losses on assets sales between the Group and its jointly controlled entities are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the jointly controlled entity uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the jointly controlled entity's accounting policies to those of the Group when the jointly controlled entity's financial statements are used by the Group in applying the equity method.

When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity. For this purpose, the Group's interest in the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the jointly controlled entity.

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its jointly controlled entity. At each reporting date, the Group determines whether there is any objective evidence that the investment in jointly controlled entity is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (higher of value-in-use and fair value less costs to sell) of the jointly controlled entity and its carrying amount. In determining the value-in-use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the jointly controlled entity, including cash flows arising from the operations of the jointly controlled entity and the proceeds on ultimate disposal of the investment.

3.6 Foreign currency translation

The financial statements are presented in Hong Kong Dollars ("**HK$**"), which is also the functional currency of the Company and all values are rounded to the nearest thousand except when otherwise indicated.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Foreign currency translation (Continued)

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rate at the reporting date. Income and expenses have been converted into HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period, provided that the exchange rate do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the exchange fluctuation reserve in equity.

3.7 Revenue recognition

Revenue comprises the fair value for the sale of goods, net of value-added tax, rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

– Revenue from sale of coal, ancillary materials and consumable tools is recognised upon transfer of significant risks and rewards of ownership to the customers. This is usually taken as the time when goods are delivered and customer has accepted the goods.

– Revenue from CBM related business is recognised based on consumption of units of electricity, which is generated from coalbed methane extracted, by customers.

– Interest income is accrued on time-proportion basis on the principal outstanding at the applicable interest rate.

– Repair servicing income is recognised when service is rendered, income can be reliably estimated and it is probable that the revenue will be received.

3.8 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Goodwill

Goodwill represents the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group.

Goodwill is stated at cost less impairment loss. Goodwill is allocated to cash-generating units ("**CGUs**") and is tested annually for impairment (see note 3.14).

Any excess of the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the aggregate of consideration transferred and the amount recognised for non-controlling interests is recognised immediately in profit or loss.

On disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

3.10 Intangible assets (other than goodwill and mining rights)

Intangible assets acquired separately are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any impairment loss. Amortisation for intangible assets with finite useful lives is provided on straight-line method over their estimated useful lives of two years.

Intangible assets with indefinite useful lives are carried at cost less any subsequent impairment losses. Intangible assets are tested for impairment as described below in note 3.14. Amortisation commences when intangible assets are available for use.

3.11 Prepaid lease payments

Prepaid lease payments are up-front payments to acquire the long term interests in usage of land. The payments are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on straight-line method for a period of 10 years, which is determined by the directors of the Company according to the best estimate of the lives of the mining rights associated with the land.

3.12 Mining rights

Mining rights are stated at cost less accumulated amortisation and any identified impairment and are amortised using units-of-production method over the proved and probable reserves of the coal mine.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Property, plant and equipment

Buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease, and other items of plant and equipment, other than construction in progress ("**CIP**"), are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use.

Depreciation on property, plant and equipment is provided to write off the cost less their estimated residual values over their estimated useful lives, using straight-line method, at the following rates per annum:

Buildings and mining structures	The shorter of the lease terms and 5% per annum
Plant and machineries	4% to 33% per annum
Mining related machinery and equipment	10% to 20% per annum
Furniture, fixtures, equipment	10% to 20% per annum
Leasehold improvement	The shorter of the lease terms and 10% to 20% per annum
Motor vehicles	10% to 25% per annum

The assets' estimated residual value, depreciation method and estimated useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

CIP, which mainly represents construction on buildings and mining structures, is stated at cost less impairment losses. Cost comprises direct costs incurred during the periods of construction, installation and testing. No depreciation is provided on CIP. CIP is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

3.14 Impairment of non-financial assets

Goodwill arising on an acquisition of subsidiaries, other intangible assets, mining rights, prepaid lease payments, property, plant and equipment, interests in subsidiaries, interest in an associate and interest in a jointly controlled entity are subject to impairment testing.

Goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Impairment of non-financial assets (Continued)

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflow independently (i.e. a cash-generating unit ("**CGU**")). As a result, some assets are tested individually for impairment and some are tested at CGU level. Goodwill in particular is allocated to those CGUs that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for CGUs, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the CGU, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value-in-use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. Whilst an impairment loss on other assets is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.15 Leases

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

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Where the Group has the right to use assets held under operating leases, payments made under the leases are charged to profit or loss on straight-line method over the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payment made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

Notes to the Financial Statements

For the year ended 31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Financial assets

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term, or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

When a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial assets at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in profit or loss. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists. Fair value gain or loss does not include any dividend or interest earned on these financial assets. Dividend and interest income earned on the financial assets are recognised in profit or loss in accordance with the policies set out in note 3.7.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured at amortised cost using effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Impairment of financial assets

At each reporting date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Financial assets (Continued)

Impairment of financial assets (Continued)

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

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

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that an impairment loss on loans and receivables 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) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Inventories

Inventories are carried at the lower of cost and net realisable value. Inventories comprise coal, spare parts and consumable store for trading and own consumption purposes. Costs of coal is determined using weighted average basis whereas costs of spare parts and consumables are stated at first-in first-out or weighted average basis as appropriate, and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

3.18 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred income tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the consolidated financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Accounting for income taxes (Continued)

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

(i) the same taxable entity; or

(ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

3.19 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand as well as short-term bank deposits with original maturities of three months or less.

3.20 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefits), to the extent they are incremental costs directly attributable to the equity transaction.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 Employee benefits

Retirement benefit obligations

The Group contributes to a defined contribution retirement benefit scheme ("**MPF Scheme**") under the Mandatory Provident Fund Scheme Ordinance which is available to its employees in Hong Kong. Contributions to the MPF Scheme by the Group and employees are calculated as percentages of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the MPF Scheme.

The assets of the MPF Scheme are held separately from those of the Group in independently administered funds.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government.

The subsidiaries are required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Share-based employee compensation

The Group operates equity-settled share-based compensation plans for remuneration of its employees and its directors.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based compensation is recognised as an expense in profit or loss with a corresponding credit to equity compensation reserve, net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the share issued are reallocated to share capital with any excess being recorded as share premium. When the vested share options are lapsed, forfeited or still not exercised at the expiry date, the amount previously recognised in equity will be transferred to retained profits.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Financial liabilities

The Group's financial liabilities include bank loans, accounts and bills payables, other payables and accruals, convertible bonds, loan from a shareholder and financial guarantee contracts.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs.

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

Where 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 the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Borrowings

Borrowings, which include bank loans, are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Accounts and bills payables/other payables and accruals

These are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

Convertible bonds

(i) Convertible bonds that contain an equity component

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

Convertible bonds issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate for similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the call option for conversion of the bond into equity, is included in equity as convertible bond equity reserve.

The liability component is subsequently carried at amortised cost using effective interest method. The equity component will remain in equity until conversion or redemption of the bond.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Financial liabilities (Continued)

Convertible bonds (Continued)

(i) Convertible bonds that contain an equity component (Continued)

When the bond is converted, the convertible bond equity reserve and the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the convertible bond equity reserve is released directly to retained profits.

(ii) Other convertible bonds

Convertible bonds which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with the Group's accounting policy on derivative financial instruments. The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the bond is converted, the carrying amount of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, any difference between the amount paid and the carrying amount of both components is recognised in profit or loss.

Current and non-current classification of the derivative component follows the classification of the convertible bond even though the derivative component is presented separately from the liability components on the statement of financial position.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Financial liabilities (Continued)

Financial guarantee contracts (Continued)

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

3.23 Provisions and contingent liabilities

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

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3.24 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

The Group's reportable segments are as follows:

Production and sale of coal:	Production of coal and sale of coal in the PRC
Trading of purchased coal:	Trading of purchased coal in the PRC (also the Discontinued Operations)
CBM related business:	Production and sale of CBM and related business in the PRC (newly acquired during the year)

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as operating approaches.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that, excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost, finance costs, share of losses of an associate, share of losses of a jointly controlled entity, income tax and corporate income and expenses which are not directly attributable to the business activities of any operating segment, are not included in arriving at the operating results of the operating segment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.24 Segment reporting (Continued)

Segment assets include property, plant and equipment, prepaid lease payments, goodwill, mining rights, other intangible assets, inventories, receivables and operating cash and mainly exclude interest in an associate, interest in a jointly controlled entity, deposits paid for potential investments, tax recoverable, financial assets at fair value through profit or loss and corporate assets which are not directly attributable to the business activities of any operating segment.

Segment liabilities comprise operating liabilities and exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment. These include tax payables, deferred tax liabilities and certain corporate borrowings.

3.25 Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

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

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions 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.

(i) Impairment of goodwill

The Group tests at least on an annual basis whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3.9. The recoverable amounts of CGU, to which the goodwill is allocated, are determined based on value-in-use calculations. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(ii) Depreciation

Other than CIP, the Group depreciates property, plant and equipment on straight-line method over the estimated useful lives ranging between 3 to 25 years, starting from the date on which the assets are ready for productive use. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

(iii) Amortisation of mining rights

The Group amortises its mining rights on a units-of-production method, utilising only proved and probable coal reserves as the depletion base. The estimated coal reserves reflect the directors' estimation on the Group's intention to derive future economic benefits from the mining rights.

(iv) Income taxes

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the amount of the provision for income taxes and the timing of payment of related taxes. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(v) Impairment of deposits paid and receivables

The Group's management determines impairment of deposits paid and receivables on a regular basis. This estimate is based on credit history of its customers/borrowers and current market conditions. Management reassesses the impairment of receivables at the reporting date.

The Group's management reviews deposits paid and receivables on a regular basis to determine if any provision for impairment is necessary. The impairment loss on deposits paid and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables, to receive the services, products or acquire the business operations according to the original terms of contracts. Significant financial difficulties of the deposit holder/debtor, probability that the deposit holder/debtor will enter into bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the deposit/receivable is impaired. Management reassesses the impairment of deposits and receivables at the reporting date.

(vi) Impairment of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management reassesses the estimations at the reporting date.

(vii) Impairment of mining rights

Mining rights are carried at cost less accumulated amortisation. The carrying amount is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of mining rights exceeds its recoverable amount. The recoverable amount is the higher of the fair value of mining rights less costs to sell and value-in-use. In estimating the recoverable amount of mining rights, various assumptions, including the Group having uninterrupted rights to operate the coal mines owned by the Group, are made. If future events do not correspond to such assumptions, the recoverable amount will need to be revised, and this may have an impact on the Group's results of operations and financial positions.

(viii) Provision for reclamation obligations

The provision is reviewed regularly to verify that it properly reflects the remaining obligation arising from current and past mining activities. Provision for land restoration and safety costs are determined by management based on their best estimates of the current and future costs, latest government policies and past experiences.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(ix) Central pension scheme

The subsidiaries of the Group are required to contribute certain percentage on their payroll costs for employees to the central pension scheme. However, the implementation and settlement of the contribution to the central pension scheme varies among various Social Security Bureaus in cities of the PRC, and the Group has not finalised its contribution calculation and payments with the local Social Security Bureau in the PRC. Accordingly, significant judgement is required in determining the amount of the contribution. The Group recognised the contribution based on management's best estimates according to the understanding of the rules of the central pension scheme.

4.2 Critical judgement in applying the entity's accounting policies

(i) Deferred tax liabilities

The Group is in the progress of application for claiming the fair value of its mining rights of Xiangyang Coal Industry Company Limited ("**Xiangyang**") as its qualifying assets from the relevant PRC local tax authorities to benefit from the tax deduction allowance. As the result of this application is not yet known, significant judgement is required in determining the likely outcome of the application and the amount of deferred tax liabilities. The Group recognises deferred tax liabilities based on estimates of temporary differences at the reporting date between the carrying amounts of assets in the consolidated financial statements and their respective tax bases. If the final outcome of this matter is different from the estimation, it will impact the income tax and deferred tax provision in the periods in which such determination is concluded.

5. REVENUE AND OTHER INCOME

Turnover represents the revenue arising from the Group's principal activities.

Turnover and other income recognised during the year are as follows:

	2011	2010
	HK$'000	*HK$'000*
		(Re-presented)
Revenue/Turnover		
Continuing operations		
Production and sale of coal	**727,500**	908,744
CBM related business	**1,341**	–
	728,841	908,744
Discontinued operations		
Trading of purchased coal	**235,279**	69,899
	964,120	978,643
Other income		
Continuing operations		
Bank interest income	**15,003**	6,370
Interest income from loans to third parties	**7,996**	–
Bad debts recovery	**–**	177
Sale of ancillary materials	**613**	725
Sale of consumable tools	**2,038**	2,600
Repair servicing income	**70**	208
Gain on disposals of financial assets at fair value through profit or loss	**94**	4
Amortisation of financial guarantee contracts issued	**3,985**	–
Others	**754**	975
	30,553	11,059

6. SEGMENT INFORMATION

The executive directors have identified the Group's three product and service lines as operating segments as further described in note 3.24.

(a) Business Segments

	Continuing operations						Discontinued operations			
	Production and sale of coal		CBM related business		Sub-Total		Trading of purchased coal		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Re-presented)		(Re-presented)		(Re-presented)		(Re-presented)		(Re-presented)
Segment revenue										
Sales to external parties	**727,500**	908,744	**1,341**	–	**728,841**	908,744	**235,279**	69,899	**964,120**	978,643
Segment profit/(loss)	**201,437**	256,109	**(12,117)**	–	**189,320**	256,109	**(1,028)**	221	**188,292**	256,330
Interest income	**9,841**	6,121	**473**	–	**10,314**	6,121	**1,137**	2	**11,451**	6,123
Depreciation	**(27,880)**	(25,541)	**(3,426)**	–	**(31,306)**	(25,541)	**(11)**	(10)	**(31,317)**	(25,551)
Amortisation of prepaid lease payments	**(302)**	(288)	**–**	–	**(302)**	(288)	**–**	–	**(302)**	(288)
Amortisation of mining rights	**(12,162)**	(17,636)	**–**	–	**(12,162)**	(17,636)	**–**	–	**(12,162)**	(17,636)
Amortisation of intangible assets	**(369)**	(106)	**–**	–	**(369)**	(106)	**–**	–	**(369)**	(106)
Provision for impairment on accounts receivable	**–**	(11,345)	**–**	–	**–**	(11,345)	**–**	–	**–**	(11,345)
Provision for impairment on deposits paid	**(3,627)**	–	**–**	–	**(3,627)**	–	**–**	–	**(3,627)**	–
Write off of other receivables	**–**	–	**(3,875)**	–	**(3,875)**	–	**–**	–	**(3,875)**	–
Segment assets	**2,255,405**	1,936,359	**73,462**	–	**2,328,867**	1,936,359	**–**	75,530	**2,328,867**	2,011,889
Additions of non-current assets	**78,467**	54,381	**10,424**	–	**88,891**	54,381	**–**	27	**88,891**	54,408
Segment liabilities	**422,105**	312,977	**4,333**	–	**426,438**	312,977	**–**	18,003	**426,438**	330,980

6. SEGMENT INFORMATION (Continued)

(b) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

Consolidated profit before income tax from continuing operations

	2011 HK$'000	2010 HK$'000 (Re-presented)
Segment profit	**188,292**	256,330
Less: segment (loss)/profit from discontinued operations	**(1,028)**	221
Segment profit from continuing operations	**189,320**	256,109
Other income not allocated	**14,794**	3,056
Selling and distribution expenses not allocated	**(298)**	(326)
Administrative expenses not allocated	**(21,670)**	(16,938)
Other operating expenses not allocated	**(25,018)**	(16,889)
Finance costs	**(58,072)**	(28,113)
Share of losses of an associate	**(27)**	–
Share of losses of a jointly controlled entity	**(7,864)**	(3,973)
Excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost	**23,392**	–
Consolidated profit before income tax from continuing operations	**114,557**	192,926

Assets

	2011 HK$'000	2010 HK$'000 (Re-presented)
Reportable segment assets	**2,328,867**	1,936,359
Segment assets of discontinued operations	**–**	75,530
Goodwill	**182,252**	206,887
Interest in an associate	**591**	–
Interest in a jointly controlled entity	**86,615**	90,525
Deposits paid for potential investments	**162,560**	–
Tax recoverable	**8,249**	–
Financial assets at fair value through profit or loss	**–**	23,644
Cash and cash equivalents	**249,024**	107,941
Unallocated corporate assets	**100,303**	20,140
Consolidated total assets	**3,118,461**	2,461,026

6. SEGMENT INFORMATION (Continued)

(b) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities (Continued)

Liabilities

	2011 HK$'000	2010 HK$'000 (Re-presented)
Reportable segment liabilities	**426,438**	312,977
Segment liabilities of discontinued operations	**–**	18,003
Provision for tax	**846**	5,261
Bank loans	**593,376**	325,485
Loan from a shareholder	**–**	195,000
Convertible bonds	**176,253**	193,728
Deferred tax liabilities	**22,369**	17,494
Unallocated corporate liabilities	**37,004**	25,540
Consolidated total liabilities	**1,256,286**	1,093,488

(c) Geographical information

The Group's revenue from external customers are derived from the PRC and its non-current assets (other than deferred tax assets) located outside the PRC are less than 5%. The Company is an investment holding company incorporated in Bermuda where the Group does not have any activities. The Group has majority of its operations and workforce in the PRC, and therefore, the PRC is considered as the Group's country of domicile for the purpose of the disclosures as required by HKFRS 8 *Operating Segments*.

The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the non-current assets is based on the physical location of asset.

Information on major customers

During the year ended 31 December 2011, approximately HK$680.9 million or 70.6% (2010: approximately HK$836.7 million or 85.5%) of the Group's revenue were derived from two (2010: two) customers in the sale of coal.

At the reporting date, 91.8% (2010: 89.7%) of the Group's accounts receivable were due from these customers.

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For the year ended 31 December 2011

7. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Continuing operations		
Interest charges on:		
– bank loans wholly repayable within one year	**40,689**	12,387
– other loans wholly repayable within one year	**350**	–
Effective interest expense on convertible bonds repayable within five years	**4,585**	5,826
Default interest expense on convertible bonds repayable within five years	**–**	1,809
Interest expenses on financial liabilities stated at amortised cost	**45,624**	20,022
Bank charges on bills receivable discounted without recourse	**12,448**	8,091
	58,072	28,113

8. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	2011	2010
	HK$'000	*HK$'000*
		(Re-presented)
Continuing operations		
Cost of inventories sold	**364,406**	509,572
Auditors' remuneration	**1,390**	1,283
Depreciation*	**31,646**	25,819
Operating lease charges on land, buildings and office equipment	**2,413**	1,580
Amortisation of prepaid lease payments	**302**	288
Amortisation of mining rights	**12,162**	17,636
Amortisation of other intangible assets	**369**	106
Employee benefit expense, (including directors' remuneration and retirement benefit scheme contributions) *(note 13)*	**232,741**	240,789
Exchange loss, net	**1,697**	2,375
Provision for impairment on accounts receivable	**–**	11,345
Provision for impairment on deposits paid	**3,627**	–
Write off of other receivables	**3,875**	–
Loss on disposals of property, plant and equipment	**246**	1,042
Impairment loss on goodwill	**24,635**	16,811
Provision for financial guarantee contracts issued	**5,610**	–
Provision for reclamation obligations	**37,132**	25,529

* Depreciation of approximately HK$17.0 million (2010: approximately HK$17.8 million) has been included in cost of sales and approximately HK$14.6 million (2010: approximately HK$8.0 million) in administrative expenses.

9. INCOME TAX EXPENSE

Hong Kong Profits Tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2010: Nil).

Corporate income tax arising from operations in the PRC is calculated at the statutory income tax rate of 25% (2010: 25%) of the estimated assessable profits as determined in accordance with the relevant income tax rules and regulations in the PRC.

	2011	2010
	HK$'000	*HK$'000*
		(Re-presented)
Continuing operations		
Current tax – PRC income tax		
– Current year	**77,002**	91,724
– Under-provision in respect of prior year	**170**	4,948
	77,172	96,672
Deferred tax *(note 35)*		
– Current year	**3,983**	3,575
	81,155	100,247

Reconciliation between income tax expense and accounting profit at applicable tax rates is as follows:

	2011	2010
	HK$'000	*HK$'000*
		(Re-presented)
Profit before income tax from continuing operations	**114,557**	192,926
Tax on profit before income tax, calculated at the rates applicable to profit in the tax jurisdictions	**32,185**	51,793
Tax effect of non-taxable income	**(4,988)**	(12)
Tax effect of non-deductible expenses	**44,011**	43,457
Tax losses not recognised	**9,777**	61
Under-provision in respect of prior year	**170**	4,948
Income tax expense	**81,155**	100,247

Notes to the Financial Statements

For the year ended 31 December 2011

10. DISCONTINUED OPERATIONS

As mentioned in note 1, the business of trading of purchased coal carried out by Bianlong and its subsidiary was disposed of to independent third parties for a cash consideration of RMB10.0 million (equivalent to approximately HK$12.4 million). The results and cash flows of Bianlong and its subsidiary were as follows:

	Period from 1 January 2011 to 30 December 2011 *HK$'000*	Year ended 31 December 2010 *HK$'000* (Re-presented)
Income	**233,212**	69,901
Expenses	**(238,761)**	(69,680)
Gain on disposal of subsidiaries *(note 40)*	**5,523**	–
(Loss)/Profit before income tax	**(26)**	221
Income tax expense	**(289)**	(5)
(Loss)/Profit for the period/year from discontinued operations	**(315)**	216
Net cash used in operating activities	**(51,613)**	(56,893)
Net cash used in investing activities	**(250)**	(27)
Net cash generated from financing activities	**54,088**	56,736
Net cash inflows/(outflows)	**2,225**	(184)

The carrying amounts of the assets and liabilities of Bianlong and its subsidiary at the date of disposal are disclosed in note 40 to the financial statements.

A profit of approximately HK$5.5 million was resulted on the disposal of Bianlong and its subsidiary, being the proceeds of disposal less the carrying amount of the subsidiaries' net assets. No tax charge or credit arose from the disposal.

For the purpose of presenting discontinued operations, the comparative consolidated income statement and the related notes have been re-presented as if these operations had been discontinued at the beginning of the comparative period.

10. DISCONTINUED OPERATIONS (Continued)

(Loss)/Profit for the year from discontinued operations includes the followings:

	Period from 1 January 2011 to 30 December 2011	Year ended 31 December 2010
	HK$'000	*HK$'000*
		(Re-presented)
Auditors' remuneration	**5**	–
Depreciation	**11**	10
Operating lease charges on land, buildings and office equipment	**106**	4
Employee benefit expense, (including directors' remuneration and retirement benefit scheme contributions)	**610**	2

11. PROFIT ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

Of the consolidated profit attributable to owners of the Company of approximately HK$25.6 million (2010: approximately HK$79.2 million), a loss of approximately HK$17.1 million (2010: approximately HK$19.6 million) has been dealt with in the financial statements of the Company.

12. EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted earnings per share for profit from continuing and discontinued operations attributable to the owners of the Company is based on the following data:

	2011	2010
	HK$'000	*HK$'000*
Profit from continuing and discontinued operations		
Profit for the year attributable to the owners of the Company for the purpose of basic earnings per share	**25,616**	79,211
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	**–**	4,616
Profit for the year attributable to the owners of the Company for the purpose of diluted earnings per share computation	**25,616**	83,827

12. EARNINGS PER SHARE (Continued)

From continuing and discontinued operations (Continued)

	2011	2010
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**6,103,951**	2,574,021
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**2,646**	4,592
Convertible bonds	**–**	1,424,800
Weighted average number of ordinary shares for the purpose of diluted earnings per share computation	**6,106,597**	4,003,413

The calculation of basic earnings per share attributable to the owners of the Company for the year ended 31 December 2011 is based on the profit attributable to the owners of the Company of approximately HK$25.6 million (2010: approximately HK$79.2 million) and on the weighted average of 6,103,951,000 (2010: 2,574,021,000) ordinary shares during the year.

In calculating the diluted earnings per share attributable to the owners of the Company for the year ended 31 December 2011, the potential issue of shares arising from the conversion of the Company's convertible bonds would increase the earnings per share attributable to the owners of the Company and is not taken into account as they have an anti-dilutive effect. Therefore, the diluted earnings per share attributable to the owners of the Company for the year ended 31 December 2011 is based on the profit attributable to the owners of the Company of approximately HK$25.6 million and on the weighted average of 6,106,597,000 ordinary shares during the year ended 31 December 2011, being the weighted average number of 6,103,951,000 ordinary shares used in basic earnings per share calculation and adjusted for the effect of the share options of 2,646,000 shares.

The calculation of diluted earnings per share attributable to the owners of the Company for the year ended 31 December 2010 is based on the profit attributable to the owners of the Company of approximately HK$83.8 million and on the weighted average of 4,003,413,000 ordinary shares for the year ended 31 December 2010.

12. EARNINGS PER SHARE (Continued)

From continuing operations

The calculation of basic and diluted earnings per share from continuing operations attributable to the owners of the Company is based on the following data:

	2011 *HK$'000*	2010 *HK$'000* (Re-presented)
Profit from continuing operations		
Profit for the year attributable to owners of the Company	**25,616**	79,211
Less: (Loss)/Profit for the year from discontinued operations	**(315)**	216
Profit for the year attributable to the owners of the Company for the purpose of basic earnings per share from continuing operations computation	**25,931**	78,995
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	**–**	4,616
Profit for the year attributable to the owners of the Company for the purpose of diluted earnings per share from continuing operations computation	**25,931**	83,611

From discontinued operations

Basic losses per share for the discontinued operations is 0.005 HK cent per share (2010: basic earnings per share of 0.008 HK cent) and diluted losses per share for the discontinued operations is 0.005 HK cent per share (2010: diluted earnings per share of 0.006 HK cent), based on the loss for the year from the discontinued operations of approximately HK$0.3 million (2010: profit of approximately HK$0.2 million) and the denominators detailed above for both basic and diluted losses or earnings per share.

13. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' REMUNERATION)

	2011 *HK$'000*	2010 *HK$'000* (Re-presented)
Continuing operations		
Wages, salaries, allowance and other benefits in kind	**183,266**	139,073
Retirement benefit scheme contribution – defined contribution plans	**49,475**	101,716
	232,741	240,789

14. DIRECTORS' REMUNERATION

The emoluments paid or payable to the directors were as follows:

	Fees HK$'000	Salaries and allowances HK$'000	Share based payment HK$'000	Bonus HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
2011						
Executive Directors						
Wu Jiahong ("**Mr. Wu**")	–	2,717	–	–	12	2,729
Xu Lidi ("**Mr. Xu**")*	–	1,824	–	–	–	1,824
Li Chun On ("**Mr. Li**")	–	1,560	–	–	12	1,572
Yang Hua ("**Mr. Yang**")	–	657	–	–	52	709
Dong Cunling ("**Mr. Dong**")**	–	172	–	–	–	172
Non-Executive Directors						
Wang Ruiyun***	–	–	–	–	–	–
Wei Xiujun****	–	–	–	–	–	–
Li Chunyan**	24	–	–	–	–	24
Independent Non-Executive Directors						
He Guangcai*****	110	–	–	–	–	110
Wen Liman******	115	–	–	–	–	115
Xu Lian*****	110	–	–	–	–	110
Chen Renbao**	12	–	–	–	–	12
Ma Yueyong**	12	–	–	–	–	12
	383	6,930	–	–	76	7,389

* resigned on 7 December 2011
** newly appointed on 2 December 2011
*** newly appointed on 27 May 2011 and resigned on 22 November 2011
**** newly appointed on 1 April 2011 and resigned on 29 November 2011
***** resigned on 29 November 2011
****** resigned on 15 December 2011

14. DIRECTORS' REMUNERATION (Continued)

	Fees HK$'000	Salaries and allowances HK$'000	Share based payment HK$'000	Bonus HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
2010						
Executive Directors						
Bao Hongkai ("**Mr. Bao**")#	–	989	–	–	–	989
Cheng Koon Cheung##	77	–	–	–	–	77
Mr. Wu	–	2,097	–	–	12	2,109
Mr. Xu	–	1,573	–	–	–	1,573
Mr. Li	–	1,064	–	–	12	1,076
Mr. Yang###	–	83	–	–	–	83
Independent Non-Executive Directors						
Chan Kin Sang####	49	–	–	–	–	49
Ng Wing Hang, Patrick####	49	–	–	–	–	49
Choi Man Chau, Michael####	49	–	–	–	–	49
He Guangcai	120	–	–	–	–	120
Wen Liman###	68	–	–	–	–	68
Xu Lian#####	52	–	–	–	–	52
	464	5,806	–	–	24	6,294

resigned on 7 June 2010
resigned on 26 April 2010
appointed on 7 June 2010
resigned on 28 April 2010
appointed on 27 July 2010

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office (2010: Nil).

During the year, no share options were granted to the directors in respect of their services to the Group (2010: Nil).

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

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15. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year included four (2010: four) directors whose emoluments are reflected in the analysis presented in note 14. The emoluments payable to the remaining one (2010: one) individual during the year are as follows:

	2011	2010
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**479**	456
Retirement benefit scheme contributions	**–**	–
	479	456

The emoluments fell within the following band:

	Number of individual	
	2011	2010
Emolument band		
Nil–HK$1,000,000	**1**	1

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2010: Nil).

During the year, no share options (2010: Nil) were granted to the remaining one (2010: one) highest paid individual of the Group to subscribe for ordinary shares of the Company.

16. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Buildings and mining structures HK$'000	Plant and machineries HK$'000	Mining related machinery and equipment HK$'000	Furniture, fixtures, equipment and leasehold improvement HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At 1 January 2010							
Cost	162,647	17,339	80,436	10,248	23,812	15,245	309,727
Accumulated depreciation	(24,389)	(5,607)	(16,030)	(3,443)	(9,414)	–	(58,883)
Net book value	138,258	11,732	64,406	6,805	14,398	15,245	250,844
Year ended 31 December 2010							
Opening net book value	138,258	11,732	64,406	6,805	14,398	15,245	250,844
Exchange difference	5,454	441	2,625	256	458	1,468	10,702
Additions	5,319	1,196	11,968	611	2,427	33,013	54,534
Disposals	(1,951)	(26)	(1,857)	(27)	(2,440)	–	(6,301)
Depreciation	(8,267)	(2,480)	(9,195)	(1,142)	(4,745)	–	(25,829)
Closing net book value	138,813	10,863	67,947	6,503	10,098	49,726	283,950
At 31 December 2010							
Cost	172,417	19,211	93,189	11,237	23,443	49,726	369,223
Accumulated depreciation	(33,604)	(8,348)	(25,242)	(4,734)	(13,345)	–	(85,273)
Net book value	138,813	10,863	67,947	6,503	10,098	49,726	283,950
Year ended 31 December 2011							
Opening net book value	**138,813**	**10,863**	**67,947**	**6,503**	**10,098**	**49,726**	**283,950**
Exchange difference	**8,052**	**1,849**	**3,302**	**299**	**537**	**1,693**	**15,732**
Additions	**6,577**	**4,286**	**17,574**	**763**	**6,235**	**53,371**	**88,806**
Acquisition of subsidiaries *(note 39(b))*	**–**	**30,124**	**–**	**190**	**1,100**	**25**	**31,439**
Transfer	**77,763**	**82**	**1,663**	**–**	**–**	**(79,508)**	**–**
Disposals	**–**	**–**	**(434)**	**(2)**	**(745)**	**–**	**(1,181)**
Disposal of subsidiaries *(note 40)*	**–**	**–**	**–**	**(263)**	**–**	**–**	**(263)**
Depreciation	**(9,500)**	**(5,693)**	**(10,453)**	**(1,273)**	**(4,738)**	**–**	**(31,657)**
Closing net book value	**221,705**	**41,511**	**79,599**	**6,217**	**12,487**	**25,307**	**386,826**
At 31 December 2011							
Cost	**266,563**	**56,064**	**116,107**	**12,437**	**30,470**	**25,307**	**506,948**
Accumulated depreciation	**(44,858)**	**(14,553)**	**(36,508)**	**(6,220)**	**(17,983)**	**–**	**(120,122)**
Net book value	**221,705**	**41,511**	**79,599**	**6,217**	**12,487**	**25,307**	**386,826**

17. PREPAID LEASE PAYMENTS – GROUP

	2011	2010
	HK$'000	*HK$'000*
Opening net book amount	**714**	970
Exchange difference	**26**	32
Amortisation charge for the year	**(302)**	(288)
Closing net book amount	**438**	714

All prepaid lease payments at 31 December 2011 and 2010 for leasehold interests in land are held in the PRC on medium-term leases.

As at 31 December 2011, the Group was in the process of changing registration of the title certificate of the land use right. Based on the legal opinion obtained from Henan Qunda Law Firm (河南群達律師事務所), the directors are of the opinion that the Group is entitled to lawfully and validly use the leasehold land during the years ended 31 December 2010 and 2011.

18. INTERESTS IN SUBSIDIARIES – COMPANY

	2011	2010
	HK$'000	*HK$'000*
Unlisted shares, at cost	**397,801**	397,801
Due from subsidiaries	**612,826**	422,002
	1,010,627	819,803

Amounts due from subsidiaries are unsecured, interest-free and not repayable in the next twelve months after the reporting dates. In the opinion of the directors, the settlement of these amounts due from subsidiaries is neither planned nor likely to occur in the foreseeable future and in substance, these amounts are extensions of the Group's investments in theses subsidiaries.

18. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

The table below lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or form 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.

Particulars of the principal subsidiaries of the Company as at 31 December 2011 were as follows:

Name	Place of incorporation/ operations	Particulars of issued capital/ registered capital	Percentage of issued capital held by the Company	Principal activities
Directly held				
Beat World Limited	Hong Kong	1 share of HK$1	100	Management service
Clear Interest Limited ("**CIL**")	BVI/Hong Kong	200 shares of US$1 each	100	Investment holding
Dynamic Coal Company Limited	Hong Kong	1 share of HK$1	100	Investment holding
Indirectly held				
Popular Sky Coal Industrial Limited	Hong Kong	1 share of HK$1	100	Investment holding
Hong Kong Zhongyuan Energy Co., Limited	Hong Kong	1 share of HK$1	100	Investment holding
Hong Kong Zhongzhou Energy Co., Limited	Hong Kong	1 share of HK$1	100	Investment holding
CFT	Hong Kong	24,010,000 shares of HK$1 each	100	Investment holding
Highlink Investments Limited	BVI/Hong Kong	1 share of US$1	100	Investment holding
Alive Investments Limited	BVI/Hong Kong	1 share of US$1	100	Investment holding

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18. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Name	Place of incorporation/ operations and type of legal entity	Particulars of issued capital/ registered capital	Percentage of issued capital held by the Company	Principal activities
Indirectly held				
Dynamic Energy Development (Shenzhen) Company Limited#	PRC, wholly foreign-owned limited liability company	HK$20,000,000	100	Investment holding
Zhong Yue Energy Development (Shenzhen) Company Limited ("**Zhong Yue**")#	PRC, wholly foreign-owned limited liability company	HK$400,000,000	100	Investment holding
Henan Jinfeng Coal Industrial Group Company Limited ("**Jinfeng**")#	PRC, limited liability company	RMB118,000,000	90	Production and sale of coal
Shenzhen Zhongzhou Energy Company Limited#	PRC, limited liability company	RMB10,000,000	90	Investment holding
Xingyun Coal Industry Company Limited#	PRC, limited liability company	RMB60,000,000	90	Production and sale of coal
Xiangyang#	PRC, limited liability company	RMB50,000,000	90	Production and sale of coal
Defeng Jinfeng Mining Equipment Company Limited#	PRC, limited liability company	RMB1,000,000	90	Trading of mining equipment and consumable tools
Henan Zhongyuan JiuAn Foundation & Investment Co., Ltd.	PRC, sino-foreign equity joint venture	RMB272,387,000	100	Investment holding
Huanglong#	PRC, sino-foreign cooperative joint venture	USD10,000,000	100	Production and sale of CBM and related business in the PRC
Beijing Kaisheng Guanhua Investment Company Limited#	PRC, sino-foreign equity joint venture	RMB80,000,000	90	Project investment, asset management and consultation of investment in the PRC

English names for identification purpose only

19. GOODWILL – GROUP

The net carrying amount of goodwill can be analysed as follows:

	2011	2010
	HK$'000	*HK$'000*
At beginning of the year		
Gross carrying amount	**268,746**	268,746
Accumulated impairment loss	**(61,350)**	(44,539)
Net carrying amount	**207,396**	224,207
For the year		
Opening net carrying amount	**207,396**	224,207
Impairment loss	**(24,635)**	(16,811)
Closing net carrying amount	**182,761**	207,396
At end of the year		
Gross carrying amount	**268,746**	268,746
Accumulated impairment loss	**(85,985)**	(61,350)
Net carrying amount	**182,761**	207,396

Goodwill as at 31 December 2010 and 2011 arose from the acquisitions of CIL and its subsidiaries (the "**CIL Group**") and represented the future economic benefits from the production and sales of coal.

At the time when the Group acquired its interest in the CIL Group, the mining license held by the CIL Group only had around a month to its expiry. The grant of a longer term mining license for the underlying mines held by the CIL Group was not granted at the acquisition date. The mining license with around one month expiry held by the CIL Group would not in any way guarantee that the CIL Group would be able to obtain a longer term mining license. Due to uncertainty over the granting of a longer term mining license from the relevant local government authorities at that time, no reliable estimation of the fair value of a longer term mining license was available at the acquisition date. The purchase consideration by the Group over the fair value of net assets of the CIL Group acquired (not including a longer term mining license) was recognised as goodwill accordingly. Accordingly, any value attributable to the mining potential in the CIL Group was accounted for as goodwill arising from the acquisition of CIL. In 2008, the government approved to extend the mining right for 7–14.5 years. Effectively, a substantial amount of the goodwill balance represents the value of the mining right.

19. GOODWILL – GROUP (Continued)

The carrying amount of goodwill has been allocated to the production and sale of coal CGU for impairment testing. The recoverable amount of the CGU was determined based on value-in-use calculations, covering a detailed five-year budget plan, followed by an extrapolation of discounted cash flows. In determining the value of the Group's mining assets/goodwill, the directors have taken account of the estimated coal reserves of the mines after deducting the cumulative amounts of coal already extracted and sold. Accordingly, as the Group depletes its coal reserves, the value of its mining assets/goodwill will also decrease. The write-down of goodwill carrying amount is therefore of similar financial statements effects of amortisation of mining rights as if a separate fair value had been recognised on the longer-term mining license on the acquisition of CIL. The related impairment loss of approximately HK$24.6 million (2010: HK$16.8 million) was included under "Other operating expenses" in the consolidated income statement.

Management's key assumptions were used in the value-in-use calculation of the CGUs for the year ended 31 December 2011. The following described each key assumption on which management has based its cash flow projects to undertake impairment testing of goodwill.

Stable net profit margins – Management determined net profit margin based on past experience in this market and its expectations for market development.

Discount rate – The discount rate reflects specific risks relating to the mining industry.

The discount rate and growth rate used in the cash flow projection are shown as below:

	2011	2010
Growth rate	**8.7% per annum**	8.9% per annum
Discount rate	**13.0% per annum**	12.0% per annum

Apart from the considerations described in determining the value-in-use of the CGU above, the Group's management is not currently aware of any other reasonably possible changes that would necessitate changes in its key estimates.

20. MINING RIGHTS – GROUP

	2011 HK$'000	2010 HK$'000
At 1 January		
Gross carrying amount	**700,562**	673,372
Accumulated amortisation	**(70,428)**	(50,305)
Net carrying amount	**630,134**	623,067
Net carrying amount at 1 January	**630,134**	623,067
Amortisation	**(12,162)**	(17,636)
Exchange difference	**28,621**	24,703
Net carrying amount at 31 December	**646,593**	630,134
At 31 December		
Gross carrying amount	**732,685**	700,562
Accumulated amortisation	**(86,092)**	(70,428)
Net carrying amount	**646,593**	630,134

As at 31 December 2011, the remaining useful lives of mining rights held by the Group ranged from 1.0 to 11.0 years (2010: 0.5 to 12.0 years).

As at 31 December 2011, certain mining rights with net carrying amount of approximately HK$488.5 million (2010: HK$490.6 million) were pledged to secure bills payable (note 30) (2010: bank loans (note 33)) of the Group.

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21. OTHER INTANGIBLE ASSETS – GROUP

	Computer software licence	
	2011	2010
	HK$'000	*HK$'000*
At 1 January		
Gross carrying amount	**911**	391
Accumulated amortisation	**(477)**	(353)
Net carrying amount	**434**	38
Net carrying amount at 1 January	**434**	38
Additions	**791**	503
Amortisation	**(369)**	(106)
Exchange difference	**11**	(1)
Net carrying amount at 31 December	**867**	434
At 31 December		
Gross carrying amount	**1,744**	911
Accumulated amortisation	**(877)**	(477)
Net carrying amount	**867**	434

22. INTEREST IN AN ASSOCIATE – GROUP

	2011	2010
	HK$'000	*HK$'000*
Share of net assets	**591**	–

22. INTEREST IN AN ASSOCIATE – GROUP (Continued)

Particulars of the associate of the Group as at 31 December 2011 were as follows:

Name of associate	Place of incorporation/ operations and type of legal entity	Particulars of registered capital	Percentage of issued capital held by the Group	Principal activities
Beijing Zhaohua Hefu Investment Management Limited#	PRC, limited liability company	RMB2,000,000	25%	Investment management, asset management and consultation of investment in the PRC

\# English name for identification purpose only

The following illustrates the summarised financial information of the Group's associate extracted from its management accounts which have been adjusted to ensure consistency in accounting policies adopted by the Group.

The summarised financial information in respect of the Group's associate is set out below:

	2011 HK$'000	2010 HK$'000
Total assets	2,370	–
Total liabilities	(8)	–
	2,362	–
Group's share of net assets of the associate	591	–

	Period from 6 July 2011 to 31 December 2011 HK$'000	Year ended 31 December 2010 HK$'000
Income	4	–
Expenses	(112)	–
Loss after income tax expenses for the period	(108)	–
Group's share of loss of the associate for the period	(27)	–

The Group has not incurred any contingent liabilities or other commitments relating to its associate.

23. INTEREST IN A JOINTLY CONTROLLED ENTITY – GROUP

	2011	2010
	HK$'000	*HK$'000*
Share of net assets	**86,615**	90,525

Particulars of the jointly controlled entity of the Group as at 31 December 2011 were as follows:

Name of jointly controlled entity	**Place of incorporation/ operations and type of legal entity**	**Particulars of registered capital**	**Percentage of issued capital held by the Group**	**Principal activities**
Henan Yulong Energy Development Co., Ltd. ("**Yulong**")	PRC, sino-foreign equity joint venture	RMB200,000,000	40%	Coal mine production safety and gas management

The following illustrates the summarised financial information of the Group's jointly controlled entity extracted from its management accounts which have been adjusted to ensure consistency in accounting policies adopted by the Group.

The Group's share of the jointly controlled entity's assets, liabilities, income and expenses are as follows:

	2011	2010
	HK$'000	*HK$'000*
Non-current assets	**25,023**	26,025
Current assets	**62,861**	84,332
Current liabilities	**(1,269)**	(19,832)
	86,615	90,525
Income	**4,113**	1,267
Expenses	**(11,977)**	(5,240)
Loss after income tax expenses attributable to the Group	**(7,864)**	(3,973)

The Group has not incurred any contingent liabilities or other commitments relating to its jointly controlled entity.

24. DEPOSITS PAID FOR POTENTIAL INVESTMENTS

As at 31 December 2011, the Group paid deposits amounted to approximately HK$162.6 million (equivalent to RMB131.5 million) to independent third parties in relation to potential investments in certain PRC operations.

25. INVENTORIES – GROUP

	2011	2010
	HK$'000	*HK$'000*
Coal	**3,138**	1,471
Spare parts and consumables	**11,140**	13,303
	14,278	14,774

26. ACCOUNTS AND BILLS RECEIVABLES – GROUP

	2011	2010
	HK$'000	*HK$'000*
Accounts receivable	**302,441**	777,177
Bills receivable	**165,836**	–
	468,277	777,177

The Group's sales are billed to customers according to the terms of the relevant agreement. Normally credit periods ranging from 30 to 180 days (2010: 30 to 180 days) are allowed. Based on the invoice dates, ageing analysis of the Group's accounts receivable at the reporting date is as follows:

	2011	2010
	HK$'000	*HK$'000*
0–90 days	**149,865**	467,022
91–180 days	**128,938**	136,251
Over 180 days	**35,504**	185,249
	314,307	788,522
Less: Provision for impairment	**(11,866)**	(11,345)
	302,441	777,177

As at 31 December 2011, accounts receivable of approximately HK$100.5 million (2010: approximately HK$293.7 million) were pledged to secure bank loans of the Group (note 33).

26. ACCOUNTS AND BILLS RECEIVABLES – GROUP (Continued)

Ageing analysis of the Group's accounts receivable that were not impaired, based on due date is as follows:

	2011	2010
	HK\$'000	*HK\$'000*
Neither past due nor impaired	**278,803**	603,273
Past due for less than 3 months	**705**	95,650
Past due for more than 3 months but less than 6 months	**12,066**	78,254
Past due for more than 6 months but less than 1 year	**–**	–
Past due for more than 1 year	**10,867**	–
	302,441	777,177

Movement in the allowance for impairment of accounts receivable is as follows:

	2011	2010
	HK\$'000	*HK\$'000*
At 1 January	**11,345**	–
Recognition of impairment loss for the year	**–**	11,345
Exchange difference	**521**	–
At 31 December	**11,866**	11,345

At each reporting date, the Group reviews accounts receivable for evidence of impairment on an individual and collective bases. As at 31 December 2011, the Group determined accounts receivable of approximately HK$11.9 million as individually impaired (2010: approximately HK$11.3 million). No impairment loss was recognised during the year (2010: approximately HK$11.3 million).

Accounts receivable that were neither past due nor impaired related to customers for whom there was no recent history of default.

Accounts receivable that were past due but not impaired related to customers that had a good track record of credit with the Group. Based on past credit history, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable. The Group did not hold any collateral in respect of accounts receivable past due but not impaired.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES – GROUP

As at 31 December 2011, included in prepayments, deposits and other receivables is amount due from Bianlong amounted to approximately HK$75.7 million (equivalent to approximately RMB61.2 million) (2010: Nil). The amount due is unsecured, interest bearing at prevailing bank interest rate and repayable within one year.

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – GROUP

	2011	2010
	HK$'000	*HK$'000*
Financial assets held for trading		
Unlisted quoted fund security in the PRC	–	23,644

The fair value of the Group's investments in unlisted quoted fund security had been measured as described in note 45(h). All financial assets at fair value through profit or loss have been disposed of during the year.

29. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS – GROUP

(a) Pledged bank deposits

The Group's bills payable amounting to approximately HK$111.9 million (equivalent to approximately RMB90.5 million) (2010: approximately HK$82.7 million (equivalent to RMB70.0 million)) (note 30) are secured by the pledge of the Group's time deposit of approximately HK$32.8 million (equivalent to approximately RMB26.5 million) as at 31 December 2011 (2010: approximately HK$65.0 million (equivalent to RMB55.0 million)).

The Group's bank loans amounting to approximately HK$74.2 million (equivalent to RMB60.0 million) (2010: Nil) (note 33) are secured by the pledge of the Group's time deposits of approximately HK$74.2 million (equivalent to RMB60.0 million) as at 31 December 2011 (2010: Nil).

The effective interest rates of the pledged bank deposits ranged from 0.50% to 3.05% per annum (2010: 0.59% to 1.98% per annum). The pledged bank deposits have a maturity of 180 to 365 days (2010: 180 days).

(b) Cash and cash equivalents

As at 31 December 2011, included in cash and cash equivalents of the Group is approximately HK$693.0 million (2010: approximately HK$116.7 million) of bank balances denominated in RMB placed with the banks in the PRC. RMB is not a freely convertible currency; however, under the PRC'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 the banks authorised to conduct foreign exchange business in the PRC.

30. ACCOUNTS AND BILLS PAYABLES – GROUP

	2011	2010
	HK$'000	*HK$'000*
Accounts payable	**9,636**	40,056
Bills payable	**111,851**	82,740
	121,487	122,796

The Group was granted by its suppliers credit periods ranging from 30–90 days. Based on the invoice dates, ageing analysis of the Group's accounts payable at the reporting date is as follows:

	2011	2010
	HK$'000	*HK$'000*
0–90 days	**9,165**	37,822
91–180 days	**1**	214
Over 180 days	**470**	2,020
	9,636	40,056

As at the reporting date, the Group's bills payable of approximately HK$111.9 million (2010: approximately HK$82.7 million) were secured by the pledge of time deposits (note 29(a)); bills payable of approximately HK$24.7 million (2010: approximately HK$35.4 million) were guaranteed by an independent third party; bills payable of approximately HK$9.9 million (2010: Nil) were guaranteed by a related company and bills payable of approximately HK$61.8 million (2010: Nil) were co-guaranteed by an independent third party and certain mining rights (note 20). No bills payable were co-guaranteed by an independent third party and a director of a major subsidiary of the Group as at 31 December 2011 (2010: approximately HK$35.4 million).

31. OTHER PAYABLES AND ACCRUALS – GROUP

As at 31 December 2011, included in other payables and accruals is dividend payable to a non-controlling shareholder of a subsidiary amounted to approximately HK$24.7 million (equivalent to RMB20.0 million) (2010: Nil). The amount due is unsecured, interest-free and repayable on demand.

32. PROVISION FOR RECLAMATION OBLIGATIONS – GROUP

	2011 HK$'000	2010 HK$'000
At 1 January	**33,660**	14,106
Provision made during the year	**37,132**	25,529
Provision used during the year	**(5,030)**	(7,169)
Exchange difference	**2,265**	1,194
At 31 December	**68,027**	33,660

Provision for land restoration, environmental restoration and safety costs pursuant to the relevant PRC regulations and current mining activities are determined by management based on their best estimates. However, in so far as the effect of land and the environment from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to change in the near term. The amounts provided in relation to restoration and safety costs are reviewed regularly based upon the facts and circumstances available at the time and the provisions are updated accordingly.

33. BANK LOANS – GROUP

	2011 HK$'000	2010 HK$'000
Bank loans repayable within one year and classified as current liabilities	**593,376**	325,485
Analysed as follows:		
Secured	**154,525**	242,745
Unsecured	**438,851**	82,740
	593,376	325,485

As at 31 December 2011, bank loans of approximately HK$154.5 million (2010: approximately HK$242.8 million) were secured by certain accounts receivable (note 26) and certain deposits at bank (note 29(a)) (2010: secured by certain mining rights and accounts receivable).

As at 31 December 2011, bank loans of approximately HK$451.2 million (2010: approximately HK$201.4 million) were guaranteed by an independent third party; bank loans of approximately HK$43.3 million (2010: approximately HK$23.6 million) were co-guaranteed by an independent third party and a director of a major subsidiary of the Group; and bank loans of approximately HK$24.7 million were guaranteed by a related party (2010: approximately HK$23.6 million were under inter-company guarantee by a related company (note 43)).

As at 31 December 2011, all bank loans bear interest at fixed rates ranging from 5.85% to 9.22% per annum (2010: at fixed rates ranging from 4.47% to 11.52% per annum).

34. LOAN FROM A SHAREHOLDER/CONVERTIBLE BONDS – GROUP AND COMPANY

On 16 November 2007, the Company issued a zero coupon convertible bonds ("**CB2**") to Dragon Rich Resources Limited ("**Dragon Rich**") with principal amount of HK$230,000,000 as settlement of the promissory notes issued by the Company. CB2 were issued with an initial conversion price of HK$1.1 per share and matured on 16 November 2010. The conversion price was subject to adjustment for consolidation, sub-division or reclassification of shares, capitalisation of profits or reserves, distribution, certain other dilutive and price reset. The conversion price was adjusted from HK$1.1 per share to HK$0.61 per share upon the approval of the bonus issue on 30 April 2009. The conversion price was further adjusted from HK$0.61 per share to HK$0.46 per share upon the open offer becoming unconditional on 1 December 2009. On 4 December 2009, part of CB2 with principal amount of HK$32,000,000 was redeemed by the Company and a loss on redemption of approximately HK$7,236,000 (being the redemption payment of CB2 of HK$32,000,000 minus the liability component and compound derivative component of CB2 of HK$21,746,000 and HK$3,018,000 respectively) was recognised as finance costs. On 10 December 2009, the Company was in default of payment for other convertible bonds as shown below. According to subscription agreement of CB2, Dragon Rich had the right to demand immediate repayment when the Company defaulted in the repayment of any of its loan indebtedness. On 10 December 2009, loss on remeasuring a convertible bond from stating at amortised cost to its principal amount when the convertible bond is repayable on demand of approximately HK$39,846,000 (being the accelerated liability component of CB2 of approximately HK$58,443,000 minus the compound derivative component of CB2 of approximately HK$18,597,000) was recognised as finance costs. As at 31 December 2009, the holder of CB2 was Dragon Rich with remaining principal amount of HK$195,000,000 and no demand for repayment was received from Dragon Rich and the CB2 was remained unsettled. On 29 November 2010, the Company and Dragon Rich entered into an agreement to waive all conversion rights of CB2 and to extend the maturity date for repayment of HK$195,000,000 to 31 December 2010. As a result of the waive of conversion rights of CB2, the Company derecognised the CB2 of HK$195,000,000 and recognised the outstanding amount as loan from a shareholder on 29 November 2010. On 19 December 2010, the Company and Dragon Rich entered into a supplementary agreement to extend the maturity date of the loan to 31 December 2011. During the year ended 31 December 2011, the loan from a shareholder amounted to HK$195,000,000 was settled.

On 10 December 2007, the Company issued a 2% coupon convertible bonds ("**CB3**") with principal amount of US$25,000,000 (equivalent to approximately HK$194,500,000). CB3 were issued with an initial conversion price of HK$1.8 per share and would mature on 10 December 2010. The conversion price was subject to adjustment for consolidation, sub-division or reclassification of shares, capitalisation of profits or reserves, distribution, certain other dilutive and price reset. The conversion price was adjusted from HK$1.8 per share to HK$1.0 per share upon the approval of the bonus issue. According to the conversion price reset terms of CB3, the conversion price was further adjusted from HK$1.0 per share to HK$0.88 per share with effect from 10 June 2009. The conversion price was further adjusted from HK$0.88 per share to HK$0.67 per share upon the open offer becoming unconditional on 1 December 2009. Both the Company and the holders of CB3 had redemption options. On 10 December 2009, the holders of CB3 would have the right at such holders' options, to require the Company to redeem all or some only of CB3. On or at any time after 10 December 2009 and prior to the maturity date, the Company may redeem all or some only of CB3 at their early redemption amount on the date fixed for such redemption if the average closing price per share for 20 consecutive trading days, the last of which occurs not more than five trading days prior to the date upon which notice of such redemption is published, is at least 160% of the early redemption amount in effect on such trading day divided by the conversion ratio. CB3 was secured by the Company's entire interest in CIL and Zhong Yue.

34. LOAN FROM A SHAREHOLDER/CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

CB3 with principal amount of US$9,000,000 (equivalent to approximately HK$70,020,000) was converted by its holders during 2009. On 10 December 2009, the holders of the CB3 exercised their rights to require the Company to fully redeem the remaining CB3 with principal amount of US$16,000,000 (equivalent to approximately HK$124,480,000) at a premium of 12.7% on the principal amount. The premium arising on redemption of CB3 was approximately US$2,038,000 (equivalent to approximately HK$15,858,000).

On 10 December 2009, the total amount of CB3 fell due (including outstanding principal of US$16,000,000 (equivalent to approximately HK$124,480,000), redemption premium of US$2,038,000 (equivalent to approximately HK$15,858,000) and accrued interest of US$160,000 (equivalent to approximately HK$1,245,000)) was approximately US$18,198,000 (equivalent to approximately HK$141,583,000). The Company was in default of payment and the related default interest of approximately US$33,000 (equivalent to approximately HK$256,000) calculated at 3% per annum for the period from 10 December 2009 to 31 December 2009 was charged to finance costs. A loss on redemption of approximately HK$12,447,000 (being HK$17,285,000 for recognising the liability component of CB3 up to HK$141,839,000 minus the compound derivative component of CB3 of HK$4,838,000) was recognised and charged to finance costs. As at 31 December 2009, the liability component of CB3 of HK$141,839,000 remained unsettled. On 31 December 2009, an agreement was signed to transfer the remaining CB3 from the original bondholders to an independent third party, MCC International (Group) Company Limited.

On 4 June 2010, the total outstanding amount of CB3 was settled including outstanding principal of US$16,000,000 (equivalent to approximately HK$124,480,000), redemption premium of approximately US$2,038,000 (equivalent to approximately HK$15,858,000), accrued interest of approximately US$316,000 (equivalent to approximately HK$2,455,000) and the related default interest of approximately US$256,000 (equivalent to approximately HK$2,065,000) amounting to approximately US$18,610,000 (equivalent to approximately HK$144,858,000).

On 12 March 2010, the Company and Victory Investment China Group Limited (the "**Subscriber**") entered into a subscription agreement (the "**Subscription Agreement**") in respect of the proposed issuance of zero coupon bonds ("**CB4**") in the maximum principal amount of HK$1,200,000,000. CB4 will be repayable after 3 years from the date of issuance or convertible into shares of the Company at the conversion price of HK$0.1 per share (subject to the standard adjustment clauses relating to share sub-division, share consolidation and/or rights issues).

On 31 May 2010, the Company issued zero coupon bonds in the principal amount of HK$200,000,000 (the "**First Tranche of CB4**") for the purpose of settlement of CB3. Partial of the First Tranche of CB4 with principal amount of HK$80,000,000 was converted by its holder on 7 June 2010. On 3 September 2010, the Company issued zero coupon bonds in the principal amount of HK$100,000,000 (the "**Second Tranche of CB4**").

On 7 January 2011, the Company issued zero coupon bonds in the principal amount of HK$100,000,000 (the "**Third Tranche of CB4**"). On 11 January 2011, the Company issued zero coupon bonds in the principal amount of HK$100,000,000 (the "**Fourth Tranche of CB4**").

On 28 January 2011, the Company announced that it received a conditional conversion notice from the Subscriber, stating that the Subscriber shall, subject to the conversion conditions, exercise its right under the Subscription Agreement, to convert the CB4 into the shares of the Company in the principal amount of HK$420,000,000 at the conversion price of HK$0.1.

34. LOAN FROM A SHAREHOLDER/CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

According to the terms and conditions of the CB4, a holder of CB4 may only exercise its conversion rights if the public float of the Company's shares of not less than 25% (or such lower percentage allowable under the Listing Rules) can be maintained. As the shares of the Company held by Dragon Rich, Mr. Bao, Mr. Li and Mr. Xu shall not be considered as in the public hands under the Listing Rules, the maximum amount of CB4 that may be converted is HK$360,000,000 and the maximum number of shares of the Company the Subscriber can convert pursuant to the conditional conversion notice will be 3,600,000,000 shares. The Subscriber agreed to only convert the CB4 in the principal amount of HK$360,000,000.

One of the conversion conditions is the grant of a waiver from the executive director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers (the "**Whitewash Waiver**") in respect of the obligation of the Subscriber to make a mandatory general offer to shareholders of the Company for all the issued shares of HK$0.1 each of the Company not already owned or agreed to be acquired by the Subscriber as a result of the Subscriber converting the CB4 under the Subscription Agreement in respect of 3,600,000,000 shares. The grant of the Whitewash Waiver was subject to approval by independent shareholders by way of poll at a special general meeting under Note 1 of the Notes on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers. Pursuant to an ordinary resolution passed in a special general meeting held on 21 March 2011, the independent shareholders approved the Whitewash Waiver. Accordingly, 3,600,000,000 shares have been issued, at the conversion price of HK$0.1, to the Subscriber upon the conversion of the CB4 with principal amount of HK$360,000,000. Remaining portion of First Tranche of CB4, Second Tranche of CB4, Third Tranche of CB4 and partial of Fourth Tranche of CB4 with principal amount of HK$120,000,000, HK$100,000,000, HK$100,000,000 and HK$40,000,000 respectively were converted by the Subscriber on 21 March 2011.

The remaining portion of the Fourth Tranche of CB4 with principal amount of HK$40,000,000 and HK$20,000,000 were converted by its holders on 13 May 2011 and 24 June 2011 respectively.

On 24 November 2011, the Subscriber assigned all of its rights under the Subscription Agreement to Ringfit Investment Group Limited pursuant to a deed of assignment.

On 2 December 2011, the Company issued zero coupon bonds in the principal amount of HK$200,000,000 (the "**Fifth Tranche of CB4**") to Ringfit Investment Group Limited.

The initial recognitions of CB2, CB3 and CB4 in the consolidated statement of financial position were calculated as follows:

	CB2	**CB3**	**CB4**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Proceeds of issue	230,000	194,500	700,000	1,124,500
Equity component	–	–	(90,100)	(90,100)
Compound derivative component on initial recognition	(163,162)	(53,794)	–	(216,956)
Liability component	66,838	140,706	609,900	817,444

34. LOAN FROM A SHAREHOLDER/CONVERTIBLE BONDS – GROUP AND COMPANY (Continued)

Movement of liability component for the years ended 31 December 2011 and 2010 is as follows:

	2011			
	CB2	**CB3**	**CB4**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
At 1 January	**–**	**–**	**193,728**	**193,728**
Initial recognition upon issuance of bonds	**–**	**–**	**352,326**	**352,326**
Interest expense	**–**	**–**	**4,585**	**4,585**
Conversion of convertible bonds *(note 36(c))*	**–**	**–**	**(374,386)**	**(374,386)**
At 31 December	**–**	**–**	**176,253**	**176,253**

	2010			
	CB2	CB3	CB4	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	195,000	141,839	–	336,839
Initial recognition upon issuance of bonds	–	–	257,574	257,574
Payment of interest	–	(4,520)	–	(4,520)
Payment of redemption premium	–	(15,858)	–	(15,858)
Interest expense	–	1,210	4,616	5,826
Conversion of convertible bonds *(note 36(c))*	–	–	(68,462)	(68,462)
Default interest expense	–	1,809	–	1,809
Amount redeemed	–	(124,480)	–	(124,480)
Derecognition upon the waive of conversion rights	(195,000)	–	–	(195,000)
At 31 December	–	–	193,728	193,728
Less: amount included under current liabilities	–	–	–	–
Amount included under non-current liabilities	–	–	193,728	193,728

Interest expense on the convertible bonds is calculated using the effective interest method by applying the effective interest rates of approximately 20.80%, 5.36%, 4.93%, 4.23%, 4.21% and 4.42% per annum to the liability components of CB3, the First Tranche, the Second Tranche, the Third Tranche, the Fourth Tranche and the Fifth Tranche of CB4 respectively.

35. DEFERRED TAX – GROUP

The Group has taxable losses arising in Hong Kong of approximately HK$2.8 million (2010: approximately HK$1.8 million) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and the unpredictability of future profits.

Movement in deferred tax liabilities during the year is as follows:

	Mining funds *HK$'000* *(Note)*	**Amortisation allowance on mining rights in excess of related amortisation** *HK$'000*	**Total** *HK$'000*
At 1 January 2010	3,744	9,545	13,289
Charged to profit or loss *(note 9)*	2,618	957	3,575
Exchange difference	219	411	630
At 31 December 2010	6,581	10,913	17,494
Charged to profit or loss *(note 9)*	501	3,482	3,983
Exchange difference	313	579	892
At 31 December 2011	**7,395**	**14,974**	**22,369**

Note: Pursuant to changes in certain regulations of the PRC government in 2009, the Group is required to set aside the mining funds (i.e. production maintenance fee and safety fund). The mining funds are deductible for tax purpose when they are set aside but are expensed for accounting purpose only when they are utilised, a deferred tax liability is provided for the temporary difference in respect of the excess fund set aside for tax purposes.

As at 31 December 2011, deferred tax liabilities amounted to approximately HK$69.8 million (2010: approximately HK$62.7 million) in respect of the aggregate amount of temporary differences of approximately HK$698.4 million (2010: approximately HK$627.0 million) associated with the undistributed earnings of certain of the Group's subsidiaries have not been recognised. No deferred tax liabilities have been recognised in respect of the differences because it is considered that the Group's subsidiaries in the PRC will not pay any dividend to their overseas holding companies in the foreseeable future and the Group is in a position to control the dividend policies of these subsidiaries and it is probable that such differences will not reverse in the foreseeable future.

36. SHARE CAPITAL

	Notes	2011 Number of shares	2011 HK$'000	2010 Number of shares	2010 HK$'000
Authorised:					
At 1 January, ordinary shares of HK$0.1 each		**30,000,000,000**	**3,000,000**	3,000,000,000	300,000
Increase in authorised ordinary shares	*(a)*	**–**	**–**	27,000,000,000	2,700,000
At 31 December, ordinary shares of HK$0.1 each		**30,000,000,000**	**3,000,000**	30,000,000,000	3,000,000
Issued and fully paid:					
At 1 January, ordinary shares of HK$0.1 each		**2,918,130,674**	**291,813**	2,118,130,674	211,813
Exercise of share options for ordinary shares of HK$0.1 each	*(b)*	**8,606,250**	**861**	–	–
Conversion of convertible bonds for ordinary shares of HK$0.1 each	*(c)*	**4,200,000,000**	**420,000**	800,000,000	80,000
At 31 December, ordinary shares of HK$0.1 each		**7,126,736,924**	**712,674**	2,918,130,674	291,813

Notes:

(a) Pursuant to a special resolution passed on 27 May 2010, the authorised share capital of the Company was increased from HK$300.0 million divided into 3,000,000,000 ordinary shares of HK$0.1 each to HK$3,000.0 million divided into 30,000,000,000 ordinary shares of HK$0.1 each.

(b) During the year, 8,606,250 share options were exercised at the subscription price of HK$0.1547 per share, giving rise to the issue of 8,606,250 new ordinary shares of HK$0.1 each for a consideration of approximately HK$1.3 million. Accordingly, additional share capital of approximately HK$0.9 million and share premium of approximately HK$1.0 million, including the amount transferred from share option reserve, were resulted.

(c) During the year, 4,200,000,000 ordinary shares were issued in aggregate, at the conversion price of HK$0.1 per share to the Subscriber upon the conversion of CB4 (note 34). As a result, there were increases in share capital and share premium of HK$420.0 million and approximately HK$8.5 million respectively. Excluding the amount that would be transferred from equity component of convertible bonds to share capital, the decrease in the liability component of convertible bonds was approximately HK$374.4 million.

In 2010, 800,000,000 ordinary shares were issued in aggregate, at the conversion price of HK$0.1 per share, to the Subscriber upon the conversion of CB4 (note 34). As a result, there were increases in share capital and share premium of HK$80.0 million and approximately HK$0.06 million respectively. Excluding the amount that would be transferred from equity component of convertible bonds to share capital, the decrease in the liability component of convertible bonds was approximately HK$68.5 million.

The ordinary shares issued in (b) and (c) above have the same rights as the other shares in issue.

37. 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. Eligible participants ("**Participants**") of the Scheme include any employee of the Company or any of its subsidiaries (including any director of the Company or any of its subsidiaries). The Scheme was approved by shareholders at a Special General Meeting on 20 October 2004 in substitution of the old share option scheme (the "**Old Scheme**") of the Company adopted on 15 May 1997. The Scheme became effective on 20 October 2004 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

Under the Scheme, the board of directors of the Company may at its discretion grant options to the Participants to subscribe for shares provided that the total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option scheme(s) of the Company shall not in aggregate exceed 10% of the shares in issue as at the adoption date. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme(s) of the Company shall not in aggregate exceed 30% of the shares in issue from time to time.

The offer of a grant of share options may be accepted within 10 business days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The option period of an option may not end later than 10 years after the date of adoption of the Scheme.

The subscription price for the shares under the Scheme shall be a price determined by the board of directors of the Company at its absolute discretion but in any event shall not be less than the highest of (i) the official closing price of the shares as stated in daily quotations sheet of the Stock Exchange on the offer date, (ii) the average of the official closing price of the shares as stated in daily quotations sheets of the Stock Exchange for the five business days immediately preceding the offer date; and (iii) the nominal value of a share.

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

37. SHARE OPTION SCHEME (Continued)

(a) Movements of the share options and their exercise price

2011

Name or category of participant	At 1 January 2011	Granted during the year	Exercised during the year *(note (i))*	Forfeited during the year	At 31 December 2011	Date of grant of share options *(note (ii))*	Exercise period of share options	Exercise price of share options *(note (iii))*
Directors								
Mr. Wu	8,606,250	–	(8,606,250)	–	**–**	30 November 2006	30 November 2006 to 20 October 2014	HK$0.1547
	6,081,750	–	–	–	**6,081,750**	3 January 2008	3 January 2008 to 20 October 2014	HK$0.5995
Mr. Xu*	6,081,750	–	–	–	**6,081,750**	3 January 2008	3 January 2008 to 20 October 2014	HK$0.5995
Mr. Li	1,275,000	–	–	–	**1,275,000**	3 January 2008	3 January 2008 to 20 October 2014	HK$0.5995
	22,044,750	–	(8,606,250)	–	**13,438,500**			
Other employees								
In aggregate	27,540,000	–	–	(27,540,000)	**–**	3 January 2008	3 January 2008 to 20 October 2014	HK$0.5995
	49,584,750	–	(8,606,250)	(27,540,000)	**13,438,500**			
Weighted average exercise price	HK$0.5223	–	HK$0.1547	HK$0.5995	**HK$0.5995**			

* resigned on 7 December 2011

37. SHARE OPTION SCHEME (Continued)

(a) Movements of the share options and their exercise price (Continued)

2010

Name or category of participant	At 1 January 2010	Granted during the year	Exercised during the year *(note (i))*	Forfeited during the year	At 31 December 2010	Date of grant of share options *(note (ii))*	Exercise period of share options	Exercise price of share options *(note (iii))*
Directors								
Mr. Bao*	6,081,750	–	–	(6,081,750)	–	3 January 2008	3 January 2008 to 20 October 2014	HK$0.5995
Mr. Wu	8,606,250	–	–	–	8,606,250	30 November 2006	30 November 2006 to 20 October 2014	HK$0.1547
	6,081,750	–	–	–	6,081,750	3 January 2008	3 January 2008 to 20 October 2014	HK$0.5995
Mr. Xu	6,081,750	–	–	–	6,081,750	3 January 2008	3 January 2008 to 20 October 2014	HK$0.5995
Mr. Li	1,275,000	–	–	–	1,275,000	3 January 2008	3 January 2008 to 20 October 2014	HK$0.5995
	28,126,500	–	–	(6,081,750)	22,044,750			
Other employees								
In aggregate	27,973,500	–	–	(433,500)	27,540,000	3 January 2008	3 January 2008 to 20 October 2014	HK$0.5995
	56,100,000	–	–	(6,515,250)	49,584,750			
Weighted average exercise price	HK$0.5313	–	–	HK$0.5223	HK$0.5223			

* resigned on 7 June 2010

Notes:

(i) In respect of the share options exercised during the year ended 31 December 2011, the weighted average share price of the Company at the dates of exercise was HK$0.71 per share. The share options exercised during the year ended 31 December 2011 resulted in the issue of 8,606,250 ordinary shares of the Company (note 36(b)). No share options were exercised during the year ended 31 December 2010.

(ii) All share options granted vest on the date of grant.

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

(iv) The options outstanding as at 31 December 2011 had a weighed average remaining contractual life of 2.8 years (2010: 3.8 years).

37. SHARE OPTION SCHEME (Continued)

(b) Financial effect of the share options

No share options were granted during the years ended 31 December 2010 and 2011. As at 31 December 2011, the Company had 13,438,500 (2010: 49,584,750) share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 13,438,500 (2010: 49,584,750) additional ordinary shares of the Company and additional share capital of approximately HK$1.3 million (2010: approximately HK$5.0 million) and share premium of approximately HK$6.7 million (2010: approximately HK$20.9 million), before the netting-off of the related shares issue expenses and the amount that would be transferred from share option reserve to share premium.

38. 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 of the financial statements.

Share premium account of the Group includes the premium arising from issue of shares of the Company at a premium.

Capital redemption reserve arose from the purchase of the Company's share for cancellation and represents a transfer from the Company's retained profits equivalent to the nominal value of the shares purchased for cancellation.

Contributed surplus of the Group arose as a result of (i) the Group reorganisation in 1997 and represents the difference between the nominal value of the Company's shares issued under the reorganisation scheme and the nominal value of the aggregate share capital of the subsidiaries then acquired; and (ii) the Group reorganisation in 2007 and represents the reduction of capital of HK$64.1 million pursuant to a special resolution passed on 1 November 2007.

The capital reserve arose from the capitalisation of retained profits of a PRC subsidiary.

In accordance with the relevant PRC regulations, the Group's PRC subsidiaries are required, at the discretion of their directors, to appropriate a certain percentage of their profit after tax, if any, to the statutory reserve fund for the future development and capital expenditure on staff welfare facilities purposes.

Pursuant to regulations in the PRC, certain subsidiaries of the Group were required to make a transfer of production maintenance fee to other reserve based on RMB8.5 per ton (2010: RMB8.5 per ton) of raw coal mined less the depreciation expenses of the underground coal mining equipment. According to the China Accounting Standards Explanatory Notice No. 3 and other relevant regulations issued by the Ministry of Finance in June 2009, effective for the financial periods beginning on or after 1 January 2009, instead of making an appropriation of funds from retained earnings to reserve, production maintenance fee and other expense of similar nature are required to be charged to cost of production and credited to reserve. Accordingly, the related funds are appropriated from retained profits.

38. RESERVES (Continued)

(b) Company

	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Equity component of convertible bonds HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010	225,742	50	7,641	10,341	–	(117,791)	125,983
Share option forfeited	–	–	–	(1,952)	–	1,952	–
Issue of convertible bonds	–	–	–	–	42,426	–	42,426
Issue of ordinary shares on conversion of convertible bonds	59	–	–	–	(11,597)	–	(11,538)
Net loss for the year	–	–	–	–	–	(19,617)	(19,617)
At 31 December 2010 and 1 January 2011	225,801	50	7,641	8,389	30,829	(135,456)	137,254
Share option forfeited	–	–	–	(4,017)	–	4,017	–
Issue of convertible bonds	–	–	–	–	47,674	–	47,674
Issue of ordinary shares on conversion of convertible bonds	8,538	–	–	–	(54,152)	–	(45,614)
Exercise of share options	995	–	–	(525)	–	–	470
Net loss for the year	–	–	–	–	–	(17,113)	(17,113)
At 31 December 2011	**235,334**	**50**	**7,641**	**3,847**	**24,351**	**(148,552)**	**122,671**

The contributed surplus of the Company arose as a result of the reorganisations referred to in note 38(a) and represents (i) the excess of the fair value of the shares of the subsidiaries then acquired, over the nominal value of the Company's shares issued in exchange therefore; and (ii) the reduction of capital pursuant to a special resolution passed on 1 November 2007. Under the Bermuda Companies Act 1981 (as amended), the contributed surplus is also available for distribution to the owners of the Company. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Details of share premium account and capital redemption reserve of the Company are set out in note 38(a) above.

39. ACQUISITION OF SUBSIDIARIES

(a) On 7 July 2010, the Group acquired 100% paid-up capital of Bianlong, a company incorporated in the PRC, at a consideration of approximately HK$3.5 million (equivalent to RMB3.0 million). As at the date of acquisition, Bianlong was dormant. The directors therefore consider that Bianlong did not meet the definition of a business combination in HKFRS 3 (revised) as at the acquisition date. Accordingly, the acquisition has been accounted for as an asset purchase.

Details of net assets acquired are as follows:

	Net assets acquired *HK$'000*
Prepayments, deposits and other receivables	2,903
Cash and cash equivalents	556
Net assets attributable to the Group acquired	3,459
Total consideration satisfied by:	
Cash	3,459
Net cash outflow arising on acquisition:	
Cash consideration paid	3,459
Cash and cash equivalents acquired	(556)
	2,903

39. ACQUISITION OF SUBSIDIARIES (Continued)

(b) On 18 January 2011, the Group acquired 100% of the issued ordinary shares of CFT, a company incorporated in Hong Kong, at a consideration of HK$0.99 million, from a third party to develop in CBM related business. CBM related business is a new and clean energy section which is highly advocated by the PRC government. The Group would like to explore in this business through the acquisition of CFT. As at the acquisition date, two directors of the Company were also the directors of CFT. The Group has control over CFT through nominating members to the board of directors of CFT. CFT is an investment holding company which has controlling interest in Huanglong which is principally engaged in the business of CBM management.

Details of net assets acquired and excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost are as follows:

	HK$'000
Total consideration	990
Fair value of net assets acquired	(24,382)
Excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost	(23,392)

In the opinion of management, the excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost arose in the business combination was mainly attributable to the divestment by the precedent investor in view of the capital requirement for the development of the CBM project.

39. ACQUISITION OF SUBSIDIARIES (Continued)

(b) (Continued)

Assets and liabilities arising from the acquisition are as follows:

	Fair value HK$'000	Acquirees' carrying amount HK$'000
Property, plant and equipment	31,439	31,439
Accounts receivable	1,426	1,426
Prepayments, deposits and other receivables	9,169	9,169
Cash and cash equivalents	3,414	3,414
Other payables and accruals	(3,336)	(3,336)
Bank loans	(17,730)	(17,730)
Net assets acquired	24,382	24,382
Total consideration satisfied by:		
Cash		990
Net cash inflow arising on acquisition:		
Cash consideration paid		(990)
Cash and cash equivalents acquired		3,414
		2,424

Since the acquisition, the subsidiaries contributed approximately HK$1.3 million to the Group's turnover and accounted for a loss of approximately HK$14.1 million to the Group's profit for the year ended 31 December 2011.

Had the combination taken place as at 1 January 2011, the revenue and the profit from continuing operations of the Group for the year ended 31 December 2011 would have been approximately HK$728.8 million and HK$32.9 million respectively. These pro forma information are for illustrative purposes only and are not necessarily an indication of revenue and result of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011 nor are they intended to be a projection of future results.

40. DISPOSAL OF SUBSIDIARIES

As mentioned in note 1, on 30 December 2011, the Group disposed of its entire equity interest in Bianlong and its subsidiary, namely Guilong, to two independent third parties for a total cash consideration of RMB10.0 million (equivalent to approximately HK$12.4 million). Bianlong and Guilong were engaged in the business of trading of purchased coal during the year.

	HK$'000
Net assets disposed of comprise:	
Property, plant and equipment	263
Accounts and bills receivables	13,765
Prepayments, deposits and other receivables	118,663
Cash and cash equivalents	2,754
Amounts due from related companies	5,044
Accounts and bills payables	(21,726)
Other payables and accruals	(7,778)
Amount due to a fellow subsidiary	(75,717)
Amount due to a related company	(28,543)
	6,725
Exchange fluctuation reserve	114
	6,839
Gain on disposal of subsidiaries	5,523
Total consideration	12,362
Satisfied by:	
Outstanding consideration *(Note)*	12,362
Net cash outflow arising on disposal:	
Cash and cash equivalents disposed of	(2,754)

Note: The outstanding consideration of RMB10.0 million (equivalent to approximately HK$12.4 million) is received in cash in January 2012 and has been included in other receivables as at 31 December 2011.

41. OPERATING LEASE COMMITMENTS

As at 31 December 2011, total future minimum lease payments under non-cancellable operating leases in respect of land and buildings and office equipment payable by the Group are as follows:

	2011	2010
	HK$'000	*HK$'000*
Within one year	**1,492**	508
In the second to fifth years inclusive	**560**	180
	2,052	688

The Group leases certain properties under operating leases. The leases run for an initial period of one to five years, without option to renew the lease term at the expiry date. None of the lease includes contingent rentals.

The Company did not have any significant lease commitments as at 31 December 2011 (2010: Nil).

42. CAPITAL COMMITMENTS

As at 31 December 2011, the Group had capital expenditure commitments in relation to the purchase of property, plant and equipment contracted but not provided for, net of deposit paid, amounted to approximately HK$57.6 million (2010: approximately HK$16.4 million).

As at 31 December 2011, the Group had capital expenditure commitments authorised but not contracted for in relation to the potential investments in certain PRC operations, net of deposit paid, amounted to approximately HK$115.6 million (2010: Nil).

The Company did not have any significant capital commitments as at 31 December 2011 (2010: Nil).

43. FINANCIAL GUARANTEE CONTRACTS – GROUP

On 2 March 2011, 18 April 2011 and 25 July 2011, Jinfeng executed guarantees with respect to certain bank loans, amounted to approximately HK$148.3 million, approximately HK$61.8 million and approximately HK$65.5 million respectively (equivalent to RMB223.0 million in aggregate), granted to independent third parties, under which Jinfeng would reimburse the loss of the banks if the banks are unable to recover these loans from this independent third party.

On 2 March 2010, Jinfeng and an independent third party entered into an agreement for an inter-company guarantee with a maximum amount up to approximately HK$118.2 million (equivalent to RMB100.0 million). On 1 December 2010, a director of a major subsidiary of the Group became the director of this independent third party, and therefore this independent third party was considered as a related party to the Group. As at 31 December 2010, bank loan of approximately HK$23.6 million (equivalent to RMB20.0 million) was granted to this party, under which Jinfeng would reimburse the loss of the bank if the bank was unable to recover the loan from the related party. This agreement was expired after the loan was fully repaid during the year.

43. FINANCIAL GUARANTEE CONTRACTS – GROUP (Continued)

As at 31 December 2011, included in other payables and accruals were the unamortised balance of the Group's deferred income arising from the guarantee contracts amounted to approximately HK$1.7 million (equivalent to approximately RMB1.3 million) (31 December 2010: Nil).

As at 31 December 2011, no contingent liability for the Group's obligation (2010: Nil) under the guarantee contracts has been disclosed as the directors consider that the possibility of cash outflow on the guarantee contract is remote.

44. RELATED PARTY TRANSACTIONS – GROUP

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year and in the prior year:

(a) Compensation of key management personnel

	2011	2010
	HK$'000	*HK$'000*
Total remuneration of key management during the year *(note 14)*	**7,389**	6,294

(b) Purchase of coal

During the year, the Group purchased coal of approximately HK$9.1 million (equivalent to approximately RMB7.5 million) (2010: approximately HK$2.8 million (equivalent to approximately RMB2.4 million)) from subsidiaries of the jointly controlled entity. The purchases were conducted in the Group's normal course of business. As at 31 December 2011 and 2010, none of the accounts payable was due to the jointly controlled entity.

As at 31 December 2011, included in prepayments, deposits and other receivables were deposits amounted to approximately HK$43.3 million (equivalent to RMB35.0 million) arising from the purchase of coal paid to a company, in which a director of a major subsidiary of the Group is a director of the company. The deposits were paid in the Group's normal course of business.

In 2010, the Group purchased coal of approximately HK$26.0 million (equivalent to approximately RMB22.5 million) from a company, in which a director of a major subsidiary of the Group was a director of the company. The purchases were conducted in the Group's normal course of business. As at 31 December 2010, none of the accounts payable was due to this company.

During the period from 11 July 2010 to 31 December 2010, the Group purchased coal of approximately HK$1.3 million (equivalent to approximately RMB1.1 million) from a company, in which a director of a major subsidiary of the Group became a director of the holding company of this company on 11 July 2010. The purchases were conducted in the Group's normal course of business. As at 31 December 2011 and 2010, none of the accounts payable was due to this company.

44. RELATED PARTY TRANSACTIONS – GROUP (Continued)

(c) Sales of coal

During the year, the Group sold coal of approximately HK$22.0 million (equivalent to approximately RMB18.2 million) (Period from 11 July to 31 December 2010: approximately HK$228.5 million (equivalent to approximately RMB198.3 million)) to a company, in which a director of a major subsidiary of the Group became a director of the holding company of this company on 11 July 2010. The sales were conducted in the Group's normal course of business. As at 31 December 2011, accounts receivable amounted to approximately HK$22.8 million (equivalent to approximately RMB18.4 million) (31 December 2010: approximately HK$370.0 million (equivalent to approximately RMB313.0 million)) arose from the sales of coal to this company. The amount due from this company is non-interest bearing and unsecured. A credit period of 180 days was granted to this company.

(d) Sales of consumable tools

During the year, the Group sold consumable tools of approximately HK$1.0 million (equivalent to approximately RMB0.9 million) (Period from 1 December 2010 to 31 December 2010: approximately HK$0.5 million (equivalent to approximately RMB0.4 million)) to a company, in which a director of a major subsidiary of the Group became a director of this company on 1 December 2010 and ceased to be the director of this company on 12 May 2011. Yet, the director of the major subsidiary of the Group also has been a director of the holding company of this company since 1 December 2010. Moreover, a director of the Company, who has been appointed on 2 December 2011, is a director of this company. So the company is considered to be a related party to the Group. The sales were conducted in the Group's normal course of business. As at 31 December 2010, included in prepayments, deposits and other receivables are other receivables amounted to approximately HK$1.6 million (equivalent to approximately RMB1.3 million) arising from the sales of consumable tools to this company. As at 31 December 2011, none of the other receivables were due from this company.

During the six months ended 30 June 2011, the Group sold consumable tools of approximately HK$3.2 million (equivalent to RMB2.7 million) (Year ended 31 December 2010: HK$19.1 million (equivalent to approximately RMB16.6 million)) to a company, in which a director of a major subsidiary of the Group was a director of the company. The sales were conducted in the Group's normal course of business. On 1 July 2011, the director of the major subsidiary of the Group ceased to be the director of the customer. As at 31 December 2010, included in prepayments, deposits and other receivables are other receivables amounted to approximately HK$8.8 million (equivalent to approximately RMB7.5 million) arising from the sales of consumable tools to this company.

(e) Selling and distribution expenses

During the year, the Group paid distribution expenses of approximately HK$5.7 million (equivalent to approximately RMB4.7 million) (Period from 11 July 2010 to 31 December 2010: Nil) to a company, in which one of its directors is also a director of the Group's major subsidiary from 11 July 2010.

44. RELATED PARTY TRANSACTIONS – GROUP (Continued)

(f) Purchase of buildings

On 26 September 2008, the Group entered into an agreement in relation to the purchase of buildings with a company at a consideration of approximately HK$55.5 million (equivalent to approximately RMB47.0 million). A director of the Company at that time was a shareholder and a director of this company as at the date of agreement. The director of the Company at that time ceased to be the shareholder and director of this company on 31 March 2010. On 7 December 2011, the director of the Company has resigned while he is still a director of certain subsidiaries of the Group. As at 31 December 2011, the buildings are still under construction and have not yet been transferred to the Group. As at 31 December 2011, included in prepayments, deposits and other receivables are deposits amounted to approximately HK$53.8 million (equivalent to RMB43.5 million) (2010: approximately HK$51.4 million (equivalent to RMB43.5 million)) arising from the purchase of buildings from Henan Lianda Property Company Limited. The remaining amount of approximately HK$4.3 million (equivalent to approximately RMB3.5 million) (2010: approximately HK$4.1 million (equivalent to approximately RMB3.5 million)) was included in the capital commitments of the Group as at 31 December 2011.

45. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group is exposed to a variety of financial risks which results from both its operating and investing activities. The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate strategies to manage the Group's exposure to market risks, including changes in interest rates and currency exchange rates. Generally, the Group introduces conservative strategies on its risk management. The Group's exposure to market risk is kept to minimum. The Group has not used any derivatives or other instruments for hedging purposes. The Group does not issue derivative financial instruments for trading purposes.

(a) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations and its investing activities.

The Group has provided guarantee to independent third parties. Detailed disclosure of the guarantee is made in note 43.

The carrying amounts of accounts and bills receivables, deposits and other receivables, pledged bank deposits and cash and cash equivalents represent the Group's maximum exposure to credit risk in relation to its financial assets. The carrying amounts of these financial assets presented in statement of financial position are net of impairment losses, if any. The Group minimises its exposure to the credit risk by rigorously selecting the counterparties, performing ongoing credit evaluation on the financial conditions of its debtors and tightly monitoring the ageing of the receivables. Follow-up actions are taken in case of overdue balances. In addition, management reviews the recoverable amount of the receivables individually or collectively at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts.

45. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(a) Credit risk (Continued)

The credit risk on pledged bank deposits and cash and cash equivalents is limited because the Group's pledged bank deposits and cash and cash equivalents are all deposited with major banks located in Hong Kong and the PRC.

The credit policies have been followed by the Group since prior years and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At the end of the reporting period, the Group has a certain concentration of credit risk as 87.8% (2010: 42.1%) of the Group's accounts receivable was due from the Group's largest customer. Further quantitative disclosure in respect of the Group's exposure to credit risk arising from accounts receivables is set out in note 26.

At each reporting date, the Group reviews deposits and other receivables for evidence of impairment on an individual and collective bases. As at 31 December 2011, the Group determined deposits of approximately HK$3.6 million as individually impaired (2010: Nil). Based on this assessment, impairment loss of approximately HK$3.6 million (2010: Nil) was recognised during the year.

(b) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial instruments bearing variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

45. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(b) Interest rate risk (Continued)

The interest rates and terms of repayment of the Group's bank loans and convertible bonds are disclosed in notes 33 and 34 respectively. The Group's exposures to fair value interest rate risk and cash flow interest rate risk on financial liabilities are minimal. The directors of the Company consider the Group's exposures to cash flow interest rate risk on bank balances as follows:

Sensitivity analysis

The following table illustrates the sensitivity of the Group's profit after tax and retained profits and the Company's loss after tax and accumulated losses to a possible change in interest rates of +/- 0.5% (2010:+/- 0.5%), with effect from the beginning of the year. The calculations are based on the Group's bank balances held at the reporting date. All other variables are held constant.

	Group		Company	
	Profit after tax	Retained profits	Loss after tax	Accumulated losses
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2011				
+0.5%	**2,620**	**2,620**	**(19)**	**(19)**
-0.5%	**(2,620)**	**(2,620)**	**19**	**19**
31 December 2010				
+0.5%	621	621	(10)	(10)
-0.5%	(621)	(621)	10	10

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents the management's assessment of a reasonably possible change in interest rate over the period until the next annual reporting date.

The sensitivity analysis included in the financial statements of the year ended 31 December 2010 has been prepared on the same basis.

The Group manages interest rate risk by monitoring its interest rate profile regularly. The Group adopts a policy of ensuring that most of its borrowings are on a fixed rate basis. The policies to manage interest rate risk have been followed by the Group since prior year and are considered to be effective.

(c) Foreign currency risk

The sales and purchases of the Group are predominantly in RMB which is the functional currency of the related group entities. Some of the convertible bonds of the Company are denominated in US$ of which the exchange rate is pegged with HK$. The directors of the Company therefore are of the opinion that the Group's and Company's sensitivity to the changes in foreign currencies are low and the Group and Company do not hedge their foreign currency risk.

45. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(d) Fair values

The fair values of the Group's current financial assets and liabilities are not materially different from their carrying amount because of the immediate or short term maturity. The fair values of non-current liabilities were not disclosed because their carrying value is not materially different from their fair value. Derivative financial instruments are stated at fair value.

(e) Other price risk

Other price risk relates to the risk that fair values or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than changes in interest rates and foreign exchange rates). The Group is exposed to change in market prices in respect of its investments in unlisted quoted fund security classified as financial assets at fair value through profit or loss.

To manage its market price risk arising from these investments, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limit set by the board of directors. The total investment is restricted to 5.0% of the Group's total assets.

For unlisted quoted fund security, an average volatility of 5.9% has been observed in 2010. If the quoted price for the Group's unlisted quoted fund security existing as at 31 December 2010 increased or decreased by that amount, profit or loss for the year and retained earnings would have increased or decreased by approximately HK$1.4 million in respect of unlisted quoted fund security classified as held for trading. As at 31 December 2011, there was no financial instruments subject to other price risk.

The assumed volatilities of unlisted securities represent management's assessment of a reasonably possible change in these security prices over the next twelve month period.

(f) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of its financial obligations, and also in respect of its cash flow management.

The Group's objective is to ensure adequate funds to meet commitments associated with its financial liabilities. Cash flows are closely monitored on an ongoing basis. The Group will raise funds from the realisation of its assets if required. The directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due in the foreseeable future.

The liquidity policies have been followed by the Group since prior years and are considered as effective in managing liquidity risks.

45. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(f) Liquidity risk (Continued)

The table below summarises the maturity profile of the Group's and Company's financial liabilities based on contractual undiscounted payments:

	Group At 31 December 2011					
	Within 6 months or on demand	6–12 months	Over 1 year	Total undiscounted amount	Discount	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Accounts and bills payables	**121,487**	**–**	**–**	**121,487**	**–**	**121,487**
Other payables and accruals	**273,928**	**–**	**–**	**273,928**	**–**	**273,928**
Bank loans	**531,693**	**76,780**	**–**	**608,473**	**(15,097)**	**593,376**
Convertible bonds	**3,834**	**3,963**	**192,203**	**200,000**	**(23,747)**	**176,253**
Total	**930,942**	**80,743**	**192,203**	**1,203,888**	**(38,844)**	**1,165,044**
Financial guarantee issued						
Maximum amount guaranteed	**210,154**	**65,519**	**–**	**275,673**	**–**	**275,673**

	Group At 31 December 2010					
	Within 6 months or on demand	6–12 months	Over 1 year	Total undiscounted amount	Discount	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Accounts and bills payables	122,796	–	–	122,796	–	122,796
Other payables and accruals	200,064	–	–	200,064	–	200,064
Bank loans	325,485	–	–	325,485	–	325,485
Convertible bonds	4,895	5,093	210,012	220,000	(26,272)	193,728
Loan from a shareholder	–	195,000	–	195,000	–	195,000
Total	653,240	200,093	210,012	1,063,345	(26,272)	1,037,073
Financial guarantee issued						
Maximum amount guaranteed	23,600	–	–	23,600	–	23,600

45. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(f) Liquidity risk (Continued)

	Company At 31 December 2011					
	Within 6 months or on demand	**6–12 months**	**Over 1 year**	**Total undiscounted amount**	**Discount**	**Carrying amount**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Non-derivative financial liabilities						
Other payables and accruals	**4,057**	**–**	**–**	**4,057**	**–**	**4,057**
Convertible bonds	**3,834**	**3,963**	**192,203**	**200,000**	**(23,747)**	**176,253**
Total	**7,891**	**3,963**	**192,203**	**204,057**	**(23,747)**	**180,310**

	Company At 31 December 2010					
	Within 6 months or on demand	6–12 months	Over 1 year	Total undiscounted amount	Discount	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities						
Other payables and accruals	4,404	–	–	4,404	–	4,404
Convertible bonds	4,895	5,093	210,012	220,000	(26,272)	193,728
Loan from a shareholder	–	195,000	–	195,000	–	195,000
Total	9,299	200,093	210,012	419,404	(26,272)	393,132

45. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(g) Summary of financial assets and liabilities by category

The carrying amounts of the Group's and Company's financial assets and liabilities recognised as at 31 December 2010 and 2011 may also be categorised as follows. See notes 3.16 and 3.22 for explanations about how the category of financial instruments affects their subsequent measurement.

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Non-current				
Loans and receivable				
– Deposits paid for potential investments	**162,560**	–	**–**	–
Current				
Financial assets at fair value through profit or loss				
– Unlisted quoted fund security held for trading	**–**	23,644	**–**	–
Loans and receivable				
– Accounts and bills receivables	**468,277**	777,177	**–**	–
– Deposits and other receivables	**291,106**	187,961	**–**	–
– Pledged bank deposits	**106,926**	65,010	**–**	–
– Cash and cash equivalents	**697,902**	173,823	**4,322**	1,941
	1,726,771	1,227,615	**4,322**	1,941
Financial liabilities				
Financial liabilities measured at amortised cost				
– Accounts and bills payables	**121,487**	122,796	**–**	–
– Other payables and accruals	**273,928**	200,064	**4,057**	4,404
– Bank loans	**593,376**	325,485	**–**	–
– Convertible bonds	**176,253**	193,728	**176,253**	193,728
– Loan from a shareholder	**–**	195,000	**–**	195,000
	1,165,044	1,037,073	**180,310**	393,132

45. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(h) Fair value measurements recognised in the statement of financial position – Group

The following table presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

– Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

– Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

– Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The financial assets measured at fair value in the statement of financial position are grouped into fair value hierarchy as follows:

	2011 – Group			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Financial assets at fair value through profit or loss – Unlisted quoted fund security in the PRC	**–**	**–**	**–**	**–**

	2010 – Group			
	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at fair value through profit or loss – Unlisted quoted fund security in the PRC	23,644	–	–	23,644

As at 31 December 2010 and 2011, the Company had no financial assets and liabilities that were measured at fair value.

45. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

(i) Business risk

The Group's primary businesses are the production and sales of coal in the PRC. The Group's financial results are influenced by the changes in prices of coal, as well as by the Group's ability to maintain or renew all requisite certificates, permits and business licences from relevant regulatory authorities in the PRC which the Group requires to operate in the production and sales of coal in the PRC.

46. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

(a) To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns and benefits for stakeholders;

(b) To support the Group's stability and growth; and

(c) To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy. Management regards total equity of approximately HK$1,862.2 million (2010: approximately HK$1,367.5 million) as capital, for capital management purpose.

47. SUBSEQUENT EVENTS

(a) On 13 January 2012, the Company and Dragon Rich entered into a conditional agreement to dispose of Popular Sky International Limited (the "**Disposal Company**") and its subsidiaries, i.e. CFT and Huanglong (the "**Disposal**") as the financial results of the CBM related business were considered unsatisfactory. Dragon Rich is a company incorporated in the British Virgin Islands which is beneficially owned as to 60% by Mr. Wu and as to 40% by Mr. Xu respectively since 10 January 2012. Mr. Wu is the executive director of the Company and Dragon Rich and Mr. Xu ceased to be a director of the Company on 7 December 2011 while he is still a director of certain subsidiaries of the Group. Dragon Rich agreed to acquire the entire issued share capital of the Disposal Company and the outstanding amount of approximately HK$56.8 million due from the Disposal Company to the Company as at 31 December 2011. A consideration of HK$71.2 million shall be satisfied as to HK$10.0 million by way of cash payable to the Company and as to HK$61.2 million by way of issuance of a promissory note by Dragon Rich to the Company upon completion of the Disposal. Pursuant to an ordinary resolution passed on 29 February 2012, the Disposal was approved by the independent shareholders. The Disposal was completed on 2 March 2012. A profit of approximately HK$5.0 million was estimated to be resulted on the Disposal, being the proceeds of the Disposal less the carrying amount of the subsidiaries' net assets.

(b) Pursuant to an announcement dated 6 February 2012, the Group entered into a preliminary non-legally binding framework agreement with the other party of a jointly controlled entity of the Group, i.e. Yulong, regarding the disposal of the Group's interest (i.e. 40%) in Yulong. Up to the date of this report, details of the transaction have not been fixed and materialised.